

League Association of Risk Management



Budget for 2019-2020 Fiscal Year



LEAGUE ASSOCIATION OF RISK MANAGEMENT
2019/20 Draft Budget
7/30/2019

REVENUE DETAIL

| <u>Code</u> | <u>Description</u> | <u>2016-2017</u> | <u>2017-2018</u> | <u>2018-2019</u> | <u>2018-2019</u> | <u>2019-2020</u> | <u>Current vs Prior Budget:</u> | |
|---------------|---------------------------------|----------------------------------|----------------------------------|----------------------------------|---------------------------------------|----------------------------------|-------------------------------------|--------------------------------------|
| | | <u>Actual</u> <u>Revenues</u> | <u>Actual</u> <u>Revenues</u> | <u>Approved</u> <u>Budget</u> | <u>Reprojected</u> <u>Revenues</u> | <u>Proposed</u> <u>Budget</u> | <u>Dollar</u> <u>Incr/(Decr)</u> | <u>Percent</u> <u>Incr/(Decr)</u> |
| Income | | | | | | | | |
| 1 | Gross Earned Contribution | 8,526,373 | 8,264,076 | 7,996,000 | 8,313,000 | 8,775,000 | 779,000 | 9.7% |
| 2 | Ceded Premiums | (2,185,673) | (2,168,798) | (2,317,000) | (2,195,000) | (2,358,000) | (41,000) | 1.8% |
| 3 | Net Earned Contribution | 6,340,700 | 6,095,278 | 5,679,000 | 6,118,000 | 6,417,000 | 738,000 | 13.0% |
| 4 | Investment Income (net of fees) | 141,359 | 196,849 | 100,000 | 189,000 | 100,000 | - | - |
| 5 | Other Income | 4,488 | 3,593 | 5,000 | 5,000 | 5,000 | - | - |
| | Total Revenue | <u>6,486,547</u> | <u>6,295,720</u> | <u>5,784,000</u> | <u>6,312,000</u> | <u>6,522,000</u> | <u>738,000</u> | <u>12.8%</u> |

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EXPENDITURE DETAIL

| Code | Description | 2016-2017 | 2017-2018 | 2018-2019 | 2018-2019 | 2019-2020 | Current vs Prior Budget: | |
|---------------------------------|------------------------------------|---------------------|---------------------|------------------|--------------------------|------------------|--------------------------|---------------------|
| | | Actual Expenditures | Actual Expenditures | Approved Budget | Reprojected Expenditures | Proposed Budget | Dollar Incr/(Decr) | Percent Incr/(Decr) |
| Losses and Loss Expenses | | | | | | | | |
| 6 | Losses and Expenses | 1,482,707 | 4,903,052 | 3,576,000 | 3,877,000 | 3,770,000 | 194,000 | 5.4% |
| 7 | Loss Adjustment Expense | 112,795 | 650,898 | 386,000 | 617,000 | 407,000 | 21,000 | 5.4% |
| 8 | Ceded Losses | 210,711 | (1,867,399) | (1,192,000) | (1,442,000) | (1,257,000) | (65,000) | 5.5% |
| 9 | Net Losses | 1,806,213 | 3,686,551 | 2,770,000 | 3,052,000 | 2,920,000 | 150,000 | 5.4% |
| Underwriting Expenses | | | | | | | | |
| 10 | Actuarial Services | 29,500 | 32,138 | 32,000 | 32,000 | 32,000 | - | - |
| 11 | Legal & Human Resource Services | 61,459 | 163,613 | 162,000 | 296,000 | 296,000 | 134,000 | 82.7% |
| 12 | Lobbying Services | - | 9,000 | 12,000 | 39,000 | 48,000 | 36,000 | 300.0% |
| 13 | Salary & Wages | 587,173 | 704,432 | 728,000 | 728,000 | 757,000 | 29,000 | 4.0% |
| 14 | Employee Benefits | 147,417 | 221,843 | 234,000 | 244,000 | 257,000 | 23,000 | 9.8% |
| 15 | Payroll Taxes | 46,077 | 51,899 | 58,000 | 58,000 | 61,000 | 3,000 | 5.2% |
| 16 | Retirement Plan | 52,180 | 57,429 | 66,000 | 66,000 | 69,000 | 3,000 | 4.5% |
| 17 | Mobile Phone | 6,664 | 9,467 | 9,000 | 9,000 | 11,000 | 2,000 | 22.2% |
| 18 | Car & Field | 27,479 | 66,960 | 61,000 | 45,000 | 53,000 | (8,000) | (13.1%) |
| 19 | Computer | 25,513 | 60,401 | 54,000 | 54,000 | 34,000 | (20,000) | (37.0%) |
| 20 | Telecommunication / Network | 18,498 | 21,512 | 20,000 | 20,000 | 20,000 | - | - |
| 21 | Postage | 2,531 | 1,583 | 2,000 | 2,000 | 2,000 | - | - |
| 22 | Office Supply & Printing | 11,271 | 17,778 | 14,000 | 14,000 | 14,000 | - | - |
| 23 | Dues & Publications | 12,296 | 14,906 | 13,000 | 13,000 | 13,000 | - | - |
| 24 | Miscellaneous | - | 2,233 | 1,000 | 1,000 | 1,000 | - | - |
| 25 | Conferences & Travel | 32,475 | 63,033 | 50,000 | 50,000 | 50,000 | - | - |
| 26 | Accounting & Financial Audit | 35,400 | 32,330 | 47,000 | 47,000 | 47,000 | - | - |
| 27 | Rent/Remodeling/Office Fixtures | 47,968 | 44,414 | 35,000 | 37,000 | 38,000 | 3,000 | 8.6% |
| 28 | Third Party Administration | 751,322 | 751,601 | 769,000 | 763,000 | 770,000 | 1,000 | 0.1% |
| 29 | LNMA Administrative Fee | 170,527 | 163,676 | - | - | - | - | n/a |
| 30 | Advertising / Marketing | 18,294 | 7,287 | 16,000 | 16,000 | 16,000 | - | - |
| 31 | Appraisal Services | 39,993 | 38,810 | 55,000 | 55,000 | 55,000 | - | - |
| 32 | Loss Control Services | 43,503 | 46,515 | 59,000 | 59,000 | 59,000 | - | - |
| 33 | Safety Grant Program | - | 36,953 | 84,000 | 61,000 | 84,000 | - | - |
| 34 | Agent Administrative Fee | 218,981 | 253,098 | 251,000 | 271,000 | 290,000 | 39,000 | 15.5% |
| 35 | Brokerage Services | 16,280 | 40,211 | 38,000 | 38,000 | 38,000 | - | - |
| 36 | Department of Insurance Exam. | 11,141 | 652 | - | - | 14,000 | 14,000 | - |
| 37 | Bank Fees | 1,662 | 954 | 3,000 | 2,000 | 2,000 | (1,000) | (33.3%) |
| 38 | Insurance | 46,763 | 50,890 | 51,000 | 51,000 | 51,000 | - | - |
| 39 | Taxes & Licenses | 89,630 | 84,307 | 90,000 | 90,000 | 99,000 | 9,000 | 10.0% |
| 40 | Total Underwriting Expenses | 2,551,997 | 3,049,925 | 3,014,000 | 3,161,000 | 3,281,000 | 267,000 | 8.9% |
| | Total Expenditures | 4,358,210 | 6,736,476 | 5,784,000 | 6,213,000 | 6,201,000 | 417,000 | 7.2% |
| 41 | Net Income | 2,128,337 | (440,756) | - | 99,000 | 321,000 | 321,000 | - |

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SURPLUS DETAIL

| Code | Description | 2016-2017 Actual Surplus | 2017-2018 Actual Surplus | 2018-2019 Approved Budget | 2018-2019 Reprojected Surplus | 2019-2020 Proposed Budget |
|-------------|-----------------------|---|---|--|--|--|
| | Surplus | | | | | |
| 42 | Beginning Surplus | 9,273,357 | 11,401,694 | 10,960,938 | 10,960,938 | 11,059,938 |
| 43 | Earned Surplus | 2,128,337 | (440,756) | - | 99,000 | 321,000 |
| 44 | Ending Surplus | <u>11,401,694</u> | <u>10,960,938</u> | <u>10,960,938</u> | <u>11,059,938</u> | <u>11,380,938</u> |
| 45 | Dividend Program | - | - | - | - | - |
| | Total Surplus | <u>11,401,694</u> | <u>10,960,938</u> | <u>10,960,938</u> | <u>11,059,938</u> | <u>11,380,938</u> |

**League Association of Risk Management
Budget Category Descriptions**

| Code # | Category | Description |
|--------|----------------------------------|---|
| 1 | Gross Earned Contribution | Estimated amount of contribution to be collected from members. Property includes a 10% rate increase; all other increases are attributed to increases in members' exposure. Work comp base rates are derived from NCCI loss costs, an industry average. NCCI data confirms a decline in frequency due to better workplace safety, but is offset by an increase in severity due to the cost of improved treatments and technology aimed at providing injured employees with the best available care to get them well and back to work. |
| 2 | Ceded Premiums | Estimated premiums paid to reinsurers (including broker fees). Increases over P/Y: Casualty 4%, Property 10%, Workers Comp flat. Includes \$70K Boiler/Machinery and \$60k cyber policy. Also includes \$39k broker fees and \$42k for workers comp audit. |
| 3 | Net Earned Contribution | Gross earned contributions less ceded premiums. |
| 4 | Investment Income | TPA estimated earnings from funds invested during the fiscal year, net of investment management fees. |
| 5 | Other Income | Net income recognized for policies outsourced to reinsurers, less the reinsurer's premium. Flood or crime policies, for example. |
| 6 | Losses and Loss Expenses | Total of losses reserved on individual case files. Loss reserves are based on the best estimate of ultimate claim cost. Losses include awards and judgments paid to the plaintiff. |
| 7 | Loss Adjustment Expense | Expense associated with losses under Line #6, which includes cost of medical records, expert witness fees, independent medical exams, independent adjuster fees, York claim handling fees, and court costs. |
| 8 | Ceded Losses | Loss in excess of self-insured retentions with reinsurers and excess carriers. This amount is expected to be reimbursed to LARM by reinsurers and excess carriers. |
| 9 | Net Losses | Losses and expenses, plus loss adjustment expenses, less ceded losses. Actuary estimates, obtained from By the Numbers and reviewed by York, of the actual amount of claims to be paid by LARM. This is the sum of lines 6 through 8. |
| 10 | Actuarial Services | Fees for actuarial services provided under contract. Actuarial services include the annual actuarial reserves opinion required by the Department of Insurance, assistance with development of the annual independent audit, quarterly reports to the Department of Insurance, rate analysis report, and other projects as assigned. |
| 11 | Legal Assistance | General counsel fees incurred that are not related to a claim. Examples may be advice on management, due process, review of coverage policies, DOI inquiries, and tax issues. This is a rough estimate based on current year projections, the bulk of which has been used to defend against unsolicited litigation brought against LARM and its members; it is difficult to determine when it will end. |

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| Code # | Category | Description |
|---------------|--|---|
| 12 | Lobbying Services | Lobbying fees paid to O'Hara. |
| 13 | Salary & Wages | Salary and wages for 8 staff members and 1/2 of IT manager. Includes 4% step plan salary increase. |
| 14 | Employee Benefits | Employee benefits for 8 1/2 staff (1/2 IT manager) including health, HSA funding, dental, life and disability, as well as staff continuing education hours. |
| 15 | Payroll Taxes | Payroll taxes for staff, normally estimated to be 8% of salary & wages. |
| 16 | Retirement Plan | Retirement plan for staff, estimated at 10% of salary & wages once staff members are vested. |
| 17 | Mobile Phone | Cell phone equipment and usage charges for staff. |
| 18 | Car & Field | All vehicles and their related fuel and maintenance expenses. Purchase of a used 4-wheel drive vehicle is budgeted for 2019/20. |
| 19 | Computer | Software/hardware costs, technology service contract, hardware lease, website, etc. |
| 20 | Telecommunication / Network | Cost of Internet, cable, and land line phones. |
| 21 | Postage | Postage on all meeting packets, promotional calendars, letters, bills, loss control information, etc. |
| 22 | Office Supply & Printing | Office supplies for the LARM office including general office supplies, small equipment, board packet materials, copies, professional photos for website and printing of LARM calendar and brochures. |
| 23 | Dues & Publications | Membership dues, newspaper renewals, magazine subscriptions, etc. |
| 24 | Misc. | Cost of special awards, staff meeting items, claim ex gratis payments, and any other office expenses that do not go in another category. |
| 25 | Conferences & Travel | Conference and workshops for staff, NLC, AGRIP and PRIMA, including travel, accommodations, meals, etc. Also includes LARM meetings, Board of Directors mileage, and staff training. |
| 26 | Accounting & Audit | Accounting and auditing of filings required by the Department of Insurance, fees related to the independent audit of LARM's financial statements, and any required reports related to that audit. Also includes payroll service fees. |
| 27 | Rent, Remodeling, and Office Fixtures | Rent for office space, utilities, copier lease, and office maintenance such as plumbing, refuse collection, and locksmith services. |
| 28 | Third Party Administration | Fees paid to York for monthly TPA services. Also included is a 5% incentive payment on new business and \$25K annual large member retention bonus. |
| 29 | LNM Administrative Fee | Sponsorship fees previously paid to LONM; 0% budgeted. |

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| Code # | Category | Description |
|--------|--------------------------------------|---|
| 30 | Advertising/Marketing | Direct advertising costs and enhanced marketing of LARM services to municipalities. Includes distribution of LARM Life (four times per year), ads in trade magazines (NRWA, NMMP, League Directory), design costs for brochures and the LARM calendar, and promotional merchandise. |
| 31 | Appraisal Services | Cost of property appraisals and appraisal software. |
| 32 | Loss Control Services | Fees related to the police professional training conducted by LLRMI and NIRMA/PATC, Online University, Nebraska Safety Council annual fee, loss control safety marketing materials, membership publications, and claims software. |
| 33 | Safety Grant Program | Includes the "Lean on LARM" safety grant program and the new body armor grant (\$500 per member per program). |
| 34 | Agent Administrative Fees | Commission paid on agent-produced business. |
| 35 | Brokerage Services/Consulting | Consulting fees paid to ICRMS, less Broker Fees which are booked to Ceded Premiums in line 2. |
| 36 | Department of Insurance Exam | Department of Insurance Audit. The audit typically occurs every three years, but can occur whenever the Department of Insurance determines. The last audit was for the three years ended 9/30/15. |
| 37 | Bank Fees | Fees for checking account services including general operating account and zero-balance claim accounts. |
| 38 | Insurance | Premium paid for public officials liability insurance for the LARM Board of Directors and officers, insurance for LARM vehicles, workers' compensation, general liability, inland marine, commercial umbrella, ERISA bond, and employee dishonesty. |
| 39 | Taxes, Licenses & Fees | Estimate of premium tax and fees paid to the Nebraska Department of Insurance in compliance with the Intergovernmental Risk Management Act. |
| 40 | Total Expenditures | Total of net losses, underwriting expenses, and miscellaneous expenses. Sum of lines 9 through 39. |
| 41 | Net Income | Total revenue minus total expenditures. |
| 42 | Beginning Surplus | Surplus shown on the financial statement at the beginning of the fiscal year. |
| 43 | Earned Surplus | Net income reported on financial statement. |
| 44 | Ending Surplus | Beginning surplus plus earned surplus. |
| 45 | Dividend Program | Potential member distribution program. |
| | Total Surplus | Ending surplus minus dividend program. |