



MINUTES

LOSS TRUST FUND BOARD MEETING

City Attorney Conference Room and Via Teams
3939 N. Drinkwater Blvd.
Scottsdale, Arizona 85251

September 25, 2024
5:00 p.m.

PRESENT: Allan Smith, Chair
Jake Seltzer, Vice-Chair
Austin Brooker
Brian Pittluck

STAFF: George Woods, Director of Risk Management
Lori Davis, Legal Advisor
Denise Plug, Risk Management Assistant
Adam Hirsch, Consulting Actuary (virtual)

CALL TO ORDER

Chair Smith called the meeting of the Loss Trust Fund Board to order at 5:04 p.m.

ROLL CALL

A formal roll call confirmed the presence of Board Members as stated above.

1. Approval of minutes of Public Meeting conducted on May 21, 2024

BOARD MEMBER BROOKER MOVED TO APPROVE THE MAY 21, 2024, PUBLIC MEETING MINUTES. BOARD MEMBER PITTLUCK SECONDED THE MOTION, WHICH CARRIED FOUR (4) TO ZERO (0). CHAIR SMITH, VICE-CHAIR SELTZER, AND BOARD MEMBERS PITTLUCK AND BROOKER VOTED IN THE AFFIRMATIVE. THERE WERE NO DISSENTING VOTES.

2. Presentation and discussion of Actuary Study by Oliver Wyman

Adam Hirsch, Consulting Actuary, provided an overview on the results of the Actuary Study. Estimating Outstanding Liability for the city, which is a balance sheet responsibility for claims that have occurred through June 30, 2024. Such claims may not all be reported to date, and the final value is unknown, but this is part of the estimation process. The estimation process is trying to determine a reasonable estimate for where open claims will settle. Oliver Wyman provided an accounting estimate of \$18.3 million on a nominal basis, meaning without considering the time value of money or any interest the city could earn on assets prior to paying any claims.

Last year, the balance was estimated to be \$18.4 million and looking forward 12 months an increase was projected based on a growing exposure or growing risk that becomes costlier over time. The city's expense was expected to exceed what was paid over the next 12 months and the balance was increased by \$1.5 million. However, all the actual information has been received for the past 12 months and the balance dropped down to the original estimate of \$18.3 million.

The incurred portion is the movement in the estimate, for example workers compensation injury; initial assessment from a 3rd party based on the injury and amount of time this person might miss work. We think of it as a \$10,000 responsibility and that gets moved up and down over time as more information is gathered, such as the claim is litigated, stays open, additional injuries, etc. The incurred movement is important data and the way to interpret this is in the aggregate up or down, but normally up and remains stable between \$5 to \$8 million year over year. FY 23/24 aggregate incurred movement was \$6.4 million which is reasonable and lower than expected based on the growing risk because of the trend level. This may lead to revisiting estimates and potentially not going as high as the prior year.

Payments made during the year are estimated but also projected forward 12 months. When projecting forward 12 months it is determining the expense and payment level per month for the next 12 and these two move in different directions. The expense is an addition to the reserve balance, where the payments represent a reduction to the balance. The report shows the payments came in higher than the expense for FY 23/24 which mainly falls under workers compensation but there is an increase in general liability this year. Mr. Woods noted the slight increase in general liability is due to some active cases of a high dollar in nature.

Mr. Hirsch reviewed some acronyms and terminology that is used in the reports. ALAE = Allocated Loss Adjustment Expenses, most often legal fees associated with individual claims. ULAE = Unallocated Loss Adjustment Expenses, often general claims handling type fees. Most of the numbers exclude ULAE but a separate ULAE estimate is added to the balance. Confidence Level = a way of estimating an adverse scenario or something more conservative. Mr. Hirsch prefers to use the word "judgmental". A brief recap of last year's conversation was provided related to confidence level a/k/a judgmental.

Projecting out a provision must be added monthly for expenses and the estimated reduction for payments during the 12 months. The two fashions are undiscounted / nominal and central estimates, meaning no application or consideration of investment income that is earned in the meantime. A lot of considerations go into projecting out five

years due to movement in the current estimate and becoming more dependent on things such as what the payroll and property values will be, the number of vehicles will increase year over year, the exposure element, the appropriate trend, increase cost of claims year over year, etc., etc. as well as the payment level.

Projecting out the confidence level estimate on a discounted basis, this is the first year the rate has moved from 1% to 4% annual. New actuarial guidance was implemented last year stating actuaries can no longer just take the discount rate from their client as an input, they must have a conversation with the client and make sure the rate is supportable and reasonable and insert a comment noting such. "It was confirmed with the City Treasurer that 4% is used elsewhere within treasurer decisions for the city and thus the rate has moved to that rate this year". Ms. Plug explained the 4% is used for all other actuarial studies that are done in the city which was clarified with the treasurer. Mr. Woods noted the records are swept which is why the nominal estimate is used in place of the discounted estimate.

Mr. Hirsch state this was one of the most stable reports they have done in the three years.

In response to Chairman Smith's question, Mr. Hirsch clarified the budget is still nominal but uses a higher confidence level. Table 11 is nominal with no discount and no 4% applied but it does show various percentiles. This should be read as Oliver Wyman's estimate with everything we know through 2024 of where the balance will be on June 30, 2025, June 30, 2026, out to June 30, 2030. Mr. Woods noted the fund balance for FY23 was projected at \$24 million and ended at \$28.9 million. The fund balance for FY 24 was projected at \$26.3 million and is on track to end at just over \$30 million. There is a possibility of working with treasury regarding way to reduce insurance premiums.

In response to Board Member Pittluck's question, Mr. Hirsch noting nothing jumped out in a negative sense. The change the city made in reserving for workers compensation claims held up and the data points appear to be well aligned with last years data points. Mr. Woods discussed prior to last year's workers compensation medical payout was \$2.6 million and last year's was \$2.7 million. He accredits this to a medical bill review provider Definiti Comp Solutions who has brought the bill down to 12%. They also provide defense and indemnification during litigation.

In response to Chairman Smith's questions, Mr. Hirsch explained all estimates are based on what we know through June 30, 2024. There is an expected increase in the reserve balance and there is a growing risk topic. The increase over the past 12 months was not as heavy as expected across the developing claims, growing exposure size, and severity trend in aggregate. The balance decreased because of a slightly heavier level of payments. A discussion ensued regarding IBNR claims and how the estimated numbers appear to be too high based on the actuals. Chairman Smith noted he was trying to see if there was a correlation between pointing good fingers at people about doing conscientious work. Mr. Hirsch explained it is tough to know exactly where to point that positive finger; however, all the data aligns with something being done successfully.

Mr. Wood explained a few things that might be impacting the IBNR and ultimately how much the city is paying.

- Safety National completed a benchmarking study on how the city was handling claims. The final report determined the city has a high number of occurrences of back, shoulder, and knee claims, which roll into surgery and are left open too long. A workers compensation team started meeting weekly and became aggressive in terms of using 20-day letters regarding the supportive care award up to two years for a permanent injury.
- If the award is not used for a period of 10 months another 20-day letter will be sent out advising them if they do not contact the city the claim will be closed, and reserve dropped.
- Began utilizing nurse case managers to attend medical appointments and advise the medical provider that the city does offer to accommodate restricted work duty.
- The medical bill review provider is decreasing the payments for medical expenses.
- The plan is to have an in-house physical therapy center to allow cost containment and control. Employees would be able to attend physical therapy while on the clock, reduce cost and get them back to work faster.

The focus is on workers compensation because it stands out within the risk management package. There are great Attorneys, claims adjusters, and contract folks doing back-end work. Chairman Smith noted Mr. Hirsh is doing the paper side to reflect the positive developments.

OPEN CALL TO THE PUBLIC

No comments were submitted.

ADJOURNMENT

BOARD MEMBER PITTLUCK MOVED TO ADJOURN THE MEETING. BOARD MEMBER BROOKER SECONDED THE MOTION, WHICH CARRIED FOUR (4) TO ZERO (0). CHAIR SMITH, VICE-CHAIR SELTZER, AND BOARD MEMBERS PITTLUCK AND BROOKER VOTED IN THE AFFIRMATIVE. THERE WERE NO DISSENTING VOTES.

With no further business to discuss, being duly moved and seconded, the meeting adjourned at 5:49 p.m.

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