



# **New Jersey School Boards Association Insurance Group**

**Board of Trustees Meeting**

**By Stacy Mina**

**November 28, 2012**

# Agenda

- Purpose and Scope / Distribution / Reliances and Limitations
- Estimating Rate Level Changes
- Indicated Rate Changes for July 1, 2013
- Questions

# Purpose and Scope/Distribution/Reliances and Limitations

## Basic Details

- Data is evaluated as of September 30, 2012
  - Update to September 30, 2011 analysis
  - Uses losses and exposures only for current members
- Towers Watson presented the results of its review in a draft report dated November 15, 2012
- The following slides provide a high-level summary of Towers Watson's report
  - Any conclusions drawn from these slides may be inappropriate and/or incomplete without a thorough reading of the full report
  - The report and presentation were prepared for the internal use of NJSBAIG management to present our findings with respect to our analysis, and it is our understanding that our findings will be considered for the purpose of establishing rate levels

## Basic Details

- Distribution is limited to the management of NJSBAIG and its broker, excess insurers and regulators (the Recipients)
  - It may not be further distributed, disclosed, copied or otherwise provided to any other party
  - Each Recipient is responsible for its own due diligence and will place no reliance on this report that would result in the creation of any duty or liability by Towers Watson to the Recipient
- I, Stacy Mina, am a member of the American Academy of Actuaries and meet its qualification standards to render this actuarial opinion

# Reliances and Limitations

- There is inherent uncertainty in the estimation of prospective loss and ALAE
  - Loss projections are subject to potentially large errors of estimation since the ultimate disposition of claims is subject to the outcome of events that have not yet occurred
  - It should be expected that the actual emergence of losses will vary, perhaps materially, from any estimate, and that estimates will change with future updates
  - NJSBAIG has relatively high per occurrence retentions, which increase the uncertainty associated with our estimates, particularly for E&O (high severity/low frequency exposure)
  - Small volumes of data tend to be volatile as seen for E&O and for some of the WC subfunds
  - There is no guarantee these results will prove to be adequate or not excessive
- The range implied by these estimates is not all inclusive
  - These estimates are based on NJSBAIG historical experience and do not reflect extreme events that have a remote possibility of occurring
- We have relied on historical and other quantitative and qualitative information provided by NJSBAIG
  - We have not independently audited or verified this information; however, we have reviewed it for reasonableness and internal consistency

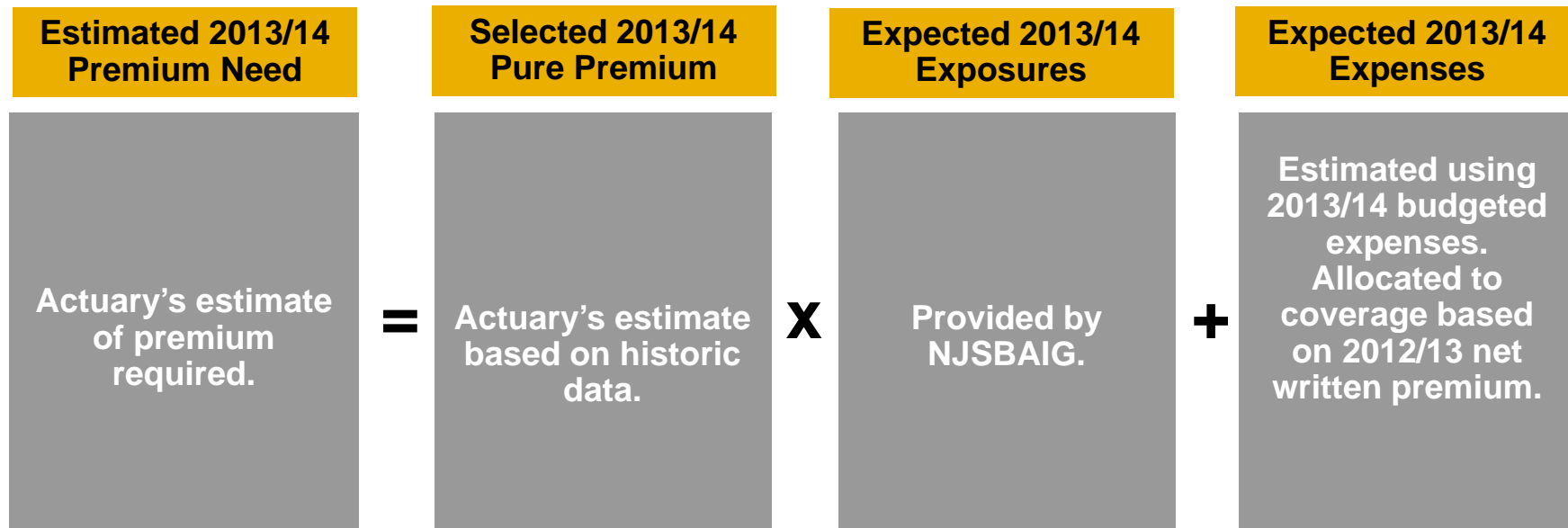
# Estimating Rate Level Changes

## Ratemaking Steps

- Develop losses to ultimate basis
- Select ultimate losses for historical experience periods
- Adjust historic ultimate losses to future cost level
- Select a pure premium for the 2013-2014 coverage year
- Add expenses
- Adjust for experience modification and individual rating impact

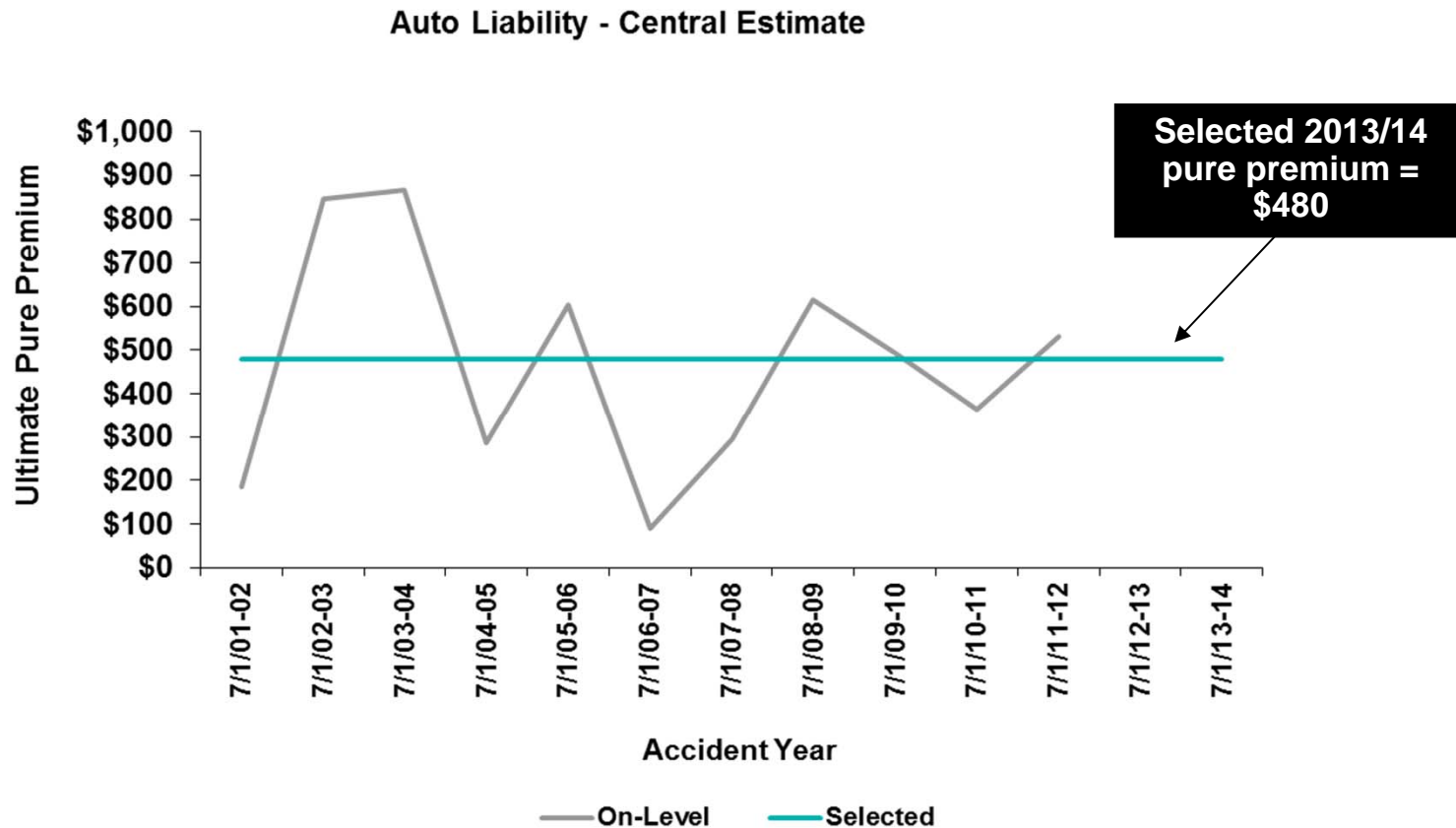


# General Ratemaking Approach



- Need to factor in the impact of experience rating and individual rating

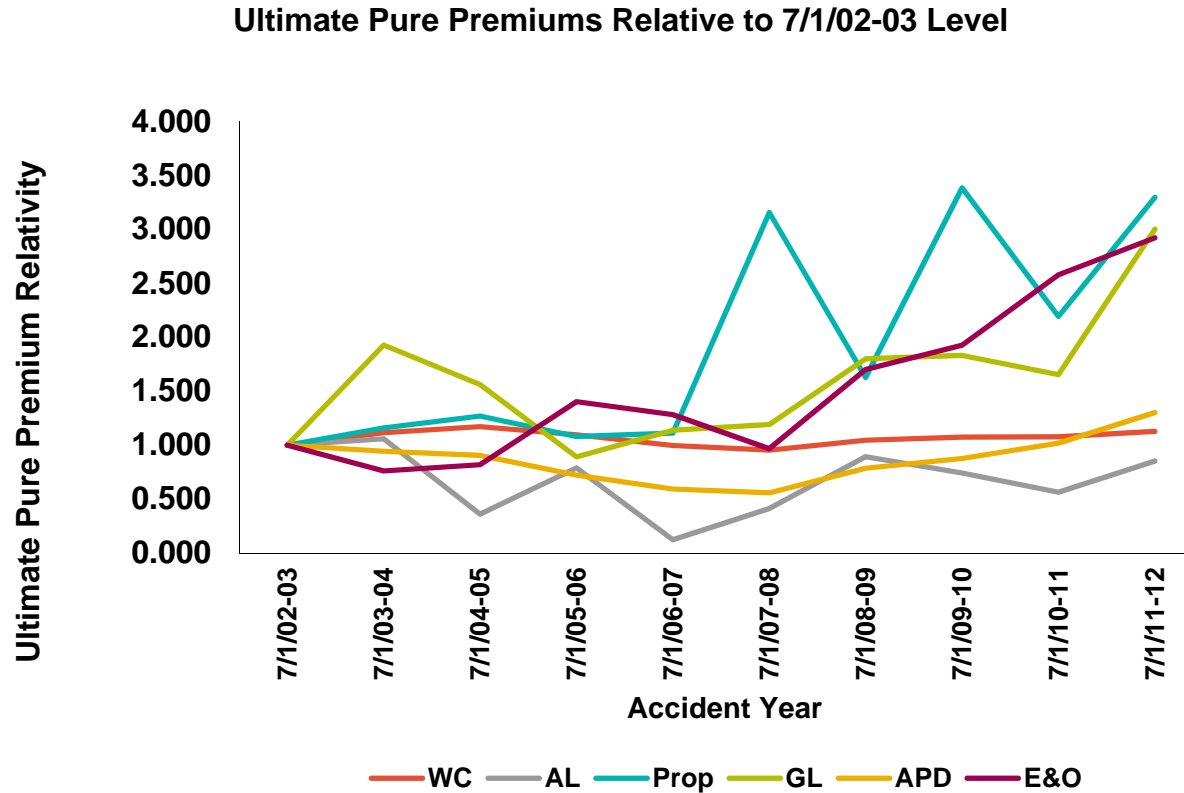
## Selecting a 2013/14 pure premium



- An examination of historic ultimate pure premiums is used to select the 2013/14 pure premium

# Indicated Rate Changes for July 1, 2013

## Volatility in some coverages is offset by stability in others; this creates the ability to smooth implemented rate changes



- Most lines show considerable volatility among years, especially in the younger accident years

## July 1, 2013 Range of Rate Level Indications

Coverage	Estimated 2013 – 2014 Rate Change			
	Low Reasonable	Central Estimate	High Reasonable	Proposed
Workers Compensation	0.8%	3.8%	7.4%	2.7%
General Liability	13.4%	20.9%	31.4%	1.0%
Auto Liability	-43.0%	-37.7%	-32.4%	1.0%
Auto Physical Damage	17.0%	21.2%	26.5%	21.2%
Errors and Omissions	74.4%	82.0%	89.6%	15.0%
Property	-5.7%	0.6%	16.4%	0.0%
Total	3.9%	7.9%	13.2%	3.2%
Total Excluding E&O	-1.6%	2.1%	7.3%	2.3%

- The overall proposed rate level change is close to the central estimate rate level change excluding errors and omissions

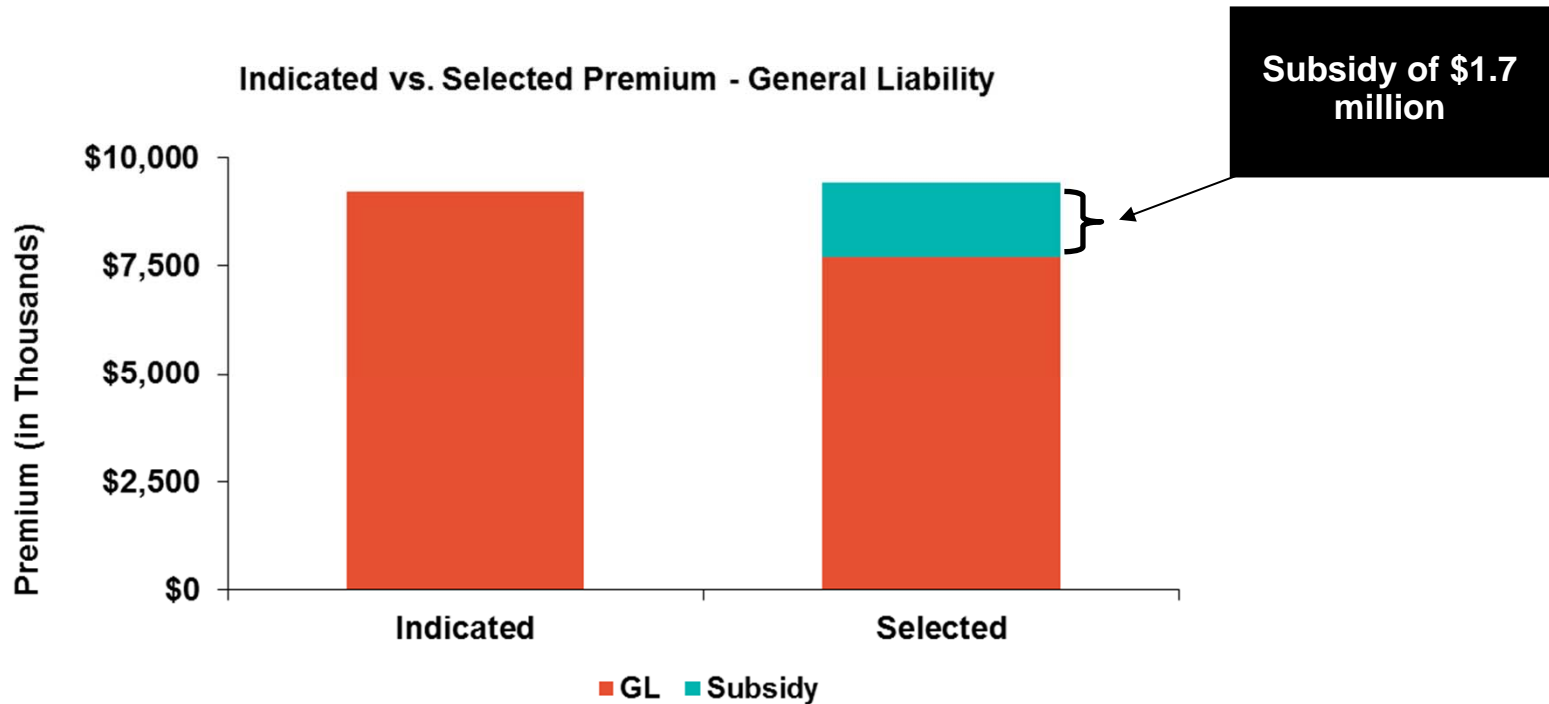
## July 1, 2013 Range of Rate Level Indications

Coverage	Last Year	This Year
Workers Compensation	3.9%	3.8%
General Liability	23.1%	20.9%
Auto Liability	-33.0%	-37.7%
Auto Physical Damage	11.6%	21.2%
Errors and Omissions	79.0%	82.0%
Property	-10.4%	0.6%

- Loss experience was the biggest driver of rate level change between our 2012/13 and 2013/14 rate analyses

# Future Pricing Considerations

## The general liability indication of +20.9% is currently being offset by favorable experience in other lines



- Auto liability contributes approximately \$2.5 million to the subsidy
- If the auto liability experience starts to deteriorate, it may be difficult to continue with this pricing approach
  - Rate increases for general liability may be necessary



# Questions and Discussion

