ADMINISTRATION & FINANCE COMMITTEE
Meeting Minutes

Wednesday, May 27, 2015
IRMA Office
9:30 a.m.

PRESENT:	Dave Clark, Chair (Via Phone)	John Prejzner
	Spencer Parker	Gerald Sagona
	Darrell Langlois	Doug Haywood
	Lynn McCammon	Jason Bielawski
	Joe Mangan	
ALSO PRESENT:	Margo Ely	Rita Boserup
	Mary Henzler	Brian Goding
	Mark Tomaw	
ABSENT:	Eric Helm	

I. CALL TO ORDER

The meeting was called to order. Roll was taken and a quorum declared.

II. APPROVAL OF MINUTES – February 12, 2015

A motion was made by Prejzner and seconded by Langlois to approve the Administration and Finance Committee Meeting Minutes of February 12, 2015. A voice vote was called and the motion carried.

III. FINANCIAL REPORTS

A. IRMA Financial Statements as of April 30, 2015
B. IRMA Investment Portfolio as of April 30, 2015
C. IRMA Payables for the period of February 1 – April 30, 2015

A motion was made by Parker and seconded by McCammon to approve the Financial Reports. A voice vote was called and the motion carried.

IV. ACTUARIAL REPORT AS OF 12/31/14

Boserup stated that the narrative sections of the report are in the meeting packet. This report suggests the rate per hundred of revenue that you report on your audited revenue base for the next year to come up with the loss fund. On page 37 of the meeting packet the actuary is suggesting a low rate, a medium rate and a high rate. Historically, IRMA has always gone with the medium, selected rate, which is 1.765. There has been some discussion about possibly using the low rate. Boserup stated that she had done a rough calculation and the difference between the selected rate and the low rate is about 6%, so that would be about $1.5 million difference in the loss fund.

Clark commented that we have been pretty conservative in the past. It was a comfort in having the selected rate because we avoid having situations where the rate is jumping up and down or you run into a situation where you are going to have supplemental assessments later down the road because we chose a rate that was too low. Maybe there is some methodology or some thought we can give to something other than the selected rate. Clark stated that we should seriously consider whether the low rate may be an alternative for one year just to see.

A discussion ensued and Ely suggested that a sub-committee be recruited to work with the actuaries and staff to talk about these issues. Langlois, Clark, and Parker volunteered to be a part of the sub-committee. Ely suggested that perhaps Helm would be able to sit on the committee and stated that she would contact him.

A motion was made by Bielawski and seconded by Sagona to create a sub-committee to look at the rate methodology and optional deductible with the actuaries and bring back a report in the fall. A voice vote was called and the motion carried.

A motion was made by Sagona and seconded by Prejzner to accept the Actuarial Report as of 12/31/14. A voice vote was taken and the motion carried.

V. 2014 AUDITED FINANCIAL REPORT – Tomaw

McGladrey partner Mark Tomaw distributed a summary of the required communications as well as a draft copy of the Financial Statements and indicated that they would be finalizing the Financial Statements later in the day.

Tomaw gave an overview of the audit process, stating that the audit went very smoothly. In terms of the audit there were no disagreements. The only adjustments from the original trial balance that was given us were a couple of items that were tied to the fact that Boserup received some information in early April, after she had given the trial balance, and she needed to make some adjustments. One related to the final actuarial numbers, and on the investment side there were a couple of investments where the final information came in later and adjustments were made. Tomaw indicated that the hand out summarized those adjustments. There were no uncorrected misstatements.
Tomaw indicated that there weren't any new accounting policies adopted this year. One on the horizon is GASB 68, which will have to be adopted next year. The estimate is that it will have an impact of about $600,000 to IRMA's financials.

Tomaw reported that in his hand outs he included an internal control letter that outlines a couple of significant deficiencies in IRMA's internal control. One is the fact that IRMA does not have a formalized information technology policy that requires a periodic review of employees' access levels within its financial reporting and claims systems. The other is that employees' passwords are not required to be changed or updated on a periodic basis. They are strongly suggesting that these two deficiencies be looked at.

Clark noted that the IT items identified are being looked at with IRMA's IT consultant, Sikich and asked how things are progressing generally. Ely stated that things are progressing; however, there have been some glitches.

Clark asked whether there were any issues between the auditor and IRMA that the committee should be aware of. Boserup noted that the only issue is that we calculate the loss fund three different ways for three different charts. We really need to establish one way to calculate the loss fund and use it on all the charts. If McGladrey's contract is renewed, we hope to put this into effect this year.

Boserup stated that her plan was to document every report we had difficulty with, which is a good project for the fall.

Tomaw stated that the financial report that was handed out does not include all the information you will need for the CAFR. The report has to be issued by the end of the month to the Department of Insurance. The CAFR will be worked on over the next couple of weeks and distributed at the Board of Directors meeting on June 24th.

A motion was made by Parker and seconded by Bielawski to accept the 2014 Audited Financial Report. A voice vote was called and the motion carried.

VI. SEGREGATION OF DUTIES

Clark asked whether anyone had any questions on the segregation of duties. A question was raised as to what was the purpose of the document. Ely stated that it deciphers what she has responsibility for and what Boserup has responsibility. It's making sure that there are protections in place. Clark commented that it gives a description of what the segregation of duties are, but it also gives the Board each year an opportunity to discuss the segregation of duties and ask any questions that the Board may have.

VII. 1st QUARTER INVESTMENT PERFORMANCE REPORT - Goding

Goding gave a brief overview of the market environment, commenting that the US economy was quite a bit weaker during the 4th quarter of 2014. Indication is that 1st quarter of 2015 is going to be even weaker. Unemployment remains low.

Goding reviewed IRMA's Total Fund Composite. Total assets are $193,397,949. Goding commented that this is the highest he has ever seen the fund, as we have had quite a bit of growth over the past five or six years. There was a positive cash flow of $11 million for the quarter.

Goding noted that Lazard is underperforming, but he is not recommending a search at this time.

Goding stated there was no recommendation on the rebalancing of the fund at this time.

Goding referred to Exhibit II of the report that shows the total fund composite at the end of April, 2015. The total fund composite is $194,918,114.

VIII. OPTIONAL DEDUCTIBLE CREDITS

Ely reported that this agenda item addresses two items. The first one is an amendment to the bylaws to eliminate the $250,000 permanent deductible. The other one is looking for discussion by the committee on your thoughts or opinions about the suggestion that perhaps we could create a new individual fund that would allow members to put the optional deductible credit into a reserve fund or a Member Deductible Fund to encourage members to go to a higher deductible.

Ely stated that the Task Force on Contribution Structure is recommending the elimination of the $250,000 permanent deductible for the reasons that it has never been used and the $250,000 permanent deductible is created through a self-rated methodology, which is antithetical to pooling philosophy. A motion was made by Langlois and seconded by Sagona to approve the elimination of the $250,000 permanent deductible from the IRMA bylaws and the Member Deductible Policy. A voice vote was called and the motion carried.

Ely reported that part of the conclusion that the Task Force came to was that it's in the best interest of the pool and individual members to move to higher deductibles whether you are a high performing member or a low performing member, which changes on a yearly basis. Based on the actuarial study, the Task Force concluded that workers' compensation is much more predictable and controllable than general liability, so we are moving more toward a focus of trying to reduce workers' compensation losses for the pool overall and for certain members in particular. The recommendation is to create a Workers' Compensation Focus Program. We are going to eliminate the Watchlist Program and really look at workers' compensation numbers. We will identify five members who really need a little help with reducing their workers' compensation losses and give them 3-5 years to turn around. If they are making progress then it is great. If they are not making progress then there are some potential ramifications for not making progress in bringing your losses to what the pool's expectations are. One of the consequences would be requiring a higher deductible. The way that it would work is that the higher deductible would hit their pocketbook a little more; it would be a way to change culture and to put more attention on safety and reducing workers' compensation losses.

Ely stated that in that context, when we were having conversations with the Task Force, they discussed that we have a lot of members who have done well and have low losses, but continue to stay at the $2,500 deductible. It would financially benefit them to move to a higher deductible. One of the reasons is that they most likely don't truly understand the benefit of a higher deductible.

A potential revision to consider is that a member could take that optional deductible credit and put that into it's own Member Deductible Fund, so that the funds would be there for the member to rely on if there were some unexpected losses. A question was asked as to what the restrictions are on the fund. Ely stated that this is still in the early stages, but she would say that it would make sense to her to have that fund be used just for claims and then after five years, just like the Interest Income Credit, would be available through an excess surplus and a member could either leave it in or do what they wanted with it.

Ely commented that the Member Deductible Fund needs to be restricted for use of just claims until the member gets better control over its losses. Ely stated that she thought it should be consistent with the Interest Income Credit – five years. Clark asked whether the Member Deductible Fund be available to everybody or just to those members who we will require to move to a higher deductible. Ely stated that what she envisioned it to be is an individual member fund not accessible by the pool, but invested with the pool's assets. Ely stated that as a member's fund grows, there will be less trepidation at the municipal level about going to a higher deductible. What we are trying to do here is introduce more of a long term budgeting perspective for purposes of our member/IRMA budgeting mechanisms by allowing for this to be a long term deductible fund.

The committee discussed the pros and cons of a Member Deductible Fund. Ely stated that there would be a session at the fall Education Summit on how to move to a higher deductible. McCammon suggested that there be some type of tool or spreadsheet that a member could use to calculate the benefits of moving to a higher deductible. Ely stated that maybe there should be a pilot program for a few members.

Ely asked that as the committee continues to think about this, they can email or call her with their concerns or questions.

IX. CLAIMS REPORTING REQUIRMENTS

Ely reported that there was inconsistency between the bylaws and the Member Deductible Policy in regards to claims reporting and this item is removing that inconsistency. A motion was made by Sagona and seconded by Bielawski to approve the revisions to the bylaws and the Member Deductible Policy as presented. A voice vote was called and the motion carried.

X. ACTUARIAL CONTRACT EXTENSION RECOMMENDATION

Ely stated that staff is asking the committee to approve our appointed actuary, Richard Frese of Milliman. The current actuary, Gary Josephson, is retiring. We need to approve the resolution appointing Richard Frese as our Principal Actuarial Signatory. A motion was made by Bielawski and seconded by Sagona to approve the resolution as presented. A voice vote was called and the motion carried.

Ely stated that staff is asking that the committee concur with staff's recommendation to retain Milliman for another five years with a contract expiring on 12/31/2020, pending successful cost negotiations. A motion was made by Prejzner and seconded by Sagona to approve staff's recommendation. A voice vote was called and the motion carried.

XI. CONSULTANT CONTRACTS

Ely stated that staff is recommending they negotiate renewal contracts with Financial Consultant, Marquette Associates, as well as IRMA's auditor, McGladrey LLP.

After a brief discussion, the committee suggested that we renew with McGladrey LLP for a two year period and then go out for an RFP. The committee also suggested that perhaps McGladrey can give us another person to fill in for Tomaw as we don't want someone different for the field work. Boserup stated that she would discuss this with Tomaw.

The committee agreed with staff's recommendation to negotiate a five-year renewal contract with Marquette Associates.

XII. 2015 POTENTIAL INTEREST INCOME CREDIT

Ely indicated that this was for information only and the exact amount of the credit would be determined later in the year.

XIII. ADDITIONS TO AGENDA

There were no additions to the agenda.

XIV. CONFIRMATION OF NEXT MEETING

Clark stated that the next meeting of the committee is scheduled for September 24, 2015 at 9:30 a.m. at the IRMA office.

XV. ADJOURNMENT

A motion was made by Sagona and seconded by Mangan to adjourn the meeting. A voice vote was called and the motion carried.

Submitted by:

____
Rita Boserup
Director of Financial Services & Administration

Approved by:

____
Dave Clark
Chair, Administration & Finance Committee