

Coverage



TML Intergovernmental Risk Pool Newsletter

June 2006

Board Sets Rates for 2006-07

At the April board meeting, the Pool's Trustees set property, liability and workers' compensation rates for 2006-07.

No Change in Property Rates Despite Record Losses

The Pool had the largest property loss in its history when Hurricane Rita made landfall along the gulf coast on September 24, 2005. Hurricane Rita affected seventy-eight local governments that had all or part of their windstorm coverage through the Pool and produced losses that are currently estimated at approximately \$11 million.

Despite record losses from Hurricane Rita, the Pool's Property Fund ended 2004-05 with an \$8.6 million gain in Members' Equity, half of which was distributed to members through the Property Fund's first equity return in the Pool's history. The Property Fund's excellent financial results were largely due to the Pool's reinsurance arrangements, including the risk transferred to the Pool's own Reinsurance Fund. The Pool's reinsurers will assume \$5.9 million of the estimated losses from Hurricane Rita and the Reinsurance Fund will assume \$2.1 million. The Property Fund will retain \$3 million.

Although Rita's impact to the Property Fund was limited by the Pool's reinsurance arrangements, Hurricanes Rita, Katrina and Wilma have caused reinsurance costs to increase dramatically for property exposures along the Gulf Coast. Those increased costs mean that the Pool's property reinsurance premiums paid to outside reinsurers will be approximately \$1 million greater during 2006-07 than in the current year, 2005-06.

Notwithstanding the losses generated by Hurricane Rita and higher reinsurance costs, the Pool's Board of Trustees has determined that the Property Fund's strong financial position enables it to absorb these increases without increasing rates charged to the Pool's members.

Liability Rates – Reductions in General Liability and Public Officials' Liability Rates, Automobile Liability Rates Increased

Good loss results generated from General Liability and Public Officials' Liability mean that rates will be twelve percent lower for these coverages in 2006-07 while increased frequency of Automobile Liability claims and the increased cost of repairing vehicles necessitated an eight percent increase in Automobile Liability rates. Law Enforcement Liability rates will remain unchanged. The average combined impact of these rate changes will be a reduction of about 4.5 percent for the cost of the first \$1 million of coverage. This does not include exposure changes (such as the number of vehicles, payroll, or the number of police officers) and changes to experience modifiers.

Liability Experience Modifiers

Overall, Liability experience modifiers will be about two-to-three percent lower in 2006-07. This is the average reduction. Individual contribution changes due to experience modifiers will range from plus 62 percent to minus 38 percent.

Continued on page 2

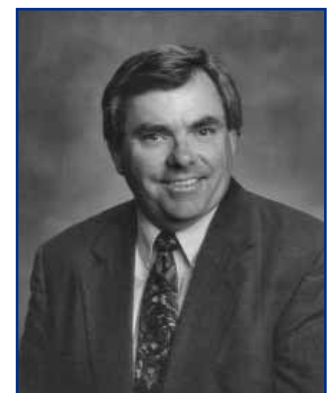
Henry Wilson Joins Board

Henry Wilson, president of the Texas Municipal League, is the Pool's newest ex-officio trustee. Wilson was elected to the Hurst City Council in 1985 and is serving his 22nd year in public office. He has chaired the North Central Texas Government's Regional Transportation Council and testified before the United States Congress for reauthorization of federal transportation legislation.

Wilson was born and raised in Wharton. He received a bachelor of science degree from the University of Texas at Austin where

he majored in Aerospace Engineering, and a master of management science degree from Texas Christian University.

Wilson is a 33-year employee with Bell Helicopter Textron. He has published several national helicopter design papers and holds a patent for a crashworthy structural component design.



Board Sets Rates for 2006-2007

Continued from page 1

Workers' Compensation Rates

Rates for Seven Payroll Classifications Increased by 5 Percent

In October 2001, the Pool began to increase workers' compensation rates for certain employee classifications with loss ratios greater than 110 percent. Since significant rate increases are needed to bring the loss ratios for these classifications below 110 percent, the Pool's Board of Trustees elected to achieve rate adequacy by increasing the rates by five percent each year.

A review of loss ratios conducted in January 2006 revealed that seven classifications have loss ratios in excess of 110 percent and losses exceeding contributions by more than \$500,000 for the five-year period beginning October 1, 2000 and ending September 30, 2005. In keeping with the gradual rate increases that began in 2001, workers' compensation rates for the seven classifications shown in the following chart have been increased by five percent for 2006-07.

Employee Classification	Description	Loss Ratio 10/1/00 to 9/30/05
7539	Electric Distribution	209%
7580	Sewage Treatment and Collection	127%
8810	Clerical	113%
8831	Animal Shelters	277%
8838	Libraries & Museums	201%
8868	Day Care Operations	450%
37240	Outside Volunteers	5,093%

- ***Senate Bill 310 – Rates for Fire-fighters and EMTs***
- ***Workers' Compensation Experience Modifiers and Discounts***

Senate Bill 310 – Rates for Firefighters and EMTs Increased by 10 Percent

2005-06 was the first year affected by the passage of Senate Bill 310, known as the Presumption Statute, which covers certain cancers, heart attacks, strokes and lung diseases suffered by firefighters and emergency medical technicians. Rates for firefighters and EMTs were increased five percent in 2005-06 in anticipation of increased costs as these illnesses begin to fall within the scope of workers' compensation coverage. Subsequent increases of ten percent were planned for 2006-07 and 2007-08 if warranted after an annual review of claims activity resulting from Senate Bill 310.

Since the provisions of Senate Bill 310 went into effect on September 1, the Pool has received three claims that would not have previously been considered compensable workers' compensation claims. If any of these claims are determined to be compensable, the costs will be significant. As a result,

rates for firefighters and EMTs have been increased 10 percent for 2006-07.

Workers' Compensation Experience Modifiers and Discounts

The overall average contribution change attributable to 2006-07 workers' compensation experience modifiers and discounts is a three percent reduction. Five hundred eighty-seven members will benefit from improved modifiers and discounts. There will be no change for 926 members, and 673 members will receive increases due to deteriorating loss experience. Individual contribution changes attributable to experience modifiers will fall within a range of plus 122 percent and minus 54 percent.

If you have any questions about rates for 2006-07 or how they may affect you, please call either the Field Services or Underwriting Departments of the Pool at 1-800-537-6655.

Selection of Workers' Compensation Medical Providers

House Bill 7, adopted in the 2005 Texas Legislative Session, made substantial changes to the workers' compensation system. The Legislature abolished the Texas Workers' Compensation Commission and replaced it with the Texas Department of Insurance Division of Workers' Compensation, effective September 1, 2005. One of the most significant changes is the process of selecting medical providers to treat injured workers. The act authorizes: creation of medical networks certified by the Division of Workers' Compensation; direct medical provider contracting available only to local governments; and selection of any medical provider from the Approved Doctor's List, but that list will continue in effect only until September 2007.

TML Intergovernmental Risk Pool representatives, along with representatives of the Texas Association of School Board Risk Management Fund, Texas Association of Counties Workers' Compensation Fund, the Texas Council Risk Management Fund and the Texas Water Conservation Association Risk Management Fund worked with members of the Legislature to address local government workers' compensation issues in House Bill 7. Since local governments must provide workers' compensation coverage to their employees, the sponsors of the bill agreed to amendments giving local governments options in the selection of medical providers. These five public employer pools collectively cover over

500,000 employees and pay more than \$80,000,000 annually in medical benefits.

The language added to House Bill 7 allows political subdivisions the opportunity to contract directly with providers if licensed networks are not available or practical. Private employers, however, must use networks certified by the Texas Department of Insurance or remain under the present system of the Approved Doctors List.

Representatives of the five pools have met with many of the organizations planning to be certified by the Department of Insurance to determine the availability of a statewide network operation. The organizations chose to not provide a list of contracted medical providers and were not planning on contracting with providers in all areas of the state. The cost to join such a network is estimated to be in the millions. For these reasons, the pools have agreed to enter into an interlocal agreement to create the Political Subdivision Workers' Compensation Alliance. The goal of the Alliance is to provide quality medical treatment to participating members' injured workers and return injured workers back to work. Pool members will be able to direct their employees to the contracted medical providers in their respective areas. The Alliance will begin contracting with medical providers during the summer of 2006. More information will be distributed as soon as a significant number of medical providers have agreed to execute contracts.

The Pool has again received an "A" from Standard & Poor's credit rating service. This is the sixth year that the Pool has achieved an A rating.

The Pool was rated on financial indicators such as members' equity, reinsurance arrangements, membership, rates, loss prevention activities, claims activity (including the impact of Hurricane Rita) and underwriting strategies.

The Standard & Poor's letter concludes that the Pool has strong financial security characteristics, including a strongly established market position throughout Texas; strong capitalization of more than \$242.3 million in members' equity as of January 31, 2006; a capital adequacy ratio of more than 400% for the fund year-end September 30, 2005; and strong pricing advantage allowing quick response to changing loss trends.

**Pool Rates
"A" with
Standard
& Poor's**

Pool Offers New Sewage Backup Coverage

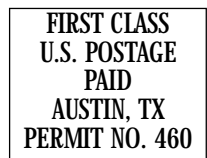
At the January meeting, the Pool's board authorized development of a voluntary sewage backup coverage program. Some members had requested reimbursement coverage when private property owners suffer damage due to sewage backups from member-owned lines. Previously, Pool coverage only included sewage backups due to employee negligence, or if a member had knowingly failed to correct a problem that led to the backup.

Highlights of the new voluntary coverage include:

- ❖ Members are responsible for the first \$5,000 of each loss (deductible).
- ❖ The Pool's maximum coverage is \$25,000 per occurrence.
- ❖ The Pool will investigate every sewage backup claim referred by the participating member. If it is determined that the claim is covered under the Pool's General Liability coverage, the claim will

be handled like any other liability claim. If it is not covered under the Pool's General Liability coverage, all expenses will be paid from the voluntary sewage backup coverage account.

- ❖ Any costs which are eligible to be covered under the property owner's homeowner's or other property insurance will not be covered by the Pool.
- ❖ Each member who elects voluntary sewage backup coverage must participate in a sewage backup loss prevention program.
- ❖ The initial annual charge will be \$1,000 per member or \$1.00 per year for each sewage collection customer, whichever is greater. Rates and conditions will be reviewed for modification after one year.



Please Route
