

BUTTE SCHOOLS SELF-FUNDED PROGRAMS

POLICIES & PROCEDURES MANUAL

Subject: **UNDERWRITING**

Section: **2.8**

Butte Schools Self-Funded Programs (BSSP), a Joint Powers Authority (JPA), establishes the following underwriting criteria for the purpose of marketing to prospective members. Underwriting information is also used for rate development, contribution calculation, measuring member performance, and calculating dividends or assessments based upon equity levels. Underwriting standards and guidelines are also outlined in the Joint Powers Agreement and Bylaws as well as policies 1.16, Member Contribution Rates; Policy 1.23, Minimum Plan Enrollment; Policy 2.3, Audits/Actuarial; Policy 2.4, Calculation of Annual Pro-Rata Percentages for Rate Stabilization Fund and Surplus; and Policy 2.5, Rate Stabilization Fund and Return of Surplus.

Members are expected to adhere to BSSP's mission and core values, as well as observing a commitment to the principles of prudent risk management and established practice.

Establishing underwriting criteria ensures that all BSSP self-funded programs are analyzed for risk exposures, funding requirements, dividend and assessment calculations, risk retention levels, compatibility between members and serviceability by staff. Adherence to these standards and guidelines guarantees the continued financial viability and security of BSSP.

A. New Members

Potential members for BSSP programs are those Public Educational Agencies as defined in the BSSP Bylaws who meet the membership criteria as set out in the BSSP Bylaws. Beyond the broad eligibility standards, the BSSP Board of Directors have the discretion to define additional criteria if it is determined necessary to protect the pooled risk programs and existing member service relationships. For example, geographic distance from BSSP's office that may limit the ability to ensure response times or regular service schedules, or a history of applicant's failure to pay contributions in a timely manner.

Application Process

An applicant for membership must complete BSSP's Membership Application. It solicits specific information to assess the applicant's risk exposures and includes the following information as applicable to the program in which membership is sought:

1. Underwriting data for the current year, including total gross wages per California EDD Form DE9, audited financial statements, budget, average daily attendance (per California Lottery reports) and other financial data as requested;
2. Payroll for the previous five years;
3. Loss history for the previous five years;
4. For employee benefit programs, a census of all full-time employees and retirees, including gender, date of birth, residential and employment zip code, elected tier and plan, number of covered family members and current plan elections; and
5. Any recent claim or actuarial studies completed for the applicant on the coverage programs the applicant wishes to join.

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In addition, the applicant must submit an actuarial study in the format required by BSSP. The applicant will pay for any actuarial study completed for the underwriting process.

Guidelines

Applicants will be required to provide detailed claims, exposure, and financial information as requested by BSSP in order to facilitate appropriate and thorough underwriting. Depending upon the program desired, applicants should be prepared to provide the required information for a period of not less than five (5) years. Applicants that are unable to provide detailed historical claims information may be charged a supplemental contribution or other charge to help ensure adequate funding.

Any prospective member, including existing members that have applied to participate in an additional pooled risk program, must meet the following minimum underwriting guidelines:

1. Have a loss rate calculated for the past three years that does not exceed the average loss rate of the current members;
2. Demonstrate a commitment to support risk management and safety programs to control or prevent claims;
3. Accept the minimum deductibles in place for the property and liability program then in force as well as any other deductibles included in the JPA Agreement, Bylaws and Policies.

BSSP and consultants will evaluate the census data, exposures and loss history to determine if there is an unusual frequency or severity of claims that warrant extra attention. In addition, BSSP may evaluate the member's safety records and other risk management plans. Additional information may be requested as determined necessary (i.e., actuarial study or claim audit).

Upon completion of the evaluation, a report will be presented to the Executive Committee for review and further action (i.e. rejection or approval). Upon approval, recommendation is made to the Board of Directors for final approval in conjunction with existing JPA Agreement and Bylaws in advance of the new policy period.

The Executive Director, with the concurrence of two-thirds of the Board, may waive any of these guidelines if circumstances so warrant and it is determined to be in the best interest and long term success of BSSP and its existing members.

B. Employee Benefits Program

BSSP offers a number of self-funded employee benefit programs. Eligibility and participation requirements are indicated in BSSP Policy 1.1, Covered Employees/Groups/Board Members; Policy 1.2, Retirees; and Policy 1.4, Eligibility, as well as other policies.

Rate Setting/Funding Requirements

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Each self-funded benefits program will be fully funded each year, including utilization of rate stabilization funds if available. Rates are determined by the coordinated data from the actuarial study, broker and underwriter and the stakeholders' feedback on an annual renewal. Benefit plan contribution rates for self-insured programs are typically set by the Board of Directors in March and effective July 1. Rates are established based upon multiple factors, including:

- Total Enrollment
- Additional Data required (may be provided by BSSP Staff or Consultants):
- Claims Experience
- Actuarial Study (performed every 3 years)
 - Financial Results: liabilities (incurred but not reported claims) and assets
 - Calculations: prior claims information, current census data, expenses, annual trend rates, IBNR reserve
 - Plan Summaries
- Excess rates
- Administrative expense
- Benefit adjustments as determined by members (if any)
- Benefit limits (incentive levels, coverage limits)
- Consideration of the pool financial position and targeted equity
- Annual contribution allocation methodology by program

The Board reserves the right to modify the rates based on market conditions or other factors.

Payment Schedule

Benefit contributions are paid monthly via Butte County Office of Education S-transfer.

C. Property and Liability Program

Rate Setting/Funding Requirements

The Property and Liability Program will be fully funded each year after completion of an independent actuarial study. Contribution rates are set by the Board of Directors in May or June and effective July 1. Rates are established based upon multiple factors, including:

- Payroll exposure, based on California EDD Form DE9
- Loss rates, experience modification factors
- Excess rates
- Administrative expense
- Average Daily Attendance (ADA)
- Total Insured Values (TIV)
- Consideration of the pool financial position and targeted equity
- Annual contribution allocation methodology by program

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Loss funding and manual rates sufficient to cover estimated program costs and losses are developed using the confidence levels established in Policy 2.9, Target Equity, and based upon the projections provided in the annual actuarial study.

The Board reserves the right to modify the manual rate based on market conditions or other factors.

Payment Schedule

Property and liability contributions are paid via Butte County Office of Education S-Transfer on July 1.

Excess Coverage

BSSP participates in an excess pool to provide property, general liability, crime, cyber, and possibly other coverages and programs (i.e. STOP!t, etc.). The cost of these coverages and programs are allocated among members in the excess pool and those allocated amounts are then provided to BSSP to be allocated among BSSP members. Allocation factors may be based on an available rate or other distribution models as recommended by Staff and approved by the Board of Directors.

Exposure Data Collected Annually:

- Estimated payroll for prospective policy period
- Total Insured Values (TIV)
- Updated vehicle and other property listings
- Average Daily Attendance (ADA)
- Additional data required (may be provided by BSSP Staff or Consultants):
- Claims experience
- Actuarial Study
 - Liability loss fund distribution calculations (actuary)
 - Projected interest earnings
- Self-insured retention value(s)

Loss funding is developed for both the property and liability funds using the confidence level as established in Policy 2.9, Target Equity, and based upon the projections provided in the annual actuarial study. Allocation of the general liability loss fund is based upon claims experience and is calculated by the actuarial consultant. Allocation of the property loss fund is based on Total Insured Values (TIV). All distribution formulas are provided on the annual rate spreadsheet. The Board reserves the right to modify rates based on market conditions or other factors.

Loss Prevention Program

BSSP encourages members' efforts in the prevention of property and liability losses, including student injuries. To assist our member districts in these efforts, BSSP has established a Loss Prevention Program including periodic safety inspections and safety credits.

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Workers' Compensation

Workers' Compensation Program contribution rates are set by the Board of Directors in May or June and are effective July 1. Rates are established based upon multiple factors, including:

- Payroll exposure
- Loss rates and experience modification factors
- Pool self-insured retention

Loss funding is developed for workers' compensation using the confidence level and reserve funds as established in Policy 2.9 Target Equity, and based upon the projections provided in the annual actuarial study.

Excess Coverage

BSSP purchases excess workers' compensation coverage for this program through North Bay Schools Insurance Authority (NBSIA) and pools losses up to the retention amount of that coverage. Excess exposure data collected annually includes:

- Estimated payroll for prospective policy period
- Employee concentration survey
- Claims data
- Actuarial study
- Self-insured retention value

Experience Modification Factors (Ex-Mods)

Experience Modification Factors are calculated annually by the actuary under a method approved by the Board of Directors.

Allocation Formula

The allocation formula for workers' compensation contributions applies the manual base rate per \$100 of payroll, adjusted for Ex-Mod. Formula: Estimated member payroll/100 x manual rate x Ex-Mod =contribution payable.

Payment Schedule

Contributions are paid monthly and are based on actual payroll. Safety Credit funds are due and payable no later than July 20 of each year.

Safety Credit Funds

Safety Credit Funds are deposited by member districts at a rate approved by the Board of Directors and are used to reimburse the cost of expenditures that meet the criteria established in the NBSIA Safety Credit Program.