New Jersey School Boards Association Insurance Group
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Board of Trustees Meeting of November 28, 2012
Action Item
Special Report - Pricing Study

Each year the actuary (Towers Watson) evaluates the pricing for the Group's risk retentions as of 9/30. The September 30th date is used for this pricing study because the results (pricing indications) are available for budget development by the Group's members.

Tower Watson's (TW) attached report (NJSBAIG 2013/2014 Rates Draft sent Nov12-2012) indicates the rates the Group should charge its members for the retained risk in each major coverage (see page 14 of 158). The coverage extended above the Group's retained risk is reinsured. This limits the Group's potential payout on each claim to the retained portion. We will address the price of reinsurance at the March meeting.

In WC (workers' compensation) the Group retains $1,000,000 of risk for each claim. Similarly the Group retains $500,000 for each GL (general liability) and AL (auto liability) occurrence (claim). The Group retains $1,000,000 of risk for each property occurrence (claim) and retains the entire APD (auto physical damage) line of coverage. E&O (errors and omissions) is entirely reinsured.

Think of Hurricane Sandy as one occurrence. We received over 90 claims to date but Sandy was one occurrence. Therefore, the Group's retained risk for all 90+ Sandy claims is $1,000,000.

Based on TW's ultimate liability study valued as of 6/30/2012 they had predicted an increase in our WC rates. Unfortunately their predictions have come true. The indications at the central estimate they forwarded to us included a 3.8% rise in WC rates. They also indicated a raise in the Group's GL rate (20.9%) and a decrease (37.7%) in the AL rate. The report also indicated a .6% increase in property and a 21.2% increase in auto physical damage (APD).

Their report indicates an overall increase of 2.1% on page 12.

Utilizing their indications below the central estimate will reduce the rate and thus reduce the increase to the members. Utilizing their indications above the central estimate would increase the rate and thus increase the increase (members would pay more) to the members. See page 12 of 158 to see the affect 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 the Group's members a rate decrease of 1.6%. At the high reasonable level the Group's members would see a rate increase of 7.3%.

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Choosing at the low reasonable level would increase the probability that we would not collect enough money to cover the Group's expenses (claim costs and overhead) and thus have a fund year deficit. This would require using the Group's surplus funds to balance the financials for the year. Just the opposite scenario would be in play if we choose the high reasonable estimate. Higher rates for members and a greater chance of having collected too much money is the likely result of choosing at the high reasonable level. In today's school budget environment choosing at the higher reasonable level should be reserved to those times when the Group's financial viability requires this decision.

As in the past I have worked with the actuaries to even off the increases and decreases by coverage to provide an overall neutral as possible result for each coverage for the 2013/2014 year. The indicated (see page 12 of 158) GL rate increase (20.9%) has been offset with the indicated AL rate decrease (37.7%) to effectuate a 1% increase in both the GL and AL rates for 2013/2014. See the implemented rate change chart on page 13 of 158.

The WC rate was reduced by utilizing the balance (not used for the GL rate reduction) of the AL rate decrease to offset the WC increase. This shift has allowed the WC rate increase to be reduced from 3.8% to 2.7%. See the implemented rate changes on page 13 of 158.

My recommendation is to allow the Auto Physical Damage (APD) to remain at an indicated increase of 21.2%. This line of coverage is a very small part of the school district budget so I don't believe this increase will affect the overall pricing evaluation by the individual members.

The E&O pricing is a best guess based on discussions with the reinsurer (XL) and our knowledge of the market. I have estimated a 15% price increase. The E&O line of coverage continues to have poor results. We have developed an underwriting plan to insure the worst risks will receive the largest rate increases. The E&O assessment will be used to help underwrite the risk specific to each member.

Actual member rates will rise on average 2.7% for WC. The loss history of the membership of each sub fund is used to establish the WC rates for each sub fund. The non sub fund 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.

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Recommended Resolution: Approve the implemented rate changes as defined on page 13 of 158 in the November 12, 2012 draft Towers Watson pricing study. Approve an E&O price increase not to exceed 15% above the negotiated price with the E&O insurer.

Marty

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