

Memo

To: Dave Plyman, City Manager
From: Lynette D. Fischer, HR/Risk Manager
Date: August 19, 2013
Re: Addit. Billings Due for IMLRMA Min/Max Contract Years '07, '09, '10

The City has received three (3) Additional Billings from IMLRMA, our provider of coverage for property/casualty/worker's compensation, for the City's claims in years 2007 (\$30,617.46), 2009 (\$50,379.49), and 2010 (\$32,704.02). **Total due is \$113,700.97.**

As was authorized by City Council in the Fall prior to each of the policy years, the City continued its participation in the IMLRMA Minimum/Maximum insurance "pool." At the time of each renewal authorization, we acknowledged that participation in the "pool" at a lower initial contribution amount came with the risk of additional monies coming due if the claims paid exceeded 80% of the expected claims costs, a level known as the Minimum Loss Fund.

For background purposes, the Min/Max program is managed for the policy years noted above as follows:

- Actuaries estimate our expected claims dollars for the coming year based on our history, type of work, payroll, etc... This amount is set as the cost of the "standard policy" that is offered as an option every year at renewal time.
- The IMLRMA calculates the "Minimum Loss Fund" (ie the Min) as 80% of the expected claims \$. The City pays the Min amount up front, essentially establishing a reserve from which IMLRMA pays our claims.
- The "Maximum Loss Fund" (ie the Max) is calculated as 120% of the expected claims \$, and is the most the City will ever pay for the policy year's claims. The difference between the Max and the Min amounts equals the additional monetary liability the City assumes with this type of policy. In exchange, the City pays no more than the Min unless or until our claims costs actually exceed that amount.
- The additional liability is a known quantity, and remains until either all claims opened in that year are closed or the City pays the full amount through additional billings in subsequent years. The City will never pay more than the Max, even if claims costs exceed that amount.

- When the claims dollars paid do not exceed the Min, the City recognizes a “savings” over what it would have paid for a more expensive “standard ” policy which has no “additional billing” provision. When the claims dollars do exceed the Min, the City still recognizes a savings as long as the Min amount paid plus any additional billing amounts is less than the cost of the “standard” policy.
- The break-even point comes when the claims \$ paid through the Min/Max program equals the “standard” policy cost. After that, the Min/Max becomes the costlier option to have chosen.
- There is a flat fee consisting of reinsurance, excess premiums, and administrative costs that is paid no matter which type of policy is chosen. That amount is separate from the “Min/Max” amounts and is not used for any “claims due” calculations.

A specific example of how the program’s process works can be seen in the results of the City’s 2010 policy year. The Minimum Loss Fund cost was \$262,593, which was paid in Dec. 2009 for participation in the pool. The Maximum Loss Fund cost potential to the City was a total of \$393, 889. The difference between the two (\$131,296) is the additional liability accepted for that policy year.

Last summer (2012) the City received its first “additional billing” for claims opened in 2010. As of June 30, 2012 the total claims dollars paid by IMLRMA on our behalf for the 2010 policy year equaled \$361,184. The City had previously paid \$262,593 (the Min) to renew the policy, so the City was billed for the difference (\$98,591).

This reduced the City’s remaining liability to \$32,704, the difference between the Max (\$393,889) and the new total amount paid by the City (\$361,184).

From July 1, 2012 through June 30 this year (2013), IMLRMA paid an additional \$41,882 (a total of \$403,066) on these claims. However, the City’s remaining liability is less -- \$32,704 to reach the Max (\$393,889). Therefore, payment of this remaining liability will “max out” our funding responsibility, and the City will owe nothing further for the 2010 policy year.

Please see the attached spreadsheet for a detailed breakdown of previous policy years’ results and any remaining liability for open policy years.

Should you have any questions or desire further explanation, please don’t hesitate to contact me at ext. 2054.