

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



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

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

AVERAGE COST PER CLAIM

	2009	2010	2011	2012	2013
Auto Liability	\$4,989	\$2,847	\$4,396	\$3,380	\$2,514
Auto Physical Damage	1,635	1,860	1,638	1,962	1,980
General Liability	7,684	7,978	3,932	3,598	2,096
Property	1,296	1,495	1,767	2,599	3,013
Workers' Compensation	<u>18,091</u>	<u>18,854</u>	<u>15,201</u>	<u>11,236</u>	<u>10,810</u>
TOTAL	<u>\$9,489</u>	<u>\$9,648</u>	<u>\$7,547</u>	<u>\$6,257</u>	<u>\$5,715</u>



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

IRMA



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**

