7. Financial

B. Rate Setting

NJSBAIG
NEW JERSEY SCHOOL BOARDS
ASSOCIATION INSURANCE GROUP

RATE SETTING

How are rates determined?

An independent actuary studies the claim payout patterns in relation to the total risk exposure of the Group. For workers' compensation (WC) that risk exposure is employee payroll, for general liability (GL) it is student count, for auto liability (AL) it is vehicle count and for property (PR) it is total insured value.

After layering in the administrative expenses the actuary projects the premium rate necessary to pay the Group's total expenses (claims plus overhead). As per the enabling legislation investment income may not be used in this rate setting process. In essence, the investment income becomes a safety net in the event premium collected does not cover the claim and administrative expenses.

Why does the actuary estimate a range of projected premium rates?

Actuarial science is not exact. Their projections are based on historical data. This historical data is no guarantee that future expenses will exactly reflect Group expense history. Therefore, the actuary estimates a range of premium rates.

These estimates fall into three categories.

Low	35%	Confidence level
Central	50%	Confidence level
High	70%	Confidence level

The actuary estimates the lowest rate projected to be correct 35% of the time.
The central is projected to be correct 50% of the time.
The high is projected to be correct 70% of the time.

In order to maintain premium rates as low as financially practical the central rate is chosen. This means 50% of the time there will not be enough money collected to pay the Group's expenses (claims plus overhead).

This choice is reasonable due to the Group's member equity (surplus). In those years when premium rate is not high enough to pay the Group's expenses a drawdown of member equity (surplus) is required to maintain the financial integrity of the Group.

In other words, the Group's member equity (surplus) permits rates to remain at the lowest possible level.