March 2009

TML Risk Pool

Coverage

TML Intergovernmental Risk Pool Newsletter

Liability

Property

Workers' Compensation

EQUITY RETURNS EXCEED $15 MILLION

The Workers' Compensation and Liability Funds finished 2007-08 in a strong financial position. As a result, $15.9 million of equity will be returned to qualifying Pool members during April 2009.

The Pool's Equity Return Policy states that, when the following conditions have been met at the end of the fund year, the Pool will return at least 50% and up to 75% of equity gained, depending on the adequacy of each Fund's equity level:

1. Members' Equity as a percent of net contributions must be at least 75 percent,
2. Members' Equity as a percent of net loss reserves must be at least 50 percent,
3. Members' Equity must have increased during the prior fund year, and
4. The increase in Members' Equity must be at least $1 million.

At the end of 2007-08, the Workers' Compensation and Liability Funds satisfied these criteria. One-half of the equity gained in the Workers' Compensation Fund, $8.1 million, and 75% of the equity gained in the Liability Fund, $7.8 million, will be returned to qualifying members of those Funds. Distributions will be made to members that –

1. Have participated in the individual Fund for at least one complete year as of September 30, 2008.
2. Have a loss ratio for that Fund that is less than 100% since joining the Fund or for the last 5 or 10 years, and
3. Continue to be a member of that Fund on April 1, 2009.

Loss ratios are calculated by dividing losses incurred by contributions paid. The experience period that produces the most favorable result for the member is used to determine the return. The equity return calculation also recognizes the length of time a member has participated in the Fund.

Inside:

Loss Ratio Component

Loss ratio ranges and corresponding percentages are shown below for members that have participated in the applicable Fund for three years or more.

Member's Loss Ratio	Workers' Compensation Equity Return as a Percentage of Member's Estimated 2007-08 Contributions*	Liability Equity Return as a Percentage of Member's 2007-08 Contributions
Less than 25%	12%	17.5%
25% to less than 50%	10%	15%
50% to less than 75%	8%	13%
75% to less than 100%	7%	11%
100% or more	0%	0%

* The percentage credit for Workers' Compensation will be applied to 2007-08 estimated contribution, which does not reflect adjustments based on the payroll audit after the end of the year.

Equity returns for members that have participated for at least one year but less than three will be one-half of those shown in the above chart.

Workers' Compensation

Approximately 2,093 Workers' Compensation Fund members will receive part of the $8.1 million equity return with 1,433 members receiving the largest percentage credit, 12%, plus a credit for longevity.

Liability

More than 2,300 Liability Fund members will receive some portion of the $7.8 million equity return with 1,804 members receiving a distribution of at least 17.5% plus a credit for longevity.

Longevity Component

In addition to loss ratios, the length of time a member has participated in the individual Fund will affect each member's return. The Liability and Workers' Compensation equity returns shown in the above chart are increased based on continuous membership in the applicable Fund as of September 30, 2008 as follows:

Length of Membership	Workers' Compensation Longevity Factor as a Percentage of Member's Estimated 2007-08 Contributions	Liability Longevity Factor as a Percentage of Member's 2007-08 Contributions
1 to 2 years	0%	0%
3 to 4 years	1%	2%
5 to 9 years	2%	3%
10 or more years	4%	5%

Pool has returned more than $85 Million since 1993-94

The Pool has a long history of returning Members' Equity when financial results have been better than expected. Since 1993-94 the Pool has returned more than $85 million to members of the Workers' Compensation, Liability, and Property Funds, including the upcoming returns in April.

History of Equity Returns				
Fiscal Year	**Workers' Compensation**	**Liability**	**Property**	**Pool Total**
93-94	0	$1,100,000	0	$1,100,000
94-95	$2,000,000	0	0	$2,000,000
95-96	$2,700,000	0	0	$2,700,000
96-97	$4,900,000	0	0	$4,900,000
97-98	$1,400,000	$2,800,000	0	$4,200,000
98-99	$1,400,000	$3,500,000	0	$4,900,000
99-00	$1,500,000	$3,100,000	0	$4,600,000
00-01	0	0	0	0
01-02	0	0	0	0
02-03	0	0	0	0
03-04	0	$4,500,000	0	$4,500,000
04-05	0	$4,900,000	$4,300,000	$9,200,000
05-06	0	$5,000,000	$3,200,000	$8,200,000
05-06*	0	$6,700,000	0	$6,700,000
06-07	$6,700,000	$9,200,000	$570,000	$16,470,000
07-08	$8,100,000	$7,800,000	To Be Determined	$15,900,000
Total	**$28,700,000**	**$48,600,000**	**$8,070,000**	**$85,370,000**

* In January 2007, the Board adopted a Liability Fund Equity Return Policy resulting in an additional equity return based on 2005-06 financial results.

PROPERTY COVERAGE AND THE YEAR AHEAD

2007-08 Equity Return to be Revisited in April

Equity Return

The Property Fund ended 2007-08 with a gain in Members' Equity of $5,428,926. The Board of Trustees Equity Return Policy in place for each risk bearing Fund is that 50% of an equity gain is returned to members if certain financial conditions have been met. Those conditions have been met.

So Why No Property Equity Return Now?

Hurricane Ike was the Pool's largest loss since the Property Fund was established in 1984. The loss is now estimated at more than $40,000,000. 2007-08 also included Hurricane Dolly and five major hail and tornado storms involving losses over $1,000,000 per storm. The Large Loss Fund paid or is committed to pay over $7,000,000 and the Reinsurance Fund over $4,000,000 of the Hurricane Ike property losses. Payments from these two Funds made it possible for the Property Fund to end the year with an increase in Members' Equity.

- **The Problem is Next Year**

  Every important financial factor impacting the Property Fund for 2009-10 is up in the air.

  a. The National Flood Insurance Program is only authorized and funded through September 30, 2009.

b. The Texas Windstorm Insurance Program needs state money to meet Ike's losses, without even considering future storms.

c. The Pool's Property outside reinsurance coverage must be renewed by May 1, 2009. Obviously Ike and the other 2007-08 storms will impact both availability and cost. Domestic and international financial problems will also have an impact.

The Board's Action

Recognizing the above challenges, the Board of Trustees at its January 2009 meeting voted to defer considering the potential 2007-08 Property equity return of $2,700,000 until its April Board meeting. The April equity distribution of $15,900,000 from the Workers' Compensation and Liability Funds was approved by the Board and will be distributed in April (see related article).

Questions? Call 1-800-537-6655

If you have questions about your equity return ask for the Underwriting or Field Services Departments. For loss prevention assistance, contact the Loss Prevention Department.

WORKERS' COMPENSATION – INCURRING LOSSES TODAY, HIDING THE COSTS FOR TOMORROW

"The variations of the schemes to avoid properly accounting for workers' compensation obligations are many."

Most public administrators know that losses should be booked in the year they occur. Thus, if an employee is seriously injured, the total cost of that employee's care and even death benefits if the employee should die as a result of the injury, should be recorded in the year the accident occurred. Many local governments meet this test by participation in an intergovernmental pool with a low deductible or by buying private insurance.

The Temptation

Almost every year an insurance company or a pool comes up with a way to reduce the current year's costs by changing to a method of recording some of the liability when it is paid without reporting it in the year of the accident. The variations of the schemes to avoid proper accounting for workers' compensation obligations are many. They can be summarized in the following groups.

a. Reporting the loss as claims are actually paid.

b. Buying excess insurance over a certain amount, for example $100,000, but reporting the losses below that amount as they are paid, rather than as incurred.

c. Starting off with a low-ball estimate, with a provision that over the next two or three years, additional payments would be required if incurred losses are greater than the amount initially paid or reserved.

d. Using retrospective programs through which, for the next two to four years, the local government will owe more money if its initial year claims experience deteriorates.

Accounting Standards

Any government that reports it is complying with national accounting standards or with standards promulgated by the Governmental Accounting Standards Board (GASB) is obligated to report the full loss in the year in which it is incurred. This means that every forecasted cost related to the claim over the life of the claim is required by GASB standards to be reported in the year that the loss is incurred. The standards allow discounting if it is the practice of the local government to discount certain claims involving future payments, but the full cost must still be recorded in the year it is incurred.

City Charters

In home-rule cities, the charters probably specify the method of accounting to be followed which usually is that all obligations of the city shall be recorded as they are incurred.

Constitutionality

If the requirement to make payments in the second or third year is not supported by reserves or appropriations in the year that the accident occurred, such additional payments are in the nature of an assessment. If they are not an after-the-fact assessment, then they are payment of an incurred cost which should have been appropriated or reserved in the year that the accident or injury happened.

No approved governmental accounting method allows known obligations to be unreported, deferred until future years without provision being made for their payment, or offset by future payments which were not provided for by appropriations or the establishment of reserves in the year of the injury.

These schemes of deferring current-year obligations to future years are tempting to those who are trying to balance local government budgets. It is difficult for pools and insurance companies, that present programs in which the full obligation of the local government is met in the year that losses are incurred, to present their programs in such a way that they do not appear to be more costly. Unfortunately, the program that defers to future years obligations that are known, can be reasonably estimated, and should be recorded in the year that the accident or injury occurs is, in reality, more costly and quite possibly illegal.

Sewage Backup Coverage Now Serves 100 Members

The TML-IRP Sewage backup program, initiated in January 2006, is now serving over 100 members. The remarkable results after two years of $180,299 of contributions with only $14,534 of paid claims both supports providing this coverage and also the two rate reductions that have already been put into effect.

- Rates are now $1.00 per year per tap reducing to $0.50 per year per tap over 4,000 taps
- A $500 minimum contribution
- Deductibles from $250 to $5,000
- And a 25% discount if lines are cleared on a schedule with vacuum or water jet equipment

Why try to explain why your local government has a right to temporarily store sewage in your citizen's house or business?

Why let sewage backup complaints be a recurring, unpleasant agenda item?

Why have your citizens leave your meeting unhappy, complaining, and bitter?

Ask your staff how you handle complaints regarding sewage backing up from your mains.

Encourage your staff to call TML-IRP's Underwriting or Loss Prevention Department at 1-800-537-6655 for more information.

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