RESOLUTION 2012 - 13

ATLANTIC COUNTY MUNICIPAL JOINT INSURANCE FUND
(hereinafter the "Fund")

ESTABLISHING THE 2012 PLAN OF RISK MANAGEMENT

BE IT RESOLVED by the Fund's Executive Committee that the **2012** Plan of Risk Management shall be:

1.) **The Perils or Liability to be Insured Against**

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

- □ Workers' Compensation including Employer's Liability (where approved by the Fund), USL&H and Harbor Marine/Jones Act.
- □ General Liability including Police Professional Liability, Employee Benefits Liability, Quasi Municipal Organization Liability, Garage Keeper's Liability, Failure to Supply (water and electricity), Riot, Civil Commotion or Mob Action, Good Samaritan, Disinfecting Agent Release Hazard, and Skateboard Facility.
- □ Automobile Liability including PIP and Uninsured/Underinsured Motorists Coverage.
- □ Blanket Crime including public employee dishonesty; forgery or alteration; theft, disappearance and destruction; robbery and safe burglary; and computer fraud with funds transfer. Excludes Statutory Positions.
- □ Property including Boiler and Machinery.
- □ Public Officials Liability/Employment Practices Liability

b.) The following coverages are provided by the Municipal Excess Liability Joint Insurance Fund (i.e. MEL):

- □ Excess Workers' Compensation
- □ Excess General Liability
- □ Excess Auto Liability
- □ Optional Excess Liability
- □ Non-Owned Aircraft Liability
- □ Excess Public Officials Liability/Employment Practices Liability
- □ Optional Excess Public Officials/Employment Practices Liability
- □ Crime including (1) **excess public employee coverage**, (2) **excess public officials coverage** where the Statutory Positions coverage is insured commercially for primary coverage and (3) coverage for **Statutory Positions** insured on a primary basis with MEL (where approved).
- □ Excess Property including Boiler & Machinery
- □ Optional Directors & Officers Liability

2.) **<u>The Limits of Coverage</u>**

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

- □ The Fund covers $300,000 CSL.
- □ The MEL covers excess claims to the following limits.
  - Worker's Compensation - Statutory
  - Employer's Liability - $6,700,000 excess of the Fund's $300,000
  - USL&H – Included in workers Compensation
  - Harbor Marine/Jones Act - Included in employers liability
  - Incidental Foreign Workers Compensation - included
  - Communicable Disease Coverage - included

b.) **General Liability** limits.

- □ The Fund covers $300,000 CSL
- □ The MEL covers excess liability claims as follows:
  - General Liability - $4,700,000 CSL per municipality excess the Fund's $300,000. The $3,500,000 excess $1,500,000 layer is subject to a $3,500,000 per member local unit annual aggregate limit.
  - Police Professional - included in the MEL's excess General Liability limits.
  - Employee Benefits Liability - included in the MEL's excess General Liability limits.
  - Good Samaritan Liability - included in the MEL's excess General Liability limits.
  - Quasi Municipal Organizations Liability - (Non-profit organizations included by a member local unit in the town's insurance program.)
    - Emergency Service Units and Auxiliaries - included in the MEL's excess General Liability limits.
    - Other* - $4,700,000 CSL excess of the Fund's $300,000. The $3,500,000 excess of $1,500,000 layer is included in the MEL's excess General Liability $3,500,000 excess $1,500,000 per member local unit annual aggregate limit.
      * Subject to availability and approval within specific JIF.
  - Garage Keeper's Liability - $1,700,000 CSL excess of the Fund's $300,000. The $500,000 layer excess of $1,500,000 is included in the MEL's excess General Liability $3,500,000 excess $1,500,000 per member local unit annual aggregate limit.

- Failure to Supply Liability - $4,700,000 CSL excess of the Fund's $300,000. The $3,500,000 excess of the $1,500,000 layer is included in the MEL's General Liability $3,500,000 excess of $1,500,000 per member local unit annual aggregate limit.
- Riot, Civil Commotion or Mob Action - $4,700,000 CSL excess of the Fund's $300,000. The $3,500,000 excess of the $1,500,000 layer is included in the MEL's General Liability $3,500,000 excess of $1,500,000 per member local unit annual aggregate limit.
- Dams (Class III and IV – Low Hazard) - $4,700,000 CSL excess of the Fund's $300,000. The $3,500,000 excess of the $1,500,000 layer is included in the MEL's General Liability $3,500,000 excess of the $1,500,000 per member local unit annual aggregate limit.
- Dams (Class I and II – High Hazard) - $700,000 CSL excess of the Fund's $300,000.
- Subsidence Property Damage Liability- $1,700,000 CSL excess of the Fund's $300,000. The $500,000 layer excess of $1,500,000 layer is included in the MEL's General Liability and is subject to a $1,500,000 "all members" annual aggregate limit excess of the $1,500,000 each occurrence. There is no bodily injury liability sub-limit for subsidence.
- Sewer Back Up - $1,700,000 CSL excess of the Fund's $300,000. The $500,000 layer excess of $1,500,000 layer is included in the MEL's General Liability and is subject to a $1,500,000 "all members" annual aggregate limit excess of the $1,500,000 each occurrence. There is no bodily injury liability sub-limit for sewer back-up.
- Disinfecting Agents Release Hazard- $700,000 CSL excess of the Fund's $300,000.
- Skateboard Facilities - $4,700,000 CSL excess of the Fund's $300,000. The $3,500,000 excess of the $1,500,000 layer is included in the MEL's General Liability $3,500,000 excess of the $1,500,000 per member local unit annual aggregate limit.

Note: Requires Fund approval.

Approval has been granted for the following Skateboard Facilities:

- Borough of Avalon
- City of Brigantine
- Township of Galloway
- North Wildwood
- City of Sea Isle City
- Township of Upper
- Township of Middle
- Borough of Stone Harbor

c.) **Automobile Liability**

- □ The Fund covers $300,000 CSL for Bodily Injury Liability, Property Damage Liability and PIP.
- □ The Fund covers $15,000/30,000/5,000 for Underinsured/Uninsured Motorists Liability.
- □ The MEL covers Automobile Bodily Injury and Property Damage Liability claims excess of the Fund's $300,000 CSL limit in the MEL's excess General Liability limit except that Automobile Liability claims which penetrate the excess of $1,500,000 layer are not subject to the aggregate limitation.
- □ The JIF provides PIP limits of $250,000.
- □ The MEL does not provide excess PIP or Uninsured/Underinsured Motorist Coverage.

d.) **Non-Owned Aircraft**
The MEL covers $5 million CSL for Bodily Injury and Property Damage Liability, and $5,000 medical expense for each passenger.

e.) **Public Officials Liability (POL)**

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

- ❑ A $20,000 per occurrence deductible applies, except that a $75,000 per occurrence deductible applies for member local units with unfavorable loss experience (e.g., 3 or more POL/EPL claims reported during the period 2006 to 2010* and an incurred loss ratio greater than 200%).

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

- ❑ 20% Coinsurance of the first $250,000 of the loss
- ❑ The Executive Committee may, at its discretion, vote to authorize payment from JIF Funds of a Class Action Settlement Agreement that requires a per member flat fee payment. This per member payment figure shall be below the per occurrence deductible and shall be made on behalf of all members.

f.) **Employment Practices Liability (EPL)**

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

For Member Towns with an approved EPL Risk Management/Loss Control Plan:

- A $20,000 per occurrence deductible applies, except that a $75,000 per occurrence deductible applies for member local units with unfavorable loss experience (e.g., 3 or more POL/EPL claims reported during the period 2006 to 2010* and an incurred loss ratio greater than 200%).

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

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

For Member Towns without an approved EPL Risk Management/Loss Control Plan:

- A $100,000 per occurrence deductible applies, except that a $150,000 deductible per occurrence for member local units with unfavorable loss experience (e.g., members that reported 3 or more POL/EPL claims during the period of 2006 to 2010* and an incurred loss ratio greater than 200%).

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

- 20% Coinsurance (no cap) of the first $2,000,000 of the loss (not imposed against Optional Limits)

g.) **Optional Directors and Officers Liability (D & O) -** Fire Companies and Emergency Service Units.

- The MEL provides optional $1 million or $2 million annual aggregate limits for Fire Companies or Emergency Service Units subject to optional deductibles of $1,000, $2,000 or $5,000.

h.) **Property** – (Effective 12:01 A.M. December 31, 2011)

- The Fund covers $50,000 per occurrence excess of applicable member deductibles.
- The MEL provides excess property coverage with the following limits:
  - Basic limit - $125 million per occurrence state-wide
  - Earthquake - $50 million (annual aggregate)
  - Flood - $50 million (annual aggregate) except;
  - Flood inside 100-year flood zone - $2.5 million per location
  - Asbestos Cleanup - $50,000 annual aggregate
  - Boiler and Machinery - $100 million
  - Extra Expense - $10 million
  - Valuable Paper and Records - $10 million
  - Accounts Receivable - $10 million

- □ Demolition/Increased Construction Cost - $25 million
- □ Business Interruption - $5 million
- □ Transit - $1,000,000 per conveyance/$1,000,000 per occurrence
- □ Fine Arts - $2,500,000 (owned and non owned)
- □ Pollution and Contamination Cleanup (limited) - $250,000 annual aggregate
- □ Miscellaneous Unnamed Locations - $5,000,000
- □ Builders' Risk - $25,000,000
- □ Newly Acquired Locations - $25,000,000
- □ Cyber Secure Coverage - $1,000,000 Annual Aggregate

  (The deductible is a member entity deductible of $100,000. The MELJIF and its member JIFs do not retain risk for this coverage.)

- ☐ Service Interruption -$10,000,000 for Service Interruption (PD and TE combined) including overhead transmission & distribution lines within 1,000 feet of the insured's premises.
- ☐ Ingress/Egress - $5,000,000
- ☐ Leasehold Interest - $15,000,000
- ☐ Loss of Rents - $15,000,000
- ☐ Debris Removal - $15,000,000 (25% or whichever is less)
- ☐ Expediting Expense - $10,000,000
- ☐ Civil Authority - $5,000,000
- ☐ Soft Costs - $5,000,000
- ☐ Architects/Engineering Fees - $1,000,000
- ☐ Tenant Relocation - $750,000
- ☐ Loss Adjustment Expenses - $250,000

<u>PROPERTY DEDUCTIBLES</u>:

- □ The standard member local unit deductible is $1,000 per occurrence.

- □ Boiler and Machinery coverage is subject to a member local unit deductible of $5,000 per occurrence.

- □ Flood loss for property within the 100 year flood zone is subject to a deductible of $500,000 each building for buildings, and $500,000 each building for contents. The flood loss deductible outside of the 100-year flood zone is the standard member deductible. Vehicle, Pistol Ranges, Pumping Stations and Mobile Equipment are subject to the standard member deductible. "Pumping Stations" include "lift stations" and also include "wet wells" that are an integral part of the "pumping station".

- □ "Named Storm Flood and Wind" loss for property within (1) Cape May County and (2) Atlantic, Monmouth, Ocean and Burlington Counties east of the Garden State Parkway are subject to a deductible of 1% of the total insurable value (excluding vehicle values) of all covered locations reporting loss of damage in the loss, subject to a maximum deductible of $1,000,000 per occurrence state-wide. The "Named Storm" deductible for all other properties is the standard member local unit deductible**.** Named Storm is defined as a storm that has been declared by the National Weather Service to be a hurricane, typhoon, tropical cyclone or tropical storm by the National Hurricane Center of the Center of the National Oceanic and Atmospheric Adminstration's National Weather Service. Location is defined as any building, yard, dock, wharf, pier or bulkhead (or any group of the foregoing) bounded on all sides by public streets, clear land space or open waterways, each not less than fifty feet wide. Any bridge or tunnel crossing street, space or waterway shall render such separation inoperative for the purpose of this definition. If the Named Storm involves covered property within the 100-year flood zone, the 100-year flood zone deductible above applies.

- □ If two or more deductible amounts provided in this Policy apply to a single occurrence, the total to be deducted shall not exceed the largest deductible applicable unless provided in the Policy.

- □ Piers, wharves, docks, pilings, boardwalks, and buildings/structures thereon are covered on a "Named Peril" basis, including windstorm. There is no coverage for flood on piers, wharves, docks, pilings, boardwalks and buildings/structures thereon. The Ocean City Music Pier will, however, remain covered on an "All Risk" basis subject only to the "Named Storm" limitation noted above.

i.) **Blanket Crime –** The JIF provides a limit of $50,000 less the member entity deductible of $1,000. The MEL provides its member JIF's **excess public employee coverage** at limits of $1,000,000 less the member JIF's retention of $50,000.

j.) **Excess Public Officials Crime Coverage –** The MEL provides excess employee dishonesty and faithful performance coverage for those employed positions which are required by law to be individually bonded and where they have not applied and have not been approved for coverage under the MELJIF Statutory Position Program at a limit of $1,000,000 less the member local unit's deductible which is the higher of the following:

1.) The amount said persons are required by law to be individually bonded whether or not such individual Bond is in place, or
2.) The amount of any individual Bond in place.

Each member local unit that has not applied for coverage under the MELJIF Statutory Position Bond is required to continue to purchase, via the commercial market, individual bonds providing primary coverage up to "at least the minimum limit required by law" for those employed positions required by law to be individually bonded.

k.) **Statutory Position Crime Coverage -** The MEL provides employee dishonesty and faithful performance coverage (statutory positions only) for those employed positions which are required by law to be individually bonded and where they have applied and have been approved for coverage at a limit of $1,000,000 per occurrence per position less a member local units' deductible of $1,000.

l.) **Optional Excess Liability** - The MEL offers Optional Excess General Liability, including Police Professional Liability, Employee Benefits Liability, Quasi Municipal Organization Liability (Emergency Service Units and Auxiliaries only), and Automobile Liability (not including PIP or Underinsured/Uninsured Motorist Coverage) as follows:

- □ $2 million CSL and per member local unit annual aggregate excess of $5 million (auto liability not aggregated).
- □ $5 million CSL and per member local unit annual aggregate excess of $5 million (auto liability not aggregated).
- □ $5 million CSL and per member local unit annual aggregate excess of $10 million (auto liability not aggregated).
- □ $10 million CSL and per member local unit annual aggregate excess of $10 million (auto liability not aggregated).

m.) **Optional Excess POL/EPL –** The MEL offers optional excess POL/EPL as follows:

- □ $1 million CSL and per member local unit annual aggregate excess of $2 million.
- □ $2 million CSL and per member local unit annual aggregate excess of $2 million
- □ $3 million CSL and per member local unit annual aggregate excess of $2 million
- □ $4 million CSL and per member local unit annual aggregate excess of $2 million
- □ $4 million CSL and per member local unit annual aggregate excess of $6 million

n.) **Environmental Impairment Liability** - NOT COVERED

o.) **Optional Individual Self-Insured Retentions –** NONE

p.) **Annual Aggregate Insurance –** None.

NOTICE: The above description is a general discussion of the coverage and limits provided by the Fund. However, the actual terms and conditions are defined in the policy documents and all issues shall be decided on the policy documents.

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

a.) Workers' Compensation (all coverage) - $300,000 CSL

b.). General Liability (all coverage) - $300,000 CSL

c.) Employment Practice Liability -100% commercially insured with XL Insurance.

d.) Non-Owned Aircraft - NONE

e.) Automobile Liability

- BI & PD - $300,000 CSL
- Underinsured/Uninsured - $15,000/30,000/5,000
- PIP - $250,000 CSL

f.) Public Officials Liability - 100% commercially insured with XL Insurance.

g.) Optional Directors and Officials Liability - NONE

h.) Property - $50,000 per occurrence less standard member deductible, except for windstorm.

i.) JIF Blanket Crime - $50,000 less member deductible.

j.) MEL Crime Policy – NONE

k.) Optional Excess Liability – NONE

l.) Optional Excess POL/EPL – NONE

m.) Environmental Impairment Liability - NONE

n.) Residual Claims Liability - none other than the risk of an RCF assessment.

o.) Annual Aggregate Excess Insurance – NONE

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

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

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

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

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

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

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

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

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

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

g.) The Fund has also adopted a loss sensitive retrospective rating plan and has filed the endorsement with the Department of Banking and Insurance and the Department of Community Affairs.

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

a.) The Fund engages a claims service company to handle all claims, except for the JIF's POL/EPL insurance which is handled by Summit Risk Services representing XL Insurance. The claims service company acts as a claims advocate to the member entity and the JIF. The performance of the claims adjusters is monitored and periodically audited by the Executive Director's office, the Fund Attorney, the MEL's attorney's office, as well as the claims department of the MEL's three major liability insurers/reinsurers [i.e. General Re and Munich Re for liability and Safety National for workers' compensation]. The Fund periodically audits the claims service company through an independent claims audit and, every three years, the MEL's internal auditors also conduct an audit.

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

c.) In order to control worker's compensation medical costs, the Fund has established an approved medical list and all injured employees are required to utilize this panel.

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

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

The Fund does not purchase commercial insurance except for the POL/EPL coverage which is purchased from XL Insurance.

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

The Fund does not purchase reinsurance.

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

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

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

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

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

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

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

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

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

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

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

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

11.) **<u>The maximum amount a Certifying and Approving Officer may approve pursuant to NJAC 11:15-2.22.</u>**

- $5,000

- The Executive Committee has established a Claims Review Committee comprised of Fund Commissioners to review all Payment Authorization Requests, (PARs) with a total cost of $5,000 or more, and review litigation strategies with the Fund's Attorney. The Claims Review Committee shall advise the Executive Committee regarding claims administration and payments.

- In urgent situations where the Claims Review Committee has not had an opportunity to meet, and where time is of the essence such that an expeditious response to a settlement offer would be in the Fund's best economic interest, the Fund Attorney, in consultation with the Executive

Director and the Claims Review Committee Chair, shall have the authority to authorize the settlement of claims within the JIF's SIR. All such authorizations shall be reported to the Claims Review Committee as soon as possible and no later than the Committee's next meeting. All such authorizations shall be reported to the Executive Committee for approval at their next meeting.

- Upon submission of satisfactory documentation, and with the advance approval of the Executive Director, the Certifying and Approving Officer may also pay hospital bills if waiting until after the next regularly scheduled FUND meeting would result in the loss of a discount on such bills. When the Certifying and Approving Officer utilizes this authority, a report shall be made to the Claims Review Committee at their next meeting. All such approvals shall be reported to the Executive Committee at their next meeting.

12.) **<u>Operational Philosophy</u>**

- <u>General</u> - As is the case with any organization, an established operating philosophy, formalized in a document such as this, is a necessary precursor to success. This section of the Risk Management Plan is developed to provide general instruction for key areas and providers of service to the Fund. Also included here are sections which restate (and amplify) the roles and responsibilities of important parties and stress the importance of activities upon which the long term success of the Fund will hinge in whole or in part.
- <u>Fund Commissioners</u> - Fund Commissioners, each an elected official or municipal employee, are the backbone of the Fund. These individuals will in large measure control the success of the Fund by actively participating in the safety and loss control programs developed by the Fund for all members, and by implementing these programs in their respective municipalities. Fund Commissioners are encouraged to attend all meetings of the Fund, to serve on committees studying current issues, to enhance their knowledge of risk management, and to encourage consistent safe practices.
- <u>Fund Professionals</u> and Risk Management Consultants - Providers of professional services (Fund Professionals and Risk Management Consultants) to the Fund and individual member municipalities are strongly encouraged to participate in and promote Fund activities. The success of the Fund will, in part, be a reflection of the professionalism of those providers whose services are integral components of the Fund. Support of the concept of self-insurance, the Fund in general, and the risk management activities of member municipalities in particular are necessary elements of success.
- The Fund Bylaws require each member municipality to provide for the services of an individual or firm to serve as the member's Risk Management Consultant and who shall serve as an Insurance Producer as defined under N.J.S.A. 17:22, and shall have demonstrated experience in the management of public sector insurances and risk management. The Risk Management Consultant shall not be an employee of the member. The Risk Management Consultant shall not be a Fund Commissioner.
- The Risk Management Consultant shall advise the member on matters relating to the Fund's operation and coverages. The Risk Management Consultant shall, in addition to

such items as may be included in such individual's or firm's contract or agreement with the member, be governed by the following:

a) The Risk Management Consultant shall be retained by each member in conformance with applicable State Law or regulation;

b) Risk Management Consultants, who can not be local unit employees, shall be paid a fee not exceeding six (6%) percent of the member's assessment in accordance with the terms of the Risk Management Consultant's Agreement executed by the member; and

c) Specific responsibilities shall include, but not be limited to:

i.) Evaluation of the member's exposure;

ii.) Explanation of the various coverages available from the Fund;

iii.) Preparation of applications, statements of values, timely reporting of changes in exposures, and any other exposure based questionnaires and/or applications requested by the Fund;

iv.) Review of the local unit's assessment and assistance in preparing the member's insurance budget;

v.) Review and analysis of the member's safety engineering reports and periodic loss runs in order to help the member identify areas requiring greater attention;

vi.) Assist the member in establishing, monitoring and evaluating a safety committee and claims handling procedure;

vii.) Attend the majority of meetings of the Fund's Executive Committee; and

viii.) Analyze and recommend insurance coverages not offered through the Fund.

□ Claims Response And Reserving - Were the philosophy of the Fund in these areas to be encapsulated into two sentences, they would read as follows:

a.) "The Fund will thoroughly review and respond to each claim presented so as to pay only that amount (if any) which it is legally bound and obligated to pay."; and

b.) "Reserves shall be established on each claim presented in a manner which accurately reflects the full, known liability of the Fund at any given point in time".

In reviewing each claim presented, the Fund (operating through its claims administrator and legal counsel) shall review such claims for coverage, deny those not falling within the purview of coverages offered, aggressively defend those in dispute, pursue to the fullest extent of the law those presented in bad faith, and settle as expeditiously as possible those for which the Fund is legally liable.

□ Case reserves, including all types of applicable allocated loss adjusting expenses, will be established with an eye toward identifying the full exposure of the Fund and its excess insurance carriers at the earliest possible date. Reserves shall be periodically reviewed for accuracy and adjusted as needed. For claims aged eighteen (18) months or more, it is expected that reserves will be not less than 85% accurate. For claims aged thirty (30) months or more 95% accuracy is expected.

□ Financial Management - Consistent with the objective of serving as a long term vehicle through which to stabilize the costs associated with insurance coverages, the underlying premise of the Fund's financial base shall be one of conservative up-front funding, prudent investment of idle funds, and maintenance of stringent paper and audit trails. As is the case with all other aspects of the Fund, the financial assets of the Fund can well be considered as moneys held in public trust. Treatment and handling of these Funds must be accomplished in a manner which reflects the stewardship obligation of those whose hands through which they pass. All actuarial, investment, treasury and banking functions of the Fund are to be accomplished in a manner consistent with the same legal and administrative standards applicable to municipalities in the State of New Jersey.

Specific steps taken by the Fund during past years to enhance return on equity include:

a.) implementing more favorable payment terms with various service providers so as to increase investment income;

b.) Development and adoption of a Cash Management and Investment Policy which seeks the following objectives:

i.) Preservation of capital,

ii.) Adequate safekeeping of assets,

iii.) Maintenance of liquidity to meet operating needs, claims settlements, and dividends,

iv.) Diversification of the JIF's portfolio to minimize risks associated with individual investments,

v.) Maximization of total return, consistent with acceptable risk levels,

vi.) Investment of assets in accordance with State and Federal laws and regulations,

vii.) Accurate and timely reporting of interest earnings, gains and losses by line of coverage in each fund year,

viii.) Cooperation with other local JIFs and the MEL in the planning and execution of investments in order to achieve economies of scale,

ix.) Stability in the value of the JIF's economic surplus.

□ Safety And Loss Prevention - Every dollar spent to compensate for an avoidable loss, whether it be for property, workers' compensation or any other coverage afforded through the JIF, is a dollar which might better have been used to provide municipal services and conserve tax dollars. In an effort to avoid preventable loss and the financial and human hardships which result therefrom, the JIF (operating through the Fund's Safety Committee) will implement safety and loss control programs and procedures, directed at reducing or eliminating conditions or practices which lead to loss. These programs, implemented in progressive steps, will include items such as:

a.) Member facility self-inspections supplemented by those conducted by the Fund's Safety Director;

b.) Seminars or other training programs directed at specific areas of municipal operations from which losses are likely to occur;

c.) Promotional safety incentive programs stressing safety in all areas of municipal operations and offering incentives for active participation by all Fund members.

13.) **Aggregate Excess Loss Contingency Fund**

In November of 1996, the Department of Banking and Insurance adopted administrative codes for municipal joint insurance funds like the ACMJIF, reference N.J.A.C. 11:15-2.1 et. seq. One aspect of these new regulations is the requirement that joint insurance funds either buy aggregate excess insurance or budget additional money to be collected from the members in an aggregate excess loss contingency fund. The spirit of this portion of the administrative code is to provide even greater fiscal security to joint insurance funds than the security provided through the funding of loss retention accounts based upon an independent actuarial loss funding model.

The members view this requirement as supporting their primary objective to stabilize costs. The history of the Fund is to purchase aggregate excess insurance whenever possible to protect against a series of losses. However, the Fund has also observed that this is not always possible and has instead budgeted an additional amount of money as loss fund contingency in those years when aggregate excess insurance was either not available or too costly to consider. For the members, the Aggregate Excess Loss Contingency Fund is simply a new name for an established practice and the ACMJIF will continue its practice of budgeting extra money in the absence of commercially available aggregate excess insurance but will now refer to these monies as the Aggregate Excess Loss Contingency Fund.

The administrative code defines the Aggregate Excess Loss Contingency Fund as a separate fund which is always accounted for in the current fund fiscal year. The monies are set aside for a period of at least two years to pay for claim activity that exhausts loss funds in a claim retention account in the original fund year in which the monies were set aside. The code also defines the minimum statutory funding for this aggregate loss fund account and specifically states that nothing in the law shall prevent a joint insurance fund from funding this account at a higher level. Both the statute and administrative code governing the ACMJIF also require that any surplus and/or deficit in every retention account for each year is owned by the members who were a part of that year according to the percentage that their individual total contribution bears to the budget in that year. Contributions made to the Aggregate Excess Loss Contingency Fund are no different in this regard.

However, the Aggregate Excess Loss Contingency Fund is different than other loss retention accounts in two fundamental ways; the manner in which the ACMJIF must account for the funds and its use across all years by individual members. Because the Aggregate Excess Loss Contingency Fund moves from the current fiscal year forward to the succeeding fiscal year in its entirety and the statutory minimum funding associated with a specific fund fiscal year must be retained for a minimum of two years, this fund must always be accounted for on an individual member basis showing both a member's statutory encumbered portion and their statutory unencumbered portion.

As discussed above, the Aggregate Excess Loss Contingency Funds are intended to provide an immediate response to the need to replenish money in a loss fund account where the original loss funding has been consumed. It is also true that over time if the value of the projected ultimate cost of claims within a loss retention account as defined by the claims administrator added to the Incurred But Not Reported (IBNR) values developed by the actuary do not exceed the original loss funding within a loss retention account after two years, the administrative code permits but does not mandate a full return of those aggregate excess loss contingency funds to their member owners. Thus, the aggregate excess loss contingency funds that are surplus and not yet returned can be used by members to pay for additional money needs in any fund year when and if needed. This provides members with the opportunity to accrue surplus aggregate excess loss contingency funds and use them across all fund years in much the same way they have used the Loss Fund Contingency money in earlier budgets as a safeguard across multi-line retention accounts in a given fund fiscal year.

In this regard, the Aggregate Excess Loss Contingency Fund is in part a protection against adverse development for both specific retention accounts as well as providing protection on a multi-year and multi-line loss basis.

The administrative code specifically permits a member to use released surplus funds in loss retention accounts to either take them in the form of a return of surplus or to be applied toward the payment of a future premium. As the unencumbered portion of the Aggregate Excess Loss Contingency Fund is an individual member owned surplus account, members with accrued surplus in this account can likewise use these funds in the same way.

Finally, the ACMJIF views the Aggregate Excess Loss Contingency Fund as a better version of the old Loss Fund Contingency. We believe it provides a stronger vehicle through which members can build a financial bank against adverse development on a multi-year and multi-line basis. It is the hope of the ACMJIF that members will use this fund to provide themselves with a financial vehicle through which they can manage an additional assessment with no cost to their municipality or pay future insurance premiums to stabilize costs, or both.

14.) **Committee Charters**

Appendix I of the Plan of Risk Management contains Committee Charters for the Claims Review, Coverage, Employment Practices, Finance, Nominating, Strategic Planning, and Safety Committees.

This Resolution was duly adopted by the Atlantic County Municipal Joint Insurance Fund at a public meeting held on January 18, 2012

ATLANTIC COUNTY MUNICIPAL JOINT INSURANCE FUND

BY: ________________________________ ATTEST: ____________________________

CHAIRMAN SECRETARY

DATE: ____________________________