



**Nevada Public Agency Insurance Pool
Public Agency Compensation Trust**
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**Minutes of Joint Meeting of the Executive Committees of
Nevada Public Agency Insurance Pool and for Public Agency Compensation Trust
Date: March 8, 2010**

1. Roll

Members Present: Mike Rebaleati, Pat Whitten, Lisa Jones, Jeff Zander, Dan Newell, Mike Pennacchio, Alan Kalt, Cash Minor, Claudette Springmeyer, Bill Kohbarger, Paul Johnson, Toni Inserra, Steve West

Members Absent: Roger Mancebo

Others Present: Wayne Carlson, Debbie Connally, Bob Lombard

2. Action Item: Consent Agenda - Approve as a Whole Unless Moved From Consent Agenda

a. Approval of Minutes of Meetings:

- 1) Joint Executive Committee – November 6, 2009**
- 2) PACT Executive Committee – none**
- 3) POOL Executive Committee – December 3, 2009; February 23, 2010**

On motion and second to approve the minutes as a whole, the motion carried.

b. Executive Director's Report

Wayne Carlson highlighted portions of the Executive Director's report, particularly noting the potential membership withdrawal notices and the affect on both pools. He reviewed the apparent reasons for possible withdrawal for each of the entities noting that increased competition, financial pressures and lack of awareness of the scope of the pools' programs and services all contributed to the decisions. For the large PACT members, he described his discussions with them about the difficulty of self-insurance and the need for actuarial studies and financial plans before such a decision is made.

He then reviewed the changes in the Cardiac Wellness Program and described some of the risk profiles of member police and fire departments. He discussed the meeting with Carson City firefighter's union officials and SpecialtyHealth about the CWP and the interest and concerns they expressed. He noted that they have a meeting coming up and likely will invite SpecialtyHealth to present at their union meeting.

Alan Kalt asked several questions regarding legislative efforts to modify the lifetime nature of the heart-lung benefits and what happens to the potential claims if a member exits. Wayne Carlson responded that there was recent press highlighting the high level of firefighter compensation so there was some political heat arising. He also noted that they are a powerful political force that has a significant influence both in local and statewide political campaigns and that fact works against any significant changes. He suggested that perhaps NACO or NLC would be possible entities to carry a bill since the pools could only utilize a legislator to introduce a bill. Alan Kalt suggested a phase-out time period post-employment may be an acceptable approach.

Considerable discussion ensued regarding potential incentives or disincentives to these members and others in the future including minimum times before eligible to return to membership, requiring

withdrawal of membership in both pools if they want to leave one pool, educating the members' boards about the scope of the pools' services in addition to the coverage to differentiate the pools from traditional insurers and other ideas. Concern was expressed about the percentage and dollar impact of the loss of all of these members and the strain it would put on the pools' budgets and expense concerns. It was suggested that cuts and/or enhancement of services to remaining members both would need to be considered. Claudette Springmeyer suggested that a letter detailing the services addressed to the boards of these potentially withdrawing members may help with the educational process.

It was suggested that this topic would be a policy decision for the boards and that it could be added as an item to the annual joint meeting agenda since the agenda was listed under item 11 as drafts.

On motion and second to accept the report, the motion carried.

c. Financial and Investments Reports

Wayne Carlson reviewed the January financial reports for both POOL and PACT commenting that certain items are not included in the expenses because the board decided to utilize accumulated surplus to fund captive amortization and the CWP. He then reviewed the investment summary reports.

On motion and second to accept the report, the motion carried.

3. Action Item: Acceptance of Reports

a. Claims Audit Report

Wayne Carlson said that Phil Kentfield of Kentfield & Associates conducted an audit of PACT claims handling by ASC. PACT was last audited by him two years ago. The auditor noted that the ASC reserves differed in total from his recommendations by less than 6% with the auditor's reserves lower. The auditor also used a different reserve methodology for comparison and noted that the difference were we to use that method would have been a further reduction in the reserves. Wayne noted that actuaries prefer consistency in reserve practices and that either method would be okay as long as the adjusters are consistent. Wayne noted that Mike Livermore requested additional tools with which to enhance quality review and Phil demonstrated some methods for data sorting and review to accomplish that goal.

b. Large Loss Report

Wayne Carlson reviewed the open losses over \$100,000 for PACT and for POOL, noting key aspects of each case. He responded to questions regarding specific losses and certain member's frequency of larger losses. He noted the two major POOL losses: Wells earthquake (nearly resolved) and the Fernley canal break that affected both Lyon County and the City of Fernley. He described the complexity of the Fernley canal litigation with about 20 defendants and numerous cross claims overlaid with a part of the case as a class action, other classes trying to get certified as such, and in four different courts. He noted that we are working on various strategies to resolve the cases, but the defense costs are significant already and projected to increase in the next three years to very significant dollars.

c. Actuary Report for POOL and PACT

Wayne Carlson commented that the actuary reports were not yet completed for either program, but that he did receive preliminary figures for PACT that indicated a slight increase in funding for municipalities and hospitals and a larger increase for school districts. He said that the actuary expressed some concerns about an upward loss trend that needed further analysis. He described how the PACT experience rating plan was modified to a plus or minus 10% using four years of claims

experience in lieu of the previous 15% change and three years of claims. In response to a question, he noted that there are three major rating groups: municipalities, hospitals and schools.

With regard to POOL, there was no report yet available to review.

d. Loss Control Committee Report

Ann Wiswell reviewed the committee's initiatives and progress to date on the strategic plan. She discussed the subcommittee working on the Loss Control Excellence Program. Ann mentioned the replacement members of the committee indicating that one additional alternative voting member was needed, but otherwise the committee was full. She noted that risk management grant applications continue to come in and the program is well-utilized.

On motion and second to accept the report, the motion carried.

4. Action Item: Approval of Recommendation to Board for Closure of POOL Years 2003-04 and Retention of Net Assets

Mike Rebaleati commented on the very positive results for the 2003-2004 year. Wayne Carlson elaborated on the details.

On motion and second to close POOL year 2003-2004 and retain the gains as net assets, the motion carried.

5. Action Item: POOL/PACT HR Services Grant

- a. Pooling Resources, Inc. Grant Financial Report**
- b. Human Resources Oversight Committee Report**

Jeanne Greene provided an overview of progress on the HR Oversight Committee's strategic plan that will be presented to the OSC on March 10, 2010. She noted that the Essential Management Skills program had been very popular with very good results. They have added Webinars that have been well attended with 38 sites and multiple participants at several of the sites. Wayne Carlson added comments about the HR consultants' efforts in promoting utilization of the EAP program. Jeanne reviewed the new on-site HR Assessments program that has been completed by seven members and ten more scheduled.

In response to a question about coverage for electronic data breaches, Ann Wiswell commented about the scope of potential coverage under the POOL Form and the process required in the event of identity theft. Wayne Carlson commented on other sources for identity theft protection.

Wayne Carlson reviewed the key financial results as of January 2010 under the grant.

On motion and second to accept the reports, the motion carried.

6. Action Item: Approval of Proposal for Contracts

- a. Willis Pooling for POOL and PACT**
- b. SpecialtyHealth Managed Care Organization Contract Amendment for PACT**

a. Bob Lombard said that Willis would not be requesting any fee change this year. In response to a question, he commented that he was in the process of adjusting resources effective July 1, 2010 that would inure to POOL/PACT's benefit ultimately, but he could not provide details at this time. In response to questions about what would happen should a large volume of members leave, Bob indicated that he may have to adjust loss control services if cost reduction was required.

b. Wayne Carlson noted that discussions with ASC and SpecialtyHealth had occurred regarding the number and types of cases to be referred for utilization review and managed care services. In addition, there are pros and cons of the utilization review process on the potential appeals by claimants. There have not been any formal adjustments at this time, but he wanted to let the board know of the discussion.

No action was taken on these items.

7. Action Item: Review of Captives' Performance

Wayne Carlson reviewed the audited balance sheet and statement of operations for each captive, noting that both had net asset increases. No action was taken on this item.

8. Action Item: Review of Services and Approval of PACT Budget for 2009-2010
a. Consideration of Proposed Incentive Plan for Cardiac Wellness Efforts
b. Consideration of Post-Employment Heart Rate Increase Plan

Wayne Carlson reviewed the proposed budget, noting that he expected investment income to be down significantly and assessments to be level. He indicated that exposures would be down some due to the economy. He noted that the administrative services contract with Public Agency Risk Management Services, Inc. contains a 3% escalator provision that he will waive effective July 1, 2010. He noted other expense items had been reduced in order to get to a planned net income loss of about \$200,000 utilizing the 70% actuarial confidence level for funding the loss fund.

a. Wayne Carlson reviewed the potential post-employment heart rate increase after reconsideration following the previous discussion by this committee and the current economic impact on the members. He noted that the range of possible financial impact of the post-employment heart funding developed by the actuary was from \$22 million to \$84 million depending upon what proportion of future potential claims are realized as PACT claims. He noted that the current funding developed \$6.8 million of funding toward the \$22 million level and that an increase of 100% would take four years to achieve that minimum level in the range. He reviewed a proposed plan to incrementally increase the rate to accumulate the needed minimum by 2017. He had proposed no increase for the next two years in light of the economic conditions, then 30% each year until 2017 so members would have a long range plan. Discussion ensued about the proposal with several comments about making the shift more incremental in the next couple of years rather than waiting for the 30% jump to go into effect. Some suggested 10%-15% each year or in alternating years with larger or smaller increases (avoiding the PERS increase years) beginning 2010. The plan would be subject to further review in subsequent years.

On motion and second to implement a 10% increase effective July 1, 2010 and July 1, 2011, then to review for future increases each year, the motion carried.

b. Alan Kalt provided a background about the incentive plan. Wayne reviewed data from one agency to show the level of risk factors and commented that SpecialtyHealth's database revealed that 47% of the employees had 2-3 cardiac risk factors or more. Wayne then reviewed a proposed incentive plan for the Cardiac Wellness Program to provide an agency incentive for moving from reds to greens and being rewarded for doing so, but penalized for having yellows and reds. The two primary factors for consideration would be the risk of Metabolic Syndrome and the Framingham Risk Score. He described that the proposal utilized game theory concepts that people are more likely to respond to potential loss than to potential gain so the penalty for having higher risks is greater than the reward for reducing them. One sticking point he noted is that not all members submit their physical examinations or participate in the CWP. To address this issue, he suggested that we assign a default profile to all agencies for whom we do not have data, then adjusting for actual data. Each year a new profile would be done based on the annual physical results. The credit or penalty would be against the agency, not individuals, with the goal of making it financially painful for the agency not to promote wellness efforts. Alan Kalt suggested the

penalty amounts should go into the heart-lung fund to fund the risks. He noted that this could be important information for the Legislature to hear.

On motion and second to implement the incentive plan for cardiac wellness efforts as proposed, the motion carried.

9. Action Item: Review of Services and Approval of POOL Budget for 2009-2010

Wayne Carlson reviewed the proposed budget, noting that he expected investment income to be down significantly and revenue to be relatively flat with reduced exposure basis similar to PACT. He noted that rental income will be down due to the rate reduction for State Risk Management. He commented that catastrophe losses will not help attain property rate reductions and the casualty reserves increases also will affect casualty pricing, so holding the line on pricing will be a good outcome. As indicated under the PACT budget, the PARMS management contract increase of 3% will be waived. Other expenses have been reduced with the expectation of a modest net asset gain of about \$316,000, down from the current budget, assuming a 70% actuarial confidence level.

10. Action Item: Review of POOL and PACT Program Renewal Status and Action on Options

- a. Willis Pooling Report**
- b. Market Conditions and Status Overview**
- c. Marketing Strategies for Reinsurance**
- d. Review of POOL Coverage Form Changes for 2010-2011**
- e. Review of Reinsurance Coverage and Retention for POOL and PACT**

a., b., c. Bob Lombard commented that Willis Pooling was shifting some of its management structure such that John Hayden will be the leader with Dave Ritch and Scott Hunt leading two divisions under John Hayden. Bob said they had created an internal task force to develop a model reinsurance agreement for pools that they will bring to us for review in the future.

Bob said that Dave Ritch will be going on the Lloyds of London trip this year with Wayne Carlson and Paul Johnson due to Bob's personal commitments. Bob noted that the large property losses, including the earthquake, will make for difficult negotiations this year. He said he would seek as is quotes, then react to what the underwriters propose for consideration of higher retentions if appropriate.

With regard to casualty, Bob indicated that potential retention options will be sought from CRL. Price firming is expected due to the Fernley canal break losses. He indicated that negotiations on the Munich reinsurance document have been ongoing and the Fernley loss would impact them, but it is too soon to know the effect. However, as a hedge, he will shop their layer to keep their pricing competitive.

On PACT, Bob indicated several higher retention options would be sought. He noted that Midwest had decided to quote Carson City's self-insurance option even though the city is a current PACT member. As a result, Bob advised them that PACT would seek optional excess insurance quotes in competition with them.

Wayne interjected that PRM and PCM will experience the same pricing pressures as the other reinsurers and will have to make decisions on pricing those layers.

d. Wayne commented that the POOL form changes largely would entail formatting the conditions section to clarify property separately from casualty conditions and to respond to other clarifications requested by underwriters. He commented on the ongoing reinsurance agreement language negotiations with Munich that should be moving forward this week. Ann Wiswell added that the revisions would be reviewed by her and Doug Smith along with coverage counsel.

11. Action Item: Review and Revise Drafts of Annual Meeting Agendas Including:

- a. Executive Committee and Officers Up for Election at the Annual Meeting, Candidates and Conduct of the Elections**
- b. Appointment of Members to Audit, HR, Loss Control Committees**

a. Wayne Carlson noted that Dan Newell, Jeff Zander and Mike Pennacchio were up for reelection for POOL and that Toni Inserra, Steve West and Paul Johnson were up for reelection for PACT. Alan Kalt asked whether these members were willing to continue to serve and all indicated they were. He asked whether there were any other potential candidates and Wayne commented that Kathy Ancho of Battle Mountain Hospital had expressed interest after last year's annual meeting, but he did not know how much interest she had.

b. Wayne noted that the Audit committee needed one additional member. The chair encouraged him to contact a potential member and advise.

Toni Inserra offered to join the Loss Control Committee and Ann Wiswell indicated that the committee needed an alternate voting member. Both chairs appointed Toni Inserra to the Loss Control Committee accordingly.

Jeanne Greene indicated that the HR Oversight Committee was fully in place.

Alan Kalt asked that based on the previous discussion about potential incentives or disincentives to members who withdraw from the pools in the future including minimum times before eligible to return to membership be added to the agenda as a discussion only topic so that members can be aware of the concerns. He asked that the Executive Director develop a discussion paper to inform the board of the issues.

12. Action Item: Approval of Prospective Members

- a. POOL – Tahoe Douglas District**
- b. POOL – Metropolis Water Irrigation District**

a. Wayne Carlson commented that Tahoe Douglas District was a small sewer district at Lake Tahoe with a long term manager. They had one loss between 2002 and 2009, a \$45,000 sewer backup, that resulted in them deciding to move their maintenance work in-house for the future.

On motion and second to approve, the motion carried.

b. Wayne Carlson noted that this irrigation district is located in Elko County. Cash Minor added that they are a small district that is trying to get grant funds to build a new dam. Wayne noted that the existing dam will be excluded so the exposure at this time is for about 3 miles of graded dirt road.

On motion and second to approve the motion carried.

13. Public Comment

Wayne Carlson noted that Lloyd Kelley had updated the Strategic Risk Analysis that was presented last year in a workshop prior to the annual meeting with the results changed with higher retentions and different loss scenarios. He said some form of informational presentation will be made at the annual meeting, but not to the same extent as the one last year.

Wayne then played a video animation of the earthquake song he wrote with animation by Carson City High School students, entitled "Drop, Cover and Hold" in connection with Nevada earthquake awareness week.

14. Action Item: Adjournment

The meeting was adjourned at about 4:30 p.m.

This Agenda was posted at the following locations:

**N.P.A.I.P. / P.A.C.T.
201 S. Roop Street, Suite 102
Carson City, NV 89701**

**Eureka County Courthouse
10 S. Main Street
Eureka, NV 89316**

**Carson City Courthouse
885 E. Musser Street
Carson City, NV 89701**

**Churchill County Administrative Complex
155 North Taylor Street
Fallon, NV 89406**