



MEL

SAVING TAXPAYERS.
PROTECTING NEW JERSEY'S
HOMETOWNS.

MEL AND RCF UPDATE

David Grubb

Municipal Excess Liability Joint Insurance Fund

Risk Management

Managing the rapid increase of insurance costs

Mayor Paul Tomasko, Alpine Boro; NJLM Executive Board Member; and Charles Cuccia, Administrator, Little Falls Township

New Jersey local government is facing unprecedented insurance increases because of legislative and administrative actions in Trenton, compounded by inflation. These increases, which touch almost every aspect of insurance from auto and cyber to healthcare and workers' compensation, come at a time when municipal budgets are already under tremendous stress.

We understand the legislature's reluctance to raise the budget cap at a time when citizens are struggling with inflation. However, these increases are simply beyond the control of local government. Without budget cap relief, insurance increases will necessitate layoffs and deep cuts in other expenses.

Insurance rate hikes

Health Insurance. By far, the biggest increase is in health insurance. In September, the New Jersey State Health Benefits Commission adopted a 22.8% rate increase in 2023 for local governments in the program. While there was an immediate call to lower the rate action, the final outcome will still be a budget buster for municipalities.

Workers' Compensation. Workers' Compensation is the next largest item in local insurance budgets. A 2020 study concluded that New Jersey Workers' Compensation rates are now the third-highest in the country. Costs have continued to escalate since the study was conducted, in part because the New Jersey Department of Labor (NJDL) increased the top weekly benefit rate earlier this year by 9.9%.

Another NJDL decision will increase workers' compensation by over 10% for local government by directing workers' compensation to pay many accidental disability claims that historically were paid by the pension plans before the change. This decision was retroactive to any case that was not finally adjudicated when the change went into effect. As a result, losses also increased for many claims that occurred prior to 2021.

Workers' Compensation costs for local government were also impacted by COVID. New Jersey was one of the states to mandate that COVID be presumed as job-related for public safety employees and others encountering the public. That law cost New Jersey municipalities tens of millions. Another recent law created a presumption that gave firefighters a rebuttable presumption that cancer was compensable under workers' compensation.

General & Auto Liability. The cost of general and auto liability coverage is increasing at a rate of 5% to 10% per year because of the erosion of Title 59 in New Jersey's courts. Judges are now reluctant to grant summary judgement dismissing even frivolous claims because of the 2021 New Jersey Supreme Court decision in Gonzalez v. City of Jersey City.

Sexual Molestation Liability. The recent amendment in the sexual molestation statute of limitations will increase total liability costs by an estimated 6%. In some cases, towns are being hit with lawsuits based on allegations going back 40 years.

Property Insurance Costs. Building costs are increasing at a rate of over 11% because of supply chain issues and the shortage of labor. Property insurance premiums are directly indexed to replacement values. Property insurance costs are also impacted by the frequency of natural disasters that have increased significantly here in New Jersey over the past decade with Irene in 2011, Sandy in 2012, and Ida in 2021.

Cyber Liability. Premiums for Cyber Liability are doubling, and deductibles are also increasing. Organizations without strong cyber risk controls are finding it difficult to purchase any coverage.

The impact on public entities will depend on where they secure their coverage and the success of their safety programs. Many JIFs have accumulated enough surplus that they can spread these increases over several years. JIFs without a surplus and individual self-insurers will experience more immediate budget issues.

New laws and cost increases demand risk management

Government risk management is becoming more complicated because of new laws that have significantly increased the cost of workers' compensation and liability claims. The only long-term answer is risk management. This should begin with the governing body playing an active role in the development, implementation, and promotion of a sound risk management program. The safety and claims management should be a monthly topic on the governing body's agenda.

The MEL distributes a 234-page risk management handbook, "The Power of Risk Management." There is no charge for copies and the book is also available on the MEL's website. If you have any questions, please contact your Risk Manager, Local JIF Executive Director or Local JIF Safety Director.

The Annual Risk Management Session will be held on Wednesday, Nov. 16 at 2 p.m., room 303.

By completing this session, elected officials from communities that are members of the Municipal Excess Liability Joint Insurance Fund (MEL) will be eligible for a premium credit.

NJLM Conference • 107th
2023
Building for Tomorrow

MUNICIPAL EXCESS LIABILITY JIF FINANCIAL FAST TRACK REPORT AS OF DECEMBER 31, 2022

ALL YEARS COMBINED			
	YTD CHANGE	PRIOR YEAR END	FUND BALANCE
1. UNDERWRITING INCOME			
Regular Underwriting Income	62,998,746	1,169,005,596	1,232,004,342
Supplemental Underwriting Income	16,000,000		16,000,000
TOTAL UNDERWRITING INCOME	78,998,746	1,169,005,596	1,248,004,342
2. CLAIM EXPENSES			
Paid Claims	23,021,998	519,769,055	543,307,511
Case Reserves	323,794	56,474,270	56,798,064
IBNR	15,849,128	47,820,555	59,426,034
Recoveries	(762,653)	(14,614,438)	(11,649,901)
Discount on Reserves	(1,452,262)	(6,769,946)	(8,222,208)
Aggregate Claims	184,605	312,302	496,907
TOTAL CLAIMS	37,164,609	602,991,797	640,156,407
3. EXPENSES			
Excess Premiums	27,533,487	433,555,089	461,088,577
Administrative	7,791,054	134,684,632	142,475,686
TOTAL EXPENSES	35,324,542	568,239,721	603,564,263
4. UNDERWRITING PROFIT (1-2-3)	6,509,595	(2,225,922)	4,283,673
5. INTEREST INCOME	1,207,267	62,278,150	63,485,417
6. DIVIDEND INCOME	0	5,111,054	5,111,054
7. OPERATING PROFIT (4+5+6)	7,716,862	65,163,282	72,880,144
8. DIVIDEND EXPENSE	0	44,265,586	44,265,586
9. RCF Additional Assessment Expense	7,175,297	5,960,114	13,135,411
10. SURPLUS (7-8-9)	541,565	14,937,582	15,479,147
11. Unrealized Gain (Loss)	(4,171,940)		(4,171,940)
12. GAAP SURPLUS (w/o Investment in Joint Venture) (10+11)	(3,630,375)	14,937,582	11,307,207