



New Jersey Schools Insurance Group
6000 Midlantic Drive, Suite 300 North
Mount Laurel, New Jersey 08054
www.njsig.org

Board of Trustees Meeting September 15, 2021
Discussion Item
Risk Based Capital/Surplus Study Guideline as of June 30, 2021

NJSIG will review and present each fiscal year-end fund surplus versus the Risk Based Capital (RBC)/Total Adjusted Capital (TAC) established by the resolution passed at the June 30, 2016 meeting. That resolution stated the following:

Each year-end, until a new surplus study is performed, NJSIG should adopt the methodology that the NJSIG member equity (surplus) target threshold should minimally meet the adapted RBC value (as determined by Sigma), including a yearly inflation factor (as measured by the Consumer Price Index and published by the Bureau of Labor Statistics), times the RBC ratio range of 2.15 – 3.30 (as determined by Sigma). The Group's adapted RBC is to be evaluated at a minimum of every five years by an independent firm. Sigma Actuarial Consulting Group was engaged to perform a strategic Total Adjusted Capital/Risk Based Capital (TAC/RBC) analysis for NJSIG. Sigma used the Group's preliminary 06/30/16 financial reports, which included the 06/30/16 Willis Towers Watson study of ultimate liabilities, the 06/30/16 GASB68 adjustments (as per the NJ KPMG state report) and the assumption of a \$3 million 2015/2016 safety grant.

NJSIG's adapted RBC from the 06/30/2016 Sigma Actuarial Surplus Study was \$31.6 million.

The published twelve-month inflation rate at 06/2017 (as measured by the Consumer Price Index and published by the Bureau of Labor Statistics) was 1.6%. NJSIG's 06/30/2017 RBC/TAC adjusted for 1.6% inflation was \$32.1 million.

The published twelve-month inflation rate at 06/2018 (as measured by the Consumer Price Index and published by the Bureau of Labor Statistics) was 2.9%. NJSIG's 06/30/2018 RBC/TAC adjusted for 2.9% inflation was \$33.1 million.

The published twelve-month inflation rate at 06/2019 (as measured by the Consumer Price Index and published by the Bureau of Labor Statistics) was 1.6%. NJSIG's 06/30/2019 RBC/TAC adjusted for 1.6% inflation was \$33.6 million.

The published twelve-month inflation rate at 06/2020 (as measured by the Consumer Price Index and published by the Bureau of Labor Statistics) was 1.0%. NJSIG's 06/30/2020 RBC/TAC adjusted for 1.0% inflation was \$33.9 million.

The published twelve-month inflation rate at 06/2021 (as measured by the Consumer Price Index and published by the Bureau of Labor Statistics) was 5.4%. NJSIG's 06/30/2020 RBC/TAC adjusted for 5.4% inflation was \$35.8 million.

The RBC ratio range (as determined by Sigma) is 2.15 – 3.30. Multiplying NJSIG's 06/2021 inflation adjusted RBC by these ratios sets the NJSIG 06/30/2021 RBC/TAC Surplus threshold/guideline ranges between \$76.9 million and \$118 million.

The current, projected 06/30/2021 NJSIG GAAP surplus (prior to fiscal year-end auditor adjustments, safety grant declarations and/or COVID-19 relief assistance) is \$180.2 million (as of 09/08/21).

This projected 06/30/2021 NJSIG surplus of \$180.2 million exceeds the upper threshold of risk based capital of \$118 million. This signifies the strong financial position of NJSIG. The NAIC RBC is the method used to establish minimum capital appropriate to support an insurance company's overall business operations in consideration of its size and risk profile. The \$76.9 million to \$118 million threshold sets the minimum amounts of surplus required as per the RBC calculations from the Sigma actuarial study. NJSIG's projected 06/30/21 surplus of \$180.2 million (prior to any fiscal year-end auditor adjustments, safety grant declarations and/or COVID-19 relief assistance) exceeds these minimum amounts.

NJSIG management continues to explore potential successor policies to replace the present RBC model. NJSIG plans to address overall surplus levels through both initial member refunds related to COVID-19, as well as additional future general refund programs.

Michele Carosi
Chief Financial Officer