



# AGENDA

Executive Committee  
March 28, 2019  
Holiday Inn ~ Bellingham

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|                 |  |               |
|-----------------|--|---------------|
| <b>9:00 am</b>  | <b>CALL TO ORDER</b> – President Staci Jordan  | Sign-in sheet |
|                 | 1. Roll Call of Members and Introduction of Guests   |               |
|                 | 2. Changes in Agenda/Motion to Accept Agenda   |               |
|                 | <b>CONSENT AGENDA</b>  | Page #        |
|                 | 1. Minutes – February 28, 2019   | 002           |
|                 | 2. February 2019 Administrative Vouchers/Checks – Total voucher approval of \$195,162.24 including staff payroll and internet/credit card payments.  | 009           |
|                 | 3. February 2019 Claims Vouchers/Checks – Total voucher approval of \$430,539.65.  | 012           |
|                 | <b>DISCUSSION ITEMS</b>  |               |
|                 | 1. 2019 Work Plan – Jordan   | 016           |
|                 | 2. Driver Record Monitoring Program – Christianson & Powell  |               |
|                 | 3. Governance Policy – Member Guest Program – Shipman & Christianson   | 019           |
|                 | <b>ACTION ITEMS</b>  |               |
|                 | 1. Ratios / Ratio Subcommittee Recommendation – Shinnars & Powell  | 021           |
|                 | <b>EXECUTIVE SESSION</b>   |               |
|                 | Pursuant to RCW 42.30.110 (1) (i) to discuss with legal counsel representing the agency litigation in which a member acting in an official capacity is a party, when public knowledge regarding the discussion is likely to result in an adverse legal or financial consequence to the agency. The Executive Session is expected to conclude after 60 minutes, unless extended by the Presiding Officer. |               |
|                 | <b>SUBCOMMITTEE REPORTS</b>  |               |
|                 | 1. Governance Policy Committee – Verbal report   |               |
|                 | 2. Board Development Committee – Verbal report   |               |
|                 | 3. Emerging Risks & Opportunities Committee – Verbal report  |               |
|                 | 4. Underwriting Committee – Verbal report  |               |
|                 | 5. Coverage Review Committee – Verbal Report   |               |
| <b>12:00 pm</b> | <b>RECAP and ADJOURN</b> – President Staci Jordan  |               |
|                 | <b>Upcoming Committee Meetings</b>   |               |
|                 | Board Development Committee Meeting – 04/25 after EC MTG   |               |
|                 | Governance Policy Committee Meeting – 04/25 after EC MTG   |               |
|                 | Emerging Risks and Opportunities Committee Meeting – 04/24 @ WSTIP   |               |
|                 | Underwriting Committee Meeting – April TBD @ WSTIP   |               |
|                 | Coverage Review Committee Meeting – TBD @ WSTIP  |               |
|                 | Audit Committee – 04/25 before EC MTG  |               |

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### **Purpose**

In order to ensure that the Pool remains financially strong it is necessary to annually evaluate and compare financial performance for the prior ten year period for which audited financials are available. This policy adopts target ratios and provides for an annual comparative study of these ratios.

### **Authority**

1. Interlocal Agreement, Sections 3 (“all things necessary and proper for the establishment of self-insurance programs”)

### **Policy Statement**

1. The Pool shall monitor the following financial ratios:

#### Solvency Ratios

- 1.1 Change in Net Position
- 1.2 One Year Reserve Development
- 1.3 Retention Leverage

#### Operational Ratios

- 1.4 Net Incurred Loss Ratio
- 1.5 Operating Ratio
- 1.6 Expense Ratio

2. The WSTIP financials, as audited by the Washington State Auditor’s office, will be used as the basis for ratio calculation.
3. An annual comparison between the Pool’s ratios and a minimum of three the other pools as practicable.
4. Ratios and targets will be reviewed annually by the Executive Committee. Should there be a variance from the target, the Executive Committee shall determine actions steps.
5. The Executive Committee shall report to the Board annually and include the current ratios, targets, comparison to other pools and any action steps required to address variances.
6. The Pool may engage an actuary or external accountant to assist in the computation of these ratios.

### **Amendment**

The Pool’s Board may amend this policy.

### **Policy History**

The groundwork for this policy was developed as part of the Pool’s 2008 six-year strategic plan.

Passed by the Board of Directors June 24, 2016.

Amended by the Board of Directors TBD 2019

Attest:

Approved as to form:

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Staci Jordan, President

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Danette Brannin, Secretary

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Richard Hughes, General Counsel



**Retention Leverage**  
**[Net Position] / [Current Retention]**

| <b>Year</b> | <b>Net Position</b> | <b>Pool Retention</b> | <b>Retention Leverage</b> |
|-------------|---------------------|-----------------------|---------------------------|
| 2017        | \$22,697,507        | \$2,500,000           | 9.08                      |
| 2016        | \$22,413,128        | \$2,000,000           | 11.21                     |
| 2015        | \$20,016,587        | \$2,000,000           | 10.01                     |
| 2014        | \$19,648,505        | \$1,000,000           | 19.65                     |
| 2013        | \$20,496,318        | \$1,000,000           | 20.50                     |
| 2012        | \$20,210,775        | \$1,000,000           | 20.21                     |
| 2011        | \$18,964,962        | \$1,000,000           | 18.96                     |
| 2010        | \$16,330,696        | \$1,000,000           | 16.33                     |
| 2009        | \$15,518,442        | \$1,000,000           | 15.52                     |
| 2008        | \$15,482,943        | \$1,000,000           | 15.48                     |

Solvency Ratio  
**Target: Greater than 10**

**10 Year Average: 14.21**  
*(bigger is better)*

What this Ratio Measures: WSTIP's net position compared to the Pool's current self-insured retention (SIR). AGRIP's recommendation is greater than 10. Lower retention leverage may indicate the need for additional capital.

- 1) Net Position is found on the Comparative Statement of Revenues, Expenses, and Change in Net Position.



**One Year Reserve Development Ratio**  
**[1 Year Reserve Development] / [Net Position ]**

| <b>Year</b> | <b>1 Year<br/>Reserve<br/>Development<br/>(1)</b> | <b>Net Position</b> |        |
|-------------|---|---------------------|--------|
| 2017        | \$1,172,261                                       | \$22,697,507        | 5.16%  |
| 2016        | \$2,474,250                                       | \$22,413,128        | 11.04% |
| 2015        | \$653,237   | \$20,016,587        | 3.26%  |
| 2014        | (\$97,956)  | \$19,648,505        | -0.50% |
| 2013        | \$643,659   | \$20,496,318        | 3.14%  |
| 2012        | \$1,036,270                                       | \$20,210,775        | 5.13%  |
| 2011        | (\$1,170,737)                                     | \$18,964,962        | -6.17% |
| 2010        | \$134,518   | \$16,330,696        | 0.82%  |
| 2009        | \$610,233   | \$15,518,442        | 3.93%  |
| 2008        | (\$939,384)                                       | \$15,482,943        | -6.07% |

Solvency Ratio

**Target : Less than 20%**

**10 Year Average: 2.36%**  
*(smaller is better)*

What this Ratio Measures: Development of prior year booked reserves as a percentage of net position. It is an estimate of amounts the pool has either under or over charged in annual contributions based on the subsequent development of claims. A positive ratio reflects negative claim development.

- 1) One-year reserve development from Notes to the Financial Statements (Unpaid Claims Liability) (2017 note 10).
- 2) Net Position is found on the Comparative Statement of Revenues, Expenses, and Change in Net Position.



**Change in net position**  
**[Current Net Position] / [Prior Net Position]**

| <b>Year</b> | <b>Current Net Position</b> | <b>Prior Net Position</b> | <b>% Change in Net Position</b> | <b>\$ Change in Net Position</b> |
|-------------|-----------------------------|---------------------------|---------------------------------|----------------------------------|
| <b>2017</b> | \$22,697,507                | \$22,413,128              | 1.27%                           | \$284,379                        |
| <b>2016</b> | \$22,413,128                | \$20,016,587              | 11.97%                          | \$2,396,541                      |
| <b>2015</b> | \$20,016,587                | \$19,648,505              | 1.87%                           | \$368,082                        |
| <b>2014</b> | \$19,648,505                | \$20,496,318              | -4.14%                          | (\$847,813)                      |
| <b>2013</b> | \$20,496,318                | \$20,210,775              | 1.41%                           | \$285,543                        |
| <b>2012</b> | \$20,210,775                | \$18,964,962              | 6.57%                           | \$1,245,813                      |
| <b>2011</b> | \$18,964,962                | \$16,330,696              | 16.13%                          | \$2,634,266                      |
| <b>2010</b> | \$16,330,696                | \$15,518,442              | 5.23%                           | \$812,254                        |
| <b>2009</b> | \$15,518,442                | \$15,482,943              | 0.23%                           | \$35,499                         |
| <b>2008</b> | \$15,482,943                | \$14,579,244              | 6.20%                           | \$903,699                        |

Solvency Ratio

**Target : Greater than 3%\***

**Ten Year Average: 4.68%**

*(bigger is better)*

What this Ratio Measures: How much is WSTP's net position increasing or decreasing? Net position value has an effect on the Pool's ability to reach adequate surplus to achieve the long-term strategic goal of having the ability to increase the self-insured retention (SIR) to \$5 million.

\* Future funding strategies may require a greater percentage.

- 1) Net position is found on the Comparative Statement of Revenues, Expenses, and Change in Net Position.



**Net Incurred Loss Ratio**  
**[Net Incurred Loss] / [Net Contributions]**

|      | <b>Net Incurred Loss (2)</b> | <b>Net Contribution (1)</b> | <b>Loss Ratio</b> |
|------|------------------------------|-----------------------------|-------------------|
| 2017 | \$9,928,067                  | \$12,010,795                | 82.66%            |
| 2016 | \$5,850,875                  | \$10,655,181                | 54.91%            |
| 2015 | \$6,854,690                  | \$10,144,485                | 67.57%            |
| 2014 | \$7,583,449                  | \$9,926,2619                | 81.87%            |
| 2013 | \$6,766,651                  | \$8,955,491                 | 75.56%            |
| 2012 | \$5,851,543                  | \$8,655,125                 | 67.61%            |
| 2011 | \$7,344,828                  | \$9,002,957                 | 52.65%            |
| 2010 | \$6,720,394                  | \$8,434,273                 | 75.21%            |
| 2009 | \$5,811,531                  | \$6,486,342                 | 89.60%            |
| 2008 | \$4,525,162                  | \$6,160,003                 | 73.46%            |

Operational Ratio  
**Target : Less than 70%**

**Ten Year Average: 74.06%**  
*(smaller is better)*

What this Ratio Measures: Net incurred losses as a percentage of net contribution. Helpful for trending and benchmarking

- 1) Amounts are found on the Comparative Statement of Revenues, Expenses, and Change in Net Position.
- 2) Net Incurred Loss includes Claims Paid, Change in Unpaid Claim Liability, and Unallocated Loss Adjustment Expense (ULAE) (Total Incurred Loss) and is net of recovery.
- 3) Net contribution is net of reinsurance and brokerage fee (Total Insurance Services).



## Operating Ratio

$$([\text{Net Incurred Loss}] + [\text{Expenses}] - [\text{Investment Earnings}]) / [\text{Net Contributions}]$$

| Year | Net Incurred Losses (2) | Expenses (3) | Investment Earnings (4) | Net Contributions (5) | Operating Ratio |
|------|-------------------------|--------------|-------------------------|-----------------------|-----------------|
| 2017 | \$9,928,067             | \$3,005,948  | \$563,655               | \$12,010,795          | 102.99%         |
| 2016 | \$5,850,875             | \$3,079,820  | \$425,210               | \$10,655,181          | 79.82%          |
| 2015 | \$6,854,690             | \$2,935,653  | -\$204,282              | \$10,144,485          | 98.52%          |
| 2014 | \$7,583,449             | \$2,439,636  | \$214,467               | \$9,262,619           | 105.89%         |
| 2013 | \$6,766,651             | \$2,333,731  | \$213,399               | \$8,955,491           | 99.24%          |
| 2012 | \$5,851,543             | \$2,119,224  | \$269,900               | \$8,655,125           | 88.97%          |
| 2011 | \$4,740,266             | \$2,168,039  | \$424,570               | \$9,002,957           | 72.02%          |
| 2010 | \$6,343,786             | \$1,981,262  | \$570,642               | \$8,434,273           | 91.94%          |
| 2009 | \$5,811,531             | \$1,795,827  | \$1,019,020             | \$6,486,342           | 101.57%         |
| 2008 | \$4,525,162             | \$2,059,704  | \$1,056,634             | \$6,160,003           | 89.74%          |

### Operational Ratio

**Target : Less than 95%**

**10 Year Average: 96.52%**

*(smaller is better)*

What this Ratio Measures: Percentage of Member Contributions that are allocated for net incurred losses and Pool's operating costs net of investment income. Do our losses & operating costs (net of interest revenue) exceed the pool's net contribution? If the operating ratio is less than 100%, then WSTIP's net position will increase.

- 1) Amounts are found in the Comparative Statement of Revenues, Expenses, and Change in Net Position.
- 2) Net Incurred Loss includes Claims Paid, Change in Unpaid Claim Liability, and Unallocated Loss Adjustment Expense (ULAE) (Total Incurred Loss), net of recovery.
- 3) Expenses include administrative, member services, and program expenses.
- 4) Investment Earnings include interest and GEM income (Nonoperating Revenues).
- 5) Net contribution is net of Insurance Services which includes reinsurance premiums and broker fees.



## Expense Ratio

[Expenses] / [Net Contribution]

| Year | Expenses (2) | Net Contribution(3) | Expense Ratio |
|------|--------------|---------------------|---------------|
| 2017 | \$3,005,948  | \$14,327,086        | 20.98%        |
| 2016 | \$3,079,820  | \$12,864,133        | 23.94%        |
| 2015 | \$2,935,653  | \$12,245,048        | 23.97%        |
| 2014 | \$2,439,636  | \$11,570,191        | 21.09%        |
| 2013 | \$2,333,731  | \$11,225,365        | 20.79%        |
| 2012 | \$2,119,224  | \$10,662,805        | 19.87%        |
| 2011 | \$2,168,039  | \$10,899,471        | 19.89%        |
| 2010 | \$1,981,262  | \$10,214,682        | 19.40%        |
| 2009 | \$1,795,827  | \$8,321,754         | 21.58%        |
| 2008 | \$2,059,704  | \$7,999,343         | 25.75%        |

Operational Ratio  
Target : Less than 25%\*

**Ten Year Average: 22.61%**  
*(smaller is better)*

\* May be higher to accommodate special projects or programs included in the budget.

What this Ratio Measures: A general reasonableness check of administrative expenses relative to gross contributions. An excessively small percentage could indicate support services are insufficient to adequately prevent or control losses. Conversely, a large percentage could indicate that administrative expenses may be larger than what a pool might expect relative to its gross contributions.

- 1) Amounts are found in the Comparative Statement of Revenues, Expenses, and Change in Net Position.
- 2) Expenses include administration, member services, and program expenses.
- 3) Contribution is net of Insurance Services





## Summary of Target Ratios 2008 - 2017

|                                   |                | 2008   | 2009    | 2010   | 2011   | 2012   | 2013   | 2014    | 2015   | 2016   | 2017    |
|-----------------------------------|----------------|--------|---------|--------|--------|--------|--------|---------|--------|--------|---------|
| <b>Change in Net Position</b>     | <b>&gt; 3</b>  | 6.20%  | 0.23%   | 5.23%  | 16.13% | 6.57%  | 1.41%  | -4.14%  | 1.87%  | 11.97% | 1.27%   |
| <b>Retention Leverage</b>         | <b>&gt; 10</b> | 15.48  | 15.52   | 16.33  | 18.96  | 20.21  | 20.50  | 19.65   | 10.01  | 11.21  | 9.08    |
| <b>1 Year Reserve Development</b> | <b>&lt; 20</b> | -6.07% | 3.93%   | .82%   | -6.17% | 5.13%  | 3.14%  | -0.50%  | 3.26%  | 11.04% | 5.16%   |
| <b>Net Incurred Loss Ratio</b>    | <b>&lt; 70</b> | 73.46% | 89.60%  | 75.21% | 52.65% | 67.61% | 75.56% | 81.87%  | 67.57% | 54.91% | 82.66%  |
| <b>Operating Ratio</b>            | <b>&lt; 95</b> | 89.74% | 101.57% | 91.94% | 72.02% | 88.97% | 99.24% | 105.89% | 98.52% | 79.82% | 102.99% |
| <b>Expense Ratio</b>              | <b>&lt; 25</b> | 25.75% | 21.58%  | 19.40% | 19.89% | 19.87% | 20.79% | 21.09%  | 23.97% | 23.94% | 20.98%  |