New Jersey Schools Insurance Group
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Board of Trustees Meeting of November 29, 2017
Action Item
Special Report - Pricing Study

Each year NJSIG's actuary, Willis Towers Watson, evaluates the pricing for the NJSIG's risk retentions as of September 30th. That date is used for this pricing study because the resulting pricing indications are available for budget development by NJSIG's members. Tower Watson's attached report (NJSIG Rate Review 17_18 draft) indicates the rates NJSIG should charge its members for the retained risk in each major coverage central estimate (see page 11). The coverage extended above NJSIG's retained risk is reinsured. This limits NJSIG's potential payout on each claim to the retained portion. **We will address the price of reinsurance at the March meeting.** In Workers' Compensation (WC) NJSIG retains $1,000,000 of risk for each occurrence. Similarly NJSIG retains $500,000 for each General Liability (GL) and Auto Liability (AL) occurrence (claim). NJSIG retains $1,000,000 of risk for each property occurrence (claim) and retains the entire Auto Physical Damage (APD) line of coverage. Errors and Omissions (E&O) is entirely reinsured.

The Willis Towers Watson central estimate on page 7 indicates an overall rate decrease of 0.2%, excluding E&O, for the 2018 – 2019 policy year. Utilizing indications below the central estimate will reduce the rate and thus reduce the costs to the members. Utilizing indications above the central estimate would increase the rate and thus increase costs to the members. See page 7 to see the effect of choosing the indicated rates at the low reasonable or high reasonable levels. You can see that choosing the rate indications at the low reasonable level would offer NJSIG's members a rate decrease of 3.1%. At the high reasonable level NJSIG's members would see a rate increase of 3.9% excluding the fully insured E&O line of coverage. Selecting the low reasonable level would increase the probability that we would not collect enough money to cover NJSIG's expenses and thus have a fund year deficit. This would require using NJSIG's surplus funds to balance the financials for the year. Selecting the high reasonable level results in higher rates for members and a greater chance of having collected too much money. In today's school budget environment choosing at the higher reasonable level should be reserved to those times when NJSIG's financial viability requires this decision.

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Consistent with past practices, individual lines of coverage with dramatic indicated rate changes are averaged to smooth the extent of annual fluctuations. For example, 1% indicated rate decrease for GL is averaged with the 26.3% rate decrease for AL, the 14% increase for APD and the 27.9% decrease for property to yield a combined rate decrease of 13%. Member rates for retained losses will increase 0.6% on average for WC. The loss history of the membership of each sub fund is used to establish the WC rates for each sub fund. The nonsub-fund (NJSIG) members are evaluated together as their own group. Thus, there is a range of WC rate changes based on the loss history of the group of districts being evaluated. My recommendation is to reduce the combined GL, AL, APD and property rates for retained risk by 13% and increase WC rates 5% for 2018-2019. The rate change for E&O coverage will be determined by the results of the renewal renegotiation of the E&O policy, which is materially influenced by the actual loss experience up to the date of the renewal negotiations. GASB 68 balance sheet charges remain unpredictable, with the State providing an allocation number late in the fiscal year.

Recommended Resolution: Approve a 13% rate decrease for GL, AL, APD and property lines of coverage, and a 5% increase in the WC line of coverage for the retained risk pricing component. The result is an overall average rate increase of 1% for the Members.

William Mayo

William Mayo, CPCU, ARM
Executive Director