

2024 ACM JIF Budget Message

FUND YEAR 2024 DRAFT BUDGET OVERVIEW

The attached renewal \$29,135,146 JIF, MEL, CYBER JIF, EPL/POL/Land Use, and EJIF Budget represents a 9.95% (\$2,635,840) increase over last year's combined annualized budget of \$26,499,306 and is based upon the known renewal data at the time the draft budget was prepared. Middle Township's loss funding is adjusted to reflect the addition of paid EMS. In addition, two members (Corbin City and Egg Harbor Township) did not renew their membership in the JIF effective 1/1/24. In addition, the JIF decided to join the Environmental Risk Management Joint Insurance Fund (EJIF) effective 1/1/24. The combined results in a 1.55% increase over expiring. As in years past, individual member assessments will fluctuate above or below the renewal budget increase based on member claims experience as outlined in the attached *JIF Assessment Allocation Policy*. The 2024 draft renewal JIF Budget of \$19,632,277 represents an increase of 3.31% (\$628,586) over last year's \$19,003,691 annualized budget. The 2024 Draft JIF Budget (less non-renewed members) of \$18,054,392 represents a decrease of 5.00% (\$949,299).

Highlights of the 2024 Renewal Budget are as follows:

- Budgeted loss funds increased by \$574,631 (3.65%)
- Operating Expenses (Fund Professional fees, Meeting Expenses, Postage/Copies, etc.) increased \$53,465 (2.06%)
- Member Benefits (Safety Programs, EPL/Cyber Programs, Wellness, etc.) increased \$490 (0.07%)
- Excess and Standalone premiums, inclusive of the MEL, Cyber JIF, EPL/POL/Land Use, and EJIF policies increased \$1,661,391 (22.16%)
- The application of the JIF's *Revaluation Program* to the 15 members renewing their membership effective January 1, 2024, resulted in five (5) members qualifying. This program is thoroughly explained in the attached *Assessment Allocation Policy*.
- All members' performance are reviewed for inclusion in the JIF's *Retrospective Program*. No member met the Policy's criteria for inclusion in the Program. This program is thoroughly explained in the attached *Assessment Allocation Policy*.

JIF BUDGET FACTORS

Renewed Loss Funds

Loss Funds represent money used for the payment of member claims within the Fund's self-insured retention. Assuming no change in the SIR for Fund Year 2024, the Actuary recommended a 3.6% increase in the overall loss funding budget utilizing anticipated exposure growth of 0% for Auto & General Liability and Workers' Compensation and 4% for Property. As customary, the Actuary provided three confidence levels of loss funding: low (40% confidence level), central (55% confidence level), and high (70% confidence level). The Finance Committee opted to fund the central loss funding recommendation as they have done historically. They recognized that failure to fund at the central confidence level will have a negative impact on their surplus position and will result in the possibility of multiple years of large loss funding increases or additional assessments in future years.

The specific JIF coverage lines were impacted as follows:

- **Renewed Workers' Compensation** loss funding increased 4.25% (\$403,649). While there are many factors that are driving this increase including increasing pressure on health care costs (medical inflation), the lingering impact of the pandemic, increasing indemnity costs, and an increase in the overall number of claim "re-openers", there are certain cost drivers identified by the Fund Actuary. This includes \$607,000 in loss funding directly attributable to the "pension offset" regulatory change. Some initiatives the JIF is utilizing to control Workers' Compensation costs include:

- The use of a PPO & EPO resulting in over 95% of all medical expenses being repriced resulting in a savings of \$5,050,872 or 70% as of September 30, 2023
 - The use of 71% of available transitional duty days by the members resulted in the savings of \$463,543 as of September 30, 2023.
 - The continued strong participation in Safety Training by all members.
 - The continued funding of a member employee Wellness Program. Numerous national studies indicate that healthy employees are less likely to suffer a workers' compensation claim; and, when they are injured, the injury is less severe and the employee recovers faster.
 - The Fund continues to monitor the potential impact of expanding definitions of compensability, both legislative and court rendered, the aging workforce, and "reopeners" on this line of coverage.
- **Renewed General Liability** loss funding increased 2.79% (\$62,230). This increase is reflective of statutory and judicial changes that continue to erode Title 59 immunities that the Fund uses to defend its member municipalities. Some initiatives the JIF is utilizing to control General Liability Claims costs include:
 - Members continue to make good use of the various liability risk control programs offered by the Fund including encouraging members to include model indemnification, defense, and hold harmless language in all municipal contracts including inter-local service agreements.
 - Members continue to use the TULIP (Tenant User Liability Insurance Program) Program that allows private users of municipal facilities to secure short-term, low cost, liability insurance policies over the internet. These policies automatically name the municipality as an *Additional Insured* and provide an added layer of protection to the members.
 - The funding of a Police Risk Management Consultant to assist member Police Departments in the adoption, training, and implementation of the most critical policies as identified by the JIF Defense Panel members who defend police related claims.
 - The Fund's liability claims adjusters and defense panel members are continuing to do a fine job in investigating, settling, and defending liability claims brought against our members with 93 active General & Auto Liability claims as of September 30, 2023 for 41 members.
- **Renewed Auto Liability** loss funding is decreasing 7.23% (\$33,760). At fault automobile accidents, involving Police vehicles continue to be the main factor driving this line of coverage. Some initiatives the JIF is utilizing to control Auto Liability Claims costs include:
 - The Fund's *Safety Incentive Program* includes a requirement that ALL emergency responders complete the S:ERVE Training program.
 - The Fund continues to promote the *Coaching of Emergency Vehicle Operators* training.
 - The Fund continues to promote annual Motor Vehicle Records check of all drivers of municipally owned vehicles.
 - The Fund Administrator is receiving a quarterly report that tracks at fault accidents involving police vehicles to track the costs of these accidents from both a property and workers' compensation perspective.
- **Renewed Property** loss funding is increasing 4.79% (\$56,319). This increase is driven by the increasing costs of labor and materials involved in recovering from a property loss. Some initiatives the JIF is utilizing to control Property Claims costs include:
 - Ongoing property appraisals of each member's buildings at least once every four (4) years.
 - An ongoing review of member's property and equipment schedules to ensure that coverage for all municipally owned property is properly designated within Origami.
 - The implementation of the *JIF Preferred Auto Shop Program* to make sure that all auto repair shops working on municipally owned vehicles are following stringent guidelines in regards to documentation of repairs, the use of appropriate aftermarket/OEM parts, the approval process for additional unforeseen repairs, and storage fees.

- **Loss Fund Contingency** funding is at \$0. This line item is utilized by the Finance Committee to prevent the loss funding from decreasing and/or in anticipation of unexpected claims arising from legislative changes.

JIF LOSS FUNDING ASSESSMENT STRATEGY

In consideration of the aforementioned factors affecting the 2024 JIF Loss Funding Budget, the Finance Committee is recommending that the 2024 JIF loss funding assessments range from a decrease of 3.0% for renewing members, with a six year average loss ratio below 20%, to an increase of 3.64% for newer members who have less than three years loss experience with the ACM JIF. Members with six-year average loss ratios above 180% will receive a 7.0% increase in their loss funding assessment. Details outlining the assessment strategy are documented in the attached *2024 Assessment Allocation Strategy*.

RENEWED OPERATING EXPENSES/MEMBER BENEFITS

Operating Expenses (i.e. Fund Professional fees, Meeting Expenses, Postage/Copies, etc.) represent approximately 9% of the overall JIF budget. Member Benefits (i.e. Safety Programs, EPL/Cyber Programs, Wellness, etc.) represent approximately 2%, of the combined JIF budget. Factors impacting the JIF operating expenses and member benefits include:

- Operating Expenses increased by \$53,465 (2.06%) with increases in professional fees averaging 2.00%. The Claims Auditor line increased \$7,000 (38.89%) as a result of actual payments for the claims audit performed in 2023.
- Member Benefits increased by \$490 (0.07%) due to a 1.95% increase in the Payroll Auditor's fee and a \$46 (0.09%) increase in Property Appraiser based upon the estimated fee for actual properties appraised in 2024.

RENEWED EXCESS INSURANCE BUDGET - NJMEL

The 2024 MEL Budget is projecting a 26.8% budget increase (\$15,468,847) over 2023 which is driven by the hard worldwide excess insurance market in addition to funding at the high confidence level for loss funding within the MEL SIR. The JIF is budgeting an increase of \$1,391,219 (27.45%) inclusive of rate increases and exposure growth. Over the last 24 months, the worldwide insurance market has been challenging due to ongoing natural disasters (i.e., hurricanes & wildfires), the lingering effects from the COVID-19 pandemic, the impact of law enforcement related claims, regulatory & statutory changes, and the impact of social inflation. The financial strength of the MEL continues to provides some protection to its members against the ravages of the hardening market. A copy of the proposed 2024 MEL Budget and rate table are attached. Some factors influencing the 2024 JIF MEL Budget include:

- The MEL continues to utilize the experience rating process based on the prior ten years MEL experience for WC and Liability claims funding.
- The ACM JIF has been a poor performer within the MEL over the prior ten years with a 10-year average loss ratio of 94.2% and will receive a 15% experience-rating penalty applied to its WC and Liability claims funding.
- The Finance Committee has opted not to fund additional premium in anticipation of future MEL Surplus Trigger Assessments which are detailed in the attached *Assessment Allocation Strategy*.

RENEWED CYBER JIF

In recognition of the difficulty in securing Cyber Liability coverage for public entities in the commercial insurance market, the need for all members to implement stringent cyber security protocols, the volatile nature of cyber related losses and the recent poor loss experience for members in the Cyber line of coverage; the MEL affiliated JIFs formed the Cyber Risk Management Joint Insurance Fund to provide Cyber related services and coverage for all MEL affiliated JIFs effective January 1, 2023. The Cyber JIF carries a self-insured retention and purchases specific and aggregate excess coverage for each member JIF.

The Cyber JIF premium is allocated to members utilizing population tiers to create size categories, which is detailed in the attached *Assessment Allocation Strategy*. The members with smaller populations will have a lower premium than those members with large populations. This recognizes the complexity of larger towns that may have greater exposures than smaller towns. Effective with the 2024 premium allocation, additional tiers were added to aid smaller members with minimal risk. The Cyber JIF adopted a 1.99% (\$125,743) Budget increase. The JIF impact of rate increases, year 2 of 3 census phase-in, and additional tiers resulted in a Budget decrease of approximately 2% (\$10,964).

Cyber Liability Coverage consists of loss funds within the Cyber JIF layer and excess coverage with XL Insurance.

- Beginning November 1, 2023, the cyber security standards for compliance with the Cyber JIF's Risk Management Program which were updated to recognizing three tiers of cyber security; a "minimum", "intermediate", and "advanced" set of standards.
- Those members that do not meet the minimum cyber security standards will have a \$50,000 deductible and a 20% coinsurance requirement of the next \$300,000 of a claim, members in compliance with the "minimum" cyber security standards will have a \$35,000 deductible with no coinsurance, members that meet the intermediate standards will have a \$20,000 deductible with no coinsurance, and members that meet the "advanced" cyber security standards will have no deductible assuming compliance with the standards at the time of the incident.
- Members are strongly encouraged to come into compliance with the updated cyber security standards by June 30, 2024 to take advantage of a "grandfathering" provision that will provide members in compliance with Tier 1 a \$15,000 deductible, members in compliance with Tiers 1 & 2, have a \$5,000 deductible and members in compliance with Tiers 1, 2, & 3, will have no deductible assuming compliance with the standards at the time of the incident.

RENEWED EPL/POL/Land Use/VDO

Overall, the JIF Budget for Employment Practices Liability, Public Officials Liability, Land Use, and Volunteers Directors, & Officers Liability Coverage is increasing 14.25% or \$271,630 for 2024 due to deterioration of claims experience.

For Fund Year 2024, the JIF EPL/POL/Land Use/VDO insurer Lexington (AIG) is issuing a 9% statewide premium increase. This increase varies JIF by JIF based upon a revised formula for the pricing of all members that includes their individual exposures, loss performance, and the number of years wherein the member had an incurred loss over the preceding five (5) years. This revised formula was necessary when it was determined that good performing members in poor performing JIFs were paying more premium than necessary while poor performing members in good performing JIFs were not paying enough premium to cover their exposures. Some members will continue to recognize small swings in their premium until the new process is fully implemented. Changes to the allocation for multiple year poor performers were made by the carrier as noted in the attached *Assessment Allocation Policy*.

- The net impact of the premium allocation results in a premium increase of 15% (\$262,727) prior to the application of member deductible Buy Downs and Land Use premium for 2024.
- Volunteer, Directors and Officers Liability Coverage limits changed effective January 1, 2023. As a result, VDO premium will be allocated based on number of Fire/EMS departments as noted in the attached *Assessment Allocation Policy*.

E-JIF

Effective January 1, 2024, the JIF became a member of the Environmental Risk Management Joint Insurance Fund (E-JIF). The E-JIF provides its members with a defined Environmental Liability coverage package along with strong

risk management programs and other member services including educational and training seminars. E-JIF assessments are allocated based upon a member's population with a current rate of \$0.9573.

CLOSED YEARS ACCOUNT - JIF DIVIDENDS

The Finance Committee made a recommendation to release varying amounts of surplus from Fund Years 2012 through 2018. In arriving at the amount of surplus to release, the Finance Committee continued its practice of examining the financial development of the most current years to guarantee future consistent releases of surplus to the membership while providing a cushion against unforeseen events. In addition, the Finance Committee also considered the impact of the 12/31/2022 MEL Supplemental Assessment (\$1,140,643) and RCF Surplus Trigger Assessment (\$956,455) on the overall Surplus position. The MEL and RCF *Surplus Strengthening Programs* are detailed in the attached *Assessment Allocation Strategy*. The ACM JIF 12/31/2022 financial results include an unrealized loss in investment income of approximately \$2,068,994. After examining its current surplus position and the aforementioned factors, the Committee recommended, and the Fund authorized release of \$2,000,000, which is a 46.67% decrease (\$1,750,000) over last year's combined release. As in prior years, the members will have the option to receive the dividend as a check, credit against their 2024 premium, or to transfer to the Aggregate Excess Loss Contingency Fund for future use. In response to the ACM JIF State Filing, the Department of Banking and Insurance (DOBI) responded requesting a meeting to discuss their concerns. A copy of their correspondence is attached. The Finance Committee reviewed the concerns noted by DOBI stating that each of their points have been carefully reviewed and considered prior to recommending the release of surplus (which resulted in the \$1,750,000 decrease over 2023) with the understanding that DOBI will not approve a dividend release in 2024 if the overall net position does not increase at 12/31/23 inclusive of the surplus release. A copy of the Fund's response to DOBI is also attached.

RISK MANAGEMENT CONSULTANT FEES

Members of the Fund contract independently with their respective Risk Management Consultant. The fees associated with these services are built into member assessments and the expense is passed through the Fund budget.

FUND YEAR 2024 BUDGET

The attached draft budget is submitted for your consideration and introduction at the November 20, 2023 Executive Committee Meeting. A Budget Hearing will be held at the December 20, 2023 Executive Committee meeting.

File: ACM/2024/Budget

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