



New Jersey Schools Insurance Group
6000 Midlantic Drive, Suite 300 North
Mount Laurel, New Jersey 08054
www.njsig.org

Board of Trustees Meeting January 18, 2023
Action Item
NJSIG policy 3410 (surplus policy) amendment first reading
NJSIG No. 0123-03

The NJSIG Member Equity (Surplus) Policy, Policy # 3410, governs the New Jersey Schools Insurance Group's net current surplus. This new version of the policy will replace the prior Member Equity Policy, Policy # 3410, which was adopted in 2014.

Substantively, the new version of the policy adopts the methodology outlined in N.J.A.C. 11:15-4.21, using the definitions established in N.J.A.C. 11:15-4.2, for determining NJSIG's surplus retention requirement minimum. This new version of the policy also establishes NJSIG's surplus retention goal of maintaining adequate capital to address its risk exposures, so as to avoid the need to issue supplemental assessments to members for supplemental contributions.

As drafted, this new version of the policy would be effective July 1, 2023.

Recommended Resolution: To approve the amended surplus policy, NJSIG policy number 3410, as attached for a first reading.

MEMBER EQUITY (SURPLUS) POLICY

Policy #: 3410

Effective Date: July 1, 2023

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~~The member equity (net position as defined by the Group's financial auditor) for the NJSIG should minimally meet the adapted Risk Based Capital (RBC) value as determined by an actuarial study.~~

~~The maximum member equity (net position as defined by the Group's financial auditor) should be the RBC multiplied times a yearly inflation factor times the average of the five most recent average industry ratios of member equity (surplus) to RBC as defined by the NAIC survey of licensed insurance carriers.~~

~~The Group's adapted RBC is to be evaluated at a minimum of every five years.~~

1. **Purpose.** This policy governs the New Jersey Schools Insurance Group's net current surplus.
2. **Surplus requirements.** NJSIG's net current surplus shall not be reduced below the **surplus retention requirement minimum**, and NJSIG's net current surplus shall not be reduced below the surplus retention goal, if one has been set by the Board of Trustees.
3. **Definitions.** Wherever used in this policy, the following terms are defined accordingly.
 - 3.1. **Net current surplus:** Also known as surplus, as defined by N.J.A.C. 11:15-4.2, means that amount of monies in a trust account established pursuant to N.J.A.C. 11:15-4.6(b)10 that is in excess of all costs, earned investment income, refunds made pursuant to N.J.A.C. 11:15-4.21 incurred losses and loss adjustment expenses and incurred but not reported reserves, including the associated loss adjustment expenses attributed to the fund net of any recoverable per occurrence or aggregate excess insurance or reinsurance for a particular year.
 - 3.2. **Aggregate net current surplus:** Means the sum of NJSIG's **net current surplus** for all fiscal years and all lines of coverage.
 - 3.3. **Surplus retention requirement minimum:** Means the minimum net current surplus required in order to issue refunds of member contributions as defined by N.J.A.C. 11:15-4.21(b).

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3.3.1. For example, a hypothetical workers' compensation fund year 2017/2018 trust account, with: \$1,000,000 in paid losses; \$2,000,000 in unpaid claim reserves; \$2,000,000 in incurred but not reported reserves. For this hypothetical fund year trust account, as of July 1, 2020, the surplus retention requirement minimum under N.J.A.C. 11:15-4.21(b) is equal to:

3.3.1.1. N.J.A.C. 11:15-4.21(b)(1): \$1,000,000 in paid losses multiplied by 45% paid loss factor equals \$450,000.

3.3.1.2. N.J.A.C. 11:15-4.21(b)(2): \$2,000,000 in unpaid claim reserves multiplied by 135% unpaid claim factors equals \$2,700,000.

3.3.1.3. N.J.A.C. 11:15-4.21(b)(3): \$2,700,000, which is the greater of the results from the calculations in N.J.A.C. 11:15-4.21(b)(1) and (2) reduced by \$2,000,000 in unpaid claim reserves, and further reduced by \$2,000,000 in incurred but not reported reserves, equals (\$1,300,000). Because this number is less than zero, under N.J.A.C. 11:15-4.21(b)(3), the surplus retention requirement minimum for this hypothetical workers' compensation fund year 2017/2018 trust account is \$0.

3.4. **Surplus retention goal:** It is the goal of NJSIG to maintain adequate capital to address its risk exposures, so as to avoid the need to issue supplemental assessments to members for supplemental contributions. For that reason, NJSIG's surplus retention goal for each **Fund** and **Fiscal year** may be established by resolution of the Board of Trustees based upon actuarial analysis, modifications to the legal environment and other facts as appropriate.

3.5. **Fund:** As defined by N.J.S.A. 18A:18B-1(a), means a joint self-insurance fund established by a school board insurance group pursuant to this act. The joint self-insurance fund is a fund of public moneys from contributions made by members of a school board insurance group for the purpose of securing insurance protection, risk management programs, or related services as authorized by N.J.S.A. 18A:18B-1, et seq.

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3.6. School board insurance group: Also known as a group, as defined by N.J.S.A. 18A:18B-1(b), means an association formed by two or more boards of education or the New Jersey School Boards Association for the development, administration, and provision of risk management programs, joint self-insurance fund or funds, and related services.

3.7. Fiscal year: Also known as fund year, as defined by N.J.A.C. 11:15-4.2, means July 1 through June 30.

3.8. Unpaid claims: Also known as unpaid losses, as defined by N.J.A.C. 11:15-4.2, means case reserves and reserves for incurred but not reported claims attributed to the fund net of any recoverable per occurrence or aggregate excess insurance or reinsurance for a particular fiscal year.

3.9. Paid losses: Also known as paid claims, means the amount of monies that have been paid on claims for a particular fiscal year.

3.10. Unpaid claim reserves: Also known as **outstanding losses reported**, means the amount of monies in a trust account established pursuant to N.J.A.C. 11:15-4.6(b)10 that is equal to unpaid incurred losses and unpaid loss adjustment expenses attributed to the fund net of any recoverable per occurrence or aggregate excess insurance or reinsurance for a particular year.

3.11. Paid loss and unpaid claim factors: As defined by N.J.A.C. 11:15-4.2, Exhibit E:

<u>Liability</u>		
<u>Months of maturity from end of fund year</u>	<u>Paid loss factor</u>	<u>Unpaid claims factor</u>
<u>24</u>	<u>225%</u>	<u>135%</u>
<u>36</u>	<u>90%</u>	<u>135%</u>
<u>48</u>	<u>30%</u>	<u>135%</u>

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<u>60</u>	<u>5%</u>	<u>135%</u>
<u>72</u>	<u>2.5%</u>	<u>135%</u>
<u>84 and over</u>	<u>0%</u>	<u>135%</u>

<u>Workers' compensation</u>		
<u>Months of maturity from end of fund year</u>	<u>Paid loss factor</u>	<u>Unpaid claims factor</u>
<u>24</u>	<u>45%</u>	<u>135%</u>
<u>36</u>	<u>25%</u>	<u>135%</u>
<u>48</u>	<u>15%</u>	<u>135%</u>
<u>60</u>	<u>10%</u>	<u>135%</u>
<u>72</u>	<u>5%</u>	<u>135%</u>
<u>84</u>	<u>2%</u>	<u>135%</u>
<u>96 and over</u>	<u>0%</u>	<u>135%</u>

<u>Property</u>		
<u>Months of maturity from end of fund year</u>	<u>Paid loss factor</u>	<u>Unpaid claims factor</u>
<u>24</u>	<u>5%</u>	<u>135%</u>
<u>36</u>	<u>2.5%</u>	<u>135%</u>
<u>48</u>	<u>5%</u>	<u>135%</u>

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<u>60 and over</u>	<u>0%</u>	<u>135%</u>
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4. Effective date. This policy is effective July 1, 2023.

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