

## 2023 TRICO Budget Message

### ***FUND YEAR 2023 DRAFT BUDGET OVERVIEW***

The attached renewal \$17,194,467 JIF, MEL, EPL/POL/LU, Cyber JIF, and EJIF budget represents an 11.62% increase over last year's combined annualized budget of \$15,405,041 and is based upon the known renewal data at the time the draft budget was prepared. Two members (Alloway Township and Woodstown Borough) did not renew effective 1/1/23 resulting in a 10.32% increase over expiring. As in years past, individual member assessments will fluctuate above or below the estimated range based on member claims experience as outlined in the attached *JIF Assessment Allocation Policy*. The 2023 Renewal JIF Budget of \$11,089,116 represents an increase of 12.14% (\$1,200,834) over last year's \$9,888,282 annualized budget. The 2023 Draft JIF Budget (less non-renewed members) of \$11,002,320 represents an increase of 11.27% (\$1,114,038).

Highlights of the 2023 Renewal Budget are as follows:

- Budgeted loss funds increased by \$1,140,370 (16.14%)
- Operating Expenses (Fund Professional fees, Meeting Expenses, Postage/Copies, etc.) increased \$28,582 (1.48%)
- Member Benefits (Safety Programs, EPL/Cyber Programs, Wellness, etc.) increased \$31,882 (3.59%)
- Excess and Standalone premiums, inclusive of the MEL, EPL/POL/Land Use, Cyber JIF, and EJIF policies increased \$588,592 (10.67%)
- The application of the JIF's *Revaluation Program* to the twelve (12) members renewing their membership effective January 1, 2023, resulted in five (5) members qualifying; however, as noted, two (2) of these members did not renew. This program is thoroughly explained in the attached *Assessment Allocation Policy*.
- All members' performance was reviewed for inclusion in the JIF's *Retrospective Program*. One member (Harrison Township) met the Policy's criteria for inclusion in the Program. This program is thoroughly explained in the attached *Assessment Allocation Policy*.

### ***JIF BUDGET FACTORS***

#### **Loss Funds**

Loss Funds represent money used for the payment of member claims within the Fund's self-insured retention. Assuming no change in the SIR for Fund Year 2023, the Actuary recommended a 16.1% increase in the overall loss funding budget utilizing anticipated exposure growth of 0% for Auto & General Liability and Workers' Compensation and 4% for Property. In preparation of the 2022 Budget, the Actuary provided the Finance Committee with the option to fund additional perils including Fire Fighters' Cancer Presumption, WC Pension Offset, Sexual Abuse and Molestation, and Title 59 Erosion. Ultimately, the Finance Committee decided not to fund the optional additional perils. When developing the 2023 Budget, the funding of these additional perils is no longer optional and were included in the Actuary's base figures. As customary, the Actuary provided three confidence levels of loss funding: low (40% confidence level), central (55% confidence level), and high (70% confidence level). The Finance Committee opted to fund the central loss funding recommendation as they have done historically. They recognized that failure to fund at the central confidence level will have a negative impact on their surplus position and will result in the possibility of multiple years of large loss funding increases or additional assessments in future years. Interestingly, had the Finance Committee fully funded the additional perils in 2022, the 2023 loss funding increase would have been 2.4% rather than the 16.1%. Due to the impact of the Retrospective Program, overall loss funding was reduced by \$8,981 as this funding is now the contractual obligation of the member on the Retrospective Program. The Fund Actuary provides recommended premium allocations annually by member utilizing their exposures and experience which is utilized should a member not renew with the JIF. As the two (2) non-renewing members were considered to be under-assessed based on the Fund Actuary's calculations, the differential between what loss funding needed to be removed based on the selected *Assessment Strategy* and the Actuarial valuation was an additional \$15,479.

The Finance Committee opted to leave the additional \$15,479 in the Loss Fund Contingency line rather than modify the approved *Assessment Strategy*. The Draft Loss Funding less the non-renewing members is a 15.4% (\$1,088,072) increase over expiring.

- **Renewed Workers' Compensation** loss funding increased 21.59% (\$809,034). While there are many factors that are driving this increase including increasing pressure on health care costs resulting in medical inflation, the lingering impact of the pandemic, increasing indemnity costs, and an increase in the overall number of claim "re-openers", there are certain cost drivers identified by the Fund Actuary. This includes an additional \$281,000 in loss funding directly attributable to the "pension offset" regulatory change and an additional \$206,000 due to statutory changes to the Workers Compensation statute making certain types of cancers contracted by fire fighters compensable. Some initiatives the JIF is utilizing to control Workers Compensation costs include:
  - The use of a PPO & EPO resulted in over 91% of all medical expenses being repriced resulting in a savings of \$2,407,325 or 64% as of September 30, 2022.
  - The use of 71% of available transitional duty days by the members resulted in the savings of \$292,680 as of September 30, 2022.
  - The timely reporting of claims currently averaging 13.2 days (8.7 days for non-COVID claims) of the occurrence of a claim is an area that needs to be addressed going forward as timely reporting of claims has a direct impact on the ultimate cost of the claim.
  - The continued strong participation in Safety Training by all members.
  - The JIF's Lost Time Accident Frequency is 1.32 as of August 31, 2022, which represents a reduction in comparison to the same evaluation date in 2021, which is an indication that the Fund's emphasis on safety training, transitional duty, and management of claims is paying off.
  - The continued funding of a member employee Wellness Program. Numerous national studies indicate that healthy employees are less likely to suffer a workers' compensation claim; and, when they are injured, the injury is less severe and the employee recovers faster.
  - The Fund continues to monitor the potential impact of expanding definitions of compensability, both legislative and court rendered, the aging workforce, and "reopeners" on this line of coverage.
- **Renewed General Liability** loss funding increased 7.52% (\$83,599). This increase is reflective of statutory and judicial changes that continue to erode Title 59 immunities that the Fund uses to defend its member municipalities. Some initiatives the JIF is utilizing to control General Liability Claims costs include:
  - Members continue to make good use of the various liability risk control programs offered by the Fund including encouraging members to include model indemnification, defense, and hold harmless language in all municipal contracts including inter-local service agreements.
  - Members continue to use the TULIP (Tenant User Liability Insurance Program) Program that allows private users of municipal facilities to secure short-term, low cost, liability insurance policies over the internet. These policies automatically name the municipality as an *Additional Insured* and provide an added layer of protection to the members.
  - The funding of a Police Risk Management Consultant to assist member Police Departments in the adoption, training, and implementation of the most critical policies as identified by the JIF Defense Panel members who defend police related claims.
  - The Fund's liability claims adjusters and defense panel members are continuing to do a fine job in investigating, settling, and defending liability claims brought against our members with 47 active General & Auto Liability claims as of September 30, 2022 for 38 members.
- **Renewed Auto Liability** loss funding is increasing 5.84% (\$19,831). At fault automobile accidents, involving Police vehicles continue to be the main factor driving this line of coverage. Some initiatives the JIF is utilizing to control Auto Liability Claims costs include:
  - The Fund's *Safety Incentive Program* includes a requirement that ALL emergency responders complete the S:ERVE Training program.

- The Fund continues to promote the *Coaching of Emergency Vehicle Operators* training.
  - The Fund continue to promote annual Motor Vehicle Records check of all drivers of municipally owned vehicles.
  - The Fund Administrator is receiving a quarterly report that tracks at fault accidents involving police vehicles to track the costs of these accidents from both a property and workers compensation perspective.
- **Renewed Property** loss funding is increasing 7.06% (\$56,853). This increase is driven by the increasing costs of labor and materials involved in recovering from a property loss. Some initiatives the JIF is utilizing to control Property Claims costs include:
    - Ongoing property appraisals of each member's buildings at least once every four (4) years.
    - An ongoing review of member's property schedules to ensure that coverage for all properties are properly designated within Origami.
    - The implementation of a new *JIF Preferred Auto Shop Program* to make sure that all auto repair shops working on municipally owned vehicles are following stringent guidelines in regards to documentation of repairs, the use of appropriate aftermarket/OEM parts, the approval process for additional unforeseen repairs, and storage fees.
  - **Draft Loss Fund Contingency** funding is at \$15,479 because of the two members non-renewing in the JIF. As noted, the loss funding removed as determined by the fund Actuary was more than what was allocated via the *Assessment Strategy*; therefore resulting in the additional loss funding dollars.

#### ***JIF LOSS FUNDING ASSESSMENT STRATEGY***

In consideration of the aforementioned factors affecting the 2023 JIF Loss Funding Budget, the Finance Committee is recommending that the 2023 JIF loss funding assessments range from an increase of 6.0% for renewing members, with a six year average loss ratio below 20%, to an increase of 16.25% for new members (less than three years) with no experience with the TRICO JIF. Members with six-year average loss ratios above 200% and the one member in the Retrospective Program will receive a 21.0% increase in their loss funding assessment. Details outlining the assessment strategy are documented in the attached *2023 Assessment Allocation Strategy*.

#### ***OPERATING EXPENSES/MEMBER BENEFITS***

Operating Expenses (i.e. Fund Professional fees, Meeting Expenses, Postage/Copies, etc.) represent approximately 11% of the overall JIF budget. Member Benefits (i.e. Safety Programs, EPL/Cyber Programs, Wellness, etc.) represent 5%, of the combined JIF budget. Factors impacting the JIF operating expenses and member benefits include:

- Renewed Operating Expenses increased by \$28,582 (1.48%) with increases in professional fees averaging 2.00%. Changes to the fee structure for Claims Administration for 2023 from a min/max contract to a flat fee will ensure a dedicated unit with maximum file counts are in place without negatively affecting the Budget. The increase for 2023 over the minimum paid in 2022 is a \$35,090 (6.81%) increase. Due to the removal of the non-renewing members, Operating Expenses were reduced by \$10,399 resulting in an increase of 0.94% (\$18,183) over expiring.
- Renewed Member Benefits increased by \$31,882 (3.59%) due to an increase Payroll Auditor (\$4,570), and Technology Risk Services Director (\$25,281). The Payroll Auditor increase results from the additional work necessary due to multiple payroll systems, turnover in municipal contact representative, and modifications to final report directed by municipal representatives. The 28.00% increase requested from the Technology Risk Services Director resulted in the JIF issuing a RFP for these services. The contract will be awarded effective 1/1/2023 with any potential savings being allocated to a separate budget line item. Due to the removal of the non-renewing members, Member Benefits was reduced by \$24,099 resulting in an increase of 0.88% (\$7,783) over expiring.

### **EXCESS INSURANCE BUDGET - NJMEL**

The 2023 MEL Budget is projecting a 16.3% budget increase (\$8,096,295) over 2022 inclusive of exposure growth, which is driven by the hardening of the worldwide excess insurance market. The JIF is budgeting a renewal increase of \$416,310 (12.72%). When developing the 2022 Budget, the Finance Committee over funded the MEL line by an additional \$200,000 rather than funding the JIF Loss Funds for the additional perils as noted previously. The \$200,000 funded in 2022 tempered the impact of the MEL rate increases, member exposure increases, and the 15% increase in the MEL Experience Rating as outlined in the JIF *Assessment Strategy* Policy due to the JIF's negative development in MEL claims. Over the last 18 months, the worldwide insurance market has been challenging due to ongoing natural disasters (i.e., hurricanes & wildfires), the lingering effects from the COVID-19 pandemic, the impact of law enforcement related claims, and the impact of social inflation. The financial strength of the MEL provides an opportunity for it to protect its members against the ravages of the hardening market. A copy of the proposed 2023 MEL Budget and rate table are attached. Some factors influencing the 2023 JIF MEL Budget include:

- The MEL continues to utilize the experience rating process based on the prior ten years MEL experience for WC and Liability claims funding.
- The TRICO JIF has been a net "giver" to the MEL over the prior ten years with a 10-year average loss ratio of 66.0%; however, when compared to the MEL wide 63.9% loss ratio, the Fund will receive a 3.9% experience-rating penalty applied to its WC and Liability claims funding which is a 15% increase over the positive experience rating in 2022.
- The Finance Committee has opted to fund an additional \$100,631 in anticipation of future MEL Surplus Trigger Assessments which is detailed in the attached *Assessment Allocation Strategy*.

### **Renewed EPL/POL/Land Use/VDO**

Overall, the JIF Budget for Employment Practices Liability, Public Officials Liability, Land Use, and Volunteers Directors, & Officers Liability Coverage is increasing 0.68% or \$10,136 for 2023 due to transitioning to the new process for calculating members' premiums. Premium allocated to the two non-renewing members was removed prior to the Draft Budget, resulting in a 0.71% premium decrease.

For Fund Year 2023, the JIF EPL/POL/Land Use insurer QBE is issuing a 2% statewide premium increase. This increase varies JIF by JIF based upon a revised formula for the pricing of all members based upon their individual exposures and loss performance. This revised formula was necessary when it was determined that 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. 2023 is year 4 of a 5-year phase in process. Some members will continue to recognize small swings in their premium until the new process is fully implemented. Details on the revised premium allocation process are included in the attached *Assessment Allocation Policy*.

- The net impact of the premium allocation results in a renewed premium increase of 0.7% (\$10,294) prior to the application of member deductible Buy Downs and Land Use premium for 2023.
- Volunteer, Directors and Officers Liability Coverage remains with QBE at expiring rates.

### **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; 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 greater exposures than smaller towns. It is anticipated that the basis by which premium is allocated will be revisited over the next several years as the Cyber JIF gets a better understanding of the exposures and member losses.

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. Cyber Liability Coverage consists of loss funds within the Cyber JIF layer and excess coverage with XL Insurance.

- As of October 15, 2022, 27 of the 38 JIF members comply with Tier 1, 21 of the 38 JIF members complied with Tier 2, and 17 of the 38 JIF members complied with the MEL's Three Tier Cyber Risk Management Program.
- Beginning January 1, 2023, the cyber security standards for compliance with the MEL's Cyber Risk Management Program will change recognizing a "minimum" and "advanced" set of standards.
- Those members that do not meet the minimum cyber security standards as of January 1, 2023 will have a \$50,000 deductible and a 20% coinsurance requirement of the next \$300,000 of a claim, members in compliance with the "minimum" cyber security standards will have a \$25,000 deductible with no coinsurance, and members that meet the "advanced" cyber security standards will have no deductible assuming compliance with the standards at the time of the incident.
- Members are strongly encouraged to come into compliance with the existing cyber security standards by January 1, 2023 to take advantage of a "grandfathering" provision that will provide members in compliance with Tier 1 & Tiers 1 & 2, have a \$25,000 deductible and members in compliance with Tiers 1, 2, & 3, having no deductible assuming compliance with the standards at the time of the incident.

### **EJIF**

Effective May 1, 2005, the JIF became a member of the Environmental Risk Management Joint Insurance Fund (E-JIF). The E-JIF provides its members with a defined Environmental Liability coverage package along with strong risk management programs and other member services including educational and training seminars. The renewed E-JIF premium for 2023 is increasing \$721 (0.19%) over 2022 as a result of the Budget increase of 0.5% coupled with phasing in the 2020 census results. E-JIF assessments are allocated based upon a member's population. Premium allocated to the two non-renewing members was removed prior to the Draft Budget, resulting in a 1.54% premium decrease over expiring.

### **CLOSED YEARS ACCOUNT - JIF DIVIDENDS**

The Finance Committee made a recommendation to release varying amounts of surplus from Fund Years 2008 through 2017. In arriving at the amount of surplus to release, the Finance Committee continued its practice of examining the financial development of the most current years to guarantee future consistent releases of surplus to the membership while providing a cushion against unforeseen events. In addition, the Finance Committee also considered the impact of the 12/31/2021, RCF Surplus Trigger Assessment (\$41,192) on its Closed Years Account. The RCF *Surplus Strengthening Program* is detailed in the attached *Assessment Allocation Strategy*. The TRICO JIF 12/31/2021 financial results include an unrealized loss in investment income of approximately \$146,000. The 06/30/2022 financial results include an unrealized loss in investment income of approximately \$1,578,000. After examining its current surplus position and the aforementioned factors, the Committee recommended, and the Fund released, \$2,000,000, which is a flat 0% increase over last year's combined release as an initial release. As in prior years, the members will have the option to receive the dividend as a check, credit against their 2023 premium, or to transfer to the Aggregate Excess Loss Contingency Fund for future use. At the completion of the Budget Development process, the Finance Committee recommended releasing an additional \$200,000, which would result in the combined release to be a 10% increase over the 2021 release. The second dividend will be applied as a credit against all members' 1<sup>st</sup> installment invoice.

***RISK MANAGEMENT CONSULTANT FEES***

Members of the Fund contract independently with their respective Risk Management Consultant. The fees associated with these services are built into member assessments and the expense is passed through the Fund budget.

***FUND YEAR 2023 BUDGET***

The attached draft budget is submitted for your consideration and introduction at the November 28, 2022 Executive Committee Meeting. A Budget Hearing will be held at the December 19, 2022 Executive Committee meeting.

File: TRICO/2023/Budget

Tab: Budget Message

**GLOUCESTER, SALEM, CUMBERLAND COUNTIES MUNICIPAL JIF  
FUND YEAR 2023 BUDGET  
\$500K SIR (WC/GL/AL) - \$100K SIR (PR)**

	ANNUALIZED BUDGET 2022	RENEWAL BUDGET 2023	CHANGE \$	CHANGE %	Alloway Township 1/1/2023	Woodstown Borough 1/1/2023	DRAFT BUDGET 2023	CHANGE \$	CHANGE %
<b>PROPERTY</b>	805,632	862,485	56,853	7.06%	(839)	(5,029)	856,617	50,985	6.33%
<b>GENERAL LIABILITY</b>	1,111,595	1,195,194	83,599	7.52%	(1,486)	(2,651)	1,191,057	79,462	7.15%
<b>AUTO LIABILITY</b>	339,696	359,527	19,831	5.84%	(476)	(811)	358,240	18,544	5.46%
<b>WORKERS' COMPENSATION</b>	3,747,630	4,556,664	809,034	21.59%	(35,372)	(10,947)	4,510,345	762,715	20.35%
<b>DEDUCTIBLE</b>	1,059,628	1,230,681	171,053	16.14%	(6,736)	(3,430)	1,220,515	160,887	15.18%
<b>LOSS FUND CONTINGENCY</b>	-	-	-	0.00%	15,366	113	15,479	15,479	100.00%
<b>TOTAL CLAIM LOSS FUNDS</b>	7,064,181	8,204,551	1,140,370	16.14%	(29,543)	(22,755)	8,152,253	1,088,072	15.40%
<b>CLAIMS ADMINISTRATION</b>	634,461	634,461	-	0.00%			634,461	-	0.00%
<b>PROFESSIONAL SERVICES</b>	477,061	490,008	12,947	2.71%	(4,133)	(6,266)	479,609	2,548	0.53%
- Actuary	34,646	35,338	692	2.00%			35,338	692	2.00%
- Administrative Consultant	47,990	48,950	960	2.00%	(1,288)	(1,288)	46,374	(1,616)	-3.37%
- Attorney	116,174	118,497	2,323	2.00%			118,497	2,323	2.00%
- Auditor	24,217	24,701	484	2.00%			24,701	484	2.00%
- Safety Director	227,143	235,093	7,950	3.50%	(2,516)	(4,649)	227,928	785	0.35%
- Treasurer	14,652	14,945	293	2.00%			14,945	293	2.00%
- Underwriting Manager	12,239	12,484	245	2.00%	(329)	(329)	11,826	(413)	-3.37%
<b>ADMINISTRATION</b>	769,269	784,654	15,385	2.00%			784,654	15,385	2.00%
<b>CLAIMS AUDITOR</b>	8,730	8,730	-	0.00%			8,730	-	0.00%
<b>MISCELLANEOUS OPERATING EXPENSES</b>	46,011	46,261	250	0.54%	-	-	46,261	250	0.54%
- Fidelity Bond (Admin/TPA/Treasurer)	2,300	2,400	100	4.35%			2,400	100	4.35%
- JIF Website	6,200	6,200	-	0.00%			6,200	-	0.00%
- Legal Notices	2,500	2,500	-	0.00%			2,500	-	0.00%
- Meeting Expense	6,500	6,500	-	0.00%			6,500	-	0.00%
- Office Supplies	2,500	2,500	-	0.00%			2,500	-	0.00%
- Other	5,000	5,000	-	0.00%			5,000	-	0.00%
- Performance Bond (TPA)	750	900	150	20.00%			900	150	20.00%
- Postage/Copies/Fax	5,000	5,000	-	0.00%			5,000	-	0.00%
- Printing	8,500	8,500	-	0.00%			8,500	-	0.00%
- Record Retention Service	1,500	1,500	-	0.00%			1,500	-	0.00%
- Recording Secretary	5,261	5,261	-	0.00%			5,261	-	0.00%
<b>TOTAL OPERATING EXPENSES</b>	1,935,532	1,964,114	28,582	1.48%	(4,133)	(6,266)	1,953,715	18,183	0.94%
<b>SAFETY PROGRAMS</b>	366,128	368,159	2,031	0.55%	(5,068)	(6,364)	356,727	(9,401)	-2.57%
- Optional Safety Budget	90,250	90,250	-	0.00%	(750)	(1,500)	88,000	(2,250)	-2.49%
- Safety Incentive Program	166,727	166,727	-	0.00%	(2,000)	(2,500)	162,227	(4,500)	-2.70%
- <b>Training</b>	109,151	111,182	2,031	1.86%	(2,318)	(2,364)	106,500	(2,651)	-2.43%
- Police Risk Services	26,000	26,000	-	0.00%		(1,040)	24,960	(1,040)	-4.00%
- Right To Know	58,035	60,066	2,031	3.50%	(2,318)	(1,324)	56,424	(1,611)	-2.78%
- Training	25,116	25,116	-	0.00%			25,116	-	0.00%
<b>EPL/CYBER</b>	222,500	222,500	-	0.00%	(1,000)	(1,500)	220,000	(2,500)	-1.12%
- Cyber Risk Services	150,000	150,000	-	0.00%			150,000	-	0.00%
- EPL/Cyber Incentive Program	72,500	72,500	-	0.00%	(1,000)	(1,500)	70,000	(2,500)	-3.45%
<b>PAYROLL AUDITOR</b>	16,526	21,096	4,570	27.65%	(555)	(555)	19,986	3,460	20.94%
<b>PROPERTY APPRAISER</b>	43,542	43,542	-	0.00%	(1,482)	(2,051)	40,009	(3,533)	-8.11%
<b>TECHNOLOGY RISK SERVICES DIRECTOR</b>	90,288	115,569	25,281	28.00%	(1,625)	(2,113)	111,831	21,543	23.86%
<b>WELLNESS/WELLNESS INCENTIVE</b>	104,585	104,585	-	0.00%	(597)	(1,188)	102,799	(1,786)	-1.71%
<b>CONTINGENCY</b>	15,000	15,000	-	0.00%			15,000	-	0.00%
<b>MISCELLANEOUS MEMBER BENEFITS</b>	30,000	30,000	-	0.00%	-	-	30,000	-	0.00%
- AGRIP/PRIMA	18,000	18,000	-	0.00%			18,000	-	0.00%
- Annual Planning Retreat	12,000	12,000	-	0.00%			12,000	-	0.00%
<b>TOTAL MEMBER BENEFITS</b>	888,569	920,451	31,882	3.59%	(10,327)	(13,771)	896,352	7,783	0.88%
<b>SUB TOTAL JIF BUDGET</b>	9,888,282	11,089,116	1,200,834	12.14%	(44,003)	(42,792)	11,002,320	1,114,038	11.27%
<b>MUNICIPAL EXCESS LIABILITY JIF</b>	3,273,643	3,689,953	416,310	12.72%	(26,665)	(36,906)	3,626,382	352,739	10.78%
- MEL Excess WC & Liability	2,052,195	2,232,502	180,307	8.79%	(10,586)	(17,115)	2,204,801	152,606	7.44%
- <b>MEL Excess Property</b>	1,221,448	1,457,451	236,003	19.32%	(16,079)	(19,791)	1,421,581	200,133	16.38%
- Property	1,201,448	1,434,651	233,203	19.41%	(16,054)	(19,677)	1,398,920	197,472	16.44%
- Fidelity	20,000	22,800	2,800	14.00%	(25)	(114)	22,661	2,661	13.31%
<b>EPL/POL/LU PREMIUM</b>	1,484,472	1,494,608	10,136	0.68%	(6,018)	(14,730)	1,473,860	(10,612)	-0.71%
<b>EPL/POL/LU COMMISSION - AJG</b>	49,005	49,340	335	0.68%	(199)	(487)	48,654	(351)	-0.72%
<b>EPL/POL/LU COMMISSION - CONNER STRONG</b>	49,005	49,340	335	0.68%	(199)	(487)	48,654	(351)	-0.72%
<b>EPL/POL SURCHARGE</b>	-	-	-	0.00%			-	-	0.00%
<b>CYBER JIF</b>	272,650	433,405	160,755	58.96%	(10,484)	(10,484)	412,437	139,787	51.27%
<b>ENVIRONMENTAL JIF</b>	387,984	388,705	721	0.19%	(3,272)	(3,422)	382,011	(5,973)	-1.54%
<b>SUB TOTAL PREMIUMS</b>	5,516,759	6,105,351	588,592	10.67%	(46,837)	(66,516)	5,991,998	475,239	8.61%
<b>SUB TOTAL JIF &amp; EXCESS BUDGET</b>	15,405,041	17,194,467	1,789,426	11.62%	(90,840)	(109,308)	16,994,318	1,589,277	10.32%
<b>RISK MANAGEMENT CONSULTANTS</b>	732,372	792,537	60,165	8.22%			792,537	60,165	8.22%
<b>TOTAL JIF BUDGET</b>	16,137,413	17,987,004	1,849,591	11.46%	(90,840)	(109,308)	17,786,855	1,649,442	10.22%

**GLOUCESTER, SALEM,  
CUMBERLAND COUNTIES  
MUNICIPAL  
JOINT INSURANCE FUND**

**ASSESSMENT ALLOCATION STRATEGY**

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# BUDGET DEVELOPMENT

## BUDGET PROCESS

The TRICO JIF 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.

Beginning in 2012, the Fund adopted a rotating process of issuing Requests for Qualification (RFQ) or Proposals (RFP) for approximately 1/3 of the Fund Professionals whose annual fee exceeds the \$17,500 State established bid threshold. This process ensures that each vendor is subject to a public review at least once every three years. Those Fund Professionals who are not subject to an RFQ or RFP, and those Fund Professionals whose annual fee does not meet the bid threshold, are invited to submit renewal proposals for the upcoming Fund Year. The Finance Committee, or designated Committee with jurisdiction over the a Fund professional reviews these proposals for acceptance, negotiation, and/or other action. The Committees then make their recommendations regarding contract renewal or professional appointment to the Executive Committee.

## BUDGET COMPONENTS

The budget consists of six 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 felt it was time to increase the SIR from \$300K to \$500K for Workers' Compensation and Liability claims beginning with the 2018 Budget.

**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 loss funding 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 funding 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 30<sup>th</sup> 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 five-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**.

Beginning with Fund Year 2013, 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 **pages 8 and 9**.

The following table is indicative of the current strategy:

6 Year Average Loss Ratio				Increase in Loss Funds	Members Affected
<b>RETROSPECTIVE PROGRAM</b>				21.00%	1
ABOVE	200%			21.00%	0
BETWEEN	150%	and	200%	19.50%	3
BETWEEN	110%	and	150%	18.50%	5
BETWEEN	90%	and	110%	17.25%	3
<b>NEW MEMBERS LESS THAN 3 YEARS</b>				16.25%	0
BETWEEN	60%	and	90%	16.25%	11
BETWEEN	40%	and	60%	13.25%	2
BETWEEN	20%	and	40%	10.00%	4
BELOW	20%			8.00%	4

RENEWING MEMBERS WITH LR BETWEEN 40%-60%	8.00%	2
RENEWING MEMBERS WITH LR BETWEEN 20%-40%	7.00%	1
RENEWING LESS THAN 3 YRS WITH LR BELOW 20%	6.50%	1
RENEWING MEMBERS WITH LR BELOW 20%	6.00%	1
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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 TRICO 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 **pages 12 and 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. This issue is more fully discussed on **page 14**.

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 13**, 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**

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.

### **2011 – 2019 - EPL/POL PREMIUM ALLOCATION**

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 Coverages. 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 will take four years to transition to the MEL's allocation process.

### **2013 – RETRO ASSESSMENT PROGRAM**

Beginning in 2013, 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 standalone 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 standalone 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 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 if the poor performing members were included in the strategy.

### **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 TRICO JIF members experienced an increase in population in excess of 11% 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 TRICO JIF has had a negative impact on the MEL over the prior five years, the JIF was impacted by an experience factor subject to change 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 TRICO JIF has been a net taker to the MEL over the prior ten years, the JIF will see an experience rating increase 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 proceeding chart 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				
<b>MUNICIPALITIES ONLY -</b>				
	<b>A</b>	<b>B</b>	<b>B-A</b>	<b>B-A</b>
	<b>BUDGET</b>	<b>BUDGET</b>		
APPROPRIATIONS	<b>2022 ANNUALIZED</b>	<b>2023 PROPOSED</b>	<b>\$</b>	<b>%</b>
I. CLAIMS AND EXCESS INSURANCE	<b>MUNIS ONLY</b>	<b>MUNIS ONLY</b>	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	<b>24,286,604</b>	<b>29,538,435</b>	<b>5,251,831</b>	<b>21.6%</b>
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	<b>44,133,732</b>	<b>52,129,679</b>	<b>7,995,947</b>	<b>18.1%</b>
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	<b>49,579,353</b>	<b>57,675,648</b>	<b>8,096,295</b>	<b>16.3%</b>

MEL RATE TABLES - Municipalities

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	8.48%		6.00%			-0.0247692	-29.2%	10%
MON			Liability Claims	6.20%		6.00%			-0.0020071	-3.2%	10%
CNTRL			Optional Excess	6.20%		6.00%			-0.0020071	-3.2%	10%
OCE			Liability	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	0.0%	
Cyber Liability Claims				Limits????	Flat Rate	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											
0				Base Limit	Optional Limit	Base Limit		Optional Limit			
3001				500	125	500		125	0	0.0%	
6001				500	125	500		125	0	0.0%	
10001				500	125	500		125	0	0.0%	
15001			Population	1000	250	1000		250	0	0.0%	
20001				1000	250	1000		250	0	0.0%	
30001				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	0.0%	
Loss Fund Contingency OTHER				Total Loss Fund Assmt		0.0392			0	0.0%	
MEL Safety Institute				FT Ees		32.99			0	0.0%	
Expense Contingency				% of Assessment		0.0933			0	0.0%	
PREMIUMS				2022 Certified Rate	Actual Rates	MEL FY2023 Premium Increase Estimates email.pdf					
Optional Excess Liability											
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 Shared Aggregate (requires 15 Optional)	% of base premium		0.6595	0.7562	1557.976	0.7940	1635.8748	0.03781162	5.0%	20.4%
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%



**TRICO JIF - 2023 Budget  
Assessment Certification**

<b>Carneys Point Township</b>	<b>324,205</b>
<b>Clayton Borough</b>	<b>431,263</b>
<b>Deptford Township</b>	<b>1,201,089</b>
<b>East Greenwich Township</b>	<b>395,144</b>
<b>Elk Township</b>	<b>193,346</b>
<b>Elsinboro Township</b>	<b>45,983</b>
<b>Fairfield Township</b>	<b>144,459</b>
<b>Franklin Township</b>	<b>802,979</b>
<b>Glassboro Borough</b>	<b>1,201,275</b>
<b>Greenwich Township</b>	<b>386,442</b>
<b>Harrison Township</b>	<b>423,608</b>
<b>Hopewell Township</b>	<b>118,649</b>
<b>Logan Township</b>	<b>324,239</b>
<b>Lower Alloways Creek Township</b>	<b>209,298</b>
<b>Mannington Township</b>	<b>53,030</b>
<b>Mantua Township</b>	<b>771,032</b>
<b>Monroe Township</b>	<b>1,663,579</b>
<b>Oldmans Township</b>	<b>84,588</b>
<b>Paulsboro Borough</b>	<b>388,754</b>
<b>Penns Grove Borough</b>	<b>470,245</b>
<b>Pennsville Township</b>	<b>560,329</b>
<b>Pilesgrove Township</b>	<b>73,558</b>
<b>Pitman Borough</b>	<b>570,661</b>
<b>Quinton Township</b>	<b>98,431</b>
<b>Shiloh Borough</b>	<b>36,206</b>
<b>South Harrison Township</b>	<b>73,828</b>
<b>Swedesboro Borough</b>	<b>204,324</b>
<b>Upper Pittsgrove Township</b>	<b>75,147</b>
<b>Vineland City</b>	<b>1,380,383</b>
<b>Washington Township</b>	<b>1,818,252</b>
<b>Wenonah Borough</b>	<b>108,115</b>
<b>West Deptford Township</b>	<b>1,254,881</b>
<b>Westville Borough</b>	<b>347,474</b>
<b>Woodbury City</b>	<b>766,459</b>
<b>Woodbury Heights Borough</b>	<b>310,139</b>
<b>Woolwich Township</b>	<b>475,461</b>
36	<b>17,786,855</b>