CARMA

A California Public Agency

California Affiliated Risk Management Authorities
1750 Creekside Oaks Drive, Suite 200
Sacramento, CA 95833
(800) 541-4591 ~ FAX (916) 244-1199
email RKramer@bickmore.net

CALIFORNIA AFFILIATED RISK MANAGEMENT AUTHORITIES
(CARMA)

22nd ANNUAL WORKSHOP
A G E N D A

Dream Inn
175 W. Cliff Drive
Santa Cruz, CA 95060
(831) 426-4330

Thursday, January 8, 2015
11:00 a.m. – 5:00 p.m.

G. Service Provider Evaluations – Board of Directors 63

1. Actuary: Bay Actuarial Consultants
2. Administrator: Bickmore
3. Board Counsel: Farmer, Smith, & Lane LLP
4. Broker of Record: Alliant Insurance Services
5. Claims Auditor: Farley Consulting Services
6. Financial Auditor: Sampson, Sampson, & Patterson LLP
7. Financial/Investment Advisor: Public Financial Management (PFM)

H. Closing

CURRENT STATUS OF CARMA

SUBJECT: History and Accomplishments

BACKGROUND AND STATUS:

CARMA is a viable and highly successful alternative to the commercial insurance market and has prospered by taking advantage of the low cost of excess insurance and reinsurance available in the market.

Since the group's inception in 1993, most of the members have participated and shared catastrophic insurance risks, and along the way, the Board has continued to develop the organization. Examples of CARMA's major accomplishments as a JPA are as follows:

- ❖ CARMA's administrative costs continue to remain low by focusing on claims and litigation management and not on safety and loss prevention;
- ❖ The Board continues to abide by the general philosophy to maintain CARMA's coverage as broad as the coverage for each underlying JPA. CARMA currently provides coverage up to $29 million per occurrence;
- ❖ The members' retained limits have remained at $1 million; however, CARMA can also offer a $2 million attachment point. CARMA currently has chosen to risk-share $3 million in excess of the $1 million layer;
- ❖ Experienced litigation oversight is the key to a successful program and CARMA's litigation management department continues to substantially reduce the JPA's liability exposure;
- ❖ Rates have remained fairly stable on an annual basis. CARMA has reinsurance through AmTrust Insurance Group and an excess policy in the layer above through Colony Excess Insurance Company. The Board annually selects the level of risk sharing to retain based on market conditions;
- ❖ The Board continues to be a cohesive group that enjoys working together and is comprised of JPA and other high level managers; and
- ❖ CARMA continues to enjoy the designation "accredited with excellence" by the California Association of Joint Powers Authorities (CAJPA).

REFERENCE MATERIALS ATTACHED:

- Mission Statement for CARMA

Agenda Item C.1.

Mission Statement

CARMA is dedicated to innovative approaches in providing financial protection for its public entity members against catastrophic loss.

CURRENT STATUS OF CARMA

SUBJECT: Review of 2014 Action Plan

BACKGROUND AND STATUS:

Annually, the Board of Directors sets strategies and initiatives for the upcoming fiscal year, and takes action to approve these at the following Board of Directors' meeting, usually held the next day. Under Item F. – *Strategies and Initiatives for 2014* of the workshop agenda, and based upon the issues discussed today, the Board will have an opportunity to discuss and determine those strategies and initiatives that will be the focus of the 2015/16 fiscal year.

Included with this report and for comparison purposes, is a matrix of the strategies and initiatives for the past three fiscal years. The Board's goals have fallen into three basic categories, namely: (1) Coverage; (2) Communications/Marketing; and (3) Operations.

Mr. Rob Kramer, Program Administrator, will discuss the three-year comparison of the past initiatives with the Board.

REFERENCE MATERIALS ATTACHED:

- Three-Year Matrix Comparison – Strategies and Initiatives

Agenda Item C.2.

2012/2013	2013/2014	2014/2015
Coverage: • CARMA did not undergo an aggressive marketing campaign for 2012/13. Renewed with ANML Program.	**Coverage:** • CARMA did not undergo an aggressive marketing campaign for 2012/13. **Renewed with AmTrust/ANML Program for a two year term**, renewed with Colony at the excess level. • Review of underlying MOCs as compared to CARMA completed.	**Coverage:** • CARMA did not undergo an aggressive marketing campaign for 2014/15. **Renewed with AmTrust/ANML Program for a two year term**, renewed with Colony at the excess level.
Communications/Marketing: • Revisit Marketing Strategies • Outreach to JPA Members; Assist JPA's regarding the Finances of CARMA	**Communications/Marketing:** • Continued outreach to JPA Members (as requested, **we would like to do more**); Assisted JPA's regarding understanding the Finances of CARMA.	**Communications/Marketing:** • Continued outreach to JPA Members (as requested, **we would like to do more**); Assisted JPA's regarding understanding the Finances of CARMA.
Operations: • Provide budgets representing a 75% Confidence Level with a decrease in Discount Rates • Modify the Litigation Management's Approach regarding Police Liability cases by participating earlier than when the 50% Self-Insured Retention (SIR) is reached	**Operations:** • Detailed work completed for this meeting on the possible return of equity and other uses of equity. • Provide Budgets representing a 75% Confidence Level with a further decrease in Discount Rates • Focused in the Litigation Management area on consistency in reserving in the CARMA layer and also a review of member reserving practices (via actuarial review and Tim Farley)	**Operations:** • Detailed work completed for this meeting on the possible return of equity and other uses of equity. • Move to a 0-5 Year Treasury Index. This was completed in April 2015.

MEASUREMENTS OF HOW WE ARE DOING

SUBJECT: Claims – Frequency and Severity Analysis

BACKGROUND AND STATUS:

At the annual workshop, the CARMA staff provides general claims data for the Board's review. Michael Groff, Litigation Manager, will provide an overview on the loss analysis and answer questions from the Board of Directors. The following graphs will be reviewed:

- Total Incurred and Total Number of Claims for Closed Program Years
- Total Incurred versus Total Paid and Total Number of Claims for Open Program Years
- Overall Frequency (All Program Years) as of 12/31/14
- Overall Severity (All Program Years) as of 12/31/14
- Graphs by General Claim Type (Auto, Dangerous Condition, Flood/Inverse, Other, and Police) showing Frequency and Severity by JPA

REFERENCE MATERIALS ATTACHED:

None

Agenda Item D.1.

MEASUREMENTS OF HOW WE ARE DOING

SUBJECT: Financial Benchmarks – Target Equity Ratio Results

BACKGROUND AND STATUS:

CARMA developed Target Equity Benchmarking Ratios beginning with the 2006/2007 program year in order to provide guidance to the Board of Directors in making annual funding, dividend, and assessment decisions. The intent of the ratios was not to mandate a course of action should ratios fall within or without the target parameters. The ratios are a tool to use in determining the overall health of the program and to provide a comparison of various benchmarks from year to year.

The Benchmarking Ratio results have historically been presented at the annual workshop using numbers from the prior year-end financial statements. Year-end results were very positive. Although two of the seven results were "Fail", both "failures" were directly attributable to the issuance of a $5.4 million dividend by the CARMA Board in the current fiscal year.

The Benchmarking Ratio results as of June 30, 2014, as compared to prior years reflect the following year-over-year fluctuations in equity:

- June 30, 2010 $ 8,128,643
- June 30, 2011 $ 10,172,475
- June 30, 2012 $ 11,967,109
- June 30, 2013 $ 17,318,391
- June 30, 2014 $ 13,380,674

CARMA's equity at June 30, 2014 represents a decrease of 23% over the prior year (due to the dividend expense), but an increase of 8% over the equity two years prior. In fact, CARMA's equity balance of $13.4 million at June 30, 2014 represents the second highest year-end equity balance in CARMA's history.

REFERENCE MATERIALS ATTACHED:

- Internal Benchmarking Ratios as of June 30, 2014
- Target Equity/Return of Equity Policy Statement

Agenda Item D.2.A.

California Affiliated Risk Management Authorities (CARMA)

BENCHMARKING RATIO RESULTS
as of June 30, 2014

		2004-2005	2005-2006	2006-2007	2007-2008	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013	**2013-2014**
	DATA:										
[1]	Net assets (b)	$6,321,998	$8,014,694	$8,218,318	$7,284,309	$9,339,990	$8,128,643	$10,172,475	$11,967,109	$17,318,391	**$13,380,674**
	* - Net of Rate Stabilization Fund	*	*	*	*	*	*	*	*	*	*****
	Gross contributions	5,887,580	6,354,632	6,505,800	7,459,934	8,209,998	6,455,754	6,470,732	5,936,673	6,627,499	**7,019,369**
	Reinsurance premiums expense	(1,892,542)	(2,391,237)	(2,431,716)	(1,851,634)	(2,340,563)	(1,977,415)	(1,968,850)	(1,656,773)	(1,682,483)	**(1,725,050)**
[2]	Net contributions (a)	3,995,038	3,963,395	4,074,084	5,608,300	5,869,435	4,478,339	4,501,882	4,279,900	4,945,016	**5,294,319**
[3a]	Net reserves and LAE (b)	1,237,260	1,539,764	2,927,553	2,874,209	5,539,450	9,549,182	7,289,894	3,314,483	1,769,575	**1,996,391**
[3b]	Net IBNR and LAE (b)	6,616,896	7,455,917	8,702,996	11,932,366	10,083,134	10,151,506	11,212,715	10,476,076	11,285,012	**12,110,483**
[3]	Total loss reserves and LAE	7,854,156	8,995,681	11,630,549	14,806,575	15,622,584	19,700,688	18,502,609	13,790,559	13,054,587	**14,106,874**
[4a]	Losses and LAE, net of reinsurance (a)	2,201,222	1,409,090	2,853,810	8,487,006	4,504,821	5,913,318	2,440,572	2,407,752	(710,149)	**3,695,959**
[4b]	Investment income (a)	285,801	482,795	1,054,489	1,377,023	1,134,663	662,364	406,491	313,652	121,638	**316,923**
[4c]	Expenses (a)	303,627	290,728	331,143	358,877	370,985	438,732	424,178	391,166	425,521	**420,316**
[4d]	Return of Equity/(Assessment) (b)	-	1,018,657	1,675,437	(949,644)	72,615	-	-	-	-	**5,432,714**
[5a]	One-Year Reserve Development (c)	(27,339)	(2,033,869)	181,564	5,049,777	1,268,364	3,374,818	(163,995)	(1,323,185)	(3,991,293)	**206,295**
[5b]	Two-Year Reserve Development (c)	746,571	(1,746,487)	(1,528,530)	4,888,449	6,235,520	2,095,992	3,182,686	(1,877,761)	(5,177,899)	**(2,938,677)**
[6]	SIR (c),(d)	3,000,000	4,000,000	4,000,000	4,000,000	3,000,000	3,000,000	3,000,000	3,000,000	3,000,000	**3,000,000**

(a) From Combining Statement of Revenues, Expenses, and Changes in Net Assets
(b) From Combining Balance Sheet
(c) From Financial Statements: Supplementary Information, Claims Development.
(d) $7 mil ex $3 mil and 25% QS - 1998/99-2002/03, $6 mil ex $4 mil - 2003/04-2004/05, $5 mil ex $5 mil - 2005/06-2006/07, $10 mil ex $5 mil - 2007/08, $10 mil ex $4 mil - 2008/09-2013/14

	BENCHMARK RATIOS:	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013	**2013-2014**	**Benchmark**	**6/30/2014 Result**
[6]	Net Contributions to Equity	0.63	0.49	0.50	0.77	0.63	0.55	0.44	0.36	0.29	**0.40**	**≤ 2.0**	**Pass**
[7]	Loss Reserves to Equity	1.24	1.12	1.42	2.03	1.67	2.42	1.82	1.15	0.75	**1.05**	**≤ 3.0**	**Pass**
	Net Leverage (Net Contributions + Reserves)	1.87	1.62	1.91	2.80	2.30	2.97	2.26	1.51	1.04	**1.45**		
[8]	Equity to SIR	2.1	2.0	2.1	1.8	3.1	2.7	3.4	4.0	5.8	**4.5**	**≥ 3**	**Pass**
	Operating Ratio:												
	+ Loss Ratio	55%	36%	70%	151%	77%	132%	54%	56%	-14%	**70%**		
	+ Expense ratio	8%	7%	8%	6%	6%	10%	9%	9%	9%	**8%**		
	+ Dividends	0%	26%	41%	-17%	1%	0%	0%	0%	0%	**103%**		
	- Investment income	7%	12%	26%	25%	19%	15%	9%	7%	2%	**6%**		
[9]	= Operating Ratio	56%	56%	93%	116%	65%	127%	55%	58%	-8%	**174%**	**< 100%**	**Fail**
[10a]	One-Year Reserve Development to Equity	-1%	-32%	2%	61%	17%	36%	-2%	-13%	-33%	**1%**	**≤ -20%**	**Pass**
[10b]	Two-Year Reserve Development to Equity	16%	-38%	-24%	61%	76%	29%	34%	-23%	-51%	**-25%**	**≤ -20%**	**Pass**
[11]	Change in Equity	39%	27%	3%	-11%	28%	-13%	25%	18%	45%	-23%	**≥ -10%**	**Fail**

Indicates a ratio of "Pass"
Indicates a ratio of "Fail"

California Affiliated Risk Management Authorities (CARMA)
Target Equity/Return of Equity Policy Statement

I. PURPOSE

The purpose of this policy statement is to give guidance to the Board of Directors in making annual funding, dividend and assessment decisions for the CARMA program. By adoption of this policy statement, the Board of Directors acknowledges the long-term financial strength of the CARMA program is of utmost importance.

The Board of Directors acknowledges there is a high degree of uncertainty in the annual actuarial estimates due to the possibility of occasional catastrophic claims and inconsistent or inaccurate case reserving; therefore, the Board of Directors desires to fund the CARMA program in a cautious and prudent manner and return equity to its members in an equally cautious and prudent manner. It is the policy of CARMA to conservatively fund its programs to maintain sufficient assets to pay all losses and avoid substantial fluctuations to contributions.

In order to fund program years in a fiscally prudent manner, the CARMA Board of Directors collects contributions at an actuarially determined confidence level as determined by the Board annually. The CARMA Board of Directors strives to annually collect at the 70% confidence level or higher as determined by the actuary.

In addition, as provided in the CARMA governing documents, dividends may be declared and paid solely at the discretion of the *Board* after a program year is at least 5 years old and is funded at least at a 70% confidence level and provided that the combined assets of the *program years* after the dividend shall equal or exceed a 70% confidence level.

II. DEFINITIONS

- "Claims Paid to Date" is the amount actually paid on reported claims at the date of valuation. "Claims Paid to Date", includes those amounts paid for both defense and indemnity of claims.

- "Confidence Level" is a statistical term used to express the degree to which an actuarial projection (usually "Ultimate Net Loss" or "IBNR") will be an accurate prediction of the dollar losses ultimately paid for a given program year or combination of years. The higher a "Confidence Level" the greater certainty the actuary has that losses will not exceed the dollar value used to attain that "Confidence Level".

- "Equity" is the amount of funds remaining, after deducting all administrative and excess insurance costs, available to pay claims in excess of actuarial expected losses discounted for investment income at the actuarially determined "Expected" "Confidence Level".

- "Expected Liabilities" is the total of all "Outstanding Reserves" and "IBNR", discounted, at the "expected" confidence level, which by industry standard translates roughly to the 50% to 56% "Confidence Level" as determined by the independent actuary.

- "Incurred But Not Reported (IBNR)" is the estimate of the funds needed to pay for covered losses that have occurred but have not yet been reported to the member and/or CARMA. "IBNR" includes (a) known and unknown loss events that are expected to be claims; and (b) expected future development on claims already reported.

- "Net Contribution" includes the total contributions from members less the excess insurance cost.

- "Net Present Value" is the discounting of future cash flows to current values by taking into account the time-value of money.

- "Self Insured Retention" is the maximum amount of exposure to a single loss retained by CARMA.

- "Outstanding Reserves" are the sum total of unpaid case reserves in the "Self Insured Retention" as determined by the CARMA Litigation Manager.

- "Ultimate Net Loss" is the sum of "Claims Paid to Date", "Outstanding Reserves" and "IBNR", all within CARMA's "Self Insured Retention". It is the estimate of the total value of all claims that will ultimately be made against members for which CARMA is responsible.

III. IMPORTANT EQUITY RATIOS

The CARMA Board of Directors will only return "Equity" to the members after evaluating and concluding the following ratios remain appropriate for the group prior to and following any potential return of "Equity":

"Net Contribution" to "Equity" ratio: Target ≤ 2:1
This ratio is a measure of how "Equity" is leveraged against possible pricing inaccuracies. A low ratio is desirable.

"Outstanding Reserves" to "Equity" ratio: Target ≤ 3:1
This ratio is a measure of how "Equity" is leveraged against possible reserve inaccuracies. A low ratio is desirable.

"Equity" to "Self Insured Retention" ratio: Target ≥ 3:1
This ratio is a measure of the maximum amount that "Equity" could decline due to a single loss. A high ratio is desirable.

Operating ratio: **Target ≤ 100%**
This ratio is a measure of the inflows versus the outflows in each program year. An operating ratio of less than 100% is desirable.

Reserve Development: **Target ≤ 20%**
This is a measure of the change in aggregate ultimate losses from one valuation period to the prior valuation(s). Generally, the one-year and two-year reserve development to "Equity" threshold should be less than 20%. NOTE: This factor will not be evaluated until the group has at least six years of actual loss experience.

Change in Equity: **Target ≥ -10%**
This ratio measures if a decline in equity in excess of 10% warrants an increase in annual contribution or an assessment.

IV. **ANNUAL ACTUARIAL STUDY.** CARMA will conduct an annual actuarial analysis to assist the Board of Directors in making funding decisions on a prospective and retrospective basis.

V. **RETROSPECTIVE RETURN OF EQUITY CRITERIA.** After annual review of the "Equity" position of the program as a whole, the program years to be adjusted and the important ratios, the Board of Directors will determine whether it is desirable to increase, decrease, or stabilize "Equity". If the Board desires to decrease "Equity", by returning "Equity" to the members, it will not return funds from any given program year that will cause the given program year to fall below a 70% "Confidence Level", or the funding of the program as a whole to fall below the 70% "Confidence Level".

Return of "Equity" may be available from the "closing" of a year in accordance with the Bylaws.

VI. **AMENDMENT.** This policy statement, approved by the Board of Directors January 13, 2006, and amended April 17, 2008, may be reviewed periodically and reaffirmed or modified accordingly.

Appendix A
Rate Stabilization Fund

The Rate Stabilization Fund is established so that dividends returned to the members pursuant to Section F of the CARMA Master Program Document may be kept on deposit with CARMA.

The potential uses for the Rate Stabilization Fund include:

A. Use as an offset against subsequent years' increase in contribution;
B. Use to pay for any assessment levied by the Board resulting from adverse loss development or increased costs attendant to a specific program year;
C. Use to assist with the expansion of current, or institution of new, programs; and/or
D. Use to provide greater risk margin for the CARMA member.

Contributions to the Rate Stabilization Fund will be at the election of the CARMA member, may be returned to the CARMA member at any time at the CARMA members' election with thirty (30) days advance written notice, will not be dedicated to any one specific program year, and will not be considered when determining the target equity of the program.

The Rate Stabilization Funds contribution amounts will be maintained in a separate equity account, and earn interest at the prevailing rates, and such interest earnings will be allocated proportionally based on each member's balance on deposit in the Rate Stabilization Fund at the end of each quarter.

The accumulated Rate Stabilization Fund amounts will be returned in the same relative proportion as collected from each member and at the discretion of the CARMA member.

Appendix B
Distributions to and Assessments of Withdrawing or Terminated Members

It is the policy of the CARMA Board of Directors that once a program year in which the terminated member participated is seven full years old, an assessment may be levied or a dividend declared for that program year in an amount sufficient to bring the member's account balance to the expected confidence level for that program year. This process is to take place regardless of whether the target equity criteria for the CARMA program as a whole are satisfied so as not to further delay either the return of equity or the collection of any deficit of the terminated member.

Notwithstanding the above provision, the CARMA Board of Directors may elect to levy assessments or declare dividends at an earlier time pursuant to the target equity policy and the CARMA governing documents.

Appendix C
Applicable CARMA Governing Documents Sections

The CARMA Master Program document, Section F states as follows:

1. <u>Dividends</u>

Dividends may be declared and paid solely at the discretion of the *Board* after a program year is at least 5 years old and reaches a 70% confidence level and provided that the combined assets of the *program years* after the dividend shall equal or exceed a 70% confidence level. Each share of the dividend declared shall be allocated based on *deposit premiums*.

2. <u>*Assessments*</u>

Assessments in the amount of and against a *program year* as determined by the *Board* shall be levied on the *Members* at such time that an actuary finds that the assets of the Liability Program, as a whole, do not meet the expected losses of the Program, inclusive of claims Incurred But Not Reported (IBNR) and Unallocated Loss Adjustment Expenses (ULAE). Each *Member's* share of the *assessment* shall be based upon the *deposit premiums* collected for the *program year* being assessed provided that the amount of any assessment levied may not exceed 25% of the *deposit premium* paid during the assessed *program year*. If such *assessment* is not sufficient to relieve the pool of its actuarial deficit in the year of the *assessment*, such *assessment* shall be levied each subsequent year until the actuarial deficit is relieved.

3. <u>Frequency of Dividends or *Assessments*</u>

More than one dividend or *assessment* may be declared for each *program year*, however, such dividend or *assessment* shall not occur more often than once every fiscal year.

The CARMA Master Program Document, Section I, Paragraph 3, states as follows:

3. <u>Termination of Participation</u>

a. Voluntary Termination

(1) A *Member* which has completed its mandatory three-year commitment to CARMA may terminate participation in the next *Program Year* by providing to CARMA, at least six months before the initiation of the next *Program Year*, a written request to terminate participation. Such termination from CARMA shall terminate the *Member's* membership in CARMA pursuant to the Joint Powers Agreement and Bylaws effective at the end of the current program year.

(2) CARMA reserves the right to withhold from the sums due to the withdrawing member, in addition to any other remedies available to CARMA Bylaws, an amount sufficient to cover administrative costs associated with such untimely withdrawal but not less than 10% of the renewal premium contribution.

(3) A participating *Member* that has not completed its mandatory three-year commitment to CARMA shall not be permitted, at its request, to withdraw from CARMA prior to the end of its commitment period.

b. Involuntary Termination

(1) The *Board* may, by 2/3rds vote of the representatives of the *Members* participating in this program, terminate future participation by a *Member* for, but not limited to, the following reasons:

i. Declination to cover the *Member* by the entity providing excess coverage;

ii. Nonpayment of past premiums, assessments, retrospective adjustments, or other charges;

iii. Habitual late payment of premiums, assessments, retrospective adjustments, and/or other charges;

iv. Failure to provide requested underwriting information;

v. Development of an extraordinarily poor loss history;

vi. Substantial change in exposures which are not acceptable in CARMA; and/or

vii. Financial impairment which is likely to jeopardize CARMA's ability to collect amounts due in the future.

(2) The *Board* may terminate future participation by a *Member* with or without cause with 2/3rds vote of the representatives of the *Members* participating in this Program.

(3) Termination of an underlying member of a *Membe*r of CARMA will automatically terminate that underlying member's participation in the program.

(4) The President shall send a notice of termination to the *Member* at least thirty (30) days prior to termination.

c. Termination of participation, whether voluntary or involuntary, does not relieve the terminated *Member* of any benefits or obligations of those *Program Years* in which the terminated *Member* participated. These obligations include payment of administrative overhead, assessments, retrospective adjustments, continuing administration costs, or any other amounts due and payable. When termination of participation, whether voluntary or involuntary occurs, all positive account balances for that *Member*, will be withheld from redistribution and applied to future years with negative balances until such time as the *Member*'s account balances for all *Program Years* in which the *Member* participated are positive.

Once a *Program Year* in which the terminated *Member* participated is seven full years old, an assessment will be levied or a dividend declared for that *Program Year* in an amount sufficient to bring the *Member's* account balance to the expected confidence level for that *Program Year*.

Approved by the CARMA Board of Directors January 13, 2006
Revised by the CARMA Board of Directors August 24, 2009

MEASUREMENTS OF HOW WE ARE DOING

SUBJECT: Financial Benchmarks – Retrospective Adjustment Calculation as of June 30, 2014

BACKGROUND AND STATUS:

The CARMA Board of Directors approved its Retrospective Adjustment Policy at its meeting on April 20, 2011. The Policy formalized a process that provides for an annual analysis of the program's equity by program year and in aggregate to determine the viability of the possible release of dividends and/or the closure of program years. The Policy allows for an adjustment of program years that are a full five years old, provided each adjusted year retains equity at the 70% confidence level (CL) after the adjustment, and CARMA's program as a whole also remains funded at the 70% confidence level. Like the Target Equity Calculation, the Policy is intended to be used as a tool by the Board of Directors to guide them in their funding and equity decisions.

Actions taken by the Board in accordance with The Policy have been as follows:

- June, 2011, when the Board approved the closure of program years 1996/97 through 2000/01 and the application of equity in those years to the 2004/05 program year; and
- January, 2014, when the Board approved the adjustment of program years 2001/02 through 2007/08 at the 80% confidence level, resulting in a net dividend released to the members in the amount of $5,432,715, as well as an adjustment of the 2011/12 program year to bring the equity balance for that year up to the 70% confidence level.

The calculation was performed as of June 30, 2014, and was first presented to the Board at the September 2014 board meeting as back-up material to the Mid-Layer Pool Consideration agenda item. It is attached for the Board's review. The calculation analyzes the potential release of dividends at the 70% CL, per the Policy, as well as the more conservative 80% CL.

70% Confidence Level Analysis:

- The calculation shows that CARMA's equity at the target 70% CL in aggregate is $11.1 million, which is the amount "available" to be issued in a possible dividend release.
- $4.5 million in funds would be "eligible" for release, as it is the cumulative equity at the 70% CL for program years a full five years old.
- Per the Policy, any current program years with negative equity must be added to the calculation. The current 2010/11 program year has negative equity at the 70% CL in the amount of $365,007, and is therefore rolled into the equation, reducing eligible funds to $4.1 million.
- The Calculation by Member reveals that all members' allocated equity share of the $4.1 million is positive.

- The Target Equity Policy allows for a return of equity to terminated or withdrawn members for program years more than seven years old. PARSAC's allocated equity share in program years more than seven years old is $324,164. However, since the 2007/08 program year, which is six years old, is negative, the recommendation would be to roll in that year as well, resulting in an amount of $260,730 to be released to PARSAC at this time. The amount of $597,734 released from the 2008/09 program year would be accrued as a payable to be released when the year is a full seven years old.

80% Confidence Level Analysis:

- The calculation shows that CARMA's equity at the 80% CL in aggregate is $6.6 million, which is the amount "available" to be issued in a possible dividend release.
- $4.5 million in funds would be "eligible" for release, as it is the cumulative equity at the 80% CL for program years a full five years old. (Note: Eligible funds for program years a full five years old are the same at both the 70% and 80% CL's, as the actuary has determined that no additional IBNR reserves are necessary at higher CL's for those years.)
- Beginning with the 2009/10 program year, additional IBNR reserves decrease the equity balance at the 80% CL. The current 2010/11 and 2013/14 program years have negative equity at the 80% CL in the amount of $1.9 million, reducing eligible funds to $2.6 million.
- Under the 80% CL scenario, the Calculation by Member reveals that all members' allocated equity share of the $2.6 million is positive.
- PARSAC's allocated equity share, as stated above, is treated differently, as they are a withdrawn member. PARSAC's allocated share is identical under both CL scenarios.

Prior Year Release:

- MBASIA's negative adjustment in the amount of $37,346 in last year's approved release was accrued as a receivable to be netted against future dividends. If a dividend release is approved at this time, it would be netted against the current dividend.
- PARSAC's share in the 2006/07 and 2007/08 program years, which were not yet a full seven years old, was accrued as a payable to be paid out as these years fall into the seven-year old range. As the 2006/07 program year is now a full seven years old, last year's dividend for that program year in the amount of $221,459 would be released to PARSAC in conjunction with the current dividend.

Release of Dividends:

Any release of funds is completely at the discretion of the Board of Directors. Per the Master Program Document, Section F in pertinent part states:

> *Dividends may be declared and paid solely at the discretion of the Board after a program year is at least 5 years old and reaches a 70% confidence level and provided that the combined assets of the program years after the dividend shall equal or exceed a 70% confidence level. Each share of the dividend declared shall be allocated based on deposit premiums.*

Staff recommends releasing dividends in the amount of $2,628,477, which is the amount of funds eligible to be released at the 80% CL. This action would:

- Retrospectively adjust program years 2001/02 through 2008/09, retaining equity in these program years at the 80% confidence level.
- Program years 2010/11 and 2013/14 would be adjusted, bringing those years' equity to the 80% confidence level.
- The 2001/02 program year would be formally closed.
- Dividends would be released to the members in the form of a cash payment with the exception of:
    - PARSAC's share in the 2008/09 program year which is not yet a full seven years old would be accrued as a payable to be paid out as this year falls into the seven-year old range.
- MBASIA's negative adjustment in the amount of $37,346 in last year's approved release would be netted against the current dividend.
- PARSAC's held funds in the amount of $221,459 for the 2006/07 program year which is now a full seven years old would be released to PARSAC in conjunction with the current dividend.

<u>REFERENCE MATERIALS ATTACHED:</u>

- Retrospective Adjustment Calculation as of June 30, 2014
- CARMA Retrospective Adjustment Policy

California Affiliated Risk Management Authorities

~ Retrospective Adjustment Calculation ~

As of June 30, 2014

	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/2013	2013/2014	Total All Years
Income:														
Deposit Premiums	$ 2,883,997	$ 3,697,858	$ 4,693,601	$ 5,975,629	$ 6,354,632	$ 6,505,800	$ 7,459,934	$ 8,209,998	$ 6,455,754	$ 6,470,732	$ 5,956,649	$ 6,607,523	$ 7,019,369	87,813,068
Interest Income	126,711	450,917	841,837	449,064	819,410	763,292	671,804	375,383	214,929	132,821	76,364	38,996	23,674	7,170,805
Total Income	3,010,708	4,148,775	5,535,438	6,424,693	7,174,042	7,269,092	8,131,738	8,585,381	6,670,683	6,603,553	6,033,013	6,646,519	7,043,043	94,983,873
Expenses:														
Operating Expenses	284,842	259,386	265,082	303,627	290,731	330,481	358,877	347,824	419,586	397,751	366,054	399,770	391,769	5,370,694
Excess Insurance	926,077	1,371,418	1,655,431	1,892,542	2,391,237	2,431,716	1,851,634	2,340,563	1,977,415	1,968,850	1,656,773	1,682,483	1,725,050	26,945,106
Claims Expenses:														
Claims Paid	1,491,000	1,102,103	676,209	6,845,307	6,078,222	2,385,698	2,585,916	2,286,599	0	1,969,746	0	0	0	31,974,343
Reserve for Claims	0	100,368	71,425	0	0	0	195,848	192,400	0	827,750	517,000	0	91,600	1,996,391
Reserve for IBNR & ULAE	0	129,949	99,219	0	0	0	1,505,306	477,987	1,277,837	1,387,692	1,174,013	2,559,825	3,498,662	12,110,490
Sub-Total Claims Expense	1,491,000	1,332,420	846,853	6,845,307	6,078,222	2,385,698	4,287,070	2,956,986	1,277,837	4,185,188	1,691,013	2,559,825	3,590,262	46,081,224
Total Expenses	2,701,919	2,963,224	2,767,366	9,041,476	8,760,190	5,147,895	6,497,581	5,645,373	3,674,838	6,551,789	3,713,840	4,642,078	5,707,081	78,397,024
Fund Balance at Expected Level Before Refunds/Assessments	$ 308,786	$ 1,185,549	$ 2,768,073	$ (2,616,784)	$ (1,586,149)	$ 2,121,197	$ 1,634,156	$ 2,940,007	$ 2,995,846	$ 51,765	$ 2,319,174	$ 2,004,442	$ 1,335,963	$ 16,586,849
(Equity Returns) / Assessments:														
9/30/01 Reallocated Reserve														442,562
6/30/02 Assessment														1,093,907
6/30/06 Dividend														(186,994)
6/30/08 Assessment														949,644
6/30/09 PARSAC allocation to Future Admin														(72,615)
6/30/11 Closure to 2004/05				3,351,331										0
6/30/14 Retrospective Adjustment	(306,942)	(1,015,355)	(2,395,975)	(508,123)	1,892,425	(1,298,143)	(1,974,465)				173,859			(5,432,719)
Subtotal (Equity Returns) / Assessments:	(306,942)	(1,015,355)	(2,395,975)	2,843,208	1,892,425	(1,298,143)	(1,974,465)	0	0	0	173,859	0	0	(3,206,215)
Fund Balance at Expected Level After Refunds/Assessments	$ 1,848	$ 170,192	$ 372,097	$ 226,424	$ 306,281	$ 823,054	$ (340,308)	$ 2,940,009	$ 2,995,846	$ 51,764	$ 2,493,032	$ 2,004,441	$ 1,335,992	$ 13,380,664
Add'l IBNR - Expected to 70%	0	0	0	0	0	0	0	0	210,364	416,772	320,021	548,906	753,955	2,250,017
Fund Balance - 70% Confidence Level	$ 1,848	$ 170,192	$ 372,097	$ 226,424	$ 306,281	$ 823,054	$ (340,308)	$ 2,940,009	$ 2,785,482	$ (365,007)	$ 2,173,011	$ 1,455,534	$ 582,037	$ 11,130,651
Add'l IBNR - Expected to 80%	0	0	0	0	0	0	0	0	911,578	1,212,426	989,156	1,571,869	2,046,449	6,731,479
Fund Balance - 80% Confidence Level	$ 1,848	$ 170,192	$ 372,097	$ 226,424	$ 306,281	$ 823,054	$ (340,308)	$ 2,940,009	$ 2,084,267	$ (1,160,662)	$ 1,503,877	$ 432,571	$ (710,458)	$ 6,649,191

Dividends Available to be issued - 70% Equity Retention: $ 11,130,651

Dividends Available to be issued - 80% Equity Retention: $ 6,649,191

Dividend Issuance Calculation at 70% Confidence Level:

	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09
Dividend / (Negative Adjustment): (Fund balance at 70%)	$ 1,848	$ 170,192	$ 372,097	$ 226,424	$ 306,281	$ 823,054	$ (340,308)	$ 2,940,009
Cumulative Net Dividend:	$ 1,848	$ 172,040	$ 544,137	$ 770,561	$ 1,076,842	$ 1,899,896	$ 1,559,588	$ 4,499,597

Ineligible Years - Program Years must be a full five years old before a dividend can be issued. Current negative years must be added to the equation.

	2010/11
Dividend / (Negative Adjustment)	$ (365,007)
Cumulative Net Dividend	$ 4,134,590

Dividend Issuance Calculation at 80% Confidence Level:

	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09
Dividend / (Negative Adjustment): (Fund balance at 80%)	$ 1,848	$ 170,192	$ 372,097	$ 226,424	$ 306,281	$ 823,054	$ (340,308)	$ 2,940,009
Cumulative Net Dividend:	$ 1,848	$ 172,040	$ 544,137	$ 770,561	$ 1,076,842	$ 1,899,896	$ 1,559,588	$ 4,499,597

Ineligible Years - Program Years must be a full five years old before a dividend can be issued. Current negative years must be added to the equation.

	2010/11	2013/2014
Dividend / (Negative Adjustment)	$ (1,160,662)	$ (710,458)
Cumulative Net Dividend	$ 3,338,935	$ 2,628,477

Note: Program Years through 2000/2001 are closed, and therefore do not appear on this calculation.

California Affiliated Risk Management Authorities

~ Retrospective Adjustment Calculation by Member ~

As of June 30, 2014

	70% Equity Retention - Eligible Years								*Current Negative Years*	Cumulative Net Dividend Available	Ineligible Years					Member Allocation of Pool Equity for all Years
Member	2001/02	2002/03	2003/04	2004/05 *	2005/06	2006/07	2007/08	2008/09	*2010/11*		2009/10	*2010/11*	2011/12	2012/13	2013/14	
BCJPIA	$ 587	$ 44,055	$ 100,146	$ 60,017	$ 76,008	$ 189,578	$ (73,802)	$ 636,528	*$ (136,668)*	$ 896,449	$ 980,746		$ 829,601	$ 558,982	$ 196,411	$ 3,462,189
CSJVRMA	402	38,550	96,255	55,669	73,967	238,064	(97,310)	794,307	*(101,977)*	1,097,927	916,980		570,212	382,122	175,546	3,142,787
MBASIA			11,134	11,201	11,674	29,231	(11,266)	98,636	*(14,742)*	135,868	120,367		96,556	62,122	25,853	440,766
MPA	416	50,242	88,113	57,370	79,901	190,006	(80,525)	700,890	*(98,188)*	988,225	669,735		589,436	396,833	161,196	2,805,425
VCJPA	75	6,307	12,910	6,408	11,678	35,765	(13,971)	111,914	*(13,432)*	157,654	97,654		87,206	55,475	23,032	421,021
PARSAC	367	31,038	63,538	35,758	53,052	140,411	(63,434)	597,734		858,464						858,464
Total	$ 1,848	$ 170,192	$ 372,097	$ 226,424	$ 306,281	$ 823,054	$ (340,308)	$ 2,940,009	*$ (365,007)*	$ 4,134,590	$ 2,785,482		$ 2,173,011	$ 1,455,534	$ 582,037	$ 11,130,651

* *As of 6/30/11 Program Years 1996/97 -2000/01 were closed into 2004/05*

	80% Equity Retention - Eligible Years								*Current Negative Years*		Cumulative Net Dividend Available	Ineligible Years					Member Allocation of Pool Equity for all Years
Member	2001/02	2002/03	2003/04	2004/05 *	2005/06	2006/07	2007/08	2008/09	*2010/11*	*2013/14*		2009/10	*2010/11*	2011/12	2012/13	*2013/14*	
BCJPIA	$ 587	$ 44,055	$ 100,146	$ 60,017	$ 76,008	$ 189,578	$ (73,802)	$ 636,528	*$ (434,582)*	*$ (239,747)*	$ 358,788	$ 733,855		$ 574,143	$ 166,123		$ 1,832,909
CSJVRMA	402	38,550	96,255	55,669	73,967	238,064	(97,310)	794,307	*(324,270)*	*(214,278)*	661,356	686,140		394,627	113,564		1,855,687
MBASIA	0	0	11,134	11,201	11,674	29,231	(11,266)	98,636	*(46,877)*	*(31,557)*	72,176	90,066		66,823	18,462		247,527
MPA	416	50,242	88,113	57,370	79,901	190,006	(80,525)	700,890	*(312,221)*	*(196,762)*	577,430	501,136		407,931	117,935		1,604,432
VCJPA	75	6,307	12,910	6,408	11,678	35,765	(13,971)	111,914	*(42,711)*	*(28,114)*	100,261	73,071		60,353	16,487		250,172
PARSAC	367	31,038	63,538	35,758	53,052	140,411	(63,434)	597,734			858,464						858,464
Total	$ 1,848	$ 170,192	$ 372,097	$ 226,422	$ 306,281	$ 823,054	$ (340,308)	$ 2,940,009	*$ (1,160,662)*	*$ (710,458)*	$ 2,628,477	$ 2,084,267		$ 1,503,877	$ 432,571		$ 6,649,191

PARSAC ~ 2013/14 Retrospective Adjustment at both the 70% and 80% CL's:	
Share of Equity for Program Years a Full Seven Years Old plus Negative Year	260,730
Accrue payable with plan to dispurse funds as program year reaches a full seven years old	597,734
Total PARSAC	858,464

Prior Year Retrospective Adjustment ~ Payment/(Receivable) due in Conjunction with Current Release:

PARSAC ~ Release of payable accrued prior year in the amount of $221,459

MBASIA ~ Collection of receivable accrued prior year in the amount of $37,346

Additional Information:

	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	Total
Current IBNR as of 9/30/14	0	129,949	99,150	51,200	0	0	1,502,575	477,987	1,277,837	1,385,277	1,338,513	2,559,825	3,498,662	$ 12,320,975
Open Claims as of 9/30/14	0	1	1	1	2	1	3	4	8	9	17	26	29	102

Program Year 2001/02 could be formally closed by the Board, as there are no open claims and no IBNR per the most recent actuarial study.

CARMA
RETROSPECTIVE ADJUSTMENT POLICY

A. Purpose

The purpose of this Retrospective Adjustment Policy is to ensure the long-term financial stability of the California Affiliated Risk Management Authorities (CARMA). The Policy also formalizes a process that would provide for an annual analysis of the program's equity by program year and in aggregate to determine the viability of the possible release of dividends and/or the closure of program years. It is intended to be used as a tool by the Board of Directors to guide them in their funding and equity decisions.

B. Target Confidence Level Funding

The CARMA Board of Directors does hereby establish the ***70% confidence level*** as the Target Confidence Level Funding (Target) for the Program.

D. Assessment

Each program year is accounted for separately. If the funding position for all program years combined falls below the actuarial expected level creating a deficit position, the Board of Directors shall declare an assessment sufficient to eliminate the deficit. Such an assessment will be collected based solely on the total premiums paid by each member to coincide with how the premiums would have been collected had sufficient premiums been collected originally. The assessment will be collected as follows:

1. The deficit/equity position of each program year will be calculated based on the expected outstanding losses projected for each year. (The total deficit/equity position for all years will equal the amount of the assessment to be collected.)
2. Each Member's share of the assessment shall be based upon the deposit premiums collected for the program year being assessed provided that the amount of any assessment levied may not exceed 25% of the deposit premium paid during the assessed program year. If such assessment is not sufficient to relieve the pool of its actuarial deficit in the year of the assessment, such assessment shall be levied each subsequent year until the actuarial deficit is relieved.
3. The deficit/equity position for each program will be distributed among the members who participated in the program for that year based on the percentage of their premium to all premiums contributed for that year.
4. Each Member's deficit/equity for all years will equal their total deficit/equity position and their assessment.

E. Dividend

If the funding for all program years exceeds the 70% confidence level, the Board of Directors may consider declaring a dividend from program years that are at least five years old provided that the funding remains above the 70% confidence level after such a dividend is paid. The dividend would be distributed in the same manner as described above for the collection of an assessment.

<u>Timing:</u>

Annually, the Board of Directors shall review the funding of the program to determine whether dividends may be issued.

<u>Calculation:</u>

The following calculation will be made annually to determine the aggregate equity at the expected, 70%, and 80% confidence levels:

- The equity for each program year shall be calculated by subtracting that year's total administrative and excess insurance costs, incurred loss costs, and Incurred but not Reported (IBNR) and Unallocated Loss Adjustment Expenses (ULAE) as determined by the most recent actuarial study at the expected, 70%, and 80% confidence levels, respectively, from the total contributions and interest income earned.
- Prior dividends and assessments, if any, will be added or subtracted from available assets of each program year, respectively.
- The equity calculated for each program year shall be combined for all program years and become the aggregate equity at each confidence level.
- The aggregate dividend shall be determined by the Board of Directors, subject to the following:
    1. The aggregate equity for all program years may not be reduced below the 70% confidence level after the dividend.
    2. Dividends declared shall be first issued from the oldest program year but only to the extent that program year maintains equity in excess of the 70% confidence level. Any unapplied dividend (70% Program Year Fund Balance) may be carried forward to the next oldest program years in the same fashion until the calculation has been applied to all eligible years, but does not exceed the Dividends Available to be issued.
        i. The entire eligible dividend balance may not be fully applied if the carry-over would extend to program years not fully five years old.
        ii. As the aggregate dividend is carried forward for application, it may be used to offset program years that are funded below the 70% confidence level, but only to the extent that the applied amount brings that year's equity to the 70% confidence level.
        iii. Any ineligible years with a negative Fund Balance must be added to the equation, to arrive at the Final Cumulative Net Dividend. This added precaution is to prevent issuing dividends prematurely.
        iv. Equity may be exchanged between eligible program years. The transfer of equity will be performed so that the individual Member's share of equity is separately applied so as to maintain the integrity of each Member's balance.

F. The Board of Directors may re-evaluate this plan from time to time and make changes to it as deemed necessary by a majority vote of the Board.

Approved by the CARMA Board of Directors at its meeting on April 20, 2011 in Sacramento, CA.

LOOKING FORWARD TO 2015 AND BEYOND

SUBJECT: State of the Market Presentation

BACKGROUND AND STATUS:

Mr. Seth Cole, Alliant Insurance Services, will be in attendance to provide an update regarding the state of the market.

REFERENCE MATERIALS ATTACHED:

- State of the Market Presentation

Agenda Item E.1.

STATE OF THE INSURANCE MARKET 2015

(FROM VARIOUS INDUSTRY SOURCES)

CARMA Annual Workshop
January 8, 2015

<u>Presented by:</u>
Alliant Insurance Services

Presentation Overview

- Highlights
- Property/Casualty Industry Performance
- Impact of Natural Catastrophes
- Data Breaches Have Soared
- Resiliency
- Insurance Renewal Plan of Action

Highlights

- Natural catastrophes for the first half of 2014 were marked by low levels of global claims. Overall economic losses of US $42B and insured losses of US $17B to the end of June were considerably below the average for the past ten years *(US $95B and US $25B, respectively*).
  - **2014 H1 combined ratio 99%**
  - **Policyholder surplus $671.6B as of 6/30/14 (record high)**
  - **2014 Q2: P&C industry investment earnings still below their 2007 pre-crisis peak; falling again in 2014**
  - **The WC combined ratio forecast for 2014 is 99%, after three consecutive years of premium increases**
- The 2014 hurricane season ended November 30. While the Atlantic season was relatively quiet, the Pacific season was the most active it's been since 1992. Fortunately insured losses were below historical averages, but towards the end of the year, the natural climate phenomenon El Niño may impact regions differently in terms of the number and intensity of weather extremes. Northern California…

Average Second Quarter 2014 Commercial Rate Increases Slow

	Small Accounts	Medium Accounts	Large Accounts	Average
Second Quarter 2014	1.2%	-0.2%	-2.6%	-0.5%
First Quarter 2014	3.0%	1.6%	-0.1%	1.5%
Fourth Quarter 2013	2.6%	2.4%	1.4%	2.1%
Third Quarter 2013	3.8%	3.7%	2.6%	3.4%
Second Quarter 2013	4.6%	4.7%	3.8%	4.3%
High (4Q01)	20.8%	31.7%	33.0%	28.5%
Low (3Q07)	-10% (1Q08)	-15.0%	-15.9%	-13.6%

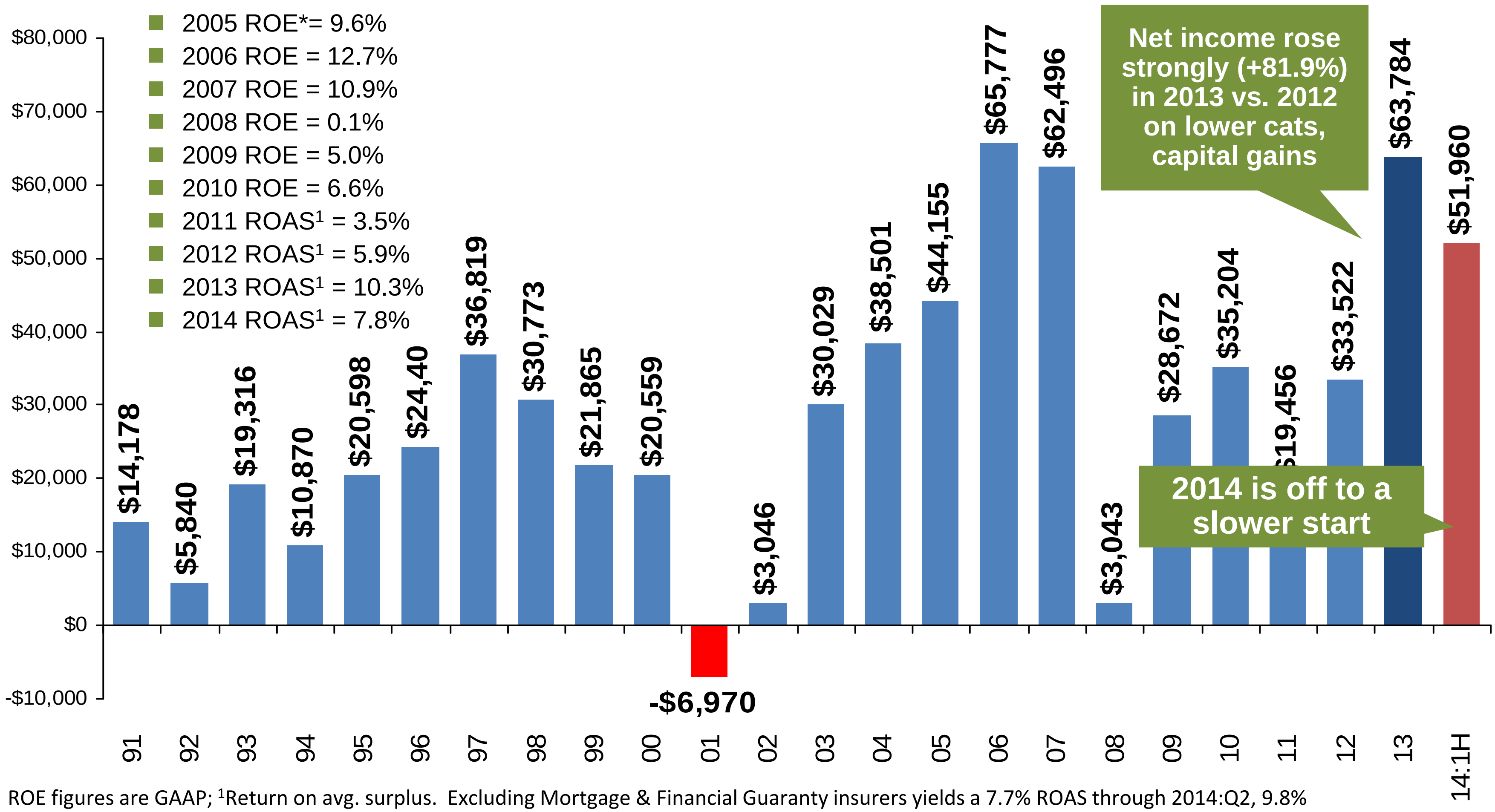
Source: The Council of Insurance Agents & Brokers. Chart prepared by Barclays Research.

Commercial Insurance Prices Increase 3% in the Third Quarter

- The decline in pricing level increases halts, after five consecutive quarters of moderation…
  - Prices increased by a modest 3% in aggregate during the third quarter of 2014
  - Continuing moderation in Workers' Compensation
  - Employment Practices liability line reported the largest increases, followed by Commercial Auto
  - Price increases for most commercial lines registered in the low single digits
  - Commercial Property indicated flat pricing

Source: Towers Watson Commercial Lines Insurance Pricing Survey

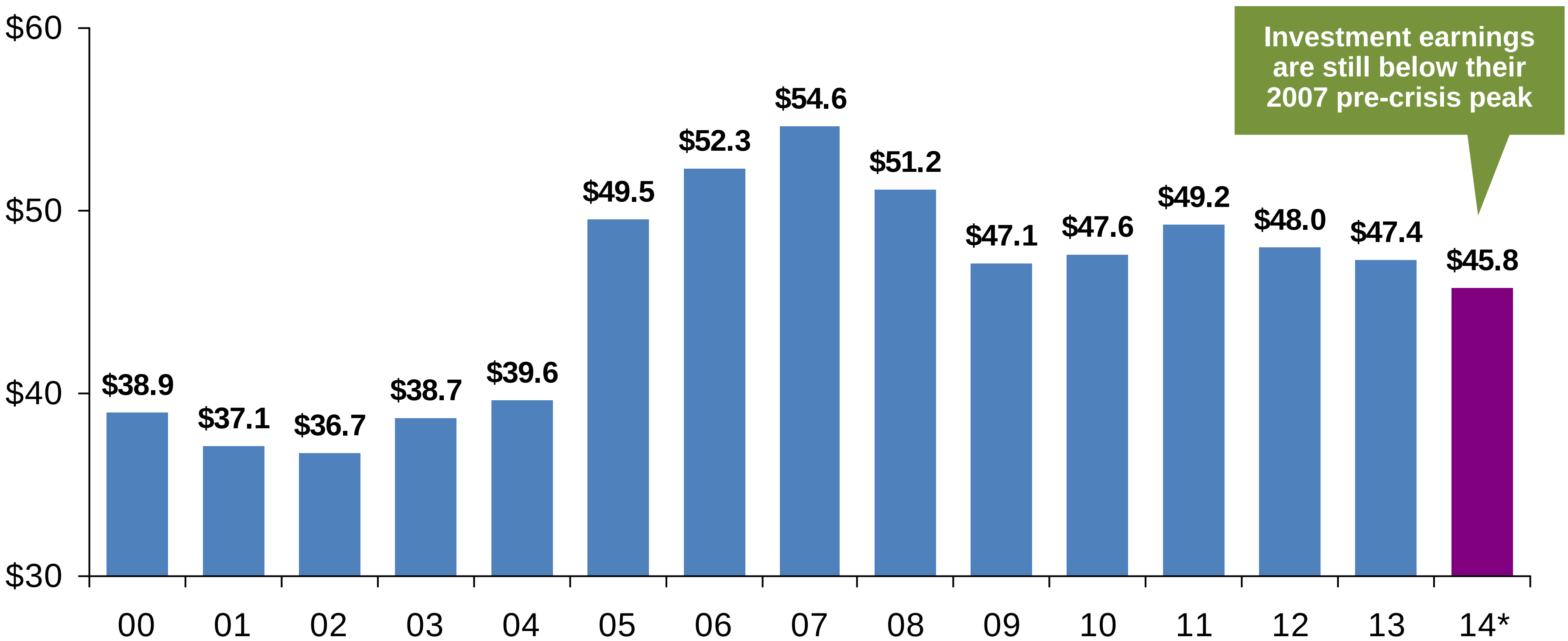
Property/Casualty Industry Net Income After Taxes, 1991–2014:1H



ROE figures are GAAP; [1]Return on avg. surplus. Excluding Mortgage & Financial Guaranty insurers yields a 7.7% ROAS through 2014:Q2, 9.8% ROAS in 2013, 6.2% ROAS in 2012, 4.7% ROAS for 2011, 7.6% for 2010 and 7.4% for 2009. 2014 is annualized H1 data

Sources: A.M. Best, ISO; Insurance Information Institute

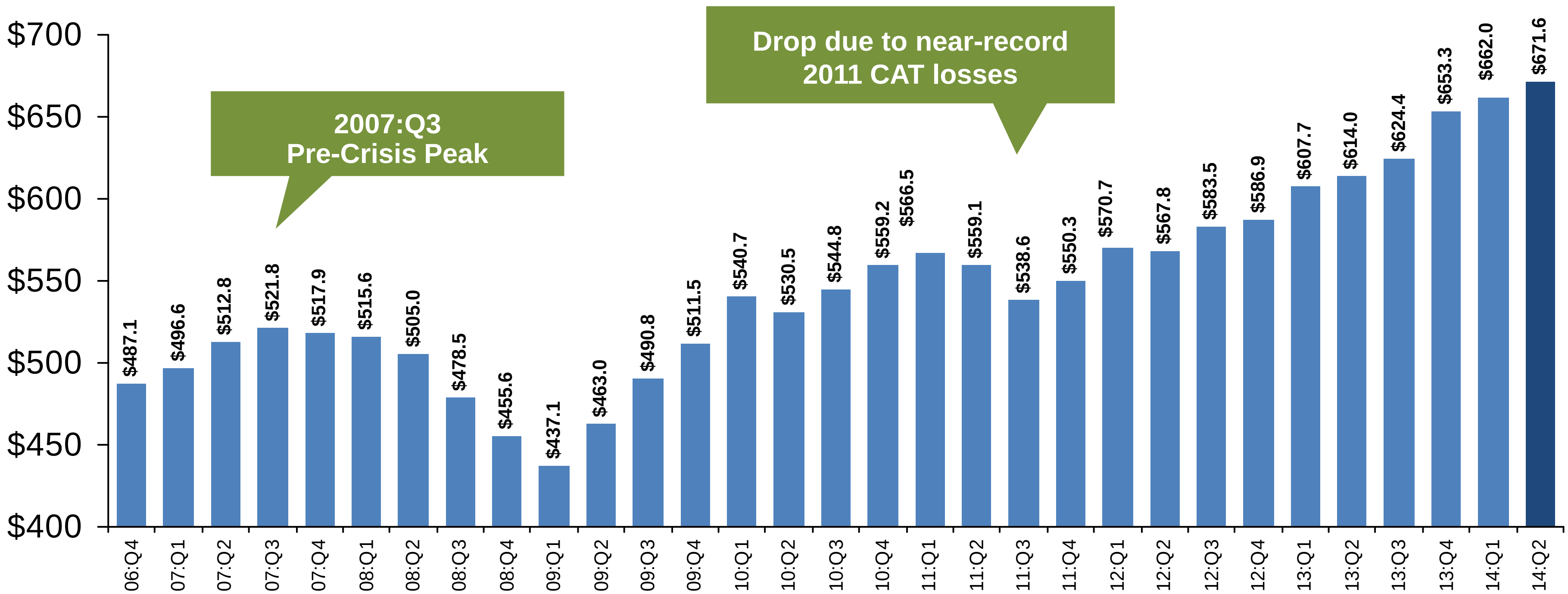
Property/Casualty Insurance Industry Investment Income: 2000–2014[1]



Due to persistently low interest rates, investment income fell in 2012 and in 2013 and is falling again in 2014.

[1] Investment gains consist primarily of interest and stock dividends.
*2014 investment income is estimated Q1, annualized.
Sources: ISO; Insurance Information Institute.

Policyholder Surplus, 2006:Q4–2014:1H

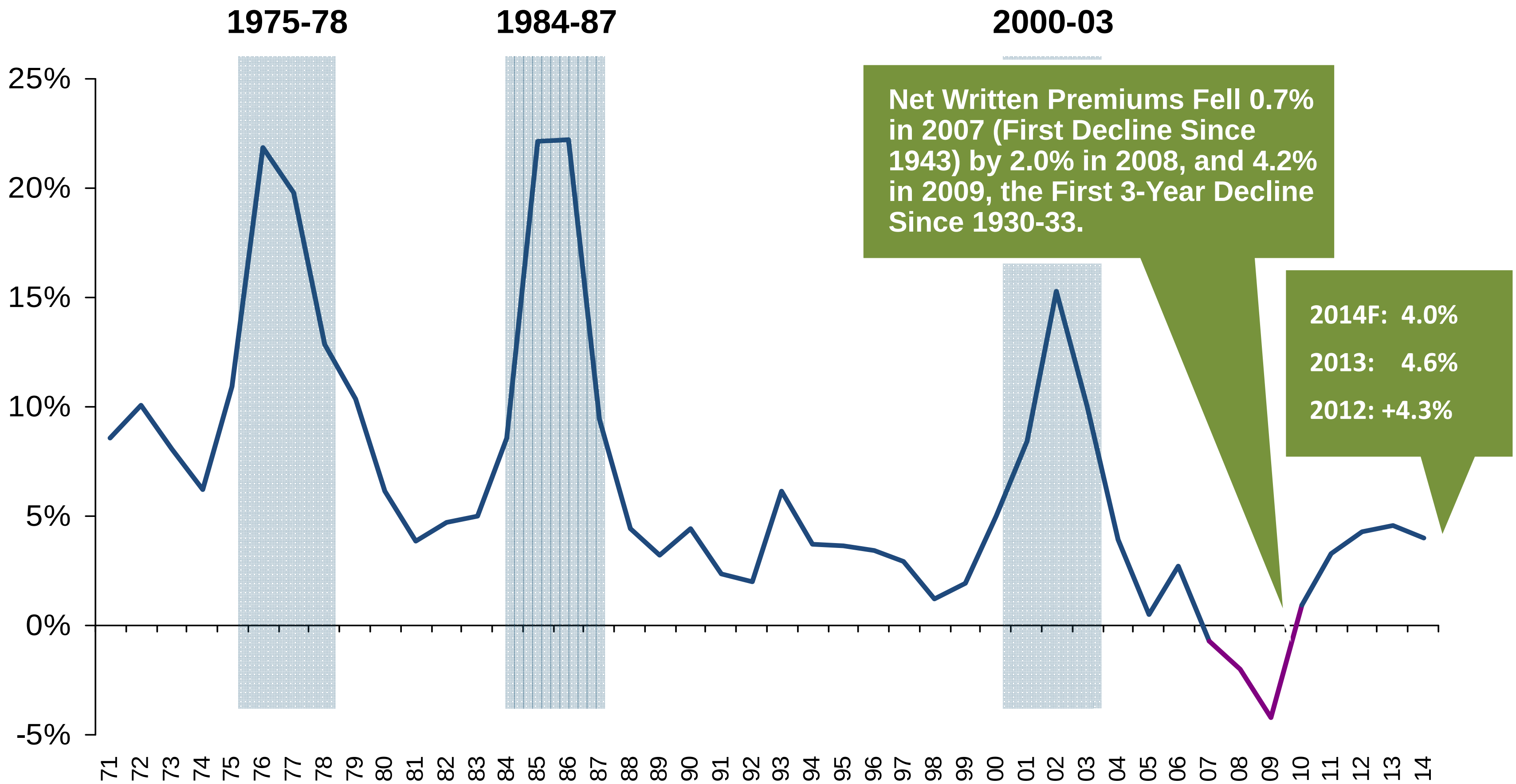


The industry now has $1 of surplus for every $0.73 of NPW, close to the strongest claims-paying status in its history.

The P/C insurance industry entered 2014 in very strong financial condition.

2010:Q1 data includes $22.5B of paid-in capital from a holding company parent for one insurer's investment in a non-insurance business. Sources: ISO, A.M .Best.

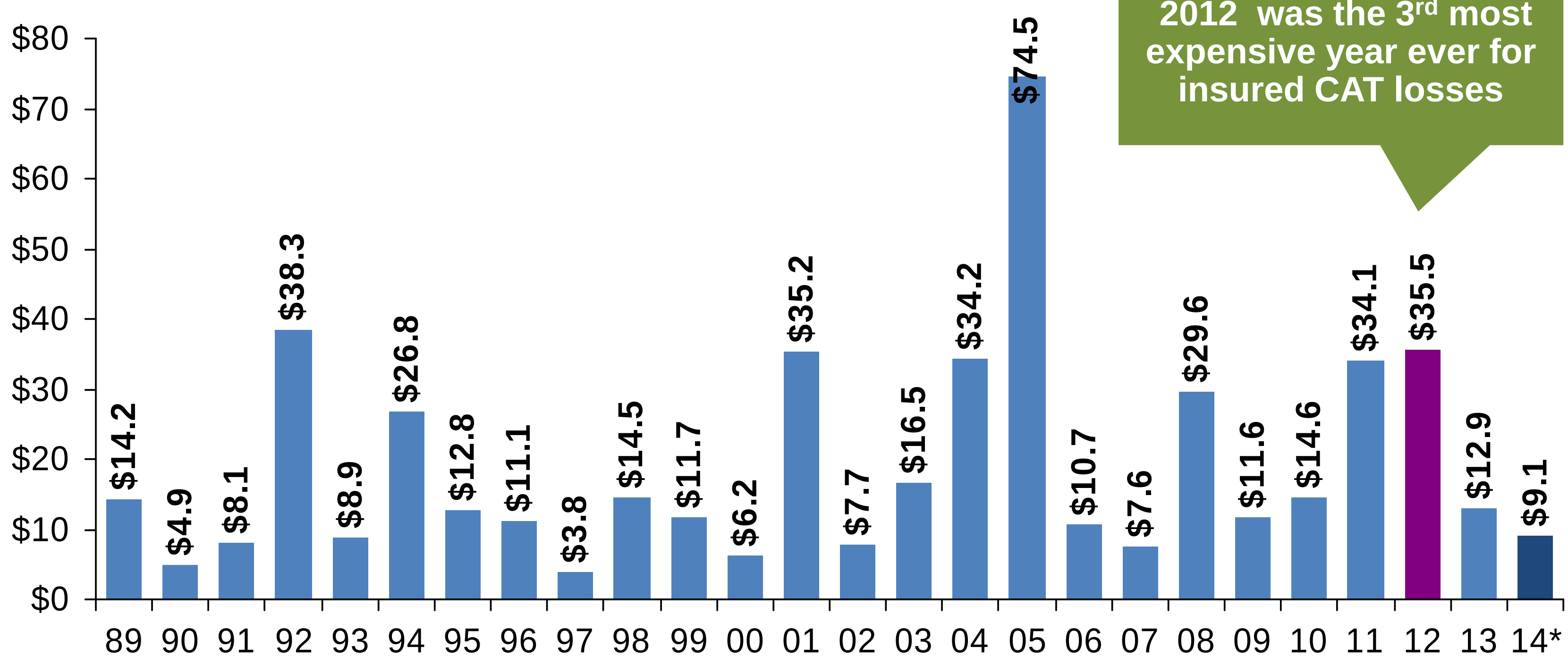
Change in Net Premium Growth: 1971–2014F



Shaded areas denote “hard market” periods. Sources: A.M. Best (historical and forecast), ISO, Insurance Information Institute.

U.S. Insured Catastrophe Losses

($ Billions, $ 2013)



2012 was the 3rd most expensive year ever for insured CAT losses

$9.1 billion in insured CAT losses through June 30

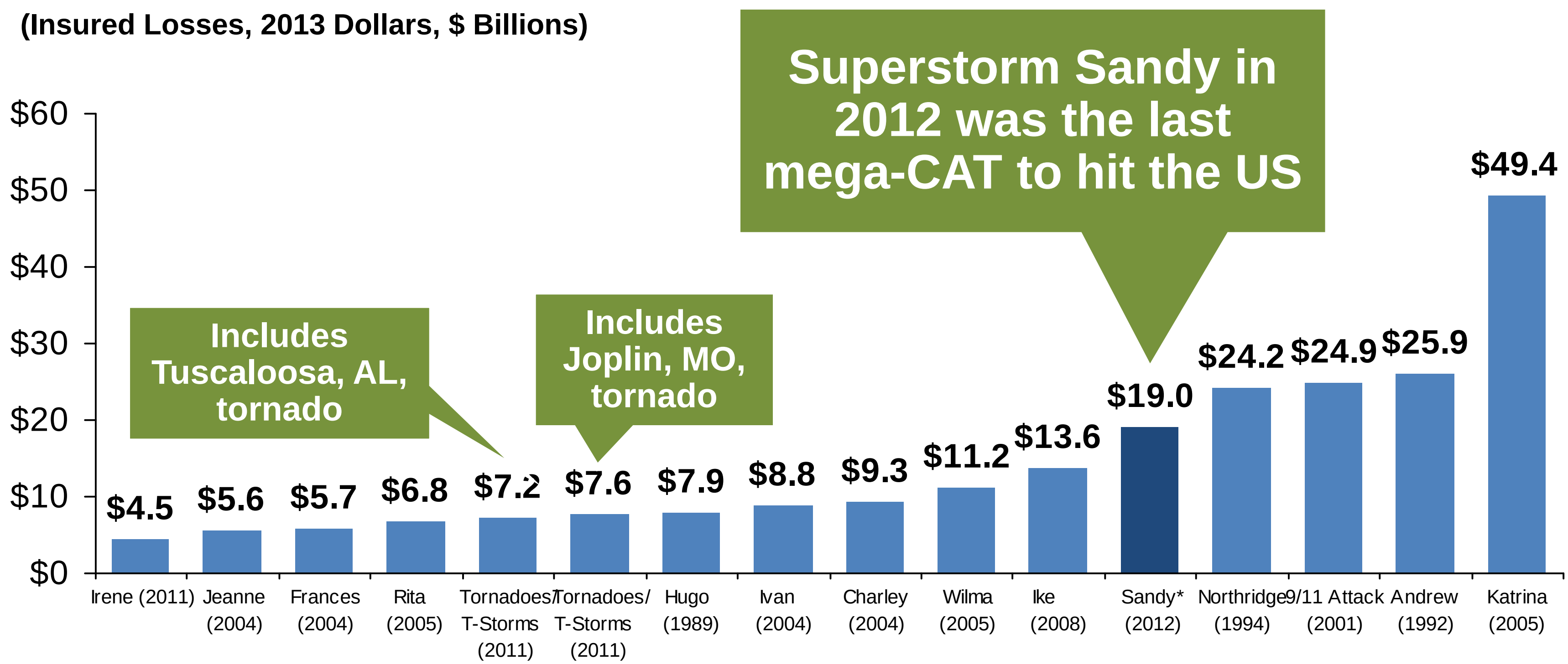
2013 was a welcome respite from 2012, the third costliest year for insured disaster losses in US history. Longer-term trend is for more--not fewer--costly events.

*Through 6/30/14.

Note: 2001 figure includes $20.3B for 9/11 losses reported through 12/31/01 ($25.9B 2011 dollars). Includes only business and personal property claims, business interruption and auto claims. Non-prop/BI losses = $12.2B ($15.6B in 2011 dollars.)

Sources: Property Claims Service/ISO; Insurance Information Institute.

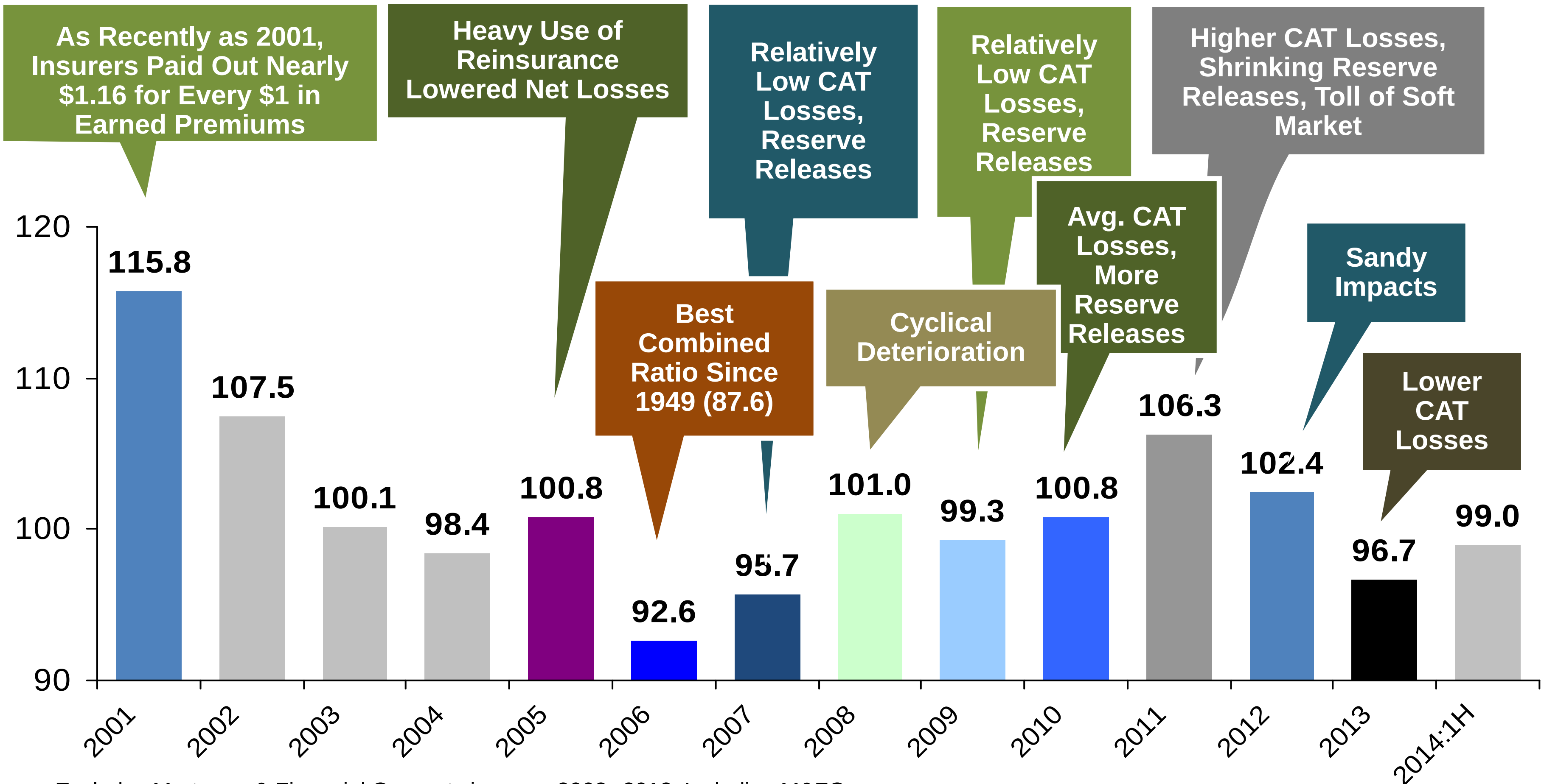
Top 16 Most Costly Disasters in U.S. History



12 of the 16 Most Expensive Events in US History Have Occurred Over the Past Decade (2004-2013)

Sources: PCS; Insurance Information Institute inflation adjustments to 2013 dollars using the CPI.

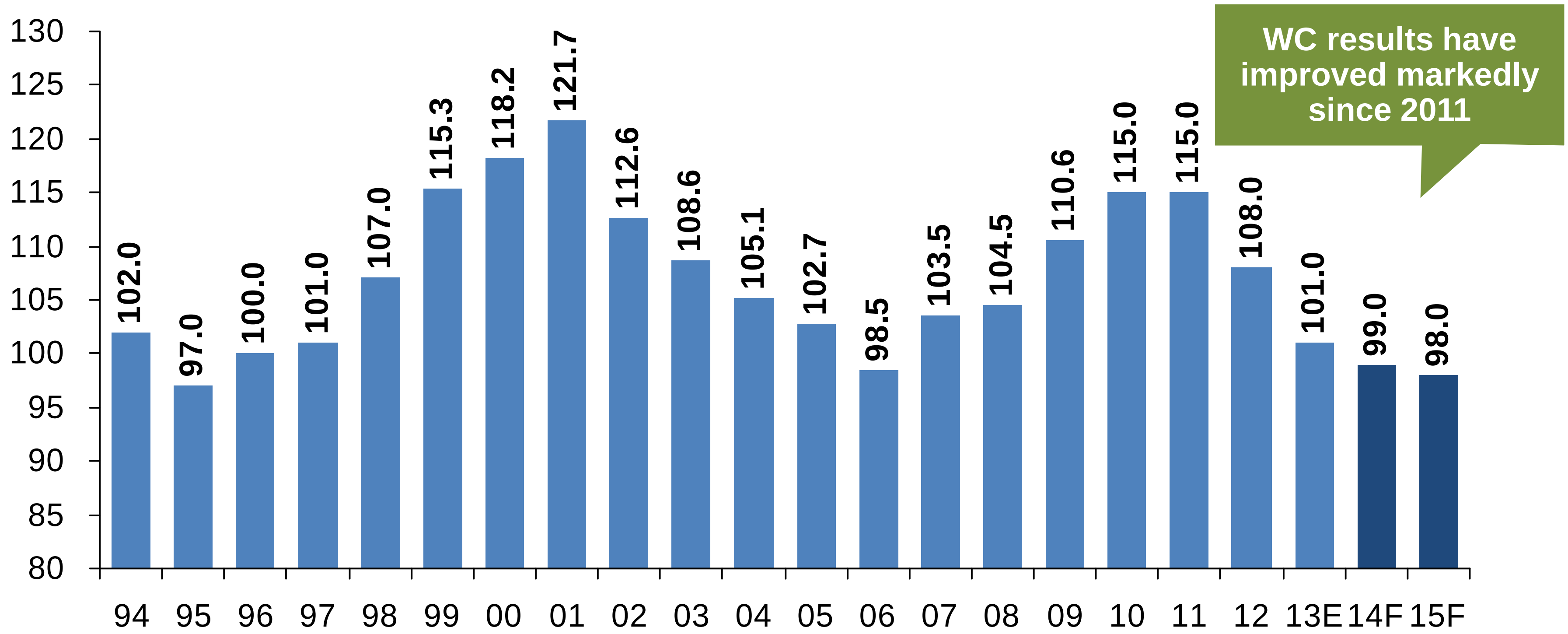
Property/Casualty Combined Ratio: 2001–2014:1H



- Excludes Mortgage & Financial Guaranty insurers 2008--2012. Including M&FG,
- 2008=105.1, 2009=100.7, 2010=102.4, 2011=108.1; 2012:=103.2; 2013: = 96.1; 2014:1H= 98.9..

Sources: A.M. Best, ISO.

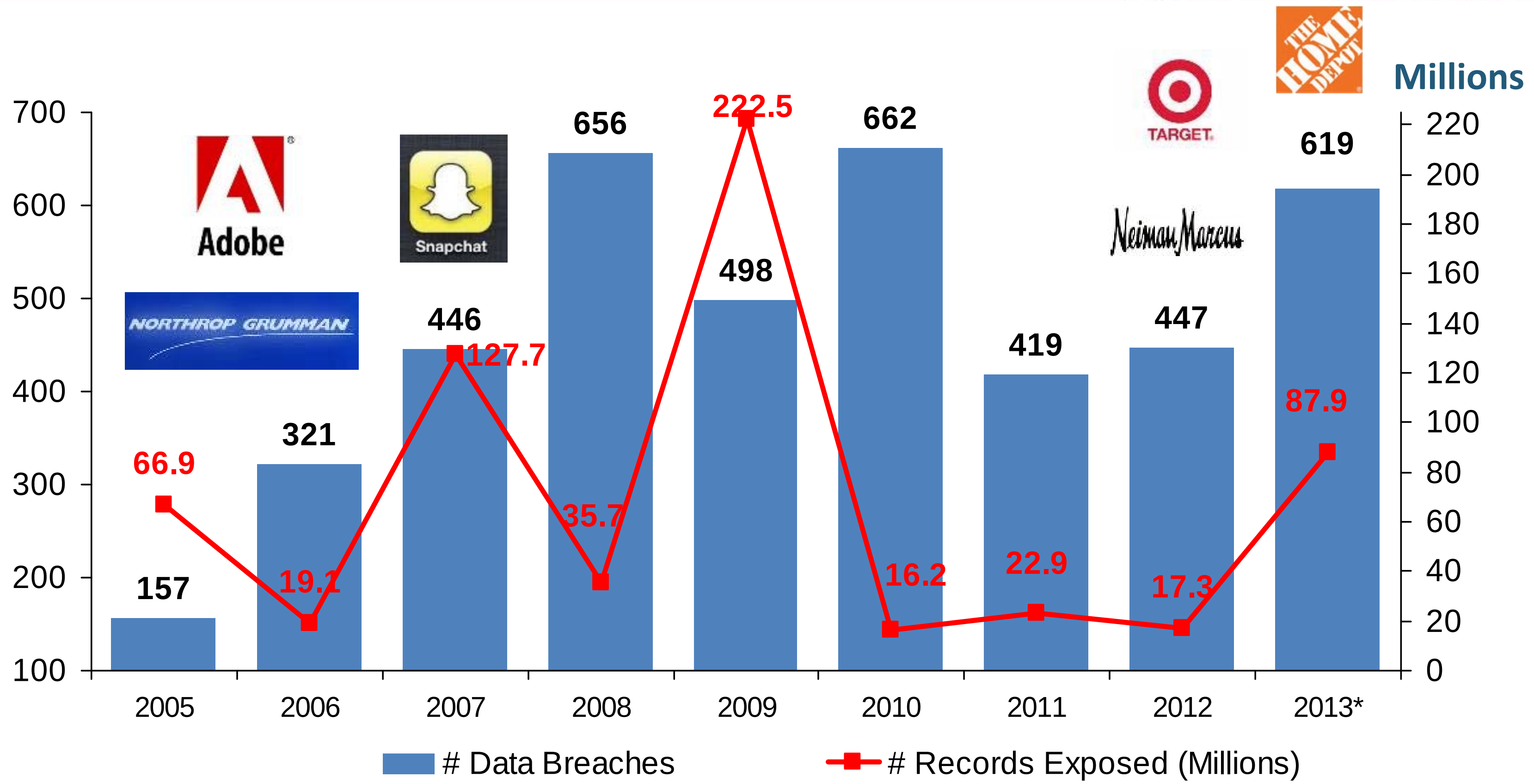
Workers' Compensation Combined Ratio: 1994–2015F



Workers' comp results began to improve in 2012. Underwriting results deteriorated markedly from 2007-2010/11 and were the worst they had been in a decade.

Sources: A.M. Best (1994-2009); NCCI (2010-2013P) and are for private carriers only; Insurance Information Institute (2014-15).

Data Breaches 2005-2013, by Number of Breaches and Records Exposed



The Total Number of Data Breaches (+38%) and Number of Records Exposed (+408%) in 2013 Soared

* 2013 figures as of Jan. 1, 2014 from the ITRC updated to an additional 30 million records breached (Target) as disclosed in Jan. 2014. Source: Identity Theft Resource Center.

Resiliency

- Resilience: Noun; The power or ability to return to the original form, position, etc., after being bent, compressed, or stretched; elasticity.
- Local governments throughout the country are touting the need for resilience in the face of ever-more-frequent natural disasters.
- We all know that we should be prepared for the inevitable emergency event. But are we really ready for the long haul of an extended recovery situation?

Resiliency

- *Superstorm Sandy* demonstrated that although many cities were ***ready***, recovery was longer than planned.
- The response to *Superstorm Sandy* was remarkable. Rather than rebuilding what had been destroyed, government officials at all levels evaluated changes to prevent a repeat of this widespread devastation.
- This evaluation provided beneficial information for future disaster planning.

Insurance Renewal Plan of Action

General Suggestions

- Start renewals early (begin internal information gathering early especially with “slow response” departments)
- Develop relationships with your underwriters.
- <u>Submission quality</u>: Completed applications, consistent underwriting data, accurate historical loss information, understand contractual relationships, be responsive to carrier inquiries.
- Partner with brokers you trust.

Insurance Renewal Plan of Action

Property Specific Suggestions

- Have complete <u>COPE</u> Information (Construction, Occupancy, Protection, Exposure).
- Be prepared to provide flood zone determinations or elevation certificates – this data can help to mitigate adverse market reactions to flood-exposed property.
- Have a *Flood Emergency Response Plan* (“FERP”)
    - For Zone A&V exposures, effectively communicating how your agency will respond to a flood can compel underwriters to take a softer approach to specific location-related issues.
    - Consider NFIP cover to “buy down” deductibles for flood-exposed property.
- <u>Catastrophe Modeling</u> – Discuss with your advisors.

STATE OF THE INSURANCE MARKET 2015

Q&A

LOOKING FORWARD TO 2015 AND BEYOND

SUBJECT: Analysis of Ex-Modification Factor Process

BACKGROUND AND STATUS:

Since the inception of the CARMA program in 1993, the Board has regularly reviewed its premium calculation and dividend/assessment methodologies. Typically this analysis has been performed every 3-5 years with specific changes to the methodology made in:

2001/02
2003/04
2006/07
2010/11
2011/12

The attached memorandum outlines some of the rationale for utilizing an experience modification formula, what impact can occur from changing the various elements and the actual changes made by the Board over the years.

This time is reserved to review this process in detail and determine if changes to the current methodologies should be considered.

REFERENCE MATERIALS ATTACHED:

- CARMA Experience Modification Formula History

Agenda Item E.2.

CARMA
EXPERIENCE MODIFICATION FORMULA HISTORY

PHILOSOPHICAL CONSIDERATIONS EVALUATED IN DEVELOPING THE FORMULA HISTORICALLY

In evaluating the best formula to utilize for raising premium dollars and distributing excess funds, the Board historically has considered the following principals in the order they are listed:

1. AVOIDING VARIABILITY (OR SPIKES) BETWEEN PROGRAM YEARS – At the excess level, it is important to provide stable premiums and low risk for assessments. CARMA's primary members generally do not budget for losses in excess of the original CARMA deposit premium in each program year. It has been the Board's desire to minimize assessments and/or large swings in the amount of the yearly excess liability deposit premiums.

2. EQUITABLE CONSIDERATIONS – The Board has felt that members with experience ratios worse than the group average should logically pay more and/or receive less in the way of dividends. It was decided that this principal must be tempered by the fact that CARMA is a risk-sharing organization. All of our members provide effective loss prevention and transfer of risk services to their underlying members. At the excess level, losses are much more speculative and harder to control. The argument here was that losses that hit the excess layer often are just "bad luck". An automobile liability claim in which there are horrific injuries and large damages can occur anywhere. Conversely, CARMA does not underwrite members on an individual basis and there has been some concern expressed about continuing on with a policy of allowing the primary JPA's the ability to accept any member they so desire without either CARMA individually underwriting those risks, or making an appropriate adjustment to the contribution formula to more equitably account for poor choices (statistically speaking) in this regard.

The following pages present a brief synopsis of how the original formula worked, and the changes made in the following program years:

- 2001/2002
- 2003/2004
- 2006/2007
- 2010/2011
- 2011/2012

ORIGINAL FORMULA
(Prior to July 1, 2001)

Originally, deposit premiums were raised in the following way:

- All administrative costs were spread equally among the members.

  Administrative costs included items such as the Bickmore contract, financial and claims audits, actuarial services, Board legal services, marketing, meeting expenses, conference attendance, investment management services, and accreditation.

- Risk sharing losses were spread based on the product of each member's total payroll/$100 **times** the discounted rate as determined by the actuary (ranging from the expected to 70% confidence level) **times** an experience ratio.

  - The member experience ratio was calculated by dividing the members' average losses over the last five (5) years by the average expected losses of the group. A ratio of greater than one indicated the member had a loss history for the last five (5) years that was worse than the group average, a ratio of less than one indicated a better than average loss history.

  - In calculating the member experience ratio, losses above $50,000 up to $1,000,000 were used.

  - The member experience ratio was capped at .75 and 1.25.

  - By artificially capping the member experience ratio, an off-balance occurred and a factor was used to adjust the premium for the risk sharing losses back to the amount the actuary determined should be collected.

- Reinsurance costs were spread based strictly on the rate being offered times payroll/$100.

- Funds were returned or assessed retrospectively in the risk-sharing layer in the same proportion as they were collected.

  NOTE: CARMA uses program year accounting so each year stands alone when evaluating prospective dividends or assessments.

FORMULA MODIFICATIONS BEGINNING IN THE 2001/2002 PROGRAM YEAR
(From July 1, 2001 to June 30, 2003)

- A change was made to spread administrative costs in the following manner:
  - 40% of the management contract (Bickmore) and 100% of all other administrative costs were spread equally among the members.
  - The remaining 60% of the management contract was spread using the pure calculated experience ratio before credibility and capping was applied.
- Risk sharing losses were spread based on the product of each member's total payroll/$100 **times** the discounted rate as determined by the actuary (ranging from the 67% to 70% confidence level) **times** an experience ratio.
  - The member experience ratio was calculated by dividing the members' average losses over the oldest three (3) of the last five (5) years by the average expected losses of the group. Originally, all five (5) of the most recent years were used in the calculation.
  - In calculating the member experience ratio, losses above $100,000 up to $1,000,000 were used. Originally, a lower limit of $50,000 was used.
  - The member experience ratio remained capped at .75 and 1.25.
  - By artificially capping the member experience ratio, an off-balance still occurred and a factor was used to adjust the premium for the risk sharing losses back to the amount the actuary determined should be collected.
- Reinsurance costs were still spread based strictly on the rate being offered times payroll/$100.
- Funds continued to be returned or assessed retrospectively in the risk-sharing layer in the same proportion as they were collected.

FORMULA MODIFICATIONS BEGINNING IN THE 2003/2004 PROGRAM YEAR (From July 1, 2003 to June 30, 2006)

- All administrative costs continue to be spread in the following manner:

    - 40% of the management contract (Bickmore) and 100% of all other administrative costs are spread equally among the members.

    - The remaining 60% of the management contract is spread using the pure calculated experience ratio before credibility and capping was applied.

- Risk sharing losses are spread based on the product of each member's total payroll/$100 **times** the discounted rate as determined by the actuary (ranging from the 70% to 85% confidence level) **times** an experience ratio.

    - The member experience ratio is now calculated by dividing the members' average losses over the oldest four (4) of the last six (6) years by the average expected losses of the group. Previously, the oldest three (3) of the last five (5) most recent years were used in the calculation.

    - In calculating the member experience ratio, losses above $100,000 up to $500,000 are now used. Previously, losses at the upper level were capped at $1,000,000.

    - The member experience ratio remained capped at .75 and 1.25.

    - A credibility factor was added to the calculation. Credibility refers to the amount of weight given to various estimates of losses or loss trends. An estimate of losses produced from a larger data set like the Bay Cities Joint Powers Insurance Authority (BCJPIA) will generally be a more reliable predictor than an estimate from a smaller data set like the Vector Control Joint Powers Agency (VCJPA) or the Monterey Bay Area Self Insurance Authority (MBASIA). Including a credibility factor in the formula has the effect of bringing the experience modification factors closer together and reducing variability. The credibility factor added is calculated by using the square root of the payroll of each CARMA member divided by the combined payroll of the group. This factor is then multiplied by the deviation from the norm of the member experience ratio. Finally, the sum of 1 minus the deviation calculation is used to come up with the factored experience modifier.

    - By artificially capping the member experience ratio, an off-balance still occurs and a factor is used to adjust the premium for the risk sharing losses back to the amount the actuary determined should be collected.

    - Reinsurance costs are still spread based strictly on the rate being offered times payroll/$100.

    - Funds continue to be returned or assessed retrospectively in the risk-sharing layer in the same proportion as they were collected.

FORMULA MODIFICATIONS BEGINNING IN THE 2006/2007 PROGRAM YEAR
From July 1, 2006 to June 30, 2010)

- The following changes were made to the formula:

  - Losses from \$100k to \$1 million were used in the ex mod calculation (for the prior three years losses were capped at \$500k)

  - The ex mod calculation must be applied to the reinsurance premium which in the 2005/2006 program year covered the \$5 million in excess \$5 million layer

  - The range of years used in the ex mod calculation continues to be the oldest four (4) of the most current six (6).

  - Ex mod factors continue to be capped at .75 on the low end and 1.25 on the high end.

The Board requested the new premium collection process be utilized for the 2006/2007, 2007/2008, and 2008/2009 program years and directed that the newly revised premium collection process be reviewed at the CARMA Annual Workshop in early 2009.

At the 2009 Annual Workshop in January, 2009, the Board did not elect to make any changes to the formula.

FORMULA MODIFICATIONS BEGINNING IN THE 2010/2011 PROGRAM YEAR

- The following change was made to the formula:

  - Losses from \$100k to \$1 million continued to be used in the ex mod calculation, with one exception being:

  - Inverse condemnation claims are capped at \$1.5 million.

FORMULA MODIFICATIONS BEGINNING IN THE 2011/2012 PROGRAM YEAR

- The following change was made to the formula:

  - A three year phase-out of the ex mod calculation being applied to the reinsurance premium began. In the 2011/2012 program year, the ex mod was applied to 2/3 of the reinsurance premium, while 1/3 of the premium costs were spread based strictly on the rate being offered times payroll/\$100. The following year the process was reversed with the ex mod applied to 1/3 of the reinsurance premium. In the 2013/2014 program year, the phase out was complete, and the ex mod was not applied to any portion of the reinsurance premium.

Brief discussion of considerations regarding various elements of the formula
(Originally presented for possible changes to the 2005/2006 program year)

Administrative Cost Distribution

Some administrative costs should be bourn equally amongst the members, i.e. the costs of distributing materials, holding meetings, the cost of studies, etc. Some costs such as litigation management services arguably should be spread based on member experience.

Number of Years of Loss Data Used

The more years of data utilized in the formula, the more credible the data will be due to the averaging of the loss experience over time and the more variability will be reduced. Conversely, there is an argument that the more years that are utilized, the less connection there is to the current actual experience of the member (i.e. how long a member should be penalized for a bad year)

Age of Years of Loss Data Used

The older the years of data utilized in the formula, the more credible the data will be due to the use of more mature claims data and the more variability will be reduced. Conversely, there is an argument that the older the years that are utilized, the less connection there is to the current actual experience of the member (i.e. how long a member should be penalized for a bad year)

Range of Losses Used (Caps)

The tighter the spread of the range of losses utilized and the lower the cap on the upper end, the more variability will be reduced and risk sharing will be promoted.

Conversely, the tighter the spread, and the lower the cap on the upper end, the less experience is allowed to float freely.

Credibility Factor

Institution of the credibility factor reduces variability and promotes the risk sharing concept.

Conversely, the utilization of this factor does not promote equity in funding as it does not allow experience to float freely.

Artificial Capping of the Member Experience Ratio (Currently .75 and 1.25)

With the institution of the credibility factor, the capping of the member experience ratio is rarely utilized as the credibility factor tends to squeeze the experience ratios towards one and there are normally very few outliers beyond the current caps.

Reducing these caps reduces variability and promotes the risk sharing concept. The tighter the caps, the less variability and risk sharing.

Conversely, the capping of experience does not promote equity in funding as it does not allow experience to float freely. The wider the caps, the more equity is promoted.

LOOKING FORWARD TO 2015 AND BEYOND

SUBJECT: Further Analysis of Mid-layer Pool

BACKGROUND AND STATUS:

At the CARMA Board of Directors meeting in September 2014, staff presented a proposed methodology for the implementation of a Mid-Layer Pool (MLP). The Board requested that the item be brought back for discussion at the Annual Workshop for further analysis. The following additional information was requested to assist the Board with their analysis:

- A comparison of current budget scenarios featuring the MLP funding both the $1M x $3M and $1M x $4M layers.
- Annual savings vs. initial investment

PURPOSE:

The purpose of a MLP is to reduce the effect that severe claims can have on either CARMA's pooled or reinsurance layers. A MLP that fully funds a $1 million layer, for example, provides a benefit to the members in the reduction of either pooled or reinsurance annual premiums, and is another important step in becoming more independent of the fluctuations in the purchased insurance market.

KEY COMPONENTS OF A MLP:

The options for size and structure of a MLP are myriad. The key components that the Board considered at the September meeting and staff recommendations for each were as follows:

- **Separately Funded:**
  Staff recommends that the accountability for the funds of the MLP be maintained separately from the funds for the pooled layer; however, funds could be co-mingled for investment earning purposes.
- **Program Years:**
  Staff recommends that the MLP be a single entity, not subject to program years. Staff, however, would account for the MLP funds by program year in a separate schedule for tracking purposes.
- **Equity vs. Non-Equity:**
  If created as an equity pool, a member upon withdrawing from the JPA would be issued a refund for what has been paid into this layer. If maintained as a non-equity pool, upon withdrawal a member would forfeit all rights to these funds which would remain wholly with the JPA.
  Staff recommends that the MLP be maintained as a non-equity pool.

Agenda Item E.3.

- **Funding Layer:**
  Staff recommends that the MLP fund claims activity between $4M and $5M (the highest current pooled layer is $1 million).
  The option of funding claims activity between both $3M and $4M and $4M and $5M (the first reinsurance layer $1 million) was also presented in September. Budget scenarios are included as back-up to this agenda item. The analysis shows that premium savings would be approximately $700,000 for the recommended layer between $3M and $4M, and approximately $200,000 for the $4M to $5M option.
- **Amount of Pre-Funding:**
  As each of the layers discussed above has incurred costs of approximately $5 million during CARMA's twenty years in existence, staff would recommend an initial funding of $2.5 million to create the MLP (details of this analysis were provided at the September meeting and are repeated in the next section of this staff report).
  Staff recommends an initial funding of the MLP of $2.5M to be funded over a two year budget cycle. The 2015/16 Budget would include the funding of one half of the initial funding, or $1.25M. The collected funds would be placed in a restricted fund for the future activation of the MLP, and after the second collection via the budgeting process during 2016/17, the MLP would be activated.
  Should CARMA release dividends to the membership according to staff's recommendation based on the retrospective adjustment calculation as of June 30, 2014, this dividend could be used at each member's discretion to offset the budgeted funding of the MLP. A comparison of the MLP funding to the dividend by member is included as back-up to this agenda item.
- **Dividends:**
  Staff would recommend the release of dividends from the MLP in excess of the determined retained balance based on the current payroll allocation of current members.
- **New Member Contributions:**
  Staff would recommend a contribution over a three-year period based on the new member's payroll in relation to the total JPA payroll and the current balance of the MLP.

FINANCIAL ANALYSIS:

Funding Layer:
Selecting the most suitable layer for the MLP is a primary consideration. As discussed in the "Funding Layer" key component above, either the $3M - $4M or the $4M - $5M layers are optimum as they are each border layers, one at the high end of the pooled layer and the other at the low end of the reinsurance layer. Currently CARMA's pooled layer is $3M x $1M, however CARMA's pooled retention layer has varied over the years as follows:

- 1993/94 $4 M x $1 M
- 1994/95 – 2002/03 $2 M x $1 M
- 2003/04 – 2004/05 $3 M x $1 M
- 2005/06 – 2007/08 $4 M x $1 M
- 2008/09 – Present $3 M x $1 M

Attached is a Loss Stratification analysis since the inception of CARMA as of June 30, 2014, which reveals the following details of CARMA in aggregate and these two layers:

CARMA:

Total Incurred:	$57,835,176
Total No. of Claims:	53

$3M - $4M:

Total Incurred:	$5,039,483
Total No. of Claims:	6

Benefit: Pooled layer would be reduced by $1M, thereby decreasing the pooled funding contribution (by approximately $700,000, see attached Budget scenario).
The initial investment of $2.5M over a two year period would be recouped in approximately 3 ½ years, anticipating a continued $700,000 contribution savings each year.

$4M - $5M:

Total Incurred:	$4,000,000
Total No. of Claims:	4

Benefit: Reinsurance would attach at a layer $1M higher than the present retention of $10M x $4M, thereby reducing the reinsurance premium (by approximately $200,000, see attached Budget scenario).
The initial investment of $2.5M over a two year period would be recouped in approximately 12 years, anticipating a continued $200,000 contribution savings each year.

In consideration of each of these scenarios, staff will continue to obtain pooling rates from CARMA's actuary at the various retentions and confidence levels needed for evaluation, as well as requesting reinsurance rates from Alliant for the 2015/16 program year at $9M x $5M, $10M x $5M (which would necessitate obtaining excess rates at various other retentions as well), in addition to the current $10M x $4M.

Should the Board approve the implementation of a MLP, staff will draft a policy to be considered at the April, 2015, Board meeting.

In conclusion, staff recommends the implementation of a Mid-layer Pool (MLP) with an initial funding of $2.5 million which would cover losses in the $4M to $5M layer to be funded over a two year budget cycle. The 2015/16 Budget would include the funding of one half of the initial funding, or $1.25M. The collected funds would be placed in a restricted fund for the future activation of the MLP, and after the second collection via the budgeting process during 2016/17, the MLP would be activated.

REFERENCE MATERIALS ATTACHED:

- 2014/15 Budget Scenarios ~ Including MLP Option
- Comparison by Member ~ Recommended Dividend and MLP Funding Indication
- CARMA Loss Stratification as of June 30, 2014

CALIFORNIA AFFILIATED RISK MANAGEMENT AUTHORITIES

~ 2014/15 Operating Budget ~ MLP Option ~ $1 X $3

Funding For Pooled Losses at the 75% Confidence Level ~ *Discount Factor 2.0%* ~ $2 Million x $1 million

~ Reinsurance Purchase $10 million ex of $4 million - Am Trust Financial ~

Mid-Layer Pool replaces highest million of Pooled Coverage; Reinsurance Layer remains the same

~ Excess Purchase $15 million ex of $14 million - Colony ~

	2013 PAYROLL	FUNDING FOR POOLED LOSSES	EXPERIENCE MOD FACTOR	LOSSED ADJUSTED FOR EX MOD	OFF-BALANCE FACTOR	ADJUSTED POOLED LOSSES
MEMBER AGENCY	NOTE 1	NOTE 2	NOTE 3	NOTE 4	NOTE 5	NOTE 6
BCJPIA	$381,729,526	$1,561,274	0.876	$1,367,350	1.0400	$1,422,015
CSJVRMA	$355,689,086	1,454,768	0.869	1,263,931	1.0400	1,314,461
MBASIA	$43,221,048	176,774	1.028	181,765	1.0400	189,032
MPA	$244,360,044	999,433	1.250	1,249,291	1.0400	1,299,235
VCJPA	$47,527,581	194,388	0.801	155,671	1.0400	161,894
TOTALS	**$1,072,527,285**	**$4,386,637**	**0.965**	**$4,218,008**		**$4,386,637**
			(average)			

LAYER "B" RATE	**$2 X $1 Rate for Discounted Losses and ALAE (75% Confidence Level)**	**0.409**
LAYER "C" RATE	**Reinsurance Rate + Broker's Fee**	**$0.11381**
($4-14 MIL)	Broker's Fee (included in reinsurance rate)	$71,400
LAYER "D" RATE	**Excess ($14-$29 Mil) Insurance Rate**	**$0.05258**

LAYER "A" $0 - $1 MIL - NOT ACTIVATED
LAYER "B" $2 MIL EX $1 MIL Pooled
LAYER "C" Mid Layer Pool ~ $1 MIL EX $3 MIL
LAYER "C" $10 MIL EX $4 MIL
LAYER "D" $15 MIL EX $14 MIL

NOTES:
1 2013 Payroll
2 Payroll/100 * Rate Discounted at 2.0%
3 Minimum of .75 AND Maximum of 1.25 (Page 2)
4 (2)*(3)
5 Total (2) / Total (4)
6 (4) * (5).
7 (Payroll/100) * Reinsurance Rate
8 (Payroll/100) * Excess Insurance Rate
9 From Page 4
10 Sum of (6) Through (9)

	ADJUSTED POOLED LOSSES	Reinsurance PREMIUM $10 Mil X $4 Mil	EXCESS PREMIUM $15Mil x $14Mil	ADMIN PREMIUM	2014-2015 CARMA PREMIUM	RATE PER $100
MEMBER AGENCY	NOTE 6	NOTE 7	NOTE 8	NOTE 9	NOTE 10	PAYROLL
BCJPIA	$1,422,015	$434,431	$200,716	$85,398	**$2,142,559**	$0.561
CSJVRMA	1,314,461	404,795	187,024	$84,494	**1,990,775**	$0.560
MBASIA	189,032	49,188	22,726	$100,280	**361,225**	$0.836
MPA	1,299,235	278,096	128,486	$128,180	**1,833,998**	$0.751
VCJPA	161,894	54,089		$51,522	**267,505**	$0.563
TOTALS	**$4,386,637**	**$1,220,600**	**$538,952**	**$449,873**	**$6,596,062**	**$0.615**

COMPARISON To Current Approved Budget		
2014-15 Origianal PREMIUM	INCREASE (DECREASE)	Percentage INCREASE (DECREASE)
2,368,552	($225,993)	-9.54%
2,199,674	($208,900)	-9.50%
391,267	($30,042)	-7.68%
2,040,477	($206,480)	-10.12%
293,234	($25,729)	-8.77%
$7,293,204	**($697,143)**	-9.56%

CALIFORNIA AFFILIATED RISK MANAGEMENT AUTHORITIES

~ 2014/15 Operating Budget ~ MLP Option ~ $1 X $4

Funding For Pooled Losses at the 75% Confidence Level ~ *Discount Factor 2.0%* ~ $3 Million x $1 million

~ Reinsurance Purchase $9 million ex of $5 million - Am Trust Financial ~

Mid-Layer Pool replaces 1st million of Reinsurance Coverage; Pooled Layer remains the same

~ Excess Purchase $15 million ex of $14 million - Colony ~

	2013 PAYROLL	FUNDING FOR POOLED LOSSES	EXPERIENCE MOD FACTOR	LOSSED ADJUSTED FOR EX MOD	OFF-BALANCE FACTOR	ADJUSTED POOLED LOSSES
MEMBER AGENCY	NOTE 1	NOTE 2	NOTE 3	NOTE 4	NOTE 5	NOTE 6
BCJPIA	$381,729,526	$1,809,398	0.876	$1,584,655	1.0400	$1,648,007
CSJVRMA	$355,689,086	1,685,966	0.869	1,464,801	1.0400	1,523,361
MBASIA	$43,221,048	204,868	1.028	210,652	1.0400	219,073
MPA	$244,360,044	1,158,267	1.250	1,447,833	1.0400	1,505,715
VCJPIA	$47,527,581	225,281	0.801	180,410	1.0400	187,623
TOTALS	**$1,072,527,285**	**$5,083,779**	**0.965**	**$4,888,352**		**$5,083,779**
			(average)			

LAYER "B" RATE	**$3 X $1 Rate for Discounted Losses and ALAE (75% Confidence Level)**	**0.474**
LAYER "C" RATE	**Reinsurance Rate + Broker's Fee**	**$0.09523**
($5-14 MIL)	Broker's Fee (included in reinsurance rate)	$71,400
LAYER "D" RATE	**Excess ($14-$29 Mil) Insurance Rate**	**$0.05258**

LAYER "A" $0 - $1 MIL - NOT ACTIVATED
LAYER "B" $3 MIL EX $1 MIL Pooled
LAYER "C" Mid Layer Pool ~ $1 MIL EX $4 MIL
LAYER "C" $9 MIL EX $5 MIL
LAYER "D" $15 MIL EX $14 MIL

NOTES:
1 2013 Payroll
2 Payroll/100 * Rate Discounted at 2.0%
3 Minimum of .75 AND Maximum of 1.25 (Page 2)
4 (2)*(3)
5 Total (2) / Total (4)
6 (4) * (5).
7 (Payroll/100) * Reinsurance Rate
8 (Payroll/100) * Excess Insurance Rate
9 From Page 4
10 Sum of (6) Through (9)

	ADJUSTED POOLED LOSSES	Reinsurance PREMIUM $10 Mil X $4 Mil	EXCESS PREMIUM $15Mil x $14Mil	ADMIN PREMIUM	2014-2015 CARMA PREMIUM	RATE PER $100
MEMBER AGENCY	NOTE 6	NOTE 7	NOTE 8	NOTE 9	NOTE 10	PAYROLL
BCJPIA	$1,648,007	$363,533	$200,716	$85,398	**$2,297,653**	$0.602
CSJVRMA	1,523,361	338,733	187,024	$84,494	**2,133,612**	$0.600
MBASIA	219,073	41,161	22,726	$100,280	**383,240**	$0.887
MPA	1,505,715	232,711	128,486	$128,180	**1,995,093**	$0.816
VCJPIA	187,623	45,262		$51,522	**284,407**	$0.598
TOTALS	**$5,083,779**	**$1,021,400**	**$538,952**	**$449,873**	**$7,094,004**	**$0.661**

COMPARISON To Current Approved Budget		
2014-15 Origianal PREMIUM	INCREASE (DECREASE)	Percentage INCREASE (DECREASE)
2,368,552	($70,898)	-2.99%
2,199,674	($66,062)	-3.00%
391,267	($8,027)	-2.05%
2,040,477	($45,385)	-2.22%
293,234	($8,827)	-3.01%
$7,293,204	**($199,200)**	-2.73%

California Affiliated Risk Management Authorities

~ Comparison by Member ~

~ 2015 Recommended Dividend Release ~ 2015/16 Budgeted Mid-Layer Pool Funding Indication ~

	MLP Funding Calculation*			Recommended Dividend Compared to MLP Funding		
Member	**2013 Payroll**	**MLP Funding Allocation**	**1/2 MLP Funding Allocation**	**Dividend at 80% CL**	**1/2 MLP Funding Allocation**	**Difference Between Dividend and MLP Funding**
BCJPIA	$381,729,526	$889,790	$444,895	**$358,788**	$444,895	(86,107)
CSJVRMA	355,689,086	829,091	414,545	**661,356**	414,545	246,811
MBASIA	43,221,048	100,746	50,373	**34,830**	50,373	(15,543)
MPA	244,360,044	569,589	284,795	**577,430**	284,795	292,635
VCJPA	47,527,581	110,784	55,392	**100,261**	55,392	44,869
Total	$1,072,527,285	**$2,500,000**	**$1,250,000**	**$1,732,665**	**$1,250,000**	**482,665**

* The actual calculation for the 2015/16 Budget will use 2014 payroll. This analysis provides an indication using the prior year's payroll.

CARMA ~ LOSS STRATIFICATION as of June 30, 2014

CLAIM DATA					COST DATA		STRATIFICATION							
							Current Pooled Layers			Excess Layers				
PROGRAM YEAR	LAYER	ENTITY	CITY	STATUS	TOTAL CARMA INCURRED	TOTAL INCURRED PLUS RECOVERIES / QS	$1,000,000 to $2,000,000	$2,000,000 to $3,000,000	$3,000,000 to $4,000,000	$4,000,000 to $5,000,000	$5,000,000 +	TOTAL INCURRED PLUS RECOVERIES / QS	Incurred Plus Recoveries by Program Year	Number of Claims by Program Year
1993/1994	4 x 1	PERMA	Banning	Closed	624,585	624,585	624,585	-	-	-	-	624,585		
1993/1994	4 x 1	PERMA	Cathedral City	Closed	53,158	53,158	53,158	-	-	-	-	53,158	677,743	2
1994/1995	2 x 1	PARSAC	Carlsbad	Closed	951,286	951,286	951,286	-	-	-	-	951,286		
1994/1995	2 x 1	PARSAC	Yucaipa	Closed	394	394	394	-	-	-	-	394		
1994/1995	2 x 1	PERMA	Norco	Closed	290	290	290	-	-	-	-	290		
1994/1995	2 x 1	PARSAC	Yucaipa	Closed	240	240	240	-	-	-	-	240		
1994/1995	2 x 1	PERMA	La Quinta	Closed	88	88	88	-	-	-	-	88	952,298	5
1995/1996	2 x 1	PARSAC	Rialto	Closed	1,925,465	1,925,465	1,000,000	925,465	-	-	-	1,925,465		
1995/1996	2 x 1	PERMA	La Quinta	Closed	36,080	36,080	36,080	-	-	-	-	36,080		
1995/1996	2 x 1	PARSAC	Hesperia	Closed	306	306	306	-	-	-	-	306		
1995/1996	2 x 1	PARSAC	Hesperia	Closed	240	240	240	-	-	-	-	240		
1995/1996	2 x 1	PARSAC	Rancho Cucamonga	Closed	140	140	140	-	-	-	-	140	1,962,230	5
1996/1997	2 x 1	PERMA	San Jacinto	Closed	2,104,048	2,825,077	1,000,000	1,000,000	825,077	-	-	2,825,077		
1996/1997	2 x 1	BCJPIA	Emeryville	Closed	3,022	3,022	3,022	-	-	-	-	3,022		
1996/1997	2 x 1	PARSAC	Clearlake	Closed	1,232	1,232	1,232	-	-	-	-	1,232	2,829,331	3
1997/1998	2 x 1	BCJPIA	Union City	Closed	1,925,906	1,925,906	1,000,000	925,906	-	-	-	1,925,906		
1997/1998	2 x 1	BCJPIA	Berkeley	Closed	36,767	36,767	36,767	-	-	-	-	36,767	1,962,673	2
1998/1999	2 x 1	PARSAC	Pacific Grove	Closed	2,641	3,521	3,521	-	-	-	-	3,521	2,641	1
1999/2000													-	-
2000/2001	2 x 1	MPA	Walnut Creek	Closed	1,500,000	12,000,000	1,000,000	1,000,000	1,000,000	1,000,000	8,000,000	12,000,000		
2000/2001	2 x 1	CSJVRMA	Tracy	Closed	981,600	1,308,799	1,000,000	308,799	-	-	-	1,308,799	13,308,799	2
2001/2002	2 x 1	VECTOR	Turlock MAD	Closed	1,491,465	2,214,406	1,000,000	1,000,000	214,406	-	-	2,214,406	2,214,406	1
2002/2003	2 x 1	CSJVRMA	Selma	Closed	618,725	838,751	838,751	-	-	-	-	838,751		
2002/2003	2 x 1	MPA	Richmond	Closed	466,843	622,457	622,457	-	-	-	-	622,457		
2002/2003	2 x 1	CSJVRMA	Madera	Closed	227,000	227,000	227,000	-	-	-	-	227,000		
2002/2003	2 x 1	PARSAC	Rialto	Closed	16,535	22,047	22,047	-	-	-	-	22,047	1,710,255	4
2003/2004	3 x 1	BCJPIA	Monte Sereno	Open	749,315	749,315	749,315	-	-	-	-	749,315	749,315	1
2004/2005	3 x 1	PARSAC	Highland	Closed	3,000,000	7,213,233	1,000,000	1,000,000	1,000,000	1,000,000	3,213,233	7,213,233		
2004/2005	3 x 1	CSJVRMA	Hanford	Closed	3,000,000	5,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	5,000,000		
2004/2005	3 x 1	MPA	San Pablo	Closed	645,437	645,437	645,437	-	-	-	-	645,437		
2004/2005	3 x 1	PARSAC	Pacific Grove	Closed	199,869	199,869	199,869	-	-	-	-	199,869	13,058,540	4
2005/2006	4 x 1	BCJPIA	Mill Valley	Closed	4,000,000	5,172,810	1,000,000	1,000,000	1,000,000	1,000,000	1,172,810	5,172,810		
2005/2006	4 x 1	BCJPIA	San Anselmo	Closed	1,211,144	1,211,144	1,000,000	211,144	-	-	-	1,211,144		
2005/2006	4 x 1	BCJPIA	San Anselmo	Closed	547,419	547,419	547,419	-	-	-	-	547,419		
2005/2006	4 x 1	MPA	Richmond	Closed	225,887	225,887	225,887	-	-	-	-	225,887		
2005/2006	4 x 1	BCJPIA	Larkspur	Closed	93,772	93,772	93,772	-	-	-	-	93,772	7,251,032	5
2006/2007	4 x 1	MPA	Antioch	Closed	1,980,570	1,980,570	1,000,000	980,570	-	-	-	1,980,570		
2006/2007	4 x 1	BCJPIA	Redwood City	Closed	405,128	405,128	405,128	-	-	-	-	405,128	2,385,698	2

CARMA ~ LOSS STRATIFICATION as of June 30, 2014

CLAIM DATA					COST DATA		STRATIFICATION							
							Current Pooled Layers			Excess Layers				
PROGRAM YEAR	LAYER	ENTITY	CITY	STATUS	TOTAL CARMA INCURRED	TOTAL INCURRED PLUS RECOVERIES / QS	$1,000,000 to $2,000,000	$2,000,000 to $3,000,000	$3,000,000 to $4,000,000	$4,000,000 to $5,000,000	$5,000,000 +	TOTAL INCURRED PLUS RECOVERIES / QS	Incurred Plus Recoveries by Program Year	Number of Claims by Program Year
2007/2008	4 x 1	MPA	Richmond	Closed	966,278	966,278	966,278	-	-	-	-	966,278		
2007/2008	4 x 1	BCJPIA	Emeryville	Closed	329,971	329,971	329,971	-	-	-	-	329,971		
2007/2008	4 x 1	MPA	Pittsburg/Walnut Creek/.	Closed	186,076	186,076	186,076	-	-	-	-	186,076		
2007/2008	4 x 1	MPA	San Ramon	Open	380,291	380,291	380,291	-	-	-	-	380,291		
2007/2008	4 x 1	PARSAC	Elk Grove	Closed	626,253	626,253	626,253	-	-	-	-	626,253		
2007/2008	4 x 1	MPA	Pittsburg	Closed	300,000	300,000	300,000	-	-	-	-	300,000	2,788,868	6
2008/2009	3 x 1	MPA	Brentwood	Closed	1,954,625	1,954,625	1,000,000	954,625	-	-	-	1,954,625		
2008/2009	3 x 1	BCJPIA	Redwood City	Closed	331,974	331,974	331,974	-	-	-	-	331,974		
2008/2009	3 x 1	CSJVRMA	Sonora	Open	200,000	200,000	200,000	-	-	-	-	200,000	2,486,599	3
2009/2010													-	-
2010/2011	3 x 1	MPA	Manteca	Closed	1,969,746	1,969,746	1,000,000	969,746	-	-	-	1,969,746		
2010/2011	3 x 1	CSJVRMA	Hanford	Open	625,000	625,000	625,000	-	-	-	-	625,000		
2010/2011	3 x 1	BCJPIA	Sausalito	Open	200,000	200,000	200,000	-	-	-	-	200,000		
2010/2011	3 x 1	MPA	Moraga	Open	50,000	50,000	50,000	-	-	-	-	50,000	2,844,746	4
2011/2012	3 x 1	CSJVRMA	Merced	Open	400,000	400,000	400,000	-	-	-	-	400,000		
2011/2012	3 x 1	MPA	Manteca	Open	150,000	150,000	150,000	-	-	-	-	150,000	550,000	2
2012/2013													-	-
2013/2014	3 x 1	MBASIA	King City	Open	100,000	100,000	100,000	-	-	-	-	100,000	100,000	1
				TOTALS:	**37,796,810**	**57,836,056**	**24,134,274**	**11,276,256**	**5,039,483**	**4,000,000**	**13,386,043**	**57,836,056**	**57,835,176**	**53**
						Count:	**53**	**13**	**6**	**4**	**4**			

STRATEGIES AND INITIATIVES FOR 2015

SUBJECT: Strategies and Initiatives for 2015

BACKGROUND AND STATUS:

In preparation for the 2015/16 fiscal year, the Board may wish to establish, from discussions throughout the annual workshop, the strategies and initiatives and place priorities on these goals as well as any other issues which may have arisen.

REFERENCE MATERIALS ATTACHED:

- Blank Strategic Goals & Action Item List *(for listing comments and notes)*

Agenda Item F.

California Affiliated Risk Management Authorities
2015-2016 Strategic Goals & Action Item List

<table>
<tr><th rowspan="2">Target Date</th><th rowspan="2">Person Responsible</th><th rowspan="2">Action Item</th><th colspan="3">Status</th><th rowspan="2">Comments</th></tr>
<tr><th>Done</th><th>Revise</th><th>On Target</th></tr>
<tr><td colspan="7">Goal</td></tr>
<tr><td></td><td></td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td></td><td></td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td></td><td></td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td colspan="7">Goal</td></tr>
<tr><td></td><td></td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td></td><td></td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td></td><td></td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td colspan="7">Goal</td></tr>
<tr><td></td><td></td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td></td><td></td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td></td><td></td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td colspan="7">Goal</td></tr>
<tr><td></td><td></td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td></td><td></td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td></td><td></td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td colspan="7">Goal</td></tr>
<tr><td></td><td></td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td></td><td></td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td></td><td></td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td colspan="7">Goal</td></tr>
<tr><td></td><td></td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td></td><td></td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td></td><td></td><td></td><td></td><td></td><td></td><td></td></tr>
</table>

SERVICE PROVIDER EVALUATIONS – BOARD OF DIRECTORS

SUBJECT: **Actuary: Bay Actuarial Consultants**
Administrator: Bickmore
Board Counsel: Farmer, Smith, & Lane LLP
Broker of Record: Alliant Insurance Services
Claims Auditor: Farley Consulting Services
Financial Auditor: Sampson, Sampson, & Patterson LLP
Financial/Investment Advisor: Public Financial Management (PFM)

BACKGROUND AND STATUS:

An electronic survey regarding satisfaction levels of the CARMA service providers was recently distributed to the Board members. Mr. Geoff Grote, CARMA President, will lead the Board in the discussion on the results of the evaluations for the various service providers.

The contract status of the various service providers is as follows:

- Actuarial Services: Jack Joyce, Bay Actuarial Consultant - annually through 2015;
- Administration Services: Bickmore - expires June 30, 2017;
- Board Counsel Service: Craig Farmer, Farmer Smith & Lane LLP - no expiration date, 30 days' notice;
- Brokerage Services: Alliant Insurance Services - expires June 30, 2016;
- Claims Auditing Services: Tim Farley, Farley Consulting Services - through 2016; and
- Financial Auditing Services: Bill Patterson, Sampson, Sampson, & Patterson, LLP - expired June 30, 2014.

REFERENCE MATERIALS ATTACHED:

- Results will be delivered to the Board of Directors by Mr. Tim Przybyla, CARMA President

Agenda Item G.1-7.