BURLINGTON COUNTY MUNICIPAL JOINT INSURANCE FUND

ASSESSMENT ALLOCATION STRATEGY

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BUDGET DEVELOPMENT

BUDGET PROCESS

The BURLCO JIF Budget Process begins in July each year when the Risk Management Consultants (RMCs) are asked to update their member **exposures** (e.g. insurable property values, vehicle lists, appropriations, payrolls, etc.). This data is required by the Actuary in order to calculate the **loss fund** demands for the new budget year. Beginning with the 2013 Renewal process, the Fund implemented an on-line exposure data management system that provides members and their Risk Management Consultants with real time direct access to their exposure data. The system allows members to update their exposure data throughout the year and complete the Annual Renewal Process in a fraction of the time compared to prior years. The system also allows Fund Professionals direct access to the exposure information and will increase the accuracy of the Fund's Underwriting data.

In July, all vendors are invited to submit renewal proposals for the coming Fund Year. The Finance Committee reviews these proposals for acceptance, negotiation, and/or other action. The Finance Committee then makes their recommendation regarding contract renewal to the Executive Committee. Finally, it is important to note that the Fund continues to appoint its Fund Professionals utilizing a non-fair and open process in accordance with NJSA 19:44A-20.1. The membership continues to believe that forbidding Fund Professionals from making political contributions to elected officials in member towns is appropriate.

BUDGET COMPONENTS

The budget consists of Six (6) major categories that are described below:

A. **Loss Funds** - Portion of budget developed by an actuarial review based upon the JIF's aggregate exposures, claims history, and risk factors. It takes into account all costs associated with the payment of members' claims on an accrual basis. The JIF fully funds losses to "Ultimate" expected payout.

   Each year the Finance Committee evaluates the overall Fund performance and claims counts within both the Fund's SIR and the MEL layer. Based on the positive performance in the Fund's SIR and the MEL layers directly above the Fund's SIR, the Committee continues to maintain a $300K for Workers' Compensation and Liability claims.

B. **Operating Expenses** - Pays all expenses associated with operating the Fund (fund professionals, meeting expenses, printing expenses, etc.), member benefits (payroll audits, property appraisals, various training programs, etc.), and member reimbursement programs (Wellness, Safety Incentive Program, etc.).

C. **EPL/POL Premiums** – In recognition of the ongoing statewide poor loss experience for members in the Employment Practices Liability line of coverage, in the Fall of 2010, the MEL, who had previously provided this coverage, decided to place this coverage in the commercial market. While the MEL acts as the lead negotiator with the commercial market to provide uniform coverage terms on behalf of the MEL affiliated JIF's, the Fund Administrator will bind the coverage on behalf of the Fund. The premium for this coverage will be collected as part of each member's assessment and will be paid directly to the commercial insurer by the JIF.

D. **MEL Assessment** – The JIF belongs to the Municipal Excess Liability Joint Insurance Fund (MEL). The MEL provides excess property, liability and workers' compensation coverage beyond the JIF SIR. This budget item is developed by the MEL and transmitted to the JIF in October.

E. **E-JIF Assessment** – The JIF is a member of the Environmental Risk Management Joint Insurance Fund (E-JIF). The E-JIF provides first and third party liability coverage to its members. The E-JIF provides training and strong risk management programs in the area of environmental hazards. E-JIF assessments are based upon a per capita rate.

F. **Cyber JIF –** In recognition of the difficulty in securing Cyber Liability coverage for public entities in the commercial insurance market, the need for all members to implement stringent cyber security protocols, the volatile nature of cyber related losses and the recent poor loss experience for members in the Cyber line of coverage; in the Fall of 2022, the MEL affiliated JIFs formed the Cyber Risk Management Joint Insurance Fund to provide Cyber related services and coverage for all MEL affiliated JIFs. The Cyber JIF will carry a self-insured retention and purchase specific and aggregate excess coverage for each member JIF.

ASSESSMENT ALLOCATION STRATEGY

Once the JIF budget is developed, a formula for allocating individual members' shares must be developed. For an assessment allocation formula to be successful it must be easily understood, easy to administer, and perceived as fair and equitable by the members. The Finance Committee meets each year and establishes the formula that will be used.

The JIF currently uses a loss ratio methodology to allocate the annual budget. Each member's expiring assessment is adjusted by a set percentage that correlates to a range of loss ratios. Loss ratio is defined as the ratio that loss dollars incurred bears to the member loss fund contributions. During the Fall of 2010, the Fund Administrator and Actuary recommended utilizing a six-year average loss ratio rather than the three-year average loss ratio used in prior years to depict a better overall picture of a member's Loss Ratio performance. The six-year loss ratio (excluding the current year), valued as of June 30th of the current year, is used in the formula for determining a member's percentage increase in loss funds for the upcoming year. Members with lower loss ratios will receive a lower percentage increase than members with higher loss ratios. This percentage will vary each year based upon the percentage increase in the JIF budget. Members with less than three years' experience may receive an increase equivalent to the overall JIF budget increase. An anomaly loss, which is one loss that accounts for more than 50% of a member's total losses for the six-year period would have their proposed assessment dropped by one category. Members with anomaly losses are usually small members and the reduction of a single category does not have an impact on the assessment strategy.

Beginning with Fund Year 2011, the Fund implemented a Reward/Revaluation Program for Renewing Members who over the past six years (excluding the current year) have been a net giver to the Fund. This concept is more fully discussed on **pages 6 and 7**.

Also beginning with Fund Year 2011, the Finance Committee opted to introduce a *Retrospective Assessment Program* that identifies those members that are the driving force behind the Loss Funding increases year to year and remove the risk they place on the Fund by capping these members in a min/max contract. This concept is more fully discussed on **page 8**.

The following table is indicative of the current strategy:

6 Year Average Loss Ratio				Increase in Loss Funds	Members Affected
RETRO ASSESSMENT PROGRAM				17.00%	1
ABOVE	150%			17.00%	3
BETWEEN	125%	and	150%	16.00%	1
BETWEEN	100%	and	125%	15.00%	3
NEW MEMBERS LESS THAN 3 YEARS				14.19%	0
BETWEEN	60%	and	100%	13.50%	8
BETWEEN	40%	and	60%	12.00%	3

BETWEEN	20%	and	40%	10.00%	1
BELOW			20%	8.00%	4
RENEWING MEMBERS WITH LR BETWEEN 40% & 60%				8.00%	3
RENEWING MEMBERS WITH LR BETWEEN 20% & 40%				6.00%	1
RENEWING MEMBERS BELOW 20%				4.00%	0
					28

Risk Management Consulting Fees are negotiated individually by each member and are added to the member's assessment after the above factors are applied.

The following pages present a history of past Assessment Allocation Strategies.

THE EARLY YEARS - EQUALIZATION

During its early years, the JIF allocated assessments using a simple formula called "**equalization**". Under this scenario each member's renewal assessment rose by approximately the same amount as the JIF budget regardless of changes in their operations or their claims experience. Many pools use this approach during their formative years and the BURLCO JIF was no exception.

EXPOSURES - In comparing the JIF's membership data over time, however, it became apparent that some members' exposures were changing at a different rate than others. For example, a growing municipality may have had to build a new municipal building, while another member eliminated their entire police department. The result was that growing members received subsidies at the expense of the other members. This concept is more fully discussed on **page 13**.

EXPERIENCE - A review of the members' claims histories also revealed the potential for inequities. One member, for example, may have incurred a relatively low ratio of claims compared to their budgeted assessment while others incurred higher claims ratios. Clearly, the "**Equalization**" strategy offered no inducement to control losses and, in fact, may have rewarded members with poor experience. **Pages 14 and 15** more fully discusses this topic.

After several years of "**Equalization**" the Finance Committee realized that if this strategy continued, inequities would develop and the JIF could lose members. Unfortunately, the first to leave the JIF would be those members whose good experience was subsidizing the JIF.

1993 - COMBINED ALLOCATION STRATEGY

In 1992, after reviewing all of the above facts, the Finance Committee recommended that an Assessment Allocation Strategy be adopted which incorporated both an Exposure Allocation and Experience Rating strategy taking all of the above factors into consideration. This strategy took effect with the 1993 Fund Year.

1997 - EXPERIENCE BASED ALLOCATION STRATEGY

In the Fall of 1996, the Finance Committee again examined the relationship between members' assessments and their claims experience. The Committee agreed that the Combined Allocation strategy did not place enough weight upon a members' claims history. The Committee therefore recommended that a more simplified assessment allocation method be adopted in which members' renewal assessments are modified based upon their preceding three full years' claims experience. The Finance Committee recommended that the chart, which appears on **page 15**, be simplified and that members' **overall** three-year claims experience be used in lieu of individual lines of coverage. That is the strategy in effect today.

2006 – MODEL OPERATING EXPENSES

In the fall of 2005, the Finance Committee examined the way JIF Operating Expenses were allocated to the members. While the above "Experience Based Allocation Strategy" appeared equitable, it was recognized that members' share of JIF Operating Expenses should not be affected by their loss ratio. Therefore, in consultation with the Fund Administrator, The Finance Committee adopted an Assessment Allocation Strategy that applies the above "Experience Based Allocation Formula to **LOSS FUNDS ONLY** and proposes that a members' Operating Expenses be allocated more in line with their actual cost to the Fund. Therefore, those expenses that are directly attributable to a member (Direct Expenses) e.g. Optional Safety Budget, EPL Consulting Service, Loss Control Service, etc. will be charged to a member's assessment. Those expenses that cannot be directly attributable to a member (Indirect Expenses) such as Actuarial Fees, Claims Audit Fees, Financial Audit Fees, etc. shall be charged to a member's assessment in the same proportion that their Loss Fund Contributions, Property Values, or Payroll figures, whichever bases is most appropriate, bear to the entire JIF. Thus, if a member contributes 5% to the JIF Loss Fund budget, they will receive a 5% share of a specified JIF indirect Operating Expense.

2011 – SIX-YEAR LOSS RATIO, REWARD / REVALUATION PROGRAM & RETRO ASSESSMENT PROGRAM

In the fall of 2010, the Finance Committee undertook an in depth analysis to determine whether the Three Year Average loss ratio was still a good indicator of a member's exposure to the Fund. The Fund Actuary reviewed the current process utilized to decide member loss funding assessments and rendered an opinion that even though the Three Year loss ratio was a good indicator of a member's overall performance the utilization of a longer time period, six or nine years, would be a more accurate indicator of a member's long term performance in the Fund. Based upon this analysis, the Finance Committee decided to utilize a six year average loss ratio when determining the Fund's Assessment Allocation Strategy and adjustments to member's assessments on an annual basis.

In conjunction with this change, the Finance Committee also decide to implement a program that allows the Fund to reduce a good performing member's loss funding budget if they have been a "net giver" to the Fund over the same six year period. Beginning with the 2011 Fund Year, the Finance Committee examined each member during their Renewing Year to make sure that their assessment accurately reflects their exposure to the Fund. In cases where a good performing member is a net giver to the Fund over the preceding six year period (not inclusive of the current year), the Finance Committee will consider reducing the member's loss funding assessment to better reflect their exposure to the Fund. The Finance Committee recognizes that failure to provide financial relief to the good performing members will cause them to become over assessed and an attractive member to a competing Fund. The Fund recognizes that if good members leave the Fund a greater financial burden will be placed on the remaining members. This process continues to repeat itself until all the good members have left the Fund leaving the Fund with only poor performing members resulting in "adverse selection." This program allows for the Fund to remain competitive in the pricing of the good performing members.

Beginning in Fund Year 2011, the Finance Committee also opted to introduce a *Retrospective Assessment Program* that identifies those members that are the driving force behind the Loss Funding increases year to year and remove the risk they place on the Fund by capping these members in a min/max contract.

Each year the Fund performs an analysis of the each member's performance over the prior three and six year periods to determine those members that are having the greatest negative impact on the Fund's surplus position. Once these members are identified, the Fund Actuary re-prices these members as if they were stand-alone members in the Fund. The Fund can then reduce the amount of the Loss Funding Budget by the difference between the member's loss funding assessment and the Actuary's loss funding assessment or a percentage amount as determined by the Finance Committee. Each remaining member of the Fund is then slotted into their appropriate assessment increase/decrease category based upon their performance.

Those members in the *Retrospective Assessment Program* are then given an increase equal to the increase in the loss funding budget had they remained in the original loss funding formula. The difference between the Actuary's stand-alone pricing, or a percentage amount as determined by the Committee, and the poor performer(s) pricing with the standard increase becomes the obligation of the poor performing member(s) should the funding be needed to offset losses incurred by this member. Members participating in the *Retrospective Assessment Program* are required to adopt a resolution and accompanying Policy Endorsement that outlines the member's minimum and maximum loss funding allocation under the program.

Those members in the *Retrospective Assessment Program* have their incurred losses evaluated at 18, 30, and 42 months after the inception of the Fund Year to determine if they are obligated to pay any of the additional loss funding between the amount the originally contributed to the Fund and their maximum loss funding assessment as determined by the Finance Committee. Any additional loss funding due from a member enrolled in this program can be billed to the member at any time following the conclusion of the Fund Year. All additional loss funds due and owing under this program must be paid to the Fund at the time the Fund transfers the obligations of the Fund Year to the Residual Claims Fund or the member leaves the Fund.

The *Retrospective Assessment Program* benefits both the good and poor performing members of the Fund. Poor performing members benefit in that they are able to spread potentially large increases in loss funding over a number of years easing a potential burden on their local budget, providing them time to address claims and loss issues, and providing a financial incentive to improve their performance. Good performing members of the Fund also benefit in that they are no longer supplementing the poor performing members since the Actuary reduces the loss funding budget by the total amount between the minimum and maximum obligations of those members in the *Retrospective Assessment Program*. As a result, the assessment allocation strategy for the good performing members is lower than it would be because the poor performing members are contractually bound to the contract maximum; therefore reducing the amount needed to fund for loss funding. For those members that were selected for the *Retro Assessment Program* that elected not to participate, will be given a Loss Funding Increase significantly higher than what was proposed in the Assessment Strategy breakout before considering taking into consideration the *Retro Assessment Program*.

<u>2011 – 2019 - EPL/POL PREMIUM ALLOCATION</u>

Due to the deteriorating performance in this line of coverage over the prior years, the MEL, on behalf of its member JIF's, negotiated EPL/POL coverage with a private insurer.

In prior years, the MEL allocated member premiums strictly as a rate (police vs. non-police) multiplied by employee counts. In addition, members that were poor performers in this line of coverage were surcharged by the MEL. These surcharges carried through to the specific members during the 2011-2012 JIF Premium assessment with the private insurer.

For the 2013 Fund Year, in an effort to transition to a process that emphasized recent claims experience, the Finance Committee decided to allocate fifty percent (50%) of the JIF premium across the membership based on a rate (police vs. non-police) multiplied by employee counts and the remaining fifty percent (50%) allocated based on the member's six year loss experience for these lines of coverage. For the 2014 Fund Year, the Finance Committee allocated twenty-five percent (25%) of the JIF premium across the membership based on a rate (police vs. non-police) multiplied by employee counts and the remaining seventy-five percent (75%) allocated based on the member's six year loss experience. For the 2015 Fund Year, the Finance Committee fully transitioned to an allocation based on the member's five year loss experience.

Finally, it should be noted that beginning in 2013, Volunteer, Directors and Officers Liability (optional) was transitioned from the MEL coverage to a commercial carrier. Also in 2013, Cyber Liability Coverage was added also through a commercial carrier.

2012 – EXCESS PROPERTY PREMIUM ALLOCATION

The Finance Committee undertook an in depth analysis of the allocation of Excess Property Premiums. Excess Property Premiums have been included in the JIF Loss Funding portion of the budget; so therefore, members receive a proportionate share of the Excess Property Premiums based on their proportionate share of the JIF Loss Funding Budget. During the analysis, significant variances arose when comparing the Excess Property Premiums to those determined by the MEL (rate times exposure based). In preparation for the 2012 Budget, the Finance Committee opted to remove the Excess Property from the Loss Funding portion of the Budget and include it with the Excess Coverage. In doing so, the Finance Committee elected to transition from the proportionate share allocation to the MEL allocation by utilizing one fourth of the MEL Premium and allocating the remaining funds based on a proportionate share of Loss Funds (as done in years past). It took four years to transition to the MEL's allocation process.

2013 – EXCESS PREMIUM ALLOCATION

Beginning in 2013, the MEL implemented several changes to how excess premiums are calculated. Population is used by the MEL as the basis for the allocation of Liability premiums. Beginning in 2013, the MEL phased in changes in population from the 2000 census to the 2010 census data over a three year period (1/3 each year for 3 years). The BURLCO JIF members experienced an increase in population of 5.54% which had an impact on member assessments. Also, beginning in 2013, the MEL began experience rating member JIFs based upon the JIF's performance over the prior five years at the MEL level. As the BURLCO JIF has been a net giver to the MEL over the prior five years, the JIF will see a reduction in their MEL Assessment prior to the impact of the 2014 rate changes. The implementation of an experience factor is subject to review on an annual basis.

2016 – EXCESS PREMIUM ALLOCATION

Beginning in 2016, the MEL implemented a *Retrospective Program* on all JIFs in the MEL System in addition to continuing to experience rate JIFs based on the prior ten years' MEL experience for WC and Liability claims funding. As the BURLCO JIF has been a net giver to the MEL over the prior ten years, the JIF will see an experience rating decrease in their WC and Liability claims funding. Under the Retrospective Program, each JIF will be invoiced 85% of WC and Liability claims funding while being contractually bound to a value (100% to 125%) based on the prior ten years' MEL experience. Each JIF will be contractually bound to the *Retrospective Program* for the respective Fund Year for ten (10) years.

2020 – EPL/POL/LAND USE PREMIUM ALLOCATION

In the Fall of 2019, an EPL/POL Task Force was created at the MEL level consisting of Executive Directors of the MEL affiliated JIFs. As noted for Fund Years 2011-2019, the MEL affiliated JIFs premiums were increased or decreased based on the JIF's performance in the MEL program. The goal of the Task Force is to ensure the EPL/POL premium is allocated on a JIF by JIF basis in a fair and equitable manner. The Task Force recognizes that the current structure for allocating JIF premiums was not fair and equitable. As a result, good performing members in poor performing JIFs were paying more premium than necessary while poor performing members in good performing JIFs were not paying enough premium to cover their exposures. To combat this trend, the Task Force removed the JIF performance factor and created a process that allows each member to be priced individually based upon their exposures and performance. Member premiums are now created by determining a base premium for all members based on their individual exposures (population for POL, and FTE, PTE, Seasonal, and Volunteers for EPL) times applicable rates per the attached rate table. Each individual member will have an experience rating factor per the attached utilizing five years' experience with claims capped at $400,000 gross incurred, valued as of June 30th. Another experience-rating factor of the Statewide increase is also applied to each member's premium. The JIF total premium is determined by the sum of the individual member premiums. In an effort to phase in the new allocation process over five (5) years, there are several smoothing factors applied: such as capping individual member decreases, capping overall JIF premium decreases, and preventing poor performing members with an average loss ratio of 75% or higher from having a premium decrease.

2020 – SURPLUS STRENGTHENING MEL & RCF

Due to recent changes in State Law, public entities now have a potential exposure to claims that might have occurred many years ago. The first statutory change enacted, in July 2019, indicates that fire fighters that meet certain service criteria, and develop one of a number of cancers that are prevalent in fire fighters, will have a presumption that the cancer developed as a result of their fire fighter activities and will be eligible for workers compensation benefits.

The second statutory change that went into effect in December 2019, increases a public entities potential exposure to liability resulting from sexual abuse and molestation claims. This new State law allows claimants to file liability claims for incidents previously barred by the statute of limitations, clarifies that public entities are responsible for claims resulting from negligent hiring, and emphasizes that Title 59 immunities cannot be applied in the defense of these claims.

In recognition of the potential financial impact these statutory changes could have on the MEL & RCF, the MEL and the RCF have developed a mechanism to ensure the overall financial stability of the two Funds. The claims generated by the Cancer Presumption law will be paid through the RCF and billed back to MEL affiliated JIFs for all expenses incurred based on established rates for Fire Fighters: full time, part time, and volunteers. However, depending on the Sexual Abuse and Molestation claims loss date, these claims will either be paid as a standard GL claim for occurrences in open Fund Years or they will be handled by the RCF if the Fund Year where the incident occurred has been transferred to the RCF. The difference between these two types of claims is that there was never WC coverage for the cancer presumption claims whereas claims of sexual abuse and molestation have always been covered under the JIF's GL policy. As a result, sexual abuse claims will go through the JIF & MEL retention, or will be handled directly by the RCF depending on the loss date.

To guarantee the ongoing financial viability of these two Funds, the MEL and RCF, with the assistance of the Fund Actuary, have developed the Surplus Strengthening Program. This Program includes the implementation of a "Surplus Floor" of 12.5% representing the ratio of surplus to the open reserves. If at any time this ratio drops below 12.5%, the shortfall will be addressed via the issuance of an additional assessment to the member JIFs.

Specific to the RCF, the 12/31/19 valuation did not meet the 12.5% surplus floor ratio; therefore, the RCF issued an additional assessment based upon deficit Fund Years at the same time they issue invoices for the transfer of the 2016 Fund Year into the RCF. The issuance of the additional assessment will guarantee compliance with the surplus floor requirements, address deficit Fund Years in the RCF, bolster the overall surplus position of the RCF, and free up additional cash to be utilized to fund fire fighter cancer presumption claims. An annual analysis and/or assessment is performed to ensure the 12.5% surplus floor ratio is maintained.

Specific to the MEL, the 12/31/20 valuation did not meet the 12.5% surplus floor ratio; therefore, the MEL issued an additional assessment based upon deficit Fund Years. The issuance of the additional assessment will guarantee compliance with the surplus floor requirements, address deficit Fund Years in the MEL, bolster the overall surplus position of the MEL, and free up additional cash. An annual analysis and/or assessment is performed to ensure the 12.5% surplus floor ratio is maintained.

In recognition of the significant financial impact that the COVID-19 pandemic, the changes to the Sexual Abuse & Molestation statutes, the adoption of the firefighters cancer presumption legislation, the adoption of the "pension offset" regulatory changes, the continuing judicial and legislative degradation of Title 59 immunities, and increased number of workers compensation claim "re-openers" the MEL decided to suspend the 12.5% surplus floor in 2022. Instead, each year, the MEL Actuary will be asked to provide a recommended surplus position for the MEL based upon factors such as the total amount of cash, total reserves, and IBNR factors.

2022 – EXCESS PREMIUM ALLOCATION

Beginning with the 2022 Fund Year, the MEL removed the Retrospective Program. With the implementation of the Surplus Strengthening program referenced above, the MEL did not feel the need for both programs. Thorough analysis was done in regards to the impact of the Retrospective Program and it was determined that had the MEL invoiced the full 100% of premium rather than the 85% there would not have been a need to invoice for the 12/31/20 Surplus Strengthening Assessment. The experience rating process will continue to reward good performing JIFs and penalize poor performing JIFs and the Surplus Strengthening Program will ensure the financial stability of the MEL.

2023 – Cyber JIF – 2020 Census

As noted earlier, in recognition of the difficulty in securing Cyber Liability coverage for public entities in the commercial insurance market, the need for all members to implement stringent cyber security protocols, the volatile nature of cyber related losses and the recent poor loss experience for members in the Cyber line of coverage; the MEL affiliated JIFs formed the Cyber Risk Management Joint Insurance Fund to provide Cyber related services and coverage for all MEL affiliated JIFs effective January 1, 2023. The Cyber JIF will carry a self-insured retention and purchase specific and aggregate excess coverage for each member JIF.

The Cyber JIF premium is allocated to members utilizing population tiers to create size categories. The members with smaller populations will have a lower premium than those members with large populations. This recognizes the complexity of larger towns that may have additional exposures than smaller towns.

Beginning with the 2023 Fund Year, the results of the 2020 Census will be phased in over a three (3) year process. The phase-in of the 2020 Census will affect the MEL, POL, and Cyber premiums over this three (3) year span.

EXPOSURE ALLOCATION STRATEGY

An "exposure" unit is a measure of the magnitude of a loss exposure. For example property values are a measure of the risk of fire. The greater a member's property values, the greater the potential loss.

Appropriations, on the other hand, are traditionally viewed as the measure of liability risk for municipalities. The greater the appropriations, the more activities there are and the higher the likelihood of injury and thus the more likely a law suit to develop.

The exposure unit, therefore, serves as a yardstick to measure the cost of risk and can be easily measured and utilized used to allocate assessment contributions.

The JIF self-insures four areas of risk:

1. Property
2. Liability
3. Automobile
4. Workers' Compensation

Each of these areas of risk is easily measured through the use of exposure units.

PROPERTY

The Finance Committee recommended that total insurable values be used to allocate property insurance costs. Neither the actuary nor the excess carriers differentiate between buildings, contents, equipment, etc. and we have seen no trend in our losses to weight any one item more heavily than the other. The following example describes how the formula actually works.

> *Example: If the JIF members have a total of $100,000,000 in insurable property values and member "A" has $10,000,000 in insurable values then Member "A" will be allocated 10% of the property loss funds.*

LIABILITY

In allocating liability costs, the Finance Committee elected to use appropriations. Both the actuary and other JIFs rate on this basis. Neither the actuary nor other JIFs charge for any special exposures such as Police, Fire, etc. Our review of liability claims supports this approach.

Example: If the JIF members have total appropriations of $100,000,000 and member "A" has appropriations of $5,000,000 then member "A" will be allocated 5% of the liability loss funds.

AUTOMOBILE

In this area, vehicle counts were used. Again, neither the actuary nor the excess carriers differentiate between types of vehicles. Our instinct tells us that police cars should have a greater potential for loss, however, further analyses indicates that this affects the potential *value* of the loss not the *frequency*, and is therefore more of an issue for the excess carrier than it is for us.

Example: If the JIF members own 500 vehicles and member "A" owns 25 vehicles then member "A" will be allocated 5% of the automobile loss funds.

WORKERS' COMPENSATION

Traditionally, workers' compensation payrolls have been separated into categories of employment with different rates for each; "police", "Clerical, etc. Our analyses and recommendation was to support this more traditional approach. The Committee, therefore decided to accept the Workers' Compensation Rating bureau "relativities" and assign these weights to the workers' compensation assessment allocation formula.

Example: If the "Manual" Workers' Compensation premium for the JIF as a whole is $2,000,000 and member "A" has a "Manual" Workers' Compensation premium of $200,000 then member "A" will be allocated 10% of the workers' compensation loss funds.

EXPERIENCE RATING

For any assessment allocation to be successful it must recognize the potential for some members to incur more claims than others relative to their assessments. Addressing this issue can eliminate the problems associated with the perception that the Fund is subsidizing some members' claims experience at the expense of others.

One method, studied by the Fund, is a simplified experience-rating program that does not impose harsh penalties on members but recognizes adverse claims experience over time. This is accomplished through the application of an experience adjustment factor. The experience adjustment factor is determined from a chart that lists the appropriate factor for a given loss ratio in each line of coverage offered by the JIF. The experience adjustment factor is applied to the member's assessment by line of coverage. The chart below illustrates this concept:

Line of Coverage	Assessment	Experience Factor	Modified Assessment
Property	$ 2,500.00	.90	$ 2,250.00
Liability	$15,000.00	.95	$14,250.00
Automobile	$12,000.00	.94	$11,280.00
Workers' Comp.	$20,000.00	1.02	$20,400.00
Total	$49,500.00	N/A	$48,180.00

Since it takes several years for claims to develop to their full potential the committee may decide to defer experience rating on members until they have been in the JIF for three full years.

OPERATING EXPENSE ALLOCATION

The JIF's operating expenses are broken down into two categories:

A. Allocated - These expenses can be directly attributed to a specific member's participation in the JIF. An example of this type of expense is the Safety Director who charges a fee based upon the size of the member.

B. Unallocated - These expenses that cannot be directly attributable to a member (Indirect Expenses) shall be charged to a member's assessment in the same proportion that a member's individual exposure relates to the Fund total. Examples of exposure data that are used to distribute unallocated operating expenses across the membership include Loss Fund Contributions, Property Values, and Payroll figures, whichever basis is most appropriate. Thus, if a member has 5% of the total property values for the Fund, this member will pay 5% of the total property appraisal costs for that year.

Under this assessment strategy, the JIF charges allocated operating expenses directly to the members. Unallocated expenses are spread across the membership based upon the individual member's share of the exposure to the total for the Fund.

Risk Management Consulting Fees

Risk Management Consulting Fees are negotiated individually by each member and are added to the members' assessment after all of the above factors and the Cap Strategy (described below) are applied.

CAP STRATEGY

The Finance Committee realized that one of the major reasons member municipalities formed a JIF was to avoid the harsh cycles associated with the traditional insurance market. Without some type of capping mechanism in place, members' assessments could swing wildly from one year to the next. That is why a capping strategy was developed.

A capping strategy begins with a decision to set an upward percentage limit on the amount of any individual member's assessment increase. Naturally, the imposition of a cap on individual members' assessments will create some compression within the overall assessment allocation strategy. This must be addressed in order for the sum of the members' assessments to equal the budget figure for the JIF. In some cases this could mean that a member whose assessment formula results in a decrease could actually receive a modest increase in their assessment. The trade-off in this scenario is that all members know that they are being protected from large increases should their experience turn sour in a particular year.

MUNICIPAL EXCESS LIABILITY JOINT INSURANCE FUND				
2023 BUDGET FOR ASSESSMENT CALCULATION				
MUNICIPALITIES ONLY -				
	A	**B**	**B-A**	**B-A**
	BUDGET	**BUDGET**		
APPROPRIATIONS	**2022 ANNUALIZED**	**2023 PROPOSED**	**$**	**%**
I. CLAIMS AND EXCESS INSURAN	**MUNIS ONLY**	**MUNIS ONLY**	CHANGE	CHANGE
CLAIMS				
Excess Liability:				
To 500K	2,831,419	3,344,914	513,495	18.1%
1.5MIL Ex 500K	5,255,812	7,007,650	1,751,838	33.3%
3MIL ex 2MIL	1,725,145	1,921,115	195,970	11.4%
Excess WC	8,358,790	9,701,024	1,342,234	16.1%
Excess Property Claims	4,524,489	5,953,235	1,428,746	31.6%
POL/EPL Land Use	1,061,662	1,074,214	12,552	1.2%
Cyber Liability		-	-	#DIV/0!
Aggregate Excess LFC	13,957	13,864	(93)	-0.7%
JIF Faithful Performance Bond	202,758	207,544	4,786	2.4%
Surety Bond	312,572	314,875	2,303	0.7%
Sub Total	**24,286,604**	**29,538,435**	**5,251,831**	**21.6%**
PREMIUMS				
Optional Excess Liability	2,639,634	3,214,534	574,900	21.8%
Optional Excess POL/EPL	1,767,888	2,057,612	289,724	16.4%
Cyber Excess Liability		-	-	#DIV/0!
Excess WC	3,324,591	3,414,839	90,248	2.7%
Excess Property	11,890,720	13,683,616	1,792,896	15.1%
			-	
Loss Fund Contingency	224,294	220,643	(3,651)	-1.6%
Sub Total	19,847,128	22,591,244	2,744,116	13.8%
Total Claims & Premiums	**44,133,732**	**52,129,679**	**7,995,947**	**18.1%**
II. EXPENSES				
Claims Adjustment	1,093,506	1,115,376	21,870	2.0%
Property Adjustment	176,653	180,186	3,533	2.0%
Administration	1,389,332	1,417,119	27,787	2.0%
Claims Supervision	500,000	500,000	-	0.0%
Actuary	53,183	54,247	1,064	2.0%
Attorney	47,864	48,821	957	2.0%
Deputy Attorney	1,597	1,629	32	2.0%
Attorney-OPRA	18,018	18,378	360	2.0%
Auditor	30,500	31,110	610	2.0%
Treasurer	26,966	27,505	539	2.0%
Underwriting Manager	61,395	62,623	1,228	2.0%
Reinsurance Manager	324,183	330,667	6,484	2.0%
Safety and Education Committee	108,289	110,455	2,166	2.0%
Computer Services	149,386	152,374	2,988	2.0%
Legislative Committee	28,587	29,159	572	2.0%
Internal Audit Committee	62,625	63,878	1,253	2.0%
Strategic Planning Committee	31,313	31,939	626	2.0%
Coverage Committee	41,476	42,306	830	2.0%
Communications Committee	128,895	131,473	2,578	2.0%
Expense Contingency	65,831	65,831	-	0.0%
Subtotal	4,339,599	4,415,076	75,477	1.7%
MEL Safety Institute	1,106,022	1,130,893	24,871	2.2%
Total Appropriations	49,579,353	57,675,648	8,096,295	16.3%

Current_FY 2023

MEL RATE TABLES - Municipalities

1	2	3	4	5	6	7	8	9	10	11	12	13
CLAIMS & EXPENSES							DRAFT MEL 2023 Rates.pdf					10.0%
Attachment Key	**Line of Coverage**	**Layer**	**RATING BASE**		**2022**	**2022 Minimums**	**2023**	**Credibility Factor 1 = Low 2 = Select 3 = High**	**2023 Minimums**	**CHANGE**	**CHANGE%**	**Population >15K Discount**
200	**Liability Claims To 500K**	300 x 200	Population		1.2972		1.5316	2		0.234372917	18.1%	10%
250		250 x 250			0.9432		1.1288	2		0.185539812	19.7%	10%
300		200 x 300			0.6754		0.8096	2		0.134171378	19.9%	10%
350		150 x 350			0.4644		0.5529	2		0.088541919	19.1%	10%
400		100 x 400			0.2860		0.3407	2		0.05465	19.1%	10%
500		0 x 500			0.0000		0.0000	2		0	0.0%	10%
500	**Liability Claims 1.5MIL Ex 500K**	1,500 x 500	Population		1.1002	1500	1.4645	2	1997	0.364243348	33.1%	10%
750		1,250 x 750			0.8269		1.3315	2		0.50461	61.0%	10%
1000		1,000 x 1,000			0.5230		1.2180	2		0.69501	132.9%	10%
2000	**Liability Claims 3MIL ex 2MIL**	3,000 x 2,000	Population		0.3640	679	0.3990	2	744	0.034985348	9.6%	10%
	SPECIAL EXPOSURES											
		WATER UTILITY	Payroll		0.0112		0.0112			0	0.0%	
		ELECTRIC UTILITY(1)	Payroll to 1MIL		0.0195		0.0195			0	0.0%	
		ELECTRIC UTILITY(2)	Payroll over 1MIL		0.0020		0.0020			0	0.0%	
	Allocation to Liability Claims											
	Liability Claims To 500K				67.85%		67.85%			0	0.0%	
	Liability Claims 1.5MIL Ex 500K				32.15%		32.15%			0	0.0%	
	SEASONAL SURCHARGE											
ATL	**Allocation to Liability Claims is by % of Total**		Liability Assessment Liability Claims Optional Excess Liability		8.48%		6.00%			-0.0247692	-29.2%	10%
MON					6.20%		6.00%			-0.0020071	-3.2%	10%
CNTRL					6.20%		6.00%			-0.0020071	-3.2%	10%
OCE					3.22%		6.00%			0.0278191	86.4%	10%
200	**Workers Comp Claims to 2Mil**	1,800 x 200	Payroll		0.004814		0.005393	2		0.000579095	12.0%	
250		1,750 x 250			0.003816		0.004318	2		0.000501459	13.1%	
300		1,700 x 300			0.003095		0.003510	2		0.000414946	13.4%	
350		1,650 x 350			0.002561		0.002877	2		0.000315827	12.3%	
400		1,600 x 400			0.002157		0.002388	2		0.00023079	10.7%	
450		1,550 x 450			0.001841		0.001992	2		0.000150792	8.2%	
500		1,500 x 500			0.001589		0.001665	2		7.60961E-05	4.8%	
600		1,400 x 600			0.001221		0.001192	2		-2.89532E-05	-2.4%	
750		1,250 x 750			0.000902		0.000759	2		-0.00014355	-15.9%	
2000					0.000000		0.000000	2		0	0.0%	
100	**Property Claims to 250K**	150K x 100K	TIV		0.0192		0.0240	2		0.004756492	24.8%	
150		100K x 150K			0.0099		0.0124	2		0.00245108	24.8%	
200		50K x 200K			0.0041		0.0051	2		0.000973389	23.7%	
250	**Property Claims 500K x 250K**	250K x 250K	TIV		0.0101		0.0126	2		0.002544133	25.2%	
500	**Property Claims 500K x 500K**	500K x 500K	TIV		0.0068		0.0085	2		0.001692998	24.9%	
	POLEPL Land Use		Population		0.2191		0.2191			0	0.0%	
	Cyber Liability Claims	Limits????	Flat Rate		1805		1805			0	0.0%	
	Aggregate Excess LFC											
		Suburban Municipal JIF			13957		13864			-93	-0.7%	
	JIF Faithful Performance Bond		FT EE		6.3405		6.3405			0	0.0%	
	Surety Bond				Base Limit	Optional Limit	Base Limit		Optional Limit			
0					500	125	500		125	0	0.0%	
3001					500	125	500		125	0	0.0%	
6001					500	125	500		125	0	0.0%	
10001					1000	250	1000		250	0	0.0%	
15001			Population		1000	250	1000		250	0	0.0%	
20001					1250	313	1250		313	0	0.0%	
30001					1500	375	1500		375	0	0.0%	
40001					2000	500	2000		500	0	0.0%	
50001					2750	688	2750		688	0	0.0%	
	Loss Fund Contingency		Population		0.0450		0.0450			0	0.0%	
	Loss Fund Contingency OTHER		Total Loss Fund Assmt		0.0392		0.0392			0	0.0%	
	MEL Safety Institute		FT Ees		32.99		32.99			0	0.0%	
	Expense Contingency		% of Assessment		0.0933		0.0933			0	0.0%	

PREMIUMS				**2022 Certified Rate**	**Actual Rates**		MEL FY2023 Premium Increase Estimates email.pdf					
	Optional Excess Liability										premium	budgeted
2		2 MIL EX 5 MIL	Population	0.1848	0.2119		0.2225			0.0105952	5.0%	20.4%
5		5 MIL EX 5 MIL		0.3725	0.4272		0.4485			0.02135896	5.0%	20.4%
10		10 MIL EX 5 MIL		0.5573	0.6391	934.304	0.6710		981.0192	0.03195416	5.0%	20.4%
15		15 MIL EX 5 MIL		0.6595	0.7562	1557.976	0.7940		1635.8748	0.03781162	5.0%	20.4%
		Shared Aggregate (requires 15 Optional)	% of base premium		43%		43%			0	0.0%	
	Optional Excess POL/EPL											
1		1MIL Ex 2MIL	Population	0.1308	0.1407	705.625	0.1477		740.90625	0.00703367	5.0%	12.9%
2		2MIL Ex 2MIL		0.2166	0.2329	1168.515	0.2446		1226.9408	0.011645635	5.0%	12.9%
3		3MIL Ex 2MIL		0.2787	0.2996	1502.699	0.3146		1577.834	0.01498183	5.0%	12.9%
4		4MIL Ex 2MIL		0.3289	0.3536	1773.659	0.3713		1862.342	0.01768014	5.0%	12.9%
8		8MIL Ex 2MIL		0.6300	0.6774	3398.29	0.7113		3568.2045	0.03387	5.0%	12.9%
	Workers Comp Premium		Payroll	0.001084	0.0010248		0.0010760			5.124E-05	5.0%	
	Property Premiums											
		Excess Property	TIV	0.0841	0.08405		0.09246			0.008405369	10.0%	10.0%
		Excess Flood - $25m x $50 m		0.0044	0.00439		0.00483			0.0004389	10.0%	10.0%
		Excess Flood - $25m x $75m		0.0023	0.00231		0.00254			0.00023056	10.0%	10.0%