



ADMINISTRATION & FINANCE COMMITTEE
Meeting Minutes

Monday, June 13, 2011
IRMA Office
9:30 a.m.

PRESENT: Kevin Wachtel, Chair
Robert Merkel
Scott Anderson
Janet Binder
David Danielson
Michael Braiman
George Schafer
Bryon Vana

ALSO PRESENT: Laura Vesecky
Mary Henzler
Mark Tomaw
Larry Bush
Brian Goding

ABSENT: David Clark
Dan Nisavic

I. CALL TO ORDER

Chair Wachtel called the meeting to order at 9:30 a.m. Roll was taken and a quorum declared.

II. APPROVAL OF MINUTES – February 17, 2011

A motion was made by Vana and seconded by Schafer to approve the Administration & Finance Committee Meeting Minutes of February 17, 2011. A voice vote was taken and the motion carried.

III. FINANCIAL REPORTS

Wachtel asked if there were any questions regarding the financial reports that include the Financial Statements as of April 30, 2011, the Investment Portfolio as of April 30, 2011, and the payables for the period 1/28/11 – 5/26/11. There were no questions.

A motion was made by Anderson and seconded by Merkel to approve the Financial Reports. A voice vote was taken and the motion carried.

Wachtel stated that he wanted to go out of order on the agenda and asked Brian Goding to present the 1st Quarter Investment Performance Report.

VII. INVESTMENT CONSULTANT – Brian Goding

Goding gave a presentation on IRMA's 1st Quarter 2011 Investment Portfolio. Goding reported that as of March 31, 2011, IRMA's fund was very close to target allocation. In looking at our managers, there was very little change from last quarter. We started the

quarter at \$121,611,011 and ended the quarter at \$126,579,104, indicating a very strong quarter with an increase of 4.13%.

In reviewing the performance summary of all managers for the quarter, Goding reported that the biggest underperformer for the quarter was Denver Investment that lagged the index by quite a bit. Legg Mason was about equal to the index. Lazard Emerging Markets and Lazard Developing Markets both underperformed for the quarter.

Goding reported that in regards to equities, there were no major changes from the previous quarter. We started the quarter at \$64,433,972 and ended the quarter at \$62,961,561.

Goding stated that the bond market has been doing very well. We started the quarter with a total of \$51,289,447 and ended the quarter at \$57,089,178.

Goding noted that Sigular Guff III has been performing very well. Vesecky noted that she went to their conference and they are starting up a new fund – Distressed IV. Goding stated that this has been a good place to be and commented that he would like to see IRMA commit some money to Sigular Guff IV. Wachtel asked if this was something we should be talking about now or next quarter. Goding stated that next quarter would be okay. Vesecky asked Goding to look at Sigular Guff IV and report on it next quarter. Goding stated that he had already looked at the fund and gave a description of it to the committee. Goding asked whether anyone was interested in having Sigular Guff come to the next AFC meeting to talk about this. Several committee members stated that they would like to hear from them.

Goding handed out a performance summary for the month ending April 30, 2011, stating that the fund is back to \$126,579,104, and we are still pretty close to our targets. Therefore, Goding stated that he did not have any recommendations to rebalance at this time.

IV. ACTUARIAL REPORT AS OF 12/31/10

Vesecky reported that we had good results when the actuary did the loss reserves and we were able to decrease the reserves for prior years by over \$4,000,000. That amount was transferred to Members' Reserve or Amounts Due Members. Vesecky commented that staff thought the preliminary rate was going to come down off of the number in the report, but asked Larry to talk about the passing of the Workers' Compensation bill.

Bush noted that workers' compensation improvements have passed, which are almost totally on the medical. We have a fee schedule now that will not change, but we will be paying at 70% of the fee schedule, so essentially our medical payments will go down 30%. We do anticipate that the actuary will take this into account, and it should reduce the overall rate a couple of percent. Bush also commented that there are some other things in the workers' compensation reform that might be helpful such as ADA guidelines for disability; however, unfortunately, what the business community wanted was firmly that the ADA guidelines would be used, but this would be up to the arbitrator.

A motion was made by Danielson and seconded by Vana to accept the Actuarial Report of 12/31/10. A voice vote was taken and the motion carried.

V. 2010 AUDITED FINANCIAL REPORT – TOMAW

Vesecky introduced Mark Tomaw of McGladrey & Pullen. Tomaw stated he would review the draft Financial Report and the Report to the Administration and Finance Committee document that were distributed.

Referring back to the actuarial report, Tomaw pointed out on page 21 a footnote that referred to what Vesecky had talked about earlier – a decrease in prior years: \$4,236,488 in 2010 and \$2,013,568 in 2009 and an increase of \$1,008,270 in 2008. The last couple of years have been very positive. Tomaw stated that he looks at it as a percentage and as a percentage it is under 10%. From an audit perspective, besides testing all the information that goes to the actuary, Tomaw reported that they internally have their actuary look at it, read the report and ask questions. Based on that, Tomaw stated that they were very satisfied with where IRMA ended up with their reserves.

Tomaw stated that as part of the audit, they go through and identify what they feel are the significant accounts. Loss Reserves is a significant account as well as Cash & Investments.

Tomaw explained that he and Vesecky were talking through wording changes in the report, but nothing that is significant. Vesecky noted that there is a statement in the notes on page 16 that we have \$2.2 million in cash that is uninsured or uncollateralized, and it is not correct. Vesecky explained that she is trying to get some information from Fifth Third Bank and that statement will come out of the report.

Vesecky stated that we should talk about the write-off of Reliance. Tomaw noted that for several years now the expected potential recoveries from Reliance from way back in the late 90s were estimated to be only a 25% recovery. Reliance had gone bankrupt back in 1996 and this has been a run-off. IRMA's estimated claims with them, because of using them as a reinsurer, had been estimated between \$3.4 and \$3.5 million. Based on the information IRMA was getting there was an estimate made that IRMA would probably recover 25% of what they owed. There were a lot of uncertainties of what was going to be recovered. For a number of years, IRMA has been carrying about \$875,000 on the books. However, this past year, information came out that IRMA would not be recovering anything. So this \$875,000 has been written off during 2010, so you will see this reflected in the statement of revenues, expenses and net assets.

Tomaw also stated that there would be some wording changes on page 17 under Excess Insurance Recoveries where it talks about the Reliance piece as a reserve. However, Vesecky has pointed out that it wasn't really reserved, but written off, so the wording will be changed.

Tomaw talked about the Required Report to the Administration and Finance Committee and the Required Communications section of the report. Tomaw pointed out that there were really no significant accounting principles that IRMA adopted this year, and stated that there wasn't anything too significant on the horizon right now that would impact IRMA. Tomaw noted that the one thing hanging around that will clearly impact private industry is going to be the convergence with the International Accounting Standards. Tomaw noted that he didn't know how that was going to impact the GASB pronouncements at this point.

Tomaw reported on one uncorrected misstatement that he and Vesecky had discussed prior to the meeting on page 4 of the Report to the Administration and Finance Committee. Tomaw explained that there were two municipalities who elected to apply \$379,000 of the excess surplus fund to their 2011 contributions before the end of the 2010, so it was recorded into short term liabilities as part of your deferred contribution. Tomaw stated in the past they hadn't really noticed that this was happening. They have proposed that shouldn't you really wait until 2011 to make that entry. After discussion with Vesecky, they have decided that there should probably be a reclassification of everybody that has elected in the short term. Therefore, this page will be taken out of the report.

Tomaw stated that there were no disagreements with management. Tomaw noted that Vesecky asks questions on things throughout the year.

Tomaw stated that in terms of controls as part of the audit, they do review controls and do a limited number of tests. Separation of duties is always of concern here because of the small number of staff at IRMA. They do find that IRMA has separation under control and it appears it is working. Tomaw commented that as the oversight committee, the Administration and Finance Committee should be cognizant of the separation of duties if there is a change in personnel.

Vesecky noted that she had distributed Management's Discussion and Analysis and asked that the committee members read through the document and call her with any comments.

Vesecky commented that now that we have the audit, we can estimate an Interest Income Credit for next year. We are looking at possibly \$8 million; however, it is all contingent on investment returns, so it isn't for sure.

Vana stated that it was another good job done by McGladrey and this was the one area of IRMA that he always had great confidence in. Vesecky thanked Vana and noted that one of the reasons that we chose McGladrey was because they have people that do insurance audits and people who do municipal audits.

A motion was made by Vana and seconded by Anderson to accept the Audited Financial Report. A voice vote was taken and the motion carried.

Wachtel thanked Tomaw for coming in and presenting his report.

VI. SEGREGATION OF DUTIES

Vesecky stated that with IRMA's limited staff, this document is prepared on a yearly basis to report to the Administration and Finance Committee how the accounting duties are segregated with recommendations from McGladrey.

VIII. MINIMUM MEMBER DEDUCTIBLE

Wachtel commented that this was one of the things we wanted to look at during 2011, so we had Milliman look at whether our \$2500 deductible is appropriate. Vesecky noted that the deductible had been moved to \$2500 in 2004. Vesecky noted that this was a very controversial issue back in 2004, especially with the smaller members.

Vesecky reported that in talking with the actuaries, it is not a big factor to them. They think that the deductible that we give is priced appropriately. It is really a policy decision.

Binder asked whether the overall rate would go down, if we moved to a higher deductible. Vesecky stated that if you took a higher deductible, the credit would increase so you would be paying less up front and then you get billed more for deductibles during the year. Theoretically, it should be a wash for the pool, but for individual members it won't – it would depend on their experience. Vesecky noted that we would still want claims reported at \$2500 as we would need the basic information for predictability. Vesecky noted that if we raised the deductible to \$5,000, staff would have to talk to the actuary to find out if we would now exclude the first \$5,000 of a claim.

Binder brought up the fact that it would save in IRMA's administrative costs if members didn't report claims under \$5,000. Vesecky noted that if claims are still being reported, it wouldn't necessarily save in administrative costs.

Braiman stated that he thought this would be a controversial issue now, just as it was back in 2004. Braiman asked whether staff could do some sort of a survey and also give information to the members as to what the credit would be and how this would impact their rate, before this was sent to the Board of Directors for a decision. The committee agreed with this suggestion and Vesecky stated that she could work on this and report back to the committee at its next meeting.

IX. TITAN RISK MANAGEMENT CONSULTING AGREEMENT

Wachtel reported that this agreement would reduce the daily rate increase from 4% to 2.5% for both 2011 and 2012, extend the contract for an additional three years with a 2.5% increase, and retain the hourly rate for additional consultative services at the current contract price of \$115/hour for all five years of the revised contract.

A motion was made by Braiman and seconded by Schafer to recommend the approval of the Titan Risk Management service contract for a period of five years beginning in 2011. A voice vote was taken and the motion carried.

X. BANKING CONTRACT

Vesecky reported that we are at the end of the five-year contract with Fifth Third Bank, and although there were initially some bumps in the road, stated that recently she has been very happy with her contacts at Fifth Third Bank. However, Vesecky stated that we need to determine if their fees are competitive, so we are issuing a request for proposal for banking services. Vesecky stated that the RFP was in the packet along with a list of names she had pulled from IGFOA to send the RFP to. Vesecky commented that if anyone had any changes to the RFP or additional names to send the RFP to, they should contact her.

XI. ADDITIONS TO AGENDA

Goding stated that in regard to IRMA's alternative investments, he didn't realize that the next meeting of the Administration & Finance Committee was October 3rd. However, in order to get into Sigular Guff Distressed IV, they have to have subscription agreements by September 30th. Goding added that the new small buyout fund doesn't come out until July 30th, so there is no problem there.

Goding stated that if we want to get into Sigular Guff Distressed IV, we would need to make a decision now. Wachtel asked whether the committee would want a group of 3-4 committee members to get involved in a conference call on this, so we are not rushed to make a decision. Vesecky stated this was a good idea, if the committee was in agreement with going ahead with this, then the conference call could be about the dollar amount.

Goding stated that he could come back with a recommendation for the conference call as to how much money he would recommend investing. Goding reviewed Sigular Guff's terms for the committee.

Vesecky stated that she would arrange a conference call for when Goding and Wachtel are available and send an invitation out to the committee so that anyone who is available could join in on the call.

A motion was made by Binder and seconded by Coren to recommend investing in Sigular Guff Distressed IV, with the dollar amount to be discussed during the conference call. A voice vote was taken and the motion carried.

XII. CONFIRMATION OF NEXT MEETING

Wachtel stated that the next meeting of the committee would be on Monday, October 3, 2011 at 9:30 a.m. at the IRMA office.

XIII. ADJOURNMENT

A motion was made by Braiman and seconded by Merkel to adjourn the meeting. A voice vote was taken and the motion carried.

Submitted by:

Laura Vesecky
Director of Financial Services & Administration

Approved by:

Kevin Wachtel, Chair
Administration & Finance Committee