



TASK FORCE ON CONTRIBUTION STRUCTURE MEETING MINUTES

Monday, April 27, 2015
IRMA Office
10:00 a.m.

PRESENT: Mike Braiman, Wilmette
Jessica Frances, Riverside
Drew Irvin, Lake Bluff
Elizabeth Holleb, Lake Forest
Barry Krumstok, Rolling Meadows
Julia Cedillo, LaGrange Park
David Danielson, West Dundee
Marlo Kemp, Hazel Crest
Kathleen Rush, Woodridge
Steve Tilton, Tinley Park

ABSENT: Dave Clark, Glencoe
Dane Bragg, Buffalo Grove

ALSO PRESENT: Margo Ely
Susan Garvey
Mary Henzler
Doug Nishimura, Milliman
Rita Boserup
Dan LeTourneau
Peter Wright, Wright Benefit Strategies
Richard Frese, Milliman

Following a brief introduction of those present at the meeting, Ely gave a recap of the task force's journey to date. Ely stated that the task force was originally charged with determining validity of IRMA's contribution structure in terms of equity between large and small members. The conclusion was that the contribution structure is valid and equitable. The task force agreed to eliminate the \$250,000 permanent deductible. The task force found that workers' compensation is more predictable than liability and it is also IRMA's highest cost. The task force discussed various ways to reduce workers' compensation costs and determined that accountability through enhanced awareness of costs and opportunities to reduce losses were a viable approach.

At the February 17th meeting, staff and consultants were asked to explore opportunities to introduce more accountability for workers' compensation; develop a plan for members to increase deductible levels; and provide data to show how actual losses have compared to predicted losses.

Nishimura presented graphs that concluded in the following general observations:

- Rate reductions have been slower than actual decline in losses
- The workers' compensation losses (for 2009 and forward) are 20% better than mature losses (before 2009)
- The general liability losses (for 2008 and forward) are 30% better than mature losses (before 2008)
- IRMA's rates have been stable

Wright presented additional observations & task force objectives that included:

- Pooled claims and rating provide for highly credible projections at the pool level, although individual member losses can vary considerably. Task force analysis showed this to be true across multiple cohorts by member size.

- Price and risk of “Permanent Deductible” to both pool and member do not support continuing to offer -- pool costs would be higher and member costs would be higher in most cases.
- The long term cost of risk can be best impacted through loss control – mitigation techniques or strategies.
- Reducing controllable losses has the greatest potential to directly affect cost.
- Institution of procedures to reduce moral hazard of low deductible for worst performers and others protects the pool and all its members.

Nishimura presented Milliman’s proposal for Workers’ Compensation Loss Control Analysis that included two options:

Option 1 – Workers’ Compensation Advisory Risk Program Analysis

Objectives:

- Determine the statistics most illustrative of recurrent unfavorable loss experience (e.g. frequency, severity, distribution of losses among members, loss ratio)
- Determine the appropriate time periods over which to evaluate these statistics (e.g. X years in a row, X of the last Y years).
- Determine the appropriate thresholds at which IRMA would apply the credit or debit to individual members.

Deliverables:

- An analysis of different statistics for measuring loss experience.
- An analysis of different time periods of experience to consider
- The recommended specific criteria (statistic and time period) to apply credits and debits.

Costs: The cost for this analysis would be \$10,000.

Option 2 – Predictive Modeling Analysis

Nishimura reported that predictive modeling is a process by which a model is chosen to predict an outcome (i.e. the cost of a workers’ compensation claim). A predictive model is created based on statistical algorithms. This analysis can be used to determine characteristics of claims that are most costly. IRMA can then use this information to develop new initiatives and raise awareness among its members.

Objectives:

The objective of the predictive modeling analysis is to determine the loss drivers of the workers’ compensation program.

Deliverables:

Milliman will provide an analysis of the causes or types of losses that drive claim expense.

Options and Costs:

Milliman can perform a basic analysis for \$15,000 or a more in-depth statistical analysis for \$25,000.

Nishimura stated that because this would be the first type of analysis for a municipal pool, they would be able to do both options for \$35,000.

A question was raised as to how long the information from this analysis would be relevant. Nishimura stated that you would probably want to update the analysis every 3 years or so; however, that cost would be much less.

Ely reviewed the proposed IRMA Workers' Compensation Focus Program that staff is proposing that will:

- Introduce accountability
- Emphasize remedial measures and tailored member-specific training
- Ultimately, reduce workers' compensation losses

The objectives of the program would be to:

- Identify and assist members with an adverse workers' compensation loss severity and/or frequency pattern
- Develop specific recommendations and resources based on best practices to reduce overall workers' compensation losses
- Reduce member workers' compensation losses.

The program assignment criteria would include:

- Comparison of a member's total incurred workers' compensation severity and/or frequency versus a target for the previous five (5) year period.
- Determination of the "target" by one of the following:
 - Retain Milliman to conduct analysis
 - Develop target with actuarial data (e.g. 3 members with highest severity in past 5 years and 3 members with highest frequency in past 5 years; identify a % of budget that is acceptable for workers' compensation and members above that percent will be enrolled in the Program
- Member Relations Committee would monitor the Program.

Ely noted that the Risk Management Services Department (Dan LeTourneau, Roy Jensen and Bill Crimmins) would lead the Workers' Compensation Focus Program and:

- Review each department's workers' compensation losses over the previous five (5) year period with IRMA detailed loss reports.
- Identify adverse loss frequency/severity patterns and trends by department.
- Conduct root cause analysis to assist in development of remedial measures
- Develop a plan of action for the member

Action plans may include:

- Mandatory use of transitional work assignments.
- Monthly safety committee meetings.

- Member-wide accident review board (ARB)
- Behavior observation program to identify and reduce at-risk behaviors/develop training needs.
- Job Safety Analysis (JSA) program review with additional JSA development as needed.
- Safety incentive programs.
- Comprehensive materials handling training to reduce the frequency/severity of back and shoulder injuries.
- Focused slip/trip/fall training to reduce injuries.
- Assign non-participating "Safety Officer" with authority to stop the program, to all tactical training programs.
- Conduct frequent facility safety inspections with recommendations tracked to completion.
- Consequences enforced for violations of safety policies, JSAs, SOPs, and SOGs.
- Review of all safety training activities to ensure all workplace hazards are addressed.
- Quarterly tracking of risk management activities.

Ely explained that the Workers' Compensation Focus Program for a member would be a 2-5 year program based on needs and progress. If losses are reduced, staff will make a recommendation to the Membership Relations Committee for removal of the member from the program. If loss trends do not improve, the Membership Relations Committee would consider implementation of a higher deductible and/or a reduction of interest income credit.

Ely stated that higher deductibles encourage more accountability, and that staff intends to proactively assist high performing members to move to higher deductibles, explaining that:

- Optional deductible credits provide opportunity for sustained savings to members
- Reduction of financial risk can be achieved through IRMA reserve fund
- Municipal budget environment of annual operating budgets is inconsistent with long-term pooling philosophy
- IRMA reserve fund and higher deductible options are components of long-term pooling philosophy

Discussion by the task force ensued. It was the consensus of the group that no further analysis needs to be done by the task force. Comments made by various members of the group included:

- Present the Milliman proposal on the Predictive Modeling Analysis for a not-to-exceed cost of \$35,000 at the June Board of Directors meeting. Introduction only of the concepts of the Workers' Compensation Focus Program at the June Board meeting. Program will not go into effect until 2016.
- Replace Watchlist Program with the Workers' Compensation Focus Program to be monitored by the Membership Relations Committee. The Workers' Compensation Focus Program is a repackaging of the Watchlist Program. An Important statement made by Dan LeTourneau should be relayed to Board – claims impacting a member on the Watchlist were predominately workers' compensation claims.
- Emphasis on education for all membership on workers' compensation strategies, not just those members in the Workers' Compensation Focus Program.