Excess Workers' Compensation (EWC) Program Budget Policy

Program Goals for the EWC Program include the following:

Short Term Goals

- Re-evaluate the risk tolerance and the balance between pooling and transferring risk to the commercial insurance market, with a heavier emphasis on pooling.
- Increase service offerings to the members.
- Set rates for the upcoming year at a level designed to keep the Program's Net Position within the target funding range.
- Evaluate ways to mitigate the Program's long-term exposure to uncollectible reinsurance.
- Use multi-year underwriting matrices, wherever possible, to help ensure renewal pricing from underwriters with a "not-to-exceed" target amount of 10% for the upcoming year.
- Continue to monitor the long-term discount assumption and make conservative adjustments, as needed.
- Implement the adoption of monthly reporting of loss data in order to have up to date data for the renewal process and carrier discussions.
- Continue implementation of a new data analytics platform to allow for benchmarking of claims data, with additional members being brought onboard and new functionality being provided in 2023/24.
- Continued focus on settling claims, including those with high-exposure, via Compromise and Release.
- Utilize data scientist to create automated claim summaries to aid PRISM claims staff, and develop models to identify claims trends and mitigation points.
- Continue to consider risk transfer opportunities to the PRISM Captive.
- Determine the optimal level of control/authority PRISM should have to assert more program control in claims, audit, and underwriting, to reduce the cost of claims and, ultimately, member premium contributions.

Long Term Goals

- Maintain funding levels in accordance with the Target Funding Guidelines.
- Maintain an equitable distribution of costs amongst the members through a premium allocation process, with appropriate consideration for loss experience within the pool layer and excess layers.
- Maintain stable pricing year-over-year striving not-to-exceed a 10% variance.
- The EWC risk tolerance is between neutral and high. We will protect pool assets through appropriate risk transfer with a bias toward more risk transfer in a soft market and less risk transfer in a hard market. There is a bias toward risk transfer when losses are less predictable and a bias toward risk retention when losses are more predictable, in order to mitigate the Program's exposure

to uncollectible reinsurance, and when considering concentration of risk.

- Maintain multi-year relationships, where possible, with business partners (brokers, underwriters, actuaries, claims administrators, etc.).
- Continue legislative efforts and collaboration to mitigate the expansion of workers' compensation benefits that results in increased costs to the Program and membership.

Budget Policies for the EWC Program include the following, established by the Board of Directors:

<u>Revenues</u>

- Premiums for retained risk and transferred risk are calculated based on participating member's self- insured retention, payroll and loss data. Based on actuarial information and market conditions, the Underwriting and Executive Committees advise on program funding mechanisms including how much risk to self-fund and at what discount rate and confidence level, and how much risk to transfer. Funding includes consideration of the Target Equity Guidelines adopted by the Board. Final funding decisions and premium allocation methodologies are approved by the Board of Directors.
- At the end of each year, members are required to update payroll estimates with actual payroll totals. Adjusting for actual payroll is commonly referred to as the payroll audit. The effect of the payroll audit will increase or decrease premium revenues for transferred and retained risk recognized in the previous year. Premium changes resulting from the prior year's payroll audit are recognized in the current year as additional premiums due to, or from, each member.
- Broker fees are charged to all public entity members. The amount charged is a graduated rate based on premiums. The current broker fee rates are 10% of the first $100k of premiums, plus 5% of premiums from $100k to $1M, and 3% of premiums excess of $1M.
- The Risk Management Subsidy Program is a voluntary program that was created to offset the direct costs members incur from securing external risk management products and services. Most members choose to contribute at least $1,000 each year to this Program.
- Investment income is budgeted at an estimated earnings rate determined annually and applied to the average daily balance invested in the PRISM Treasury. The estimated earnings rate is determined by the Finance Committee and approved by the Executive Committee and Board of Directors.
- Members may elect to pay their premium on a monthly or quarterly basis. Finance fees are charged based on the internal borrowing rate and the term of the financing.
- Administration fees are based on the budget for program and general administration costs and subsidies. Any carryover credit from previous years' administration expense will reduce the current budget year's Administration fees

charged to the members. Program costs are defined below.

Expenses

- Upon recommendation of the Underwriting and Executive Committees, the Board may annually consider returning available net position to members in the form of member dividends.
- Premium for transferred risk is the expense for insurance purchased based on the risk financing decisions made.
- The provision for claims current and provision for claims prior years' are the actuarial adjustments to claim liabilities.
- The provision for ULAE (Unallocated Loss Adjustment Expenses) is the annual adjustment to the liability for the administrative costs of handling the claims for the life of the claim, and is charged as part of the admin fee.
- Member claims audits are scheduled for each member or Third Party Administrator (TPA) every two years, or as determined by the Claims Review Committee, unless the member has opted out of the claims audit program.
- A claims audit for PRISM's Claims Department is scheduled every two years.
- Each member is entitled to a subsidy of $2,000 towards the cost of member actuarial studies.
- Other program expenses include program actuarial and consulting costs, legal advice services, labor law and employment practices services, ISO fees, Critical Incident Counseling Services, and any other expenses approved by the various committees.
- There is a $50,000 contingency budget line item for unforeseen expenses, which is available for use with a two-thirds vote of the Executive Committee.
- The Program has adopted a policy to provide Crisis Incident Management Services. Annually, the Board will determine how to fund for these services.
- Deficits in any program's net cash and investment balance occasionally result from delays in payments from reinsurance carriers and others. In those instances, the cash flow needs of the program are met by other PRISM programs via intercfund borrowing. Interest is paid on interfund borrowing in accordance with the annually-adopted internal borrowing rate. This interest expense will be covered from the program's net position.

Transfers

- Transfers out to the General Administration Program are used to pay for PRISM staff and all other administrative costs. These administration costs are allocated to all PRISM programs, based on a three-year average of staff time.
- The administrative costs of the Program are typically set in conjunction with the March Board of Directors meeting as a way to aid members in budgeting by reducing variability in their premiums. Any variance within 2.5% of the set amount and the final administrative costs are adjusted from the Program's Net Position. If the variance falls outside of the 2.5% range, the total budgeted number is

brought back to the Board of Directors in June for further action.

- Based on member election, a risk management subsidy of $1,000 per member, plus any additional amounts elected by members, is transferred to the General Administration Program and added to each member's risk management subsidy account.
- The PRISM Claims System transfer is based on program usage.
- Investment Fees are charged to the programs based on the average daily balance of program funds invested.