

# Property Equity Return Policy Adopted

The Pool's Trustees have approved a Property Equity Return Policy that will be triggered if the following conditions are met at the end of a given fund year.

1. Members' Equity is at least 75 percent of net property contributions,
2. Members' Equity is at least 50 percent of net loss reserves,
3. Equity in the Property Fund increased during the prior fund year, and
4. The increase in Members' Equity is at least \$1 million after offsetting any loss of equity in the year immediately preceding the prior fund year.

If all four conditions have been satisfied, one-half of the equity gained after offsetting any loss in the preceding year will be returned to members of the Property Fund. The Property Equity Return Policy will ensure that Pool

Members share in the benefits of favorable property loss experience.

Through March 31, 2005, the Property Fund is on track to satisfy the criteria for triggering a Property Equity Return at the close of the year. If the criteria are satisfied, the specifics of the equity return will be developed and presented to the Board during its January 2006 meeting. Those specifics may establish certain thresholds to qualify for a return such as maximum loss ratios or minimum years as a Pool member.

### *Equity Return Questions?*

If you have any questions, the Pool's Field Services Representatives and Underwriters are available to discuss the approved Liability equity return and the Property Equity Return Policy and explain how they may impact your entity.

# Coverage

TML Intergovernmental Risk Pool Newsletter



May 2005

## Board Approves \$4.9 Million Liability Equity Return

The Pool's Board of Trustees has approved a \$4.9 million equity return to Members of the Liability Fund. Distribution will be made to Members that have participated in the Liability Fund for three successive, complete years on September 30, 2005, and have Liability loss ratios no greater than 100% since joining the Pool or for the last five years, whichever loss ratio is lower. Loss ratios will be calculated by dividing losses incurred by contributions paid. Distribution will be made to qualified Members that continue to be Members of the Liability Fund as of November 1, 2005.

Members with loss ratios of 80 percent or less will receive a distribution equal to 15 percent of their 2004-05 contributions. Members with loss ratios of 81 percent to 85 percent will receive a distribution equal to 12 percent of their 2004-05 contributions. The remaining Members with loss ratios no greater than 100 percent will receive returns of 3 percent to 9 percent, depending on their loss ratios. (see chart below) Approximately 1,830 Pool Members will qualify for the maximum distribution of 15 percent.

Returns will be transmitted by check to qualified members whose accounts are current, and by account credit for all other qualified members. The distribution will take place during November 2005.

Loss Ratio	Equity Return as a % of 2004-05 Contributions
80% or below	15%
81-85%	12%
86-90%	9%
91-95%	6%
96-100%	3%
>100%	0

### WILL YOUR ENTITY RECEIVE A PORTION OF THE EQUITY DISTRIBUTION?

*The answer is YES if:*

- You are a Liability Member for 3 successive, complete years on September 30, 2005, AND
- You have a Liability loss ratio that is no greater than 100%, (Losses/Contributions = 100% or less), AND
- You are a Liability Member on November 1, 2005.



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# Rates for 2005-06

- **Liability & Property - No increase in Rates!**
- **Workers' Compensation**

Rates for the year beginning October 1, 2005 were approved by the Pool's Board of Trustees at its April meeting.

## Liability and Property – No Increase in Rates!

Due in large part to the effective loss prevention efforts of the Pool's members, favorable loss experience over the past eighteen months has resulted in a decision by the Pool's Board of Trustees to maintain Liability and Property rates at current levels during 2005-06. This marks the third year in a row that Liability and Property rates have not increased. Although rates will not change, contributions will be adjusted to reflect new experience modifiers and any exposure changes such as increases or reductions in the number of vehicles owned, changes in services offered that impact your payroll and budget, and properties that have been constructed, purchased or sold.

## Workers' Compensation

There are three major bills currently working their way through the Legislature that will have a significant impact on the cost of workers' compensation benefits. These bills are Senate Bill 5, House Bill 7, and Senate Bill 310.

Senate Bill 5 and House Bill 7 involve a major restructuring of the workers' compensation system. Ultimately, only one bill will pass, but both bills contain provisions allowing insurers to establish provider networks, restructuring the state agency that is responsible for overseeing the workers' compensation system, and providing higher indemnity benefits for injured workers. There is tremendous uncertainty about the financial impact of the changes and whether they will produce a net increase or a net reduction in future workers' compensation costs. Although networks may help to limit over-utilization of medical services and may improve the quality of medical care employees receive so that they can return to productive work, these improvements may be offset by higher indemnity benefits, increased administrative costs, network access fees and the need to increase doctors' fees to encourage their participation in workers' compensation networks. Because the net effect is not known at this time, the Board of Trustees chose not to adjust rates to reflect anticipated changes that may result from SB 5, HB 7 or whatever bill ultimately passes.

Senate Bill 310 is similar to the disease presumption bill that died in the Calendars Committee of the House during the 2003 legislative session. The most significant, and potentially costly, provisions of this bill provide coverage for certain cancers, heart attacks, strokes, and lung diseases that are not usually covered by workers' compensation. If specified conditions are met, SB 310 says that a fire fighter or emergency medical technician who suffers disability or death from cancer is presumed to have developed the cancer during the course and scope of his or her employment. A firefighter or emergency medical technician who suffers a heart attack or stroke that results in disability or death, while on duty and engaged in certain specified activities, is presumed to have suffered the disability or death during the course and scope of his or her employment. Likewise, under certain circumstances, tuberculosis or any disease of the lungs will be presumed to be work related. The disease presumption will apply to paid employees and certified volunteers.

If it passes, Senate Bill 310 is certain to raise workers' compensation costs as some cancers, heart attacks, strokes and lung diseases are shifted from medical and disability insurance to workers' compensation. As a result, the Board of Trustees approved a 5 percent rate increase for both paid and volunteer firefighters and emergency medical technicians if Senate Bill 310 passes in the Legislature and becomes law.

## Actuarial Rate Indication

Deloitte Consulting, the Pool's consulting actuaries, completed their study of the adequacy of the Pool's Workers' Compensation rates for 2005-06, which indicates that overall contributions can be reduced by one percent. When formulating their opinion about the adequacy of the Pool's rates, the actuaries looked at factors such as current rate levels, projected losses for 2005-06, and anticipated interest income. They did not evaluate the impact of any statutory changes that may result from passage of Senate Bill 5, House Bill 7, Senate Bill 310 or changes to experience modifiers and fund discounts.

## How Loss Experience Impacts Contributions

The Pool's pricing structure makes two adjustments to contributions based on each Member's unique loss experience. These

adjustments are accomplished by applying an Experience Modifier and a Fund Discount. Overall, Experience Modifiers and Fund Discounts will reduce 2005-06 Workers' Compensation contributions by 8.6 percent, which will produce a reduction that is 7.6 percent greater than Deloitte's indicated one percent reduction. However, each Member's own loss experience will dictate how its modifier and discount will affect its individual contributions. Some members will experience an increase in contributions because of higher losses than in the past, while others will receive a reduction greater than 8.6 percent because of improving loss experience.

### Experience Modifiers

Loss experience for 2001-02, 2002-03 and 2003-04 is used to calculate each Member's Experience Modifier for 2005-06. This modifier may produce an increase, a reduction or no change in contributions depending on how the losses in those years compare to those used to calculate the 2004-05 modifier.

### Fund Discounts

The second rate adjustment is made by applying a Fund Discount to contributions. The discount formula produces discounts based on 1/3 the difference between a 100 percent loss ratio and each member's adjusted loss ratio. The discount produced by this formula is capped at a maximum of 30 percent. Losses for the most recently completed three-year or five-year period are used, depending on which period produces the most favorable result for the Member. Just as with the Experience Modifier, the Fund Discount may produce an increase, a reduction or no change depending on how losses compare to those used to calculate the 2004-05 discount.

## 5% Increase in Rates for 14 Payroll Classifications

In 2001, the Pool began to gradually increase rates for certain payroll classifications that had loss ratios greater than 100 percent. A loss ratio greater than 100 percent occurs when losses caused by injuries to employees in a particular payroll classification exceed the contributions collected by the Pool for that payroll classification. The fourteen Workers' Compensation classifications shown in the adjacent table produced loss ratios greater than 110 percent for the five-year period beginning October 1, 1998.

The Board of Trustees voted to continue the process, begun in 2001, of increasing rates for certain classifications to achieve rate adequacy. As a result, rates for these fourteen classifications will be increased by 5 percent for 2005-06. This will increase overall, average contributions approximately 1.25 percent. Members that have a large portion of their payrolls in one or more of these classifications may experience an increase greater than 1.25 percent, while Members that do not have any employees in these classes will not be affected by this change.

## Employers' Casualty Company in Receivership

The Pool purchased workers' compensation reinsurance from Employers' Casualty Company (ECC) from 1973 to 1983. When Employers' Casualty Company was placed in receivership in 1994, the Pool still had outstanding reinsurance recoverables with ECC.

The Pool has been declared a Class 2 creditor and, when the ECC estate closes in December 2005 or early 2006, the Pool will receive an additional \$3,697,067. Because it is likely that this date will be determined during 2005-06, it is projected that this amount will become a receivable sometime during the next fiscal year. Although it is possible that further court action might change the amount of this receivable, the Pool's Board has decided, rather than increase Workers' Compensation rates further, to offset the projected revenue shortfall that will result from improving experience modifiers and fund discounts with the anticipated ECC receivable.

Rates for Fourteen Payroll Classifications will be increased by 5%		
Description	Classification	Loss Ratio *
Electric Distribution	7539	214%
Sewage Treatment and Collection	7580	184%
Firefighters (Paid & Volunteer) including Firefighters who serve as EMT's	7704 & 7704V	139%
Heavy Equipment Maintenance	8107	137%
Clerical	8810	171%
Animal Shelters	8831	351%
Medical Professionals	8832 & 8833	165%
Libraries and Museums	8838	223%
Day Care Operations	8868	401%
Parks and Recreation including Golf	9102 & 9060	128%
Street Cleaning	9402	189%

\* Losses ÷ Contributions = Loss Ratio