Resolution No. 09-11

New Jersey Utility Authorities Joint Insurance Fund
(hereinafter the "Fund")

ESTABLISHING THE 2011 PLAN OF RISK MANAGEMENT

BE IT RESOLVED by the Executive Committee that the **2011** Plan of Risk Management shall be:

1.) **<u>The perils or liability to be insured against.</u>**

a.) The Fund insures the following perils or liability:

- ☐ **Workers' Compensation** including Employer's Liability, USL&H and Harbor Marine/Jones Act.
- ☐ **General Liability** including disinfecting agents release.
- ☐ **Automobile Liability** including PIP and Uninsured/Underinsured Coverage.
- ☐ **Property** including Boiler and Machinery.
- ☐ **Blanket Public Employees Bond** including employee dishonesty and public faithful performance; forgery or alteration; theft, disappearance and destruction; robbery and safe burglary; and computer fraud with funds transfer. (Replaces Monies and Securities.)
- ☐ **Public Officials Liability/Employment Practice Liability**

b.) The following coverage's are provided to the Fund's member local units by the Fund's membership in the Municipal Excess Liability Joint Insurance Fund (i.e. MEL).

- ☐ **Excess Workers' Compensation**
- ☐ **Excess General Liability**
- ☐ **Excess Auto Liability**

☐ **Optional Excess Public Officials Liability/Employment Practice Liability**

c.) **Environmental Impairment Liability** Coverage is provided to the Fund's member local units by the Fund's membership in the New Jersey Municipal Environmental Risk Management Fund (i.e. E-JIF.)

2.) **<u>The limits of coverage.</u>**

a.) **Workers' Compensation** limits.

☐ The Fund covers $250,000 CSL.

☐ The MEL covers excess claims to the following limits.

- ☐ Workers' Compensation - statutory
- ☐ Employer's Liability - $6,750,000 excess of the Fund's $250,000
- ☐ USL&H – Included in workers Compensation
- ☐ Harbor Marine/Jones Act - Included in employers liability
- ☐ Incidental Foreign Workers Compensation - included
- ☐ Communicable Disease Coverage - included

b.) **General Liability** limits.

☐ The Fund covers $250,000 CSL.

☐ The MEL covers excess liability as follows:

- ☐ General Liability - $750,000 CSL excess the Fund's $250,000. The $10 million excess $1 million layer is subject to a $10 million per authority annual aggregate limit

☐ The Fund purchases excess liability from Munich Re America as follows:

- ☐ General Liability - $10,000,000 per occurrence excess the JIF & MEL limit of $1,000,000. The $10 million excess $1 million layer is subject to $10 million any one occurrence, per member authority; a $10 million annual aggregate, per member authority and a maximum group limit of $40,000,000 any one occurrence.

- ☐ Employee Benefits Liability - included in the Liability limits.

c.) **Automobile Liability.**

- ☐ The Fund covers $250,000 CSL for Bodily Injury Liability, Property Damage Liability and PIP.
- ☐ The Fund covers $15,000/$30,000/$5,000 for Underinsured/ Uninsured Motorists Liability.
- ☐ The MEL covers Automobile bodily injury and Property Damage Liability claims $750,000 CSL excess of the Fund's $250,000 CSL limit.
- ☐ The Fund purchases Automobile bodily injury and Property Damage Liability limits of $10,000,000 CSL excess of the JIF & MEL $1,000,000 CSL limit from Munich Re America.
- ☐ The MEL does not provide excess Uninsured/Underinsured Motorist Coverage.

e.) Public Officials Liability. (POL)

- The JIF, 100% commercially insured with XL Insurance, covers $2,000,000 in the aggregate on a claims made basis per member municipality for each Fund year subject to a deductible and coinsurance as outlined below. <u>There is a combined POL/EPL $2,000,000 per member local unit annual aggregate.</u>
- $20,000 deductible per occurrence, except that a $75,000 deductible per occurrence applies for member local units with unfavorable loss experience. This applies to members that reported 3 or more POL/EPL claims during the period of 2005 to 2009* and incurred a loss ratio greater than 200%.

*Calculation so that the calculation will be based on the most recent five years. Each year thereafter, claims reported during the year that just ended will be added and claims reported during the oldest year will be deleted.

- 20% coinsurance of the first $250,000 of the loss f.) Employment Practices Liability (EPL)

- The JIF, 100% commercially insured with XL Insurance, covers $2,000,000 in the aggregate on a claims made basis per member municipality for each Fund year subject to a deductible and coinsurance as outlined below. <u>There is a combined POL/EPL $2,000,000 per member local unit annual aggregate.</u>

- For member local units with approved EPL Loss Control/Risk Management Programs:

- $20,000 deductible per occurrence, except that a $70,000 deductible per occurrence applies for member local units with unfavorable loss experience. This applies to members that reported 3 or more POL/EPL claims during the period of 2005 to 2009* and incurred a loss ratio greater than 200%.

  * Calculation so that the calculation will be based on the most recent five years. Each year thereafter, claims reported during the year that just ended will be added and claims reported during the oldest year will be deleted.

  - 20% coinsurance of the first $250,000 of the loss

- For member local units without approved EPL Loss Control/Risk Management Programs:

- $100,000 deductible per occurrence, except that a $150,000 deductible per occurrence applies for member local units with unfavorable loss experience. This applies to members that reported 3 or more POL/EPL claims during the period of 2005 to 2009* and incurred a loss ratio greater than 200%.

  *Calculation so that the calculation will be based on the most recent five years. Each year thereafter, claims reported during the year that just ended will be added and claims reported during the oldest year will be deleted.

- 20% coinsurance (no cap) 1st $2 million (not imposed against optional limits).

- ☐ The Fund purchases $3,000,000 excess of the MEL's $2,000,000 from Munich Re America. There is a combined POL/EPL $3 million each claim, per member authority; a $3 million annual aggregate, per member authority and a maximum group limit of $6,000,000 per claim.

f.) **Property** - Property, Automobile Physical Damage, Contractors Equipment & Boiler and Machinery Coverages

☐ **Limits of Liability** $150,000,000 per occurrence
All property losses are subject to a $1,000 deductible **except where otherwise noted**

Property Limit:

Property limit per occurrence	$150,000,000
Boiler and Machinery Coverage	$150,000,000
Authority Deductible	$ 1,000
Authority Deductible on Wind Turbines	$ 100,000
(member has option to buy down deductible to $ 50,000 or $25,000)	
Authority Deductible for Gas Turbines & their objects:	
- $10 per KW Hour with minimum of $25,000	
Underground & Outfall Pipe	$ 100,000

Policy Sub-Limits:	Per Occurrence
Earth Movement (annual aggregate)	$ 50,000,000
** Flood (annual aggregate)	$ 50,000,000
Business Income (when specifically endorsed)	$ 2,500,000
Business Income (when NOT specifically endorsed)	$ 250,000
Auto Physical Damage	$ 49,852,653
Mobile equipment	$ 5,000,000
Debris Removal	$ 5,000,000
Underground Piping ($100,000 Deductible)	$ 5,000,000
Outfall Piping ($100,000 Deductible)	$ 5,000,000
Ordinance or Law:	
Undamaged Portion of Building:	INCLUDED
Demolition Cost & Increased Cost of Construction	$ 10,000,000
Extra Expense	$ 10,000,000
Newly Acquired Property (180 days reporting)	$ 5,000,000
Property in Course of Construction	$ 5,000,000
Miscellaneous Unnamed Location	$ 5,000,000
Valuable Papers	$ 10,000,000
Accounts Receivable	$ 10,000,000
EDP/Media Extra Expense (Prop & Boiler-Combined)	$ 2,500,000

Property in Transit	$ 2,500,000

Boiler & Machinery Sub-limits:

Expediting Expense	$1,000,000
Water Damage	$1,000,000
Hazardous Waste/Substances	$1,000,000
Ammonia Contamination	$1,000,000
Off Premises Service Interruption	$2,500,000
Consequential Damage (Spoilage)	$1,000,000
Perishable Goods/Spoilage	$1,000,000
CFC Refrigerants	$Policy Limit
EDP/Media Extra Expense (Prop & Boiler-Combined)	$Policy Limit
Debris Removal	$5,000,000
Demo/ICC I	$5,000,000

** There is no Flood coverage inside **any Flood Zone** "A" & "V", and the sub-limit for Zone B; Zone X Shaded or Zone X-500 is $25,000,000 per occurrence and ann. aggregate

g) **Excess Public Employees Bond -** The MEL provides its member JIFs' excess public employees bond coverage limits of $1,000,000 less the member JIF's retention of $50,000.

h) **Excess Public Officials Bond -** The MEL provides excess employee dishonesty and faithful performance coverage for those employed positions which are required by law to be individually bonded at a limit of $1,000,000 less a member local units' deductible -(which is the higher of the following:

The amount said persons are required by Law to be individually bonded whether or not such individual Bond is in place. OR
The amount of the individual Bond in place.

Each member is required to continue to purchase via the commercial market individual bonds providing primary coverage up to "at least the minimum limit required by law" for those employed positions required by law to be individually bonded.

i.) **Environmental Impairment Liability** - The limits of liability as established in the E-JIF's Plan of Risk Management and coverage documents.

3.) **<u>The amount of risk to be retained by the Fund.</u>**

a.) Workers' Compensation (all coverage's) - $250,000 CSL

b.) General Liability (all coverage's) - $250,000 CSL c.) Automobile Liability

- ☐ PD & BI - $250,000 CSL
- ☐ Underinsured/Uninsured - $15,000/$30,000/$5,000 CSL
- ☐ PIP - $250,000 CSL

d.) Public Officials Liability - – none 100% commercially insured with XL Insurance.

e.) Employment Practices Liability- – none 100% commercially insured with XL Insurance.

f.) Property $25,000 less standard member deductible

g.) Auto Physical Damage $10,000 each auto/each claim, for Comprehensive and $10,000 each auto/each claim for Collison, less standard member deductible

h.) Monies and Securities

☐ Faithful Performance and Employment Dishonesty- $50,000 less member deductible.

☐ Other- $25,000 less standard member deductible.

i) Residual Claims Liability - none other than the risk of a RCF assessment.

j) Environmental Impairment Liability - none other than the risk of a E-JIF assessment.

k) Optional Individual Self-Insured Retentions/Deductibles – Passaic Valley Water Commission has an individual $250,000 CSL occurrence SIR for Auto and General Liability; the Fund insures the $50,000 excess of $250,000 Layer. Additionally, Passaic Valley Water Commission has $5,000 deductible for property and a $500,000 SIR for workers compensation. For workers' compensation, the Fund insures the $100,000 excess of the $500,000 SIR. The North Bergen MUA and the Plainfield MUA have a $25,000 deductible for workers' compensation with the Fund providing an aggregate.

4.) **<u>The amount of unpaid claims to be established.</u>**

a.) The general reserving philosophy is to set reserves based upon the probable total cost of the claim at the time of conclusion. Historically, on claims aged eighteen (18) months, the Fund expects the claims servicing company to set reserves at 85% accuracy. The Fund also establishes reserves recommended by the Fund's actuary for claims that have been incurred but not yet reported so that the Fund has adequate reserves to pay all claims and allocated loss adjusted expense liability.

b.) Claims reserves are subject to regular review by the Fund's Executive Director/Administrator, Attorney, Executive Committee and claims servicing company. Reserves on large or unusual claims are also subject to review by the claims departments of the commercial insurance companies or reinsurance companies providing primary or excess coverage's to the Fund.

5.) **<u>The method of assessing contributions to be paid by each member of the Fund.</u>**

a.) By November 15th of each year, the actuary computes the probable net cost for the upcoming Fund year by line of coverage and for each prior Fund year. The actuary includes all budget items in these computations. The annual assessment of each participating authority is its pro rata share of the probable net cost of the upcoming Fund year for each line of coverage as computed by the actuary.

b.) The calculation of pro rata shares is based on each authority's experience modified manual premium for that line of coverage. The Fund's governing body also adopts a capping formula which limits the increase of any member's assessment from the preceding year to the Fund wide average increase plus a percentage selected by the governing body. The total amount of each member's annual assessment is certified by majority vote of the Fund's governing body at least one (1) month prior to the beginning of the next fiscal year.

c.) The treasurer deposits each member's assessment into the appropriate accounts, including the administrative account, and the claim or loss retention trust fund account by Fund year for each type of coverage in which the member participates.

d.) If a local unit becomes a member of the Fund or elects to participate in a line of coverage after the start of the Fund year, such participant's assessments and supplement assessments are reduced in proportion to that part of the year which had elapsed.

e.) The Fund's governing body may by majority vote levy upon the participating authorities additional assessments wherever needed or so ordered by the Commissioner of Insurance to supplement the Fund's claim, loss retention or administrative accounts to assure the payment of the Fund's obligations. All supplemental assessments are charged to the participating authorities by applicable Fund year, and shall be apportioned by the year's assessments for that line of coverage.

f.) Should any member fail or refuse to pay its assessments or supplemental assessments, or should the Fund fail to assess funds required to meet its obligations, the chairman or in the event by his or her failure to do so, the custodian of the Fund's assets, shall notify the Commissioner of Insurance and the Director of Community Affairs. Past due assessments shall bear interest at the rate established annually by the Fund's governing body.

6.) **<u>Procedures governing loss adjustment and legal expenses.</u>**

a.) The Fund engages a claims service company to handle all claims except for the JIF’s POL/EPL insurance which is handled by Summit Risk Services representing XL Insurance. The performance of the claims adjusters is monitored and periodically audited by the Executive Director's office, the Fund attorney, the MEL's attorney's office, the claims department of the MEL and/or the NJUA JIF major reinsurers, Munich Re America for excess liability and excess pol/epl (JIF), as well as, Continental Casualty Co. (C.N.A.) and Chartis for workers' compensation - MEL). Every three years, the MEL's internal auditors also conduct an audit.

b.) Each member local unit is provided with a claims reporting procedure and appropriate forms.

c.) In order to control workers' compensation medical costs, the Fund has engaged a managed care organization (MCO) whose procedures are integrated into the Fund's claims process.

d.) To provide for quality defense and control costs, the Fund has established an approved defense attorney panel with firms which specialize in Title 59 matters. The performance of the defense attorneys is overseen by the Fund attorney, as well as the various firms which audit the claims adjusters.

7.) **<u>Coverage to be purchased from a commercial insurer, if any.</u>**

The Fund purchases Property; Boiler & Machinery Systems Breakdown; and Automobile Physical Damage insurance from Continental Casualty Insurance Company **(C.N.A)** and primary Public Officials/Employment Practices Liability from XL Insurance.

8.) **<u>Reinsurance to be purchased</u>**.

The Fund purchases Excess General Liability; Excess Automobile Liability and Excess Public Officials/Employment Practices Liability from Munich Re America.

9.) **<u>Procedures for the closure of Fund years, including the maintenance of all relevant accounting records.</u>**

a.) The Fund will utilize the Municipal Excess Liability Residual Claims Fund (RCF) to facilitate the closure of Fund years.

b.) Upon the transfer of outstanding liabilities of a Fund year to the RCF, the Fund adopts a resolution closing that year and transfers all remaining assets to the closed Fund year account. This amount is allocated by member local units using the same procedure as is used to calculate a dividend. Each month, interest is credited to the closed Fund year account by member.

c.) Each year, the Fund's governing body will determine if a dividend is appropriate from the closed Fund year account, and will make application to the Department of Insurance as appropriate. Further, in the event an open Fund year incurs a deficit, the Fund's governing body will consider an inter-year transfer from the closed Fund year account to offset the deficit. In either case, the dividend or inter-Fund year transfer will be calculated on a member by member basis.

d.) A member may apply to the Fund's governing body for a return of that member's remaining share of the closed Fund year account when five (5) years have passed since the last Fund year in which the member participated has been closed. The Fund's governing body will decide on the former member's request after evaluating the likelihood of any additional assessments from the RCF.

e.) All dividends from the RCF will be deposited in the closed Fund year account on a member by member basis.

f.) The Fund will retain all records in accordance with the Fund's record retention program.

10) <u>Assumptions and Methodology used for the calculation of appropriate reserves requirements to be established and administered in accordance with sound actuarial principles.</u>

a.) The general approach in estimating the loss reserves of the Fund is to project ultimate losses for each Fund year using paid and incurred loss data. Two traditional actuarial methodologies are used: the paid loss development method and the incurred loss development method. From the two different indications resulting from these methods the Fund Actuary chooses a "select" estimate of ultimate losses. Subtraction of the paid losses from the select ultimate losses yields the loss reserve liability or funding requirement.

b.) The following is an overview of the two actuarial methods used to project the ultimate losses.

- ☐ <u>Paid Loss Development Method</u> - This method uses historical accident year paid loss patterns to project ultimate losses for each accident year. Because this method does not use case reserve data, estimates from it are not affected by changes in case reserving practices. However, the results of this method are sensitive to changes in the rate of which claims are settled and losses are paid, and may underestimate ultimate losses if provisions are not included for very large open claims.

- ☐ <u>Case Incurred Loss Development Method</u> - This method is similar to the paid loss development method except it uses historical case incurred loss patterns (paid plus case outstanding reserves) to estimate ultimate losses. Because the data used includes case reserve estimates, the results from this method may be affected by changes in case reserve adequacy.

11.) **<u>The maximum amount a certifying and approving officer may approve pursuant to N.J.A.C. 11:15-2.22.</u>**

- ☐ $10,000

With the advance approval of the Fund Attorney, the certifying and approving officer may also pay provider bills if waiting until after the next regularly scheduled FUND meeting would result in the loss of a discount on such bills. When the certifying and approving officer utilizes this authority, a report shall be made to the Commissioners at their next meeting.