



# Fiscal Year 2021-2022

## Member Contributions Explained

Dear Valued Partner:

The COVID-19 pandemic, the unprecedented winter storm, and other factors continue to impact Pool Members. The Pool's Board of Trustees understands the pressure those factors place on Members because they are local government officials, as well as Trustees. The Pool's Trustees and staff have an obligation to Members to ensure that the Pool can meet its commitment to protect Members.

The Pool was formed by interlocal agreement to jointly self-insure to protect Members from liability, workers' compensation, and property claims. The Pool is not an insurance company; it is a Risk Pool governed by a Board of Trustees. The Board must annually set rates based on proper actuarial calculations to protect against catastrophic loss.

Those requirements – coupled with longer term claims pressures over the last five years– resulted in the Board passing an overall rate increase of 4.9% for the upcoming renewal.

The Pool has used its financial strength – and collective strength of the membership – to moderate the rate changes resulting from those claims and cost pressures. The rate increases – and proper apportionment of those costs among the members – ensure relative rate stability compared to the commercial insurance marketplace and other competitors. Through volatile times, the Pool's mission and fidelity to its *core values*, will continue to provide Members with the best source of local government risk management and financing. Those core values include:

- **Integrity:** Serving with honesty, integrity, and professionalism.
- **Public Service:** Serving the public good – to benefit local governments and their tax-paying citizens.
- **Fiscal Responsibility:** Responsibly managing our Members' pooled funds for the protection of their financial stability.
- **Operational Excellence:** Delivering excellent member service in all components of risk financing and loss prevention services.

The following pages indicate how Pool funds are allocated and used. As always, please contact your Member Services Manager with questions.



**RANDY CRISWELL**  
Chair, Board of Trustees  
City Manager  
City of Mineral Wells



**JEFF THOMPSON**  
Executive Director  
TMLIRP

# REASONS FOR FISCAL YEAR 2021-2022 RATE CHANGES

For fiscal year 2021-2022, the Pool's Board of Trustees approved rates that will lead to an overall rate change for all funds of 4.9 percent. The Pool has continued to provide stable risk financing for the Membership during times of loss. A recently released report by *Zywave, Inc.* (a leading insurance industry publication) indicates double-digit increases by commercial insurance companies, especially in the property and liability lines of coverage.

Some Members may see slightly smaller increases, while others may see larger increases. Percentage increases don't always tell the whole story, so each Member should also look at the multiple factors that comprise its contribution (outlined below).

Most Members will contribute more to help fund the Pool than last fiscal year. An increase in the frequency and severity of property losses, the effect of COVID-19 workers' compensation claims, and a more unstable environment related to liability claims (especially Public Official's Liability and Law Enforcement Liability) have resulted in an unusually high claims year. More important, the long-term loss trends for local governments have put pressure on rates for the last several years.

The Pool's mission is to avoid passing the full impacts of these trends to Members in any one budget year. Rather, the Pool stabilizes rates as much as possible and incrementally recognizes cost pressures over time. The Risk Pool Members partner with one another to help finance risks as they evolve, and the Pool's strong financial position allows it to blunt the impacts of large-scale events and losses.

The Pool *never* increases Member contributions to make a profit. Though contributions must cover those claims in the long-term, the Pool expects to have years in which losses exceed contributions. It's this philosophy – which is different than the commercial insurance industry – that ensures Members remain *Stronger, Together*. The following pages explain why rates may be increasing for the different coverages the Pool provides.

## How are contributions calculated?

Contributions to the Pool are derived from the following formula, on a Member-by-Member basis:

$$\text{Experience} + \text{Rate} + \text{Exposure} = \text{Contribution}$$

## What do those terms mean in plain English?

**Experience** refers to a Member's claims history. The Pool uses that history to help calculate a modifier for liability, workers' compensation, and property coverages. It helps treat Members fairly: those with more losses may receive an increase, and those with fewer may see a decrease. The experience modifier acts as a percentage credit or debit on the Member's contribution.

**Rate** is the amount of money necessary to cover losses, cover expenses, and ensure sufficient Members' Equity (fund balance) to protect against future catastrophic losses. A baseline rate is set and then adjusted for each Member's specific coverages.

**Exposure** is a Member's susceptibility to various losses or risks they might encounter. It refers to the potential for accidents or other types of losses, including tangible losses to real property like buildings and facilities hit by a fire or hurricane, damage to personal property like an automobile accident, and other losses like a cyber attack. For example, the more vehicles and buildings a Member owns, the more exposure it has.

Every change in Member contributions is based on the factors noted above.

## **Property Coverage**

Texas continues to experience devastating natural disasters, primarily in the form of weather events. Hurricanes Hanna and Laura and Tropical Storm Beta caused a combined \$6.9 million in damages to Members' facilities. Moreover, five large hail events across the state caused over \$20 million in damages in the last year.

The unprecedented winter storms in February 2021 caused statewide damage, with the Pool incurring more than \$65 million in claims. Due to the winter storm, the Pool is projected to lose \$25 million this year. The Pool's "loss" is the Members' "gain" in years like 2021, as the pooling mechanism helps blunt the impact of any one event. The Pool's combined strength acts as a shock absorber for its Members.

The overall Property coverage contributions are increasing around six percent, in addition to a building costs increase of three percent (much like the increase of the assessed value of a citizen's home). A Member's increase may be different, based on the formula above.

## **Liability Coverage**

Liability coverage includes various types of coverage, including – among others – General Liability, Public Official's Liability, Law Enforcement coverage (for some Members), Automobile Liability, and Cyber Liability coverage. Combined, these coverages will see an overall increase of 6.2%.

The cost to provide Public Official's (also called "Errors and Omissions"), Law Enforcement, and General Liability coverages continues to rise. Why? "Social inflation" is an industry term that describes the reasons. The term explains cost drivers like increased litigation, larger verdicts and settlements, and changing views of social responsibility.

Cyber attacks are becoming more prevalent, and many are directed at local governments. Since 2017, attacks rose almost 50 percent, and that's just the small fraction that were reported. Even so, Members with Liability or Property coverage get Cyber coverage at no additional cost, and those who have added enhanced coverage will not see a rate increase.

## **Workers' Compensation**

The Pool had a higher than normal workers' compensation claims volume due to the COVID-19 pandemic, mainly due to the public safety exposure. (Most commercial insurers did not face this exposure.) The Pool interpreted the existing presumption statutes as applicable to the COVID-19 pandemic, an interpretation supported by the legislature through the passage of Senate Bill 22. The Pool handled over 2,500 of COVID-19 claims, with a cost of over \$35 million.

Though the Pool accepted most COVID-19 claims for public safety, the Pool's Board decided not to count those claims against a Member's experience in determining future contributions (and removed COVID-19 claims from the Member's experience modifier calculation).

Even though the Pool has experienced a large volume of claims over the past year, the overall rate change is flat. Some employee classification codes (those with loss ratios over 100%) are increasing, and some are decreasing, but the effects of these changes will not yield an increase in overall rates for the Pool.

Members seeing an increase in costs are likely because their own loss experience has deteriorated, or additional staff or payroll has been added. Sometimes, Members with more payroll attributed to some of the employee class codes that increase will see marginally higher costs while others with payroll attributed to decreasing class codes will see marginally lower costs.

**The Pool isn't an insurance company, but – for comparison – what do increases in the private insurance market look like?**

The Pool's overall rate change for all funds is 4.9 percent. The private insurance market – in most instances – is passing along *double-digit* rate increases.

Partnering with Members for over 40 years through: **Integrity, Public Service, Fiscal Responsibility, and Operational Excellence.**

## THE POOL'S EXPERTISE AND SERVICES

The Pool brings unmatched expertise and services to its local government partners. The Pool has a tenured staff intimately familiar with the unique challenges faced by local government officials and employees. Several programs are specifically designed to make a Member's experience better during a claim, and the following are a few examples:

- **The BEST Roofing Program:** If a facilities' roofs are damaged by hail or any other covered peril, the Pool will provide the Member with an expert to help oversee the remediation of the roof. That expert will evaluate the damage, secure the roof as needed, and then oversee every step of the repair or replacement using either local bidding and contractors or cooperative purchasing programs. The Pool's staff and claims adjusters will work with the Member to minimize the impact and workload to Member staff.
- **The Synergy Disaster Recovery Program:** If Member facilities are damaged by a hurricane, winter storm, or other major peril, the Pool makes available experts to help Members recover quickly from a disaster. That expert will immediately begin remediation and then coordinate with the Pool for repair or reconstruction. The program leads to turn-key completion, using either a local bidding process or other procurement methods. The program accounts for FEMA reimbursement guidelines to ensure a Member gets all the funds to which they are entitled.
- **Cybersecurity Protection:** The Pool provides cyber coverage to all Members with Liability or Property coverage. Additional limits can be purchased for a nominal fee. In addition, the Pool provides free cyber security training and resources to all its Members.
- **Specialized Services:** The Loss Prevention department conducts specialized surveys of gas utilities, electric utilities, aquatic facilities, and amusement rides, and makes safety recommendations based on the surveys.
- **Member Contacts and Risk Assessments:** Loss Prevention staff can provide on-site visits to discuss Member efforts, review loss history and current trends, and deliver practical recommendations. The goal is to identify and provide personalized solutions to issues before they lead to a claim.

- **Call Before You Fire:** Since 1997, the Risk Pool has provided this service to assist its Members with employee related issues. The Call Before You Fire service is available to all Members of the Pool with Errors and Omissions liability coverage. Members are encouraged to contact the Pool's legal department before taking employment-related actions that might create discrimination, harassment, whistleblower retaliation, workers' compensation retaliation, and similar claims.
- **The Pool's Workers' Compensation Coverage – Making Lives Better:** The Pool provides statutory Workers' Compensation coverage to all Members' employees that are part of the Workers' Compensation Fund, including volunteers if elected. High quality medical care through the Political Subdivision Workers' Compensation Alliance (*The Alliance*) is provided to all Members. The Alliance ensures high-quality, affordable medical care is provided to injured employees, and is focused on returning the employee back to work.
- **Training Designed Specifically for Local Government:** Training and education are essential to the reduction and prevention of accidents and incidents. The Pool's training programs address trends identified throughout the Membership and develop awareness about various topics. Courses provide focus for supervisors and managers because of the crucial role these individuals play in a Member's operations. The Pool provides loss prevention training programs at *no additional cost* to Members. Training is available through various methods, including: Onsite Training, Online Learning, Webinars, and a Media Library.
- **Stronger, Together Podcast Series:** The Pool's new podcast series provides timely and practical information on legal topics and Pool services to local officials, administrators, and staff. Along with the podcast, Members can find supplemental materials on the Pool's website addressing issues of common concern.

#### How can Members help keep contributions low?

Weather and pandemic losses, as well as many other types of losses, are beyond Members' control. But there are ways to control costs if Members are willing to further partner with both the Pool and the rest of the Membership. The best way a Member can help control costs is to practice risk mitigation. Each claim that is prevented helps to ensure Member financial viability, both individually and in the collective. Each Member can also review with their Member Services Manager their property schedules, auto schedules and mobile equipment schedule. Members can also optimize coverage limits and deductibles.

Texas Municipal League  
Intergovernmental Risk Pool

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