AD HOC COMMITTEE: EXPOSURE BASE

Meeting Minutes

December 13, 2017
Westbrook Corporate Conference Center, Tower 2
10:30 a.m.

Present:	Jessica Frances	Tom Kuehne	
	Dave Clark	Kathleen Gargano	
	Dennis Bubenik	Larry Noller	
	Drew Irvin	Elizabeth Holleb	
	Chris Clark	Tim Wiberg	
	Doug Haywood	Stacy Sigman	
	Barry Krumstok	Kevin Wachtel	
	Michael Braiman	Eric Helm	
Also Present:	Doug Nishimura	Margo Ely	Telly Panousis
	Richard Frese	Rita Boserup	Jennifer Swahlstedt
	Peter Wright	Dan LeTourneau	Susan Garvey
Absent:	Al Stonitsch	Doug Cooper	
	Brad Bettenhausen		

I. <u>Introduction</u>

Margo Ely began the meeting at 10:40 a.m. with a brief introduction and each attendee introduced themselves. Future meeting locations assigned on a volunteer basis by committee members.

II. <u>Discussion</u>

Ely began with the three goals of the meeting; identify objectives, identify what information committee members want from IRMA, and what kind of support we have for exploring an alternative exposure base. In the past, IRMA has only looked at how to defend the revenue base as a form of exposure base and not alternative methods.

Wright suggested that the exposure base project should be a member led process. A handout with statistics was passed out that was completed by Peter Wright. Wright explained that he took the revenue bases from the CAFR, vehicles, property values, payrolls, and total incurred losses and made calculations based off these variables. The idea was to come up with a numerical relationship between these variables and see how they change over time.

Nishimura commented that we are not comparing apples to apples when looking at losses on the handout. Losses that are undeveloped compared to losses that are developed will result in no correlation. Nishimura stated that “no correlation between losses and revenues” is untrue. When Milliman conducts their rating they do not use revenues for everything. Milliman uses revenues for GL, Payroll for WC, vehicles for Auto, and property for Property. Revenues correlate highly with all independent variables or predictors. Revenues were chosen years ago because it was simple to pull accurate information. Expenditures are more difficult to measure accurately and uniformly.

Ely stated that 85% of IRMA's budget is the loss fund. Milliman gives IRMA a loss fund amount and divides it by the revenue base to get the loss fund rate. Revenues are used as a denominator and the perception that IRMA subsidizes smaller revenue members with the larger member is not true. Higher loss municipalities are subsidized by smaller loss municipalities and the lower your losses the less your contribution to IRMA.

Nishimura stated that revenues were chosen based on its simplicity. One suggestion is to go back to multiple rates based on different lines instead of expenditures. This will minimize the change for each year and can be a little bit more accurate.

LeTourneau commented that Nishimura's suggested method is commercial insurance underwriting that will require audits, be more complex, and can bring additional expenses.

Wright ask the committee how to they feel? Is this process worthwhile to pursue? No comment was made.

Wright was asked if he has heard if the revenue base formula is a concern from members and potential members. Wright replied yes, that he has heard concern, but it may be just used as an excuse or obstruction not to join. On the other hand, Wright said that once a municipality or member understands IRMA, they accept the revenue base.

Dave Clark commented that in the Buffalo Grove situation, the revenue base was easy to pick on. Krumstok commented that Buffalo Grove tailored things a different way. The interest income credit is something that is overlooked by brokers.

Ely explained how consultants do not talk about interest income credit and they do not factor it in when speaking with municipalities.

Gargano asked if revenue base is the right driving factor for joining or not joining IRMA or is there something else being talked about?

Kuehne commented on Gargano's question and said that Arlington Heights worked with Peter Wright and they made a decision based on economics and what is a better long-term deal for the Village. Kuehne also said that the committee must have a total understanding of the current revenue base formula.

Krumstok suggested to look at the other parameters for each line of coverage and carve out exceptions.

Nishimura commented the key is to stabilize premiums going forward so no member is negatively impacted by whatever method is chosen.

Frances suggested that we use three big members, three small members, and three special districts to analyze to get a better well-rounded picture as possible.

Ely stated IRMA is investing substantially in training and risk management. We hope that losses will decrease, but our members' revenues are increasing.

Dave Clark suggested that we run rates per member based on different exposures and compare it with revenues. Also use Frances's method of three big, three small, and three special districts.

Nishimura suggested the first step is to go along with Dave Clark and run the rates per member on the five different exposures and compare it to the rate per revenue. If we are close we are golden, if we are way off, we have to think of something different.

Boserup was asked if members are suggesting revenue base deduction adjustments that the pool should contemplate. Mount Prospect's self-insured health insurance payments received for is revenue along with storm water projects, and pass through grants

Meeting Adjourned at 11:58 a.m.

Submitted by:

Margo Ely
Executive Director

Approved by:

Jessica Frances
Chair, Ad Hoc Committee: Exposure Base