

**TML RISK MANAGEMENT POOL  
BOARD OF DIRECTORS MEETING  
DATE OF MEETING, FEBRUARY 13, 2015  
BRENTWOOD, TENNESSEE**

The Board of Directors of the TML Risk Management Pool met on February 13, 2015 at 10:00 a.m. at the Pool's office in Brentwood, Tennessee.

Board Members present included: Chairman Samuel Tharpe, Vice-Chair Ken Wilber, Ann Davis, Tommy Green, Curtis Hayes, Regina Holt, Pete Peterson, Tom Rowland, and Kay Senter.

TML Pool staff present were: Dawn R. Crawford, President/CEO; Jon Calvin, Director of Underwriting; and Charles DeMore, Executive Vice President and Chief Financial Officer.

Also present were Margaret Mahery, Executive Director, TML; Charles "Bones" Seivers, President, TMBF; Gwelda Swilley-Burke with Callan & Associates, Inc.

**1. WELCOME**

Chairman Tharpe welcomed new Board member Ann Davis to the Pool's board of directors.

**2. APPROVAL OF MINUTES**

Motion was made by Green to approve the minutes of the November 10 and 13, 2014 Board meetings; seconded by Rowland. **PASSED UNANIMOUSLY**

**3. INVESTMENT ANALYSIS REPORT FOR 2014**

Gwelda Swilley-Burke with Callan & Associates, Inc. directed the Board's attention to a report entitled *Investment Measurement Service Annual Review* which presented an executive summary of the Pool's investment performance for the year ended December 31, 2014. The Pool's portfolio was comprised of approximately 90% fixed-income securities and 10% cash and cash equivalents at year-end.

Ms. Swilley-Burke said that the Pool's portfolio total composite return, including cash, for 2014 was 10.24%. The portfolio of securities was comprised of approximately 70% municipal bonds with the remaining balance in agency securities. The Pool's average maturity term was extended further out which has helped the overall yield and long-term return. She noted that the Pool's return on fixed-income securities without the cash balances was 10.95% compared to the Barclays Municipal Index of 9.05%.

The Pool's portfolio duration of 9.45 years is extended further out than Barclay's Municipal Bond Index's duration of 6.07 years. The Pool's effective yield is also greater at 3.72% compared with the Index's effective yield of 2.09%. She also noted that the quality of the Pool's portfolio rating is AA, which complies with the Pool's investment policy. She commented that the numbers are obviously better than last year's returns due greatly to the quality and performance of 2014 USA and international market activity.

#### 4. FINANCIAL REPORTS

A. Charles DeMore presented the Statement of Revenues, Expenses and Changes in Net Position for the six months ended December 31, 2014. DeMore stated that gross earned premium was \$33,848,365, which is \$1,752,910 or 5.46% more than this time last year. Reinsurance premiums ceded of \$5,312,545 was \$441,477 or 9.06% more than last year due primarily to increases in property coverage. Net earned premium was \$28,535,820, which is 4.82% more than the prior year. Investment income totaled \$4,297,835, which was \$442,833 or 11.49% more than last year's actual investment earnings and includes realized gains of \$713,374. Compared with this year's budget projections, investment income is \$660,335 or 18.01% more. Total revenues of \$32,986,860 were \$1,750,072 or 5.60% more than last year's actual revenues.

In the expense category, DeMore stated that total loss and loss adjustment expenses incurred of \$26,184,917 were \$1,371,324 or 5.53% more than last year. Policy acquisition costs of \$3,629,966 were \$49,973 or 1.40% more than last year. Total General and Administrative Expenses of \$3,257,314 were 4.52% or \$140,807 more than last year's actual expenses. However, compared to this year's budget, administrative expenses are \$331,334 or 9.23% less than projected. Total expenses were \$33,072,197 which is 4.96% or \$1,562,103 more than last year.

An operating loss totaling \$85,337 at December 31, 2014 was less than the operating loss of \$273,306 compared to this same time last year. DeMore noted that the operating loss combined with the change in unrealized gains on investments of \$5,862,110 for the current period resulted in a total change in net position of \$5,776,773 for the six months ended December 31, 2014.

DeMore reviewed the Statement of Net Position as of December 31, 2014, which presented cash and cash equivalents of \$25,271,963 and investments of \$219,509,586. Premiums receivable were \$6,028,201. Accrued interest was \$2,315,170 and prepaid reinsurance was \$4,743,666. The majority of reinsurance recoverable on paid losses of \$1,137,675 represents mostly worker compensation reinsurance claims. Net fixed assets were \$1,607,426, and total assets were \$261,213,236, which is 15.3% more than last year.

Liabilities included net reserves for losses of \$135,385,437, which is a 6.10% increase over the prior year. Unearned premiums were \$33,832,058; accounts payable and accrued expenses were \$1,757,256; and dividends payable were \$673,965. Total liabilities were \$171,648,716. Beginning net position of \$83,787,747 combined with the total change in net position of \$5,776,773 for the six months resulted in ending net position of \$89,564,520 at December 31, 2014.

B. DeMore reviewed the internally-managed fixed income portfolio as of January 30, 2015 as classified by type and maturity. Cash equivalents represent funds invested with the Tennessee Local Government Investment Pool totaling \$22,613,243 with an average return of 0.10%.

The Pool's portfolio was comprised of 50 municipal bonds and 7 agency bonds and had a book value of \$147,667,741 and a market value of \$151,883,116, representing a net unrealized gain on investments totaling \$4,215,375 at January 30, 2015. DeMore noted that while the average coupon rate of the entire portfolio was 3.90%, the average coupon rate of the municipal bonds alone was 4.37%.

C. DeMore presented management's recommendation for a dividend declaration request totaling \$2,500,000 for the Board to consider for FY 2015-2016. This dividend, if approved, would be issued for policies renewing July 1, 2015 through June 30, 2016 and would be allocated as follows: workers compensation-\$1,167,600; liability-\$1,129,200; property-\$203,200. He noted that the amount committed for member dividend credits in the financial statements from the last audit totaled \$3.1

million and stated that the \$2.5 million proposed dividend would keep the Pool's reserve balance within the risk level which the Board reviewed and approved previously in connection with the capital reserve study.

Motion was made by Rowland to accept the financial reports as presented and approve the dividend declaration as recommended; seconded by Hayes. Chairman Tharpe asked if there were any questions. Chairman Tharpe then called for a vote. **PASSED UNANIMOUSLY**

## **5. BASE RATES AND POLICY COVERAGE CHANGES – FISCAL YEAR 2015-2016**

**A. Jon Calvin, Director of Underwriting, presented management's recommendation to the Board that base rates that would go into effect on July 1, 2015 remain unchanged as follows:**

### **Workers Compensation**

- No base rate change

### **Liability**

- General Liability – No base rate change
- Law Enforcement – No base rate change
- Errors and Omissions Liability – No base rate change
- Automobile Liability – No base rate change
- Automobile Physical Damage – No base rate change

### **Property**

- No base rate change

**B. Jon Calvin also presented an overview of the following proposed changes in policy coverage to become effective on July 1, 2015:**

### **Liability Policy**

- No change

### **Workers Compensation**

- No change

### **Property**

- No change

Motion was made by Wilber to approve the recommendations for no base rate changes effective July 1, 2015 as presented and for no changes to policy coverages effective July 1, 2015 as presented; seconded by Green. **PASSED UNANIMOUSLY**

## **6. DATE OF NEXT MEETING**

The date of the next Board meeting will be Saturday, June 6, 2015 at 8:30 a.m. in Nashville, Tennessee in conjunction with the Tennessee Municipal League's annual conference location.

**7. OTHER BUSINESS**

**A. Crawford informed Board members about the upcoming NLC-RISC Trustees conference May 7 -8, 2015 in Savannah, GA and requested board members to let Lynn Kirby know in March if they plan to attend.**

**B. Crawford presented general information about the Benecon Group, a benefits and administrators consulting firm based in Pennsylvania which she was contacted about by a Pool member. She stated that if there were some type of formal relationship to come about between Benecon and the Pool, there would be some form of financial benefit to The Pool. She requested the Board’s authorization to continue to investigate Benecon and its operating model and any future opportunity to benefit Pool members. She noted that any services would be provided through Benecon and not the Pool and that the Pool’s General Counsel would also have to sign off on any proposed arrangement.**

**Motion was made by Rowland to grant authorization as requested as presented; seconded by Senter. Chairman Tharpe asked if there were any questions. Rowland asked whether Benecon was affiliated with any particular well-known carrier. Crawford replied that they shop around for the best opportunities within a particular region, generally through a consortium arrangement. Farrar commented that he believes any such relationship between the Pool and Benecon would be as a sponsor only. After more discussion among Board members, Chairman Tharpe called for a vote. PASSED UNANIMOUSLY**

**Chairman Tharpe asked if there was a motion to adjourn. Motion was made by Hayes and seconded by Senter. Chairman Tharpe called for a vote. PASSED UNANIMOUSLY**

**MEETING ADJOURNED AT 10:57 a.m.**

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**Samuel Tharpe, Chairman**

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**Charles DeMore, Secretary**