



New Jersey Schools Insurance Group
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Board of Trustees Meeting September 18, 2019
Discussion Item
Risk Based Capital/Surplus Study Guideline as of June 30, 2019

NJSIG will review and present each fiscal year-end fund surplus versus the Risk Based Capital (RBC)/Total Adjusted Capital (TAC) established by the resolution passed at the June 30, 2016 meeting. That resolution stated the following:

Each year-end, until a new surplus study is performed, NJSIG should adopt the methodology that the NJSIG member equity (surplus) target threshold should minimally meet the adapted RBC value (as determined by Sigma), including a yearly inflation factor (as measured by the Consumer Price Index and published by the Bureau of Labor Statistics), times the RBC ratio range of 2.15 – 3.30 (as determined by Sigma). The Group's adapted RBC is to be evaluated at a minimum of every five years by an independent firm. Sigma Actuarial Consulting Group was engaged to perform a strategic Total Adjusted Capital/Risk Based Capital (TAC/RBC) analysis for NJSIG. Sigma used the Group's preliminary 06/30/16 financial reports which included the 06/30/16 Willis Towers Watson study of ultimate liabilities, the 06/30/16 GASB68 adjustments (as per the NJ KPMG state report) and the assumption of a \$3 million 2015/2016 safety grant.

NJSIG's adapted RBC from the 06/30/2016 Sigma Actuarial Surplus Study was \$31.6 million.

The published twelve month inflation rate at 06/2017 (as measured by the Consumer Price Index and published by the Bureau of Labor Statistics) was 1.6%. NJSIG's 06/30/2017 RBC/TAC adjusted for 1.6% inflation was \$32.1 million.

The published twelve month inflation rate at 06/2018 (as measured by the Consumer Price Index and published by the Bureau of Labor Statistics) was 2.9%. NJSIG's 06/30/2018 RBC/TAC adjusted for 2.9% inflation was \$33.1 million.

The published twelve month inflation rate at 06/2019 (as measured by the Consumer Price Index and published by the Bureau of Labor Statistics) is 1.6%. NJSIG's 06/30/2019 RBC/TAC adjusted for 1.6% inflation is \$33.6 million.

The RBC ratio range (as determined by Sigma) is 2.15 – 3.30. Multiplying NJSIG's 6/2019 inflation adjusted RBC by these ratios sets the NJSIG 06/30/2019 RBC/TAC Surplus threshold/guideline ranges between \$72.2 million and \$110.9 million.

The current 06/30/2019 NJSIG surplus (prior to fiscal year-end adjustments and safety grant declaration) is \$109.7 million (as of 09/09/19). The projected 06/30/2019 NJSIG surplus (assuming a \$2 million safety grant) is \$107.7 million. Both the current surplus of \$109.7 (prior to safety grant declaration) and the projected surplus of \$107.7 million (post a \$2 million safety grant declaration) are within the 06/2019 RBC/TAC targeted threshold of \$72.2 million and \$110.9 million.

The resulting 06/30/2019 addition to surplus of \$25.2 million will consist of \$8.1 million of investment income and \$17.1 million of operating income. This addition to surplus is intended for NJSIG's implementation of a four year underwriting rate reduction strategy for its members.

Michele Carosi
Chief Financial Officer