



**M E M O R A N D U M**

**TO:** Ad Hoc Committee on Member Retention  
**FROM:** Larry Bush, Executive Director  
**DATE:** April 13, 2010  
**RE:** Issues for Discussion

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The following are issues that have been raised by different members during discussions with IRMA staff. Following each issue are some bullet points listing ideas for addressing the issue. These are not recommendations – just some thoughts as to options available. Some of these have been suggested by IRMA members, and some by staff.

**Governance**

Large members are concerned that their financial stake is much larger than others, but they have no greater influence than a very small special district. Coverage and other matters could be changed to their detriment based on the number of smaller members.

- No vote for special districts
- No vote for new special districts
- Representative voting for special districts
- 2/3 vote for coverage changes
- Number of votes based on member size

Difficulty of very small members achieving requested participation due to size of staff.

- Allow second alternate
- Allow remote participation in Board meetings – perhaps no more than one per member per year, so we still have a quorum in person

**Financial**

Concern that credit for larger deductible, particularly \$100k, is inadequate.

- The credit is accurate for the entire pool, particularly for \$100,000, but not necessarily for an individual member. Credit on individual member basis is a possible alternate approach. Would require actuarial resources.

Small members that perform well do not receive adequate credit because of credibility factor.

- Minimum credibility factor. The purpose of the credibility factor is to predict future losses. Because of their size, the credibility of a small member is small and therefore the credibility factor is low. The low credibility factor protects small members from the large negative impact of large losses but also prevents them from realizing the full benefit of good claims experience.

Experience modifier works for claims under \$50,000 cap, but no credit is received for absence of any large claims. Consistently favorable claims to contribution ratio is not considered.

- Consider increasing the \$50,000 cap, which was increased from \$30,000 to \$50,000 in 2005.

- Claims to contribution could be added to formula in method similar to experience modifier – deviation from IRMA average.
- Allow 5% subjective variance based upon underwriting review. However, if one member is reduced 5% from formula contribution, other members must make it up.

One year notice – what are damages if contract is breached?

- Establish liquidated damages equal to member reserves to be incorporated into bylaws

Larger members are capable of assuming larger retentions/deductibles.

- Allow optional deductibles larger than \$100,000

Revenue base formula allocates more costs to growing entities compared to members with stable or declining economies.

- Need to determine if this is accurate when experience modifier is also considered

IRMA has taken very conservative approach to funding, resulting in higher costs. Excess funds are returned, but member does not have use of those funds for 5 years.

- Take less conservative approach to funding (discounted reserves; lower loss pick)
- Some pools during economic crisis have loaned funds to members at low or no interest with reserves as collateral

Fill in the blank – \_\_\_\_\_ (Large, medium, small) members pay a disproportionate share of IRMA's costs.

- Review data to determine if costs are not allocated appropriately to any particularly sized group

### Claims

Larger members are capable of assuming larger retentions/deductibles and greater control over claims.

- Allow greater claim control within retention

Regarding the impact of size upon the financial performance of members, the following table covers the period from 2003 through 2007.

2003 - 2007	Contribution	Incurred	Claims to contribution
Very Large	59,619,301	42,461,990	71.2%
Large	42,609,492	34,572,105	81.1%
Middle	25,772,651	20,185,396	78.3%
Small	14,305,130	15,277,061	106.8%
Very small	6,466,106	7,227,379	111.8%
IRMA Total	148,772,680	119,723,931	80.5%

LB/mh