February 17, 2015

Contribution Task Force
Recap from First Meeting

- Reviewed IRMA formula and history of studies and process improvements implemented
- Discussed concerns regarding revenue as determining factor in contribution formula and importance of actuarial analysis to measure veracity of concerns
- Discussed the possible reasons that larger members don’t take higher deductibles
- Discussed the conflict between pooling philosophy and individually rated options
- Discussed the higher predictability and control over worker’s compensation compared with other lines of coverage
IRMA Mission and Basic Tenants

- Lower Ultimate Insurance Cost over Time
  - Risk Management, Reduced Overhead
- Improve Loss Control and Accountability
  - Effective Claim Practices and Services, Experience Modifier, Member Reserve Policy
- Assure Integrity of Systems, Methods and Policy to meet Membership Needs
  - Annual Actuarial Process, Reserve Analysis, Loss Fund Allocation
  - Credibility Formula
  - Experience Formula
IRMA costs by line of coverage

- **Workers compensation is consistently the highest cost**

<table>
<thead>
<tr>
<th></th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Auto Liability</td>
<td>$1,007,850</td>
<td>$498,278</td>
<td>$786,877</td>
<td>$483,378</td>
<td>$407,281</td>
</tr>
<tr>
<td>Auto Physical Damage</td>
<td>518,423</td>
<td>556,122</td>
<td>510,989</td>
<td>462,945</td>
<td>550,491</td>
</tr>
<tr>
<td>General Liability</td>
<td>3,242,604</td>
<td>4,587,557</td>
<td>1,903,223</td>
<td>1,079,456</td>
<td>823,706</td>
</tr>
<tr>
<td>Property</td>
<td>508,119</td>
<td>662,238</td>
<td>765,269</td>
<td>982,381</td>
<td>1,205,109</td>
</tr>
<tr>
<td>Workers' Compensation</td>
<td>15,503,770</td>
<td>16,572,273</td>
<td>13,224,774</td>
<td>8,135,012</td>
<td>8,615,283</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>$20,780,766</td>
<td>$22,876,468</td>
<td>$17,191,132</td>
<td>$11,143,172</td>
<td>$11,601,870</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Auto Liability</td>
<td>$4,989</td>
<td>$2,847</td>
<td>$4,396</td>
<td>$3,380</td>
<td>$2,514</td>
</tr>
<tr>
<td>Auto Physical Damage</td>
<td>1,635</td>
<td>1,860</td>
<td>1,638</td>
<td>1,962</td>
<td>1,980</td>
</tr>
<tr>
<td>General Liability</td>
<td>7,684</td>
<td>7,978</td>
<td>3,932</td>
<td>3,598</td>
<td>2,096</td>
</tr>
<tr>
<td>Property</td>
<td>1,296</td>
<td>1,495</td>
<td>1,767</td>
<td>2,599</td>
<td>3,013</td>
</tr>
<tr>
<td>Workers' Compensation</td>
<td>18,091</td>
<td>18,854</td>
<td>15,201</td>
<td>11,236</td>
<td>10,810</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>$9,489</td>
<td>$9,648</td>
<td>$7,547</td>
<td>$6,257</td>
<td>$5,715</td>
</tr>
</tbody>
</table>
GO TO ACTUARIAL POWER POINT PRESENTATION BY MILLIMAN
Peter’s Perspectives

- Higher deductibles encourage more accountability
- Reducing annual contribution is perceived as a cost reduction strategy, but assumed risk can be significant
- Actuarial and Insurance modeling reflect inherent uncertainty in loss prediction (in the absence of risk transfer)
- Risk Transfer is achieved through pooling, which includes shared costs
- A stable and/or growing risk pool provides for higher credibility and reduced cost of risk (administration, insurance costs, etc.)
Summary of Task Force Key Concerns

- Large members are now treated consistently with all members
- Large members are more credible, and likely attractive to competition or other financing approaches
- Even with higher credibility, large members do present high risk of large total losses, and potentially greater adverse selection in dollars in many scenarios
- Growth (retention) is a key objective for IRMA
- Reducing losses has the most direct and causative effect on ultimate loss cost
- Improving methods of fixed cost allocation, Member Reserve balance, Interest Income and Investment Income may present options to reduce financing costs
ACTION ITEMS

• Additional analysis of revenue base as determining factor for contribution formula
• Additional analysis of equity/subsidization question as it relates to revenue
• $250,000 Permanent Deductible
• Develop a plan for members to increase deductible levels (Glencoe model)
• Explore opportunities to introduce more accountability
• Other Action Items
Action Item: Additional Analysis of revenue base as determining factor for contribution formula

- Actuarial analysis supports conclusion that revenue base is a reasonable and predictable factor for contribution formula

- Staff Recommendation: No further analysis
Action Item: Additional analysis of equity/subsidization question as it relates to revenue

- Actuarial analysis supports conclusion that there is not equity/subsidization issues related to revenue in contribution formula

- **Staff Recommendation**: No further analysis
Action Item - $250,000 Permanent Deductible

Options:
- Eliminate
- Retain
- Obtain additional information

Staff Recommendation: Eliminate

- Individually rated contribution structure is antithetical to pooling philosophy
- It has never been utilized
- “Permanent” is a myth and transitioning back to the pooling structure would be overly complex, which also raises risks of adverse selection
Action Item: Develop a plan for members to increase deductible levels (Glencoe model)

- The availability of different optional deductibles is intended to decrease member costs through increasing accountability
- Members do not have the municipal budget flexibility to take the risks that follow increased deductibles
- **Staff Recommendation**: Explore opportunities to decrease member risk and increase deductible levels
Action Item: Explore opportunities to introduce more accountability for worker’s compensation

- Worker’s compensation claim costs are the highest of IRMA loss fund expenditures
- Worker’s compensation cost members in many other ways, including lost productivity, pensions, PSEBA
- Worker’s compensation is more predictable, and controllable, than other coverage lines
- The only space where a member’s experience is currently factored into the contribution formula is in the experience modifier, which blends all lines of coverage
- Separating out worker’s compensation experience for purposes of establishing a member report would result in more accountability
Accountability for workers’ compensation, cont.

- **Staff Recommendation**: Separately report worker’s compensation experience in a claim to contribution formula and explore incentives for members with positive experience; consider whether to tie eligibility to interest income credit to a certain score over a certain period of time.
IRMA Goals

- Member Commitment to long term philosophy necessary for pooling
- Financial Security
- Rate Stability
- Member Participation
- Membership Standards for Recruitment
- Membership Retention
- Economic/market competitiveness
- Responsiveness to members