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Minutes of Meeting and Agenda of Executive Committee of Public Agency Compensation Trust

Date: December 19, 2023
9:00 AM
ZOOM Meeting

https://us02web.zoom.us/j/83059181246?pwd=TVhaSmdCbFAyT05FZkRBaUVFVm9jZz09
Meeting ID: 830 5918 1246
Passcode: 514748

1. Roll

PACT Chair Paul Johnson called the meeting to order at 9:01 am when a quorum of members was present.
PACT Members present Paul Johnson, Mike Giles, Josh Foli, Joe Westerlund, Amanda Osborne, and Robyn Dunckhorst.
PACT Members absent: Craig Roissum
Staff members present: Wayne Carlson, Alan Kalt, Stephen Romero, Debbie Connally, Melissa Mack, Marshall Smith, and Jarrod Hickman.

2. Public Comment:

There was no public comment.

3. F<u>or Possible Action:</u> Approval of Consent Agenda

- **a. Approval of September 11, 2023 Executive Committee Minutes**
- **b. Approval of interim financial reports for PACT**
- **c. Approval of NEAM Investment Report**
- **d. Approval of Washoe County Water Conservation District as New PACT Member**

After a brief discussion Mike Giles made a motion to approve the consent agenda items a.–d. Josh Foli second the motion, which carried.

4. <u>For Possible Action:</u> Approval of PACT Classification Rates and Experience Modification Factors Effective January 1, 2024

- **a. Review of PACT Loss Fund Contribution Rate Indications by Actuary**
- **b. PACT Rate Change Indications**
- **c. PACT Experience Modifications Plan Renewal**

Alan Kalt reviewed the PowerPoint presentation included in the meeting packet. The following items where highlighted during the presentation: Rate Process, Structure Graphs, Renewal Layers, Classification Rates and Actuary Proposed X-mods and PACT Budget Overview.

Kalt reminded the Executive Committee that at the Annual Meeting held in April 2023, the Board approved the new rate setting timeline that would require a December meeting to set the new rates that would become effective on January 1st for the upcoming calendar year payroll cycle. This would allow the Members to update their payroll systems to include the new rates and x-mods for each entity effective January 1st. The assessment cycle using calendar year payroll and three quarterly assessments with a fourth quarter true-up assessment in the second calendar quarter after the independent PACT payroll audit by SPR would not change.

Kalt reviewed the current year, FY 23/24, Structure Graph noting that there would not be any recommended changes to the various layers in FY 2024/25. Alan reviewed slides created by Stephen Romero which indicate who pays what in a large loss ($1.5M) scenario. It was explained that our captive Public Compensation Mutual (PCM) pays the next $700,000 above PACT's $300,000 SIR as well as 25% of the loss amounts between $1M and $3M loss. CRL is liable for the remaining 75% of that $2M excess layer per large loss claim. It was noted that it is important to understand how large claims affect the other layers of coverage as it has an impact on the renewal rate calculations.

The PACT Assessment factors used by the actuary: payroll assessments are capped at $36,000 of covered payroll, individual losses are limited to $100,000 per occurrence, payroll amounts are weighted based on pre-determined class code relativities, experience period over the past four years and the maximum change to a member's experience modification factor (x-mod) from the previous year is limited to +15% to -10%. The Committee reviewed the historical classification rates over the past three years, noting the level of increases in each of the years.

A discussion ensued on the cost of the reinsurance layers which include PCM, CRL and Safety National. Alan Kalt reviewed the CRL Premium analysis for the current year (FY 23-24) which had an increase of 62.4%. CRL uses a 10-year look back on large losses. In the current year, we experienced a $0 Loss Year being replaced by a $2,000,000 loss year (2020). Our oldest six years of losses (2010-2015) had 5 years with no losses and our most recent 5 years have significant losses in the CRL Layer in each other those years. As such, premium increases are likely to be significant until old large losses roll off the calculation. Chair Johnson asked if it is likely to see any zero loss years in the near future. Kalt replied by reviewing the PACT large loss report as of December 8, 2023, which was included in the packet. Currently there are two large losses in FY 22 with a total incurred amount over $3.5M and two large losses in FY 23 with a total incurred over $3.1M As these claims develop, they will be replacing $0 Zero Claim years in FY 2011 and FY 2012. It was noted that many of the large losses were from former large members who are no longer in the PACT program. Kalt was optimistic about future claims development on new claims. As he noted in the past, hopefully we get addition by subtraction wherein these adverse members are no longer in the program and their future claims will be on them and not the responsibility of PACT. It was noted that we are responsible for the claim runoff of their old, covered claims. It was noted that worker compensation claims can have an exceedingly long payout period.

Chair Johnson asked about steps that take place to evaluate the large losses and losses to determine what could be done to address or prevent these claims from occurring. Alan Kalt gave an overview of the Fit for Retirement program managed by Specialty Health. He noted that there is an oversite committee of Sheriff and Chiefs from law enforcement and fire departments that oversee the program, operations, and participation. This program's primary focus is on cardiac wellness for police and firefighters. Marshall Smith is the Chair of that Committee. Marshall spoke to the Fit for Retirement program as well as the efforts of the Enterprise Risk Management Excellence Program (ERMEP). It was noted that several members are in the ERMEP program and making strides to improve their entity's operations.

Kalt reviewed the slides related to the Actuarial reports prepared by Derek Burkhalter from Bickmore Actuarial. The slides show the multi-year trends for Loss Rates, Claim Severity and Claim Frequency. Derek points out that a reasonable goal might be to maintain a fund at the 85% confidence level. This could provide stability in the required level of contributions from year to year. Noting that if you fund at a low confidence level, the chances are much greater that future events will prove that additional contributions should have been made for current claims. Additional contributions for years by that time long past may be required while costs are increasing dramatically on then-current claims. The additional burden of funding increases on past years as well as current years may well be prohibitive. It was noted that you only get one opportunity to fund the injured workers' claims as PACT has never had to have a special assessment and does not plan on any in the future. There was a discussion on the use of Net Position and investment earnings to smooth out the rate of increase if the rate increases become significant. Kalt reminded the Committee that PCM had to transfer capital back to PACT in FY 22 in the amount of $2.5M and $2.0M in FY 23 to maintain capital adequacy in PACT.

A review of the PACT expense budget classifications of Loss Fund & Insurance, Program Expenses and Administrative Expenses noted cost containment and stability have been incorporated into the FY 24-25 budget. Kalt reviewed distinct items within the proposed budget and the impact on the Classification Rate assessment. The Committee reviewed PACT's Historical Paid Loss Ratio as noted below:

PACT's Historical Paid Loss Ratio

PACT
Summary of Claims, Claims Adjustment & Loss Fund to Assessment

Description	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024Est	FY 2025B
Assessments	10,083,799	11,792,275	12,675,642	14,834,560	15,055,750	18,562,181	17,663,878	19,882,632
Heart Lung Assessments	1,104,106	1,109,118	1,490,539	2,013,904				
Total Assessments	***11,187,905***	***12,901,393***	***14,166,181***	***16,848,464***	***15,055,750***	***18,562,181***	***17,663,878***	***19,882,632***
Loss Fund and Claims Expense								
Claims and adjustment Expenses	6,431,493	8,822,730	9,103,742	10,922,746	8,485,681	8,572,744	8,864,000	9,460,000
Heart Lung loss expenses	1,450,372	1,506,637	1,601,459	2,113,304				
Excess insurance premiums	526,516	537,133	432,826	467,538	474,027	495,712	804,814	1,006,018
Re-insurance premiums (PCM)	1,931,416	1,607,000	2,237,700	2,522,875	2,583,635	2,601,409	2,912,546	3,640,683
Total Loss/Claims Expenses	***10,339,797***	***12,473,500***	***13,375,727***	***16,026,463***	***11,543,343***	***11,669,865***	***12,581,360***	***14,106,700***
Paid Loss Ratio (Total Claims/Total Assessments	***92.4%***	***96.7%***	***94.4%***	***95.1%***	***76.7%***	***62.9%***	***71.2%***	***70.9%***
Reduction in Net Position During Fiscal Year	***$ (2,941,036)***	***$ (1,597,504)***	***$ (28,702)***	***$ (3,237,099)***	***(4,013,117)***	***$ 3,304,866***	***$ 1,125,000***	***1,987,064***

5 Yr Net Position Accumulated Loss	***$ (11,817,458)***

A discussion on the four years where the Paid Loss Ratio was over 90% was held. It was noted that large losses from members who have left the program have impacted the ratio significantly. Chair Johnson commented that a Watch List should be developed to evaluate Members with excessive losses. POOL/PACT staff could collaborate with those members to address risk management efforts to improve operations and employee safety. Wayne Carlson indicated that Debbie Connally prepares a five-year Loss Report that is included in the Annual Meeting with the member data. He explained that management has been evaluating this more closely over the past several years. The change in the x-mods as calculated by the Actuary impacts the members, however it is capped as noted earlier.

The proposed Tentative Budget and Classification Rate assessment for Fiscal Year 2024-2025 was discussed at length. It was recommended to consider separate rate increases for the group of classifications based on rate relativity of classifications historical loss experience based on size of class (in terms of payroll) as recommended by the actuary. As such, the budget was developed using a 1% classification increase for School and Hospital Classifications, 3% for General Government Classifications and 5% for Police/Fire Classifications. This should generate adequate assessments to reach the 80% confidence interval funding in the actuarial report. Alan Kalt noted that we will receive the renewal pricing from CRL and PCM on the reinsurance layers in March. The budget estimated a 25% increase due to the historical losses in those layers. He indicated that if the increases were above the projected amounts, the investment earnings could absorb those increases, if not, there would be a reduction in Net Position.

After the presentation and the question-and-answer period, Josh Foli made a motion to approve the PACT Classification Rates as presented noting a 1% increase in the School and Hospital Classifications, 3% for the General Government Classifications and 5% in the Police/Fire Classifications. Furthermore, accepting the Actuary's X-Mod rates that are calculated in the Actuary's X-Modification Study. Mike Giles seconded the motion, which was carried unanimously.

5. **Report on Status of PACT Renewal Processing and Changes in Membership**
Stephen Romero let members know that the PACT Renewal Applications were provided to the agents on November 28th. He has already received several completed applications. The due date for completed applications is January 12, 2024. If members have any questions or need assistance with the applications, he is willing to help them. It was noted that SPR will be doing the PACT Payroll Audits again this year. The audits will start in February and need to be completed by March 31st. There will be three separate gift card drawings from the entities that have completed their audits by the drawing deadlines. Wayne Carlson noted that the Division of Insurance is conducting a 5 Year Compliance Examination. Historically it has been a 3-year review period but with COVID it was extended to five years. We are compiling the information and expect to have it completed before they start their exam in January.

6. **Public Comment**
Chair Johnson asked for Public Comments. Members expressed Happy Holidays and Merry Christmas to each other and look forward to a successful New Year.

7. **<u>For Possible Action</u>: Adjournment**
The meeting adjourned at 10:02 am.