The Board of Directors of the TML Risk Management Pool (“The Pool”) met at 10:00 a.m. on September 8, 2017 at the Pool’s office in Brentwood, Tennessee.

Board Members present included: Chairman Ken Wilber, Vice-Chairman Garry Welch, Curtis Hayes, Tom Rowland, Kay Senter and Bo Perkinson.

The Pool’s staff present were: Dawn R. Crawford, President/CEO and Charles DeMore, Executive Vice President & CFO & Director of Human Resources.

Also present was Russ Farrar, General Counsel and Charles “Bones” Seivers, President, TMBF.

1. APPROVAL OF MINUTES

Chairman Wilber called for a motion to approve minutes of the June 10, 2017 and July 6, 2017 Board meetings. Motion was made by Rowland; seconded by Welch. PASSED UNANIMOUSLY

2. FINANCIAL REPORTS

   A. DeMore presented the financial statements for the year ended June 30, 2017. In reviewing the Statement of Revenues and Expenses and Changes in Net Position, DeMore stated that gross earned premium of $70,889,041 was 0.90% or $630,656 more than last year. Reinsurance premiums ceded were $10,489,923 which was 4.26% or $466,514 less than last year due to change in reinsurance carriers. Net earned premium was $60,399,118, which was 1.85% or $1,097,170 more than last year. Investment income totaled $8,300,903, which is 27.92% or $3,215,850 less than last year, due to a final equity distribution of $1,916,513 received last year from NLC Mutual Insurance Company as well as realized gains of $1,280,352. Compared with budget projections, investment income is $550,903 or 7.11% more than budgeted for the year. Total revenues of $68,935,358 were $2,095,929 or 2.95% less than the prior year.

   In the expense category, DeMore stated that total losses and loss adjustment expense incurred of $41,224,326 was 18.08% or $9,099,376 less than last year. The reduction is attributed to two significant factors: firstly, a substantial number of mature claims settled/closed across all lines of coverages during FY 2017 for various reasons (court dismissal, death of claimant, expiration of statute of limitations, etc.) resulting in favorable decrease of $20,491,096 in case reserves; and, secondly, favorable loss trends resulting in favorable actuarially-determined adjustments of claim IBNR reserves in the amount of $13,052,934. Policy acquisition costs of $6,647,746 were 18.02% or $1,015,131 more than last year. General and administrative expenses of $7,505,524 were 10.13% or $690,615 more than the prior year actual. Compared with budget projections, general and administrative expenses were 10.18% or $850,288 under budget for the year. Total expenses were $55,377,596, which was $7,393,630 less than last year’s expenses.

   Operating income of $13,557,763 was $5,297,701 more than last year. This year’s change in fair value (unrealized gains and losses) of investments represents a net unrealized (“paper”) loss of $10,522,621. Operating income combined with the change in fair value of investments resulted in an increase of
$3,035,142 in total net position for the year ended June 30, 2017.

In reviewing the Statement of Net Position as of June 30, 2017 DeMore commented that cash and cash equivalents totaled $22,806,139, and investments totaled $235,083,432. Premiums receivable at the end of the period was $16,195,448 and included premium of $14,534,294 for policies billed in advance of policy renewal dates. Accrued interest was $2,585,850 and prepaid insurance was $363,749. Reinsurance recoverable totaled $4,453,817, and net fixed assets totaled $1,149,387. Deferred Outflows of Resources related to The Pool’s net pension liability increased to $1,308,275 as actuarially-determined. Assets and deferred outflows of resources totaled $284,643,970 at June 30, 2017.

Liabilities included net reserve for losses of $144,178,809, which was $66,239 less than the prior year. The reserve for unearned premiums was $13,997,458; premiums billed in advance was $14,534,294; accounts payable and accrued expenses totaled $2,464,442; and, dividends payable totaled $4,106,011 (including $5 million declared for policy year 2018).

The Pool’s net pension liability increased to $1,338,849 as actuarially-determined. DeMore noted that The Pool’s net pension obligation is 87% funded. Liabilities were $180,619,863, which represents a 9.0% increase over the prior year. Deferred Inflows of Resources related to The Pool’s net pension liability reduced to zero as actuarially-determined at year-end.

The beginning net position of $100,744,601 combined with the change in net position of $3,035,142 resulted in net position of $103,779,743 at June 30, 2017.

A motion was made by Welch to accept the financial reports as presented; seconded by Rowland. PASSED UNANIMOUSLY

After the vote, Hayes asked what is The Pool’s biggest financial nightmare that could happen. Crawford replied that school exposures are unlike other exposures within a municipality that pose a huge risk given the school’s environment of children and adults and gave some examples, such as bullying, physical and sexual harassment and/or assault, safety, etc. Farrar commented that incidents involving minor children may not be reported for many years given a minor child has until age 21 before the statute of limitations begins.

B. DeMore presented a brief overview of a budget summary of general and administrative expenses by department for the fiscal year ended June 30, 2017. He stated that while The Pool’s combined total revenues were $2,095,929 or 2.95% less than last year’s actual amounts, they exceeded budget estimates by $2,540,185 or 3.83%. Total general and administrative expenses were under budget by $850,288 or 10.18%, and each operating department remained within its budgeted amount as in prior years.

C. DeMore reviewed the internally-managed investment portfolio as of July 31, 2017 as classified by type and maturity of securities. Cash equivalents at that time represented funds invested with the Tennessee Local Government Investment Pool totaling $14,279,303 with an average return of 0.96%.

The Pool’s portfolio included 83 fixed income securities consisting of 63 municipal bonds and 20 government agency bonds. On July 31, 2017, the portfolio had a book value of $242,477,424 and a market value of $238,273,108 resulting in an unrealized or “paper” loss of $4,204,316 at that date. DeMore noted that municipal securities alone have an average coupon rate of 3.853% but that the lower coupon rates of the agency securities reduce the overall portfolio average to 3.553%. DeMore pointed out the effect of the investment market’s recent volatility on The Pool’s portfolio: the unrealized investment loss dropped to $1,847,443 on August 28th; then on September 5th it declined further to $145,663; whereas the close of business yesterday the unrealized loss changed to an unrealized “gain” of $197,219.
Perkinson asked if The Pool manages the investments in-house and Crawford replied yes and that she works with two independent investment brokers.

Chairman Wilber called for a motion to approve the investment report. A motion was made by Hayes; seconded by Rowland. PASSED UNANIMOUSLY

D. DeMore presented a Pro Forma Statement of Revenues and Expenses for fiscal year 2018 and reviewed its components. He stated that total projected revenues of $69,729,096 and estimated total expenses of $67,606,831 result in estimated operating income of $2,122,265 for the upcoming fiscal year ending June 30, 2018.

Revenue projections include net earned premium of approximately $61,769,096 comprised of earned premium of $72,269,096 less reinsurance ceded of $10,500,000. Earned premium include an increase of 1.95% for expected increases in underlying exposures (payroll base, property values, etc.). Crawford added that premium also includes a small increase for class action lawsuit coverage. Investment income is estimated at $7,760,000 based on projected market conditions.

Losses and loss adjustment expenses are estimated at $52,735,475 based on benchmarks established in the recent actuarial review of claim reserves. Policy acquisition costs are estimated at $5,832,511. General and administrative expenses are estimated at $9,038,845, based on the budget that the Board previously approved in June 2017. Total expenses are projected at $67,606,831.

Based on these estimates, operating income for fiscal year 2018 is expected to be $2,122,265 before any actuarial adjustments for claim IBNR reserves or The Pool’s net pension obligation as well as changes in investment fair values.

3. DATE OF NEXT MEETING

The date of the next meeting will be Wednesday, November 29, 2017 at 9:00 a.m. at the Pool’s office in Brentwood, Tennessee.

4. OTHER BUSINESS

A. Crawford updated Board members about the prospective office building plans and timeline and provided them with preliminary drawings of the building’s interior floor plans and exterior structure.

B. Crawford provided an update about the Pool’s second annual Risk and Insurance Symposium. She said 157 people from The Pool’s membership attended in addition to Pool staff and that she and Pool staff have received a lot of positive feedback about the conference and topics presented.

C. Crawford updated Board members about TN HealthWorks, the new self-funded health insurance consortium that began July 1st. She informed the Board that several cities are currently considering proposals for January 1st coverage and that several more have requested proposals.

Senter asked how many members have taken advantage of The Pool’s cyber coverage. Crawford said that quite a few members have purchased it, more in Tennessee than some other state pools.

D. Farrar thanked Board members and Crawford for the Pool’s trust and business through the years.
Chairman Wilber asked for a motion to adjourn. A motion was made by Welch and seconded by Hayes. PASSED UNANIMOUSLY  Meeting adjourned at 11:16 a.m.

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Ken Wilber, Chairman

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Charles DeMore, Secretary