



**THE SEVENTEENTH ANNUAL JOINT MEETING
OF THE
BOARD OF TRUSTEES AND ITS STANDING COMMITTEES
OF
OCTOBER 18-19, 2012**

MINUTES

The Board of Trustees of The Rhode Island Interlocal Risk Management Trust, Inc. (The Trust) convened a meeting on Thursday, October 18, 2012 and Friday, October 19, 2012 at the Rhode Island Country Club, 150 Nayatt Road, Barrington, Rhode Island.

Chairman Alfred called the meeting to order at approximately 8:45 a.m. on October 18, 2012.

1. ROLL CALL

Trustees Present

Stephen Alfred, Town of South Kingstown
John Ambrogi, Newport Public Schools (departed at 3:20 p.m. on October 18th)
Scott Avedisian, City of Warwick
Jeffrey Ceasrine, Town of Narragansett
Peter DeAngelis, Town of Barrington (arrived at 9:15 p.m. on October 18th)
David Faucher, Town of Portsmouth (departed at 4:35 p.m. on October 18th)
Robert Hicks, New Shoreham School Department
Bruce Keiser, Town of Jamestown
John Mainville, Town of Burrillville
Diane Mederos, Town of Bristol (departed at 3:20 p.m. on October 18th)
Michael Petrarca, Central Falls School District (arrived at 12:00 p.m. on October 18th)
Melinda Thies, Bristol Warren Regional School District (departed at 3:20 p.m. on October 18th)

Trustees Absent

Daniel Beardsley (*ex officio*), Rhode Island League of Cities and Towns
Lori Miller, Lincoln Public Schools

Others Present

Brian Ahern, Trust Director of Risk Management Services
Joseph Balducci, Trust Investment and Audit Committee
Colleen Bodziony, Trust Director of Membership Services
Stephen Coutu, Trust Risk Management Committee (arrived at 1:20 p.m. on October 18th)
Keith Demty, Trust Director of Employee Benefits Program
Paul Dutra, Trust Property/Liability Claims Manager (October 19th only)
Thomas Dwyer, Trust President and Executive Director
Douglas Fiore, Trust Employee Benefits Committee (October 18th only)
Julie Goucher, Trust Investment and Audit Committee
Russell Godin, Trust Director of Claims (departed at 2:20 p.m. on October 18th)
Jeffrey Kadison, Practical Actuarial Solutions (October 18th only and departed at 2:20 p.m.)
Laura Kenyon, Trust Employee Benefits Committee
Nancy Lalli, Trust Employee Benefits Committee
Alan Lord, Trust Investment and Audit Committee (departed at 11:00 a.m. on October 19th)

Tom Mainville, Trust Employee Benefits Committee
Debby Maynard, Trust Executive Assistant
Col. Stephen McCartney, Trust Risk Management Committee (October 18th only)
Kathleen Raposa, Trust Employee Benefits Committee
Ian Ridlon, Trust General Counsel and Director of Legal Services
Heather Sheley, Trust Chief Financial and Administrative Officer
Ron Tarro, Trust Investment and Audit Committee (October 18th only and departed at 2:55 p.m.)
William Thompson, Milliman (October 18th only and departed at 2:55 p.m.)

2. Approval of Minutes of the Board Meeting of August 21, 2012

On a motion made by Trustee Ceasrine, seconded by Trustee Mederos, the Board voted to approve the Minutes of the Board meeting of August 21, 2012.

<u>Trustee</u>	<u>Vote</u>	<u>Trustee</u>	<u>Vote</u>
Stephen Alfred	aye	Bruce Keiser	aye
Jack Ambrogi	aye	John Mainville	aye
Scott Avedisian	aye	Diane Mederos	aye
Jeffrey Ceasrine	aye	Lori Miller	absent
Peter DeAngelis	absent	Michael Petrarca	absent
David Faucher	aye	Melinda Thies	aye
Robert Hicks	aye		

3. Business Items

3.a. Actuarial Reports

3.a.i. Property and Casualty Pools

Mr. Dwyer presented Management's analysis of the loss trends for the Workers' Compensation and Property and Liability Pools. For each Pool, Mr. Dwyer reviewed its performance over time and noted important trend factors.

Beginning with the Workers' Compensation Pool, he noted that the first three years of the most recent seven year period being discussed were quite profitable whereas Fiscal Year 2009 had losses that had already outstripped collected premiums and investment income. With respect to the most recent two years, though, he explained that it was too early to tell whether the policy years would be profitable or not.

Mr. Dwyer next discussed how policy year results develop over time and noted that, as reserves can be reduced, that money is returned to surplus.

Mr. Dwyer also briefly reviewed the financial performance by policy year of all the other years dating back to the Workers' Compensation Pool's inception in Policy Year 1989. He concluded this portion of the discussion by noting that only five claims remained open from the period comprising the first 10 years of the program.

Next, with respect to the Property/Liability Pool, Mr. Dwyer discussed the reserves, including the Incurred But Not Reported (IBNR) component, for each policy year as of June 30th for the past seven years. In doing so, he noted that it was too early to determine whether the Pool would be profitable for the most recent two year period, but indicated that reserving was, as is customary, very conservative.

He next noted that there was a necessary reserve strengthening in PY 2008 and PY 2010. He reiterated that the concept of reserve strengthening is not a positive thing in terms of Members' Equity, despite the sound of its name, as such "strengthening" reduces the Member Equity.

Mr. Dwyer concluded his presentation relative to the Property/Liability Pool by discussing the operating ratios for policy years 1997 through 2005 and noting the profitability of those years, as well as discussing the general profitability of the first ten years of the Pool.

Mr. Hicks and Mr. Lord inquired about the way investment income and unrealized investment gains and losses were treated in the calculation of the year-by-year operating ratios of the Pools.

The Trust's independent consulting actuary, Jeffrey Kadison of Practical Actuarial Solutions, then gave a presentation summarizing his findings regarding the adequacy of The Trust's loss reserves and setting forth his recommendations regarding the amount of IBNR Reserves appropriate for The Trust as of June 30, 2012.

He began with a discussion of the Workers' Compensation Pool. He first discussed Current Fund Year Estimated Results and Prior Fund Year Estimated Ultimate Losses, which he noted produced a very good result. He then discussed loss level drivers and industry average claims costs. This was followed by a discussion of Industry loss experience and Rhode Island specific combined ratios. He noted that loss ratios exceeding 100% still allowed for a profit because of investment income. He then provided data from the last 10 policy years relating to the various categories used to develop reserves.

At the request of Mr. Dwyer, Mr. Kadison omitted the portion of his presentation related to The Trust's so-called Injured-On-Duty (IOD) Program. This portion of the presentation was more relevant to an agenda item that was to be discussed later in the day.

With respect to the presentation regarding the Property/Liability Pool, Mr. Kadison again provided data from the last 10 policy years relating to the various categories used to develop reserves. He also discussed the severity, as opposed to the frequency of claims, over the last several years, with special focus on loss ratios in Policy Year 2008 for both Public Officials and Police Professional/General Liability claims, and for the last four Policy Years for Property claims. This upward trend in property losses, he noted, was caused by bad weather events that were beyond the control of our Members. Mr. Dwyer added that the higher losses were resulting in higher reinsurance costs, and Chairman Alfred added that the rise in property losses and reinsurance costs was also partially attributable to the recent revaluations of Member properties.

Mr. Dwyer closed the discussion by referencing information previously provided to the Trustees regarding a reduction in prior year reserve levels for Workers' Compensation of approximately \$2M, and a reserve strengthening of approximately \$27,000 for Property/Liability.

3.a.ii. Employee Benefits Pools

Keith Demty, Trust Director of Employee Benefits Program, gave an overview of Management's perspective of the financial position of the Health and Dental Pools in light of the actuarial findings of Milliman, Inc., as of June 30, 2012. Specifically, he noted that both the Health and Dental Pools had performed extremely well over the last year with the Health Pool operations resulting in a projected \$8.5M surplus for the year and the Dental Pool operations resulting in a projected \$500,000 surplus for the year. The resulting overall surpluses for the Health and Dental Pools were approximately \$20.8M and \$1.3M, respectively.

Actuary William Thompson of Milliman next led a discussion of the IBNR claim reserve that he had calculated for the Health and Dental Pools. He explained his methodology for calculating IBNR, and compared IBNR levels as of June 30, 2011 and June 30, 2012, noting a slightly favorable “run out” for last year. He also contrasted the differences in the way IBNR reserve is calculated for employee benefits insurance versus the calculation for liability and workers’ compensation insurance.

He noted that, while medical costs generally were rising, Trust costs were rising less than the current trends.

With respect to the Dental Pool, he conducted the same discussion. Of note, though, was the fact that there was a payable due to Delta Dental at the end of the 2011-2012 fiscal year that was not included in the IBNR Reserve, but was booked separately by The Trust as a payable.

He next explained the Health Pool’s “Claims Fluctuation Target” (CFT) level and its calculation. He noted the CFT looks forward in the sense that it attempts to quantify possible future adverse fluctuation or deviation in claim activity in the coming two years, as opposed to the IBNR Reserve calculation which looks backward at claim activity to calculate the reserve amount needed to account for claims still being processed but associated with the past fiscal year. Chairman Alfred noted that the CFT is not a “reserve” formally recorded on The Trust’s Financial Statements. Mr. Thompson then elaborated on the issue, and there followed a brief discussion regarding the distinctions between how reserves are set for the Property and Casualty Pools and for the Health and Dental Pools.

There were no further questions or comments.

3.b. Projected Financial Position

Heather Sheley, Trust Chief Financial and Administrative Officer, gave a brief overview of the Trust’s Projected Financial Position. She cautioned the Trustees, though, that the projections were based upon unaudited numbers. That being said, though, she indicated that there would likely be very little change once the audit was completed. She then proceeded to give a detailed report regarding the Statement of Operations.

3bi. Property and Casualty Pools

With respect to the Property and Casualty Pools, she noted that approximately \$9M was paid out in reinsurance costs. The resulting revenue from premiums was approximately \$13.8M, which was net of reinsurance. With respect to the Employee Benefits Pools, she noted a favorable year with respect to loss trends, and an increase in investment income resulting from a change in the investment strategy used for the Pools.

Based upon the results from all Pools combined, the consolidated Member Equity was expected to be nearly \$41M. Member Equity in the Property and Casualty Pools, less The Trust Ownership Participation Shares (TOPS) Dividend, was up slightly from last year to approximately \$18.35M while the Member Equity in the Employee Benefits Pools was up from approximately \$13.25M last year to approximately nearly \$22.5M this year. Of the \$20.8M in Member Equity attributable to the Health Pool, it was noted that \$1.6M consisted of Contributed Capital while the remainder consisted of Equity earned from annual operations over time.

With respect to the Property and Casualty Pools, Ms. Sheley then discussed the performance of The Trust’s Investment Portfolio in terms of Net Investment Income, realized and unrealized

gains and losses for FY 2012, and the trends evident in unrealized gains and losses levels for the past seven year period from FY 2006 through FY 2012.

3bii. Employee Benefits Pools and Group Life Insurance Program

Ms. Sheley then detailed the same information for the Employee Benefits Pools, noting that while the investment results were not what were hoped for, they were nonetheless markedly better than last year. She also noted some increase in the volatility of Investment Portfolio for the Health and Dental Pools due to the addition to the Portfolio of a small amount of equity holdings.

She concluded this portion of the presentation by discussing the impact on Health Pool Members' Equity from the amounts due to the East Greenwich Fire Department as a result of its departure from the Health Pool as of July 1, 2012. She presented a preliminary calculation of the Contributed Capital amount due to the Department and of the Department's earned equity share.

3biii. Backstop Account

Mr. Demty next discussed the Stop-Loss Reinsurance program. He began by noting that the individual claim limit at which internal stop-loss coverage, provided through the Backstop Account, would become effective was raised in Policy Year 2010-2011 to \$1M. He then reviewed the Stop-Loss Reinsurance Loss Ratios for Policy Year 2006 through the partial Policy Year 2013. He noted that no claims exceeded the threshold in Policy Year 2010-2011, but that there was a claim in Policy Year 2011-2012 which is about \$19,000 in excess of the limit. There followed a brief discussion of that claim.

Next, Mr. Demty reviewed frequency level and distribution of high claim activity. Mr. Thompson informed the Trustees that the most relevant inquiry for this analysis is whether there are more large claims than should be expected for the group size, and not whether one claim might exceed the threshold. He further observed that The Trust's experience to date seemed very reasonable and more favorable than would have been expected. There was no further discussion.

Break at 10:30 a.m. and meeting resumes at 10:52 a.m.

3c. Financial Benchmarking – Advantages of Risk Based Capital

Mr. Dwyer began the discussion by giving a brief background of the Risk Based Capital (RBC) measurement in benchmarking an insurer's financial solvency. He also indicated that, if the Trustees chose to authorize the use of RBC as a formal Trust financial benchmark on a going-forward basis, CFT could still be retained as an additional benchmark. He commented that because that RBC looks at a number of different risk elements, it is a better measure than CFT. He concluded his portion of the discussion by noting that the existing Trust benchmarking policy has not been updated since 2004, and further that the Employee Benefits Pools are not included in the current policy, so the Policy should be updated for several different reasons.

Mr. Thompson then offered a more in-depth review of the way RBC is calculated for an employee benefits pool and a comparison of it with the CFT calculation. He noted that the RBC calculation is commonly used by regulators to measure the financial condition of insurance companies, and he identified and interpreted the meaning of various RBC ratios in terms of their regulatory impact. In a regulatory environment, he said, a 200% ratio places an insurer at the "Company Action Level", meaning the insurer must submit plans to the regulator for strengthening its financial position. Insurers, though, typically hold ratios higher than 200% and often exceed 400%. He then identified the specific RBC levels of other insurers and of The

Trust, but he also noted that The Trust does have different risk considerations than other insurers so a direct comparison, while helpful, should not be treated as conclusive.

He next discussed other alternative measures and management techniques which could be helpful in gauging the overall financial condition of The Trust and the desired level of Members' Equity to properly protect the Pool from adverse financial developments. In response to a Trustee question, he then briefly discussed differences between the operations of The Trust and other insurers. Mr. Ridlon, Trust General Counsel and Director of Legal Services, noted that The Trust's enabling statute specifically states that The Trust is not an insurer and is, instead, a risk management pool with a greater emphasis on loss prevention and risk allocation than other commercial insurers. Mr. Demty noted that, relative to other insurers, an ideal Trust financial benchmark RBC ratio might be higher, for instance because it doesn't have the same access to capital as a private company, but in other ways, a lower RBC ratio might be acceptable because The Trust has the power to assess Member entities if premiums become insufficient to cover unexpectedly high loss levels.

Chairman Alfred noted that the RBC measurement could be a very useful tool to explain to interested third parties the rationale for The Trust's decisions to seek certain Members' Equity or surplus levels. There followed a brief discussion of the issues faced by the other pools grappling with questions about the appropriate level of Members Equity to ensure financial viability in a business that is inherently volatile and financially risky.

Mr. Kadison then gave a presentation of the RBC measurement for The Trust's Property and Casualty Pools. He began by providing the relevant definitions. He further identified special issues The Trust faced with respect to certain factors in the RBC formula established by the National Association of Insurance Commissioners (NAIC). Those factors, he said, were designed for traditional, private insurers and not for intergovernmental pools like The Trust.

There followed a general discussion of the benefits and drawbacks in utilizing the various forms of measurement as a Trust financial benchmark, including the RBC measurement. Chairman Alfred asked if RBC measurement was not perhaps more appropriate for the Health and Dental Pools than for the Property and Casualty Pools.

Mr. Dwyer refocused the discussion to note that, with the exception of CFT, none of the benchmarks under discussion directly impact Members; rather, they are tools used to allow the Trustees and Trust Management to gauge the overall financial stability of The Trust. The CFT measurement is used, however, in the calculation of the amount of earned equity to be returned to a Health Pool participating entity that elects to leave the Pool. Thus, the pressing, immediate question, Mr. Dwyer said, is whether the CFT should be replaced by the RBC measurement and, if so, what RBC ratio should be chosen as the substitute measure for the withdrawn earned equity calculation. Mr. Dwyer indicated that different RBC ratios could be used for operational and equity allocation purposes.

Further discussion followed among Trustees, Committee members, staff and the consultants about measurement tools and specific benchmark levels that might be chosen. Chairman Alfred noted that the implications on underwriting and Members Equity levels from adopting different measurement tools and benchmarks could be significant. Accordingly, he asked that Trust Management prepare a report discussing changes in The Trust's financial benchmarking policy, specifically including the introduction of RBC as a measurement tool and proposing as well target levels that might be adopted by the Board as formal benchmarks and for calculating the withdrawn earned equity share for a departing Member participant in the Health Pool. Trustee Faucher and Mr. Demty noted that there would be no detriment in waiting until the January meeting to make a decision on these matters.

There were no further questions and the discussion of RBC was concluded.

Break at 12:10 p.m. and meeting resumes at 1:20 p.m.

3d. Public Safety Injured-On-Duty (IOD) Program Revisions

Mr. Dwyer began the discussion by presenting a general overview of the IOD Program. He noted that only Rhode Island and Massachusetts have legislative schemes that are separate and apart from the Workers' Compensation statutory scheme for compensating police officer and fire fighters who are injured on the job. This is important, he said, because The Trust stands in a different position vis à vis the injured employee when administering IOD claims as opposed to Workers' Compensation claims. He discussed the specific and aggregate components of the program, and reminded the Trustees that charges for the cost of the IOD Program are built into the Workers' Compensation premiums given to municipal Members, but not to those for schools, special purpose districts, or municipal Members whose public safety programs are outside of the municipal budget, such as those with fire districts.

Mr. Dwyer next explained the rationale for proposing changes to the IOD Program, and provided statistical information about the program: claim activity, including IBNR reserves, and sources of Trust reimbursement to Members for losses. Mr. Kadison noted that claim development is particularly slow with respect to IOD claims based upon their nature and timing of notification.

Mr. Dwyer then set forth Management's proposed program revisions to become effective July 1, 2013 as follows:

- Increase the Specific Attachment Point to \$150,000;
- Reduce the duration of coverage from five (5) to three (3) years;
- Introduce a cost sharing arrangement relative to reimbursement;
- Decline to post wages if a Member refuses to cooperate with The Trust in managing the claim;
- Terminate coverage if the employee does not qualify for accidental disability;
- Confirm that specific coverage applies to each employee and not each accident;
- Confirm coverage applies to occupational diseases identified in the IOD statute; and
- Clarify certain terms and conditions of coverage.

There followed a brief discussion, initiated by Chairman Alfred, that the real cause of the increasing loss levels was a lengthened time period before an injured employee could be moved from IOD status to a disability retirement program, and, in some cases, the inability to make such a transition in any time frame. Trustee Keiser noted that the proposed changes seemed to be a reallocation of cost, and inquired whether Members might be permitted to choose their own attachment points with a premium adjustment, similar to choosing a deductible. Mr. Dwyer said that could be considered.

The discussion then returned to the potential causes of the increase in the costs of administering the program. Those included the benefits conferred under the IOD statute itself, the lack of impetus for injured employees to return to work, the lack of "light duty" alternatives for return to work, and the terms of the various Collective Bargaining Agreements (CBAs).

The discussion concluded with the Trustees asking Trust Management to further study the issue and to propose some less drastic changes to the program at the January meeting.

3e. Members' Equity Policy Considerations for Employee Benefits Pools

Mr. Dwyer began the discussion by reviewing the reason this matter was placed before the Board for its consideration. When a Member earlier departed the Health Pool, it was noted then that a specific policy did not exist that answered the question of whether the earned equity forfeited by the Member was to be used in any special way or segregated in The Trust's Financial Statements or practices. As a result, in consultation with the Employee Benefits Committee (EBC), Management committed to conduct an examination of whether a special policy was warranted for Member-specific "forfeited" Health Pool equity.

After consideration and further discussion with the EBC, Mr. Dwyer reported that both Management and the Committee were recommending no specific policy be developed. In the absence of such a policy, forfeited equity would simply flow to general Members' Equity and be unallocated (i.e., not associated with a specific Member-entity), thus providing maximum flexibility to the Board in the use of these funds for the general benefit of the Health Pool and its Members.

Brief discussion followed in which Management clarified for the Trustees the way "forfeited" equity would be treated in The Trust's financial records. There were no further questions or discussion.

On a motion made by Trustee Faucher, seconded by Trustee Avedisian, the Board voted unanimously to move any "forfeited equity" created through the departure of a Health Pool Member to the general Member Equity of the Health Pool.

<u>Trustee</u>	<u>Vote</u>	<u>Trustee</u>	<u>Vote</u>
Stephen Alfred	aye	Bruce Keiser	aye
Jack Ambrogi	aye	John Mainville	aye
Scott Avedisian	aye	Diane Mederos	aye
Jeffrey Ceasrine	aye	Lori Miller	absent
Peter DeAngelis	aye	Michael Petrarca	aye
David Faucher	aye	Melinda Thies	aye
Robert Hicks	aye		

The next item for discussion related to a Management and EBC recommendation that the Health Pool return to its Members their Contributed Capital, together with interest, effective July 1, 2013. There followed a discussion about impact of such an action of Health Pool membership stability, retention and acquisition. There was also a discussion of how such an action would impact the RBC measurement in the event that the Trustees decided that it would be the preferred benchmarking measure. Although the Trustees generally seemed supportive of the recommendation, in light of those matters and the coming Agenda discussion about possible changes to the Agreement for Joint Negotiation and Purchase of Health Coverage, the Board elected to take no definitive action and indicated that it wished to revisit this matter at its January meeting.

3f. Revising the Agreement for Joint Negotiation and Purchase of Health Coverage

Mr. Ridlon then led a discussion of proposed changes to the Agreement for Joint Negotiation and Purchase of Health Coverage. He began by outlining what the document was originally intended to do and then described how it had, in many ways, outlived its usefulness and effectiveness. There followed a brief discussion regarding the nature of the termination fees contained in the

Agreement in terms of reasonableness, practicality, financial need and legal implications. Mr. Demty offered an alternative approach to a termination fee provision and discussed its merits.

Mr. Dwyer next addressed several other provisions of the Agreement that were proposed to be modified or deleted. Those proposed changes were all set forth in a memorandum dated September 14, 2012, from Mr. Dwyer and Mr. Demty to the EBC. With respect to each recommended change, Mr. Dwyer discussed the rationale.

He then noted that a decision on whether Management should proceed to develop an alternative membership participation agreement for the employee benefits pools along the lines recommended by Management and the EBC was time sensitive as it would take some time to effectuate the changes.

Chairman Alfred led a brief discussion of each proposed change to gauge the support of the Trustees. Extended discussion ensued about the impact of such changes on the competitive position of The Trust's Health Pool relative to programs offered by other private insurers and intergovernmental pools or purchasing arrangements. Management emphasized it believed the changes being proposed would financially benefit existing Members without jeopardizing the Health Pool's overall financial stability, would strengthen and clarify the contractual relationship between The Trust and participating Member entities, and would position The Trust Health Pool for growth, which in turn would create more marketplace cost containment leverage and efficiencies and economies of scale.

Based on these Trustee comments, Mr. Dwyer said that Management could now prepare for the Board's January meeting more specific proposals and scenarios as well as the draft language of a revised membership participation agreement. Those items could then be reviewed by the Trustees and then sent out to the Members for comment in February or March. On that timeline, the Board could formally adopt a revised membership participation agreement at its late March/early April meeting, and Member entities would be able to plan accordingly in developing their coming fiscal year budgets.

On a motion made by Trustee Ambrogi, seconded by Trustee Petrarca, the Board voted unanimously to direct Trust Management to develop specific language and recommendations for the replacement of the Agreement for Joint Negotiation and Purchase of Health Coverage along the lines discussed in the memorandum dated September 14, 2012, from Mr. Dwyer and Mr. Demty to the EBC excepting the recommendation related to the revision of the Equity Allocation Policy until such time as the Board determines an appropriate internal benchmarking policy.

<u>Trustee</u>	<u>Vote</u>	<u>Trustee</u>	<u>Vote</u>
Stephen Alfred	aye	Bruce Keiser	aye
Jack Ambrogi	aye	John Mainville	aye
Scott Avedisian	aye	Diane Mederos	aye
Jeffrey Ceasrine	aye	Lori Miller	absent
Peter DeAngelis	aye	Michael Petrarca	aye
David Faucher	aye	Melinda Thies	aye
Robert Hicks	aye		

Mr. Dwyer then noted that Management's other proposal that a portion of Health Pool Members' Equity be used for a one-time funding infusion into the so-called "backstop" account did not need to be addressed at this time and could be better evaluated at a later time during the fiscal year when claim trends for the policy year are more evident and certain. For that reason, a decision on such an infusion is better made near the end of the fiscal year, he explained.

Chairman Alfred asked that any such proposal regarding Backstop Account funding address the concept of a Health Pool “buy-out” of the Property and Casualty Pools’ interests.

Break at 3:20 p.m. and meeting resumes at 3:45 p.m.

3g. Merger/Affiliation with WB Community Health

Chairman Alfred began the discussion of the potential affiliation or merger with the WB Community Health (WBCH) by noting that Mr. Dwyer had provided both the EBC and the Trustees with a fairly detailed memorandum outlining the background of previous discussions between the parties.

Noting that certain Trustees had expressed an interest in having The Trust develop a self-insured (or self-funded) program in the event that the WBCH did not wish to engage in any future discussions of affiliation or merger, Mr. Dwyer reiterated his concern that in a state as small as Rhode Island it seemed to make little sense to have pools competing against each other. He thus suggested that The Trust again approach the WBCH through a small group of Trustees and EBC members. He noted that the suggestion had been endorsed by the EBC, and Trustee Faucher, Chair of the EBC, indicated that there were volunteers from the committee to serve in such a group.

Alan Lord stated that, as a Board member of the WBCH, he wanted it known that, despite the fact that the WBCH Board unanimously voted not to pursue merger or affiliation, after that vote was taken, Mr. Dooley, the WBCH’s Executive Director, had discussions with Mr. Dwyer indicating that they would be receptive to future discussions.

Chairman Alfred also voiced his concern about having competing pools in a state this size and questioned the need for The Trust to establish such a pool when one already exists and works well. There followed an extended discussion about the potential benefits if the two entities worked together. There was also a general discussion among Mr. Dwyer and the Trustees regarding the likelihood of Members moving from pool to pool and the instability that such movement could create.

Trustee Ceasrine summed up the discussion by observing that the Trustees appeared to have four options:

- Maintain the status quo and possibly look at future shared services;
- Engage in some shared services now;
- Engage in more discussions; or
- Set up a self-insured program and compete with the WBCH.

There was no further discussion.

On a motion made by Trustee Avedisian, seconded by Trustee Keiser, the Board voted unanimously to create a group of Trustees and Committee members who would engage in discussions with a similarly composed group from WBCH regarding potential future affiliation or jointly administered programs.

<u>Trustee</u>	<u>Vote</u>	<u>Trustee</u>	<u>Vote</u>
Stephen Alfred	aye	Bruce Keiser	aye
Jack Ambrogi	absent	John Mainville	aye

Scott Avedisian	aye	Diane Mederos	absent
Jeffrey Ceasrine	aye	Lori Miller	absent
Peter DeAngelis	aye	Michael Petrarca	aye
David Faucher	aye	Melinda Thies	absent
Robert Hicks	aye		

Mr. Dwyer then noted that both Trustee Faucher and Kathy Raposa had volunteered from the EBC to participate in future discussions with the WBCH. Trustee Avedisian then volunteered to participate. Chairman Alfred asked Trustee Ceasrine and Trustee Keiser to participate and both agreed.

3h. Development of Trust-Endorsed Model Health Insurance Plans

In response to Management's proposal that The Trust create Model Health Benefit Plans and provide specific guidance to Members to help them move in that direction in providing health insurance coverage to their employees, Chairman Alfred indicated that he believed such an approach could be helpful to the membership when Members need to engage in contract negotiations. Mr. Dwyer stated that he wanted to be sure that this type of approach is acceptable to the Board because it would be presented to the membership as "Trust endorsed".

Mr. Demty then provided the Trustees with some background information setting forth the rationale for creating these plans, including background about the legislative activity that had taken place with respect to the effort to establish Uniform Benefit Plans for School Employees.

Trustee Hicks noted that he felt the model health insurance plans being developed by The Trust were focused on cost-shifting between employee and employer rather than on cost containment, and inquired if there was a way that costs could be reduced rather than reallocated. Mr. Demty responded that the RFP process The Trust recently engaged in to find the best third-party administrator for the management of health claims, prescription drug costs and wellness programs was intended to do precisely that. The Model Health Plan concept, he said, was simply another tool to assist our Members in designing their plans in a cost-effective way that includes provisions that encourage cost containment behavior by the employees themselves as they obtain health services on a day-to-day basis.

There followed a brief discussion of Health Savings Accounts and High Deductible Plans.

When that discussion concluded, Chairman Alfred noted that it appeared unanimous that the Trustees supported the development of Model Health Benefit Plans. The other Trustees had no comments, questions, or objections.

The meeting adjourned for the day at 5:00 p.m.

The meeting continued at 8:45 a.m. on October 19, 2012.

3i. Other Post-Employment Benefit Program – Review of Concept and Design

Mr. Dwyer began the discussion by providing the Trustees with background regarding the recently enacted amendments to the Other Post-Employment Benefit (OPEB) statutory scheme that permitted The Trust to administer such programs. Ms. Bodziony, Trust Director of Membership Services, presented the results of a survey that the Membership Service Department had conducted to gauge interest level among Rhode Island's local governmental entities, whether existing Trust Members or not. Based upon the responses that were received, there appeared to be a favorable interest in Trust provided OPEB services.

Mr. Dwyer then gave an overview of Management's proposal for an OPEB service program. He briefly explained the types of services envisioned as available through The Trust: Trustee and Related Management Services; Actuarial Consulting Services; Investment Management Services; and Benefit Plan Design Consulting Services. For each one of these categories he then discussed the various component parts and the types of service providers to be engaged by The Trust to help in the delivery of the services.

If the Trustees concurred in general with the concept being presented, he outlined the "next steps" Management would take in developing the program:

- Engage in structured negotiations with potential service providers;
- Develop more specific pricing/fee structure;
- Define implementation timeline; and
- Develop preliminary marketing and Member services plans.

There followed an extensive discussion regarding the funding methods being employed – "pay-as-you go", actuarially based funding, and use of specially designated revenue funds – by different local governmental entities to meet their OPEB obligations. Trustee Ceasrine indicated that the Town of Narragansett utilized such a special revenue fund because the time and expense of creating an OPEB trust was prohibitive, and it had concerns regarding the irrevocable nature of such "trusts".

Chairman Alfred queried whether Trust staff had discussed The Trust's planned OPEB program with the General Treasurer's office. Mr. Ridlon indicated there had been such consultation and that the General Treasurer's Office indicated it was in favor of The Trust making an OPEB program available as it believed the State was likely two to three years away from addressing the issue on behalf of municipalities. Trustee Avedisian also noted that the General Treasurer's office had tried to introduce legislation similar to that introduced on behalf of The Trust, but that the legislation was unsuccessful.

Trustee DeAngelis then raised the question of whether, perhaps, The Trust was taking on too much work, and whether the administration of programs such as OPEB fell within The Trust's mission and purpose. Mr. Dwyer responded that the OPEB initiative was brought about by Board action at a previous Joint Meeting, and that programs such as OPEB were fundamentally risk management activities, though not risk-sharing. Brief discussion followed about the merits of arranging a special long-term strategic planning session for the Board at a later meeting. Some concerns were also expressed that programs such as this could result in the stretching of Trust staff too thin.

Chairman Alfred then asked that Trust staff put together a more concrete plan for the OPEB program with more detail. There was also brief discussion regarding putting together a more "basic" program at the start and then expanding services as requested and feasible. There were no further questions or comments and the discussion concluded.

Break at 10:30 a.m. and meeting resumes at 10:52 a.m.

3j. 2012 Legislative Agenda – Status and Direction for Coming Year

Mr. Ridlon began the discussion by commenting that Management was planning to once again advocate at the General Assembly session beginning in January 2013 for a number of statutory changes which would lessen the liability and insurance burden on local government. He provided some background on the last legislative session and how it might impact the coming session. He then proceeded to review these proposed changes, many of which had been previously endorsed

by the Board in past legislative sessions, to ensure that that Board remained in support of them for the coming session.

The first initiative that he addressed was the Judicial Fairness Initiative. Mr. Ridlon updated the attendees on the progress of the initiative in the last legislative session, and discussed the support that it received from Trust Members. Because of the difficulty that The Trust has faced in moving this initiative forward in the past, Mr. Ridlon proposed focusing on a discrete aspect of the initiative dealing with suits against Member officials in their individual capacities. He explained that if the proposed legislative change passed, it would obviate the need for the proposed changes to the pre-judgment interest statute. He further noted that he believed other pieces of the Judicial Fairness Initiative would likely be introduced by other entities and The Trust could support those bills as they arise.

He next provided the Trustees with an update regarding the statutory changes to the interplay between the IOD statute and the Accidental Disability Retirement statute. He noted that Trust staff had met with representatives from the Workers' Compensation Court to discuss how the changes might impact our Members. He concluded by stating that it was unlikely that The Trust would propose any changes to the statutory scheme this year to allow for an opportunity to see how the statute currently works in practice rather than merely theory.

Next, he discussed proposed legislation that would provide school departments with statutorily granted immunity if they open their facilities to the public for use and enter into shared use agreements with those entities. This was followed by proposals related to classification of Fire Fighters and Police Officers for IOD purposes, Group Life Insurance Benefits for retired teachers, IOD Dispute Resolution under the auspices of the Workers' Compensation Court, Small Employer participation in The Trust Health Pool, and other Healthcare Reform matters.

There followed a general discussion about the best ways to advance the legislative initiatives. The Trustees suggested that an early start to the process was critical. Further, it was suggested that Trust staff arrange for meeting with other entities with shared interests in The Trust legislative initiatives both to garner support and to seek the introduction of the legislation by the other entities so that The Trust can focus on its key pieces of legislation. Recommendations were made relative to various other entities with which The Trust could collaborate. The discussion then concluded.

3k. Investment Portfolio Performance Review

Alan Lord, Chairman of the Investment and Audit Committee, began the presentation by giving an overview of the Committee's purpose, customary activity during the course of the year, and special issues addressed. He then detailed the recent "key accomplishments" of the Committee, including the Committee's decision, sanctioned by the Board, to invest a small portion of the Employee Benefits Pools' assets in equities.

Regarding the Property and Casualty Pools' Investment Portfolio, he advised that the Committee was concerned about The Trust Equity Pool results and had been carefully monitoring that performance. In response to the Committee's concern, he said Management and the investment advisor recommended realigning the holdings to be more reflective of the Equity Pools' benchmark rather than change the investment guidelines and strategy. This realignment was effected in May 2012, and, since then, performance results have improved to exceed the S&P 500 benchmark, but Mr. Lord cautioned that the sample period to date is too short to be an accurate indicator.

He concluded by noting that in September the Committee approved a motion to conduct an RFP for a separate investment advisor or manager for the Equity Pool portion only of the Investment Portfolio. Management will be preparing that RFP for Committee consideration and then distribution to interested firms, he said.

There were no questions or comments from the Trustees.

3l. Risk Management Committee Activity Report

Trustee Mederos, Chair of the Risk Management Committee (RMC), next provided her report. She highlighted some of the important topics that the RMC worked on over the preceding year. Included were the following: revisions to the Loss Prevention Guidelines for Public Skateboard and In-Line Skating Facilities; the Police Use of Force Model Policy Updates; and financial support provided for the In-State Police Accreditation Program. She also discussed loss prevention recommendations that had been made and were being implemented with respect to the Newport Cliff Walk and the Johnston Police Department's jail.

She then discussed issues the RMC hoped to address in the coming year, focusing on two in particular: 1) actions The Trust should or could take in the event that Members fail to follow specific loss control recommendations, and 2) ways that employee wellness programs could be developed to benefit both the Health and Workers' Compensation Pools.

She concluded by thanking the Committee members and Trust Staff for all of their hard work over the previous year and particularly noted the efforts of Col. McCartney and Trustee DeAngelis to address issues related to Member non-compliance with Trust loss control recommendations.

In recognition of the fact that Trustee Mederos was not seeking re-election as Bristol Town Administrator this November and thus could no longer serve on The Trust Board when her term of office ends in early December, Chairman Alfred took the opportunity to thank her for her distinguished service as Chair of the RMC and as an important contributor to The Trust Board. He noted that the RMC deals with the core issues faced by The Trust and its Members. He commented that Trustee Mederos' leadership and contributions would be greatly missed. Brian Ahern, Trust Director of Risk Management Services, also thanked Trustee Mederos on behalf of himself and all of the Trust staff. He noted that he had really enjoyed working with her.

3m. Ratification of New Member Participation

Mr. Dwyer noted that the East Providence School Department had been conditionally accepted into the Dental Pool effective as of August 1, 2012, subject to ratification by the Board. He reminded the Board that he had previously communicated to the Board Trustee DeAngelis' reservations about, and opposition to, such an acceptance. There were no comments or questions from the Trustees.

On a motion by Trustee Ambrogi, seconded by Trustee Faucher, the Board voted as follows to accept the East Providence School Department into the Dental Pool effective as of August 1, 2012:

<u>Trustee</u>	<u>Vote</u>	<u>Trustee</u>	<u>Vote</u>
Stephen Alfred	aye	Bruce Keiser	aye
Jack Ambrogi	aye	John Mainville	aye
Scott Avedisian	aye	Diane Mederos	aye

Jeffry Ceasrine	aye	Lori Miller	absent
Peter DeAngelis	nay	Michael Petrarca	aye
David Faucher	aye	Melinda Thies	aye
Robert Hicks	aye		

3n. Board and Committee Governance

Upon recommendation to the Board by Chairman Alfred, on motion made by Trustee Thies, seconded by Trustee Avedisian, the Board voted unanimously to appoint Robert Hicks to the 2013 Nominating Committee as the At-Large member from the Board.

<u>Trustee</u>	<u>Vote</u>	<u>Trustee</u>	<u>Vote</u>
Stephen Alfred	aye	Bruce Keiser	aye
Jack Ambrogi	aye	John Mainville	aye
Scott Avedisian	aye	Diane Mederos	aye
Jeffry Ceasrine	aye	Lori Miller	absent
Peter DeAngelis	aye	Michael Petrarca	aye
David Faucher	aye	Melinda Thies	aye
Robert Hicks	aye		

Chairman Alfred then appointed Trustee DeAngelis as the Chair of the Risk Management Committee and Trustee Hicks as the Chair of the Nominating Committee.

3o. Claims Settlement Authority

Notice of Intent to Seek to Convene into Executive Session

On a motion made by Trustee Hicks, seconded by Trustee Ceasrine, the Board, after a unanimous roll call vote, convened into Executive Session pursuant to the Rhode Island Open Meetings Act, Rhode Island General Laws 42-46-5(a)(2), in order to discuss litigation matters related to the cases of Bryant v. Greenville Public Library and Jackson v. Town of West Warwick.

<u>Trustee</u>	<u>Vote</u>	<u>Trustee</u>	<u>Vote</u>
Stephen Alfred	aye	Bruce Keiser	aye
Jack Ambrogi	aye	John Mainville	aye
Scott Avedisian	aye	Diane Mederos	aye
Jeffry Ceasrine	aye	Lori Miller	absent
Peter DeAngelis	aye	Michael Petrarca	aye
David Faucher	aye	Melinda Thies	aye
Robert Hicks	aye		

Motion to Return to Open Session

On a motion by Trustee Avedisian, seconded by Trustee Ceasrine, the Board voted as follows to conclude the Executive Session and resume the public meeting.

<u>Trustee</u>	<u>Vote</u>	<u>Trustee</u>	<u>Vote</u>
Stephen Alfred	aye	Bruce Keiser	aye
Jack Ambrogi	aye	John Mainville	aye
Scott Avedisian	aye	Diane Mederos	aye

Jeffry Ceasrine	aye	Lori Miller	absent
Peter DeAngelis	aye	Michael Petrarca	aye
David Faucher	aye	Melinda Thies	aye
Robert Hicks	aye		

Motion to Seal Minutes of the Executive Session

On a motion by Trustee DeAngelis, seconded by Trustee Ceasrine, the Board voted as follows to seal the Minutes of the Executive Session until such time as the matters taken up had been resolved:

<u>Trustee</u>	<u>Vote</u>	<u>Trustee</u>	<u>Vote</u>
Stephen Alfred	aye	Bruce Keiser	aye
Jack Ambrogi	aye	John Mainville	aye
Scott Avedisian	aye	Diane Mederos	aye
Jeffry Ceasrine	aye	Lori Miller	absent
Peter DeAngelis	aye	Michael Petrarca	aye
David Faucher	aye	Melinda Thies	aye
Robert Hicks	aye		

4. Operations and Funding Reports

Prior to the discussion of the Operations and Funding Reports, Chairman Alfred asked Trustee Faucher if he had any report for the Employee Benefits Committee. Trustee Faucher simply took the opportunity to thank Trust staff for their hard work and initiative, and specifically thanked Mr. Demty for his efforts relative to underwriting.

4.b. Employee Benefits Pool (*taken out of order*)

For the Health and Dental Pools, Mr. Demty distributed and provided a brief summary of the Operations and Funding Reports for the period ending August 31, 2012. He then provided a summary of operations and comparative financial statistics for both Pools through similar points in time for the current year and the prior year noting that the results were quite similar. He also briefly noted that payment on one particular claim posted June 30, 2012 caused it to exceed by about \$19,000 the \$1M threshold for coverage under the Backstop Account.

Mr. Demty concluded by noting that because the report represented only a two month period of time and, in recognition of the fact that the Pools added in two significantly sized Members just recently, the City of Warwick and the East Providence School Department, the analysis was immature and not indicative necessarily of future trends. There were no questions from the Trustees.

On a motion made by Trustee Avedisian, seconded by Trustee Thies, the Board voted unanimously to accept the Operations and Funding Report for Employee Benefits Pools as presented.

<u>Trustee</u>	<u>Vote</u>	<u>Trustee</u>	<u>Vote</u>
Stephen Alfred	aye	Bruce Keiser	aye
Jack Ambrogi	aye	John Mainville	aye
Scott Avedisian	aye	Diane Mederos	aye
Jeffry Ceasrine	aye	Lori Miller	absent

Peter DeAngelis	aye	Michael Petrarca	aye
David Faucher	aye	Melinda Thies	aye
Robert Hicks	aye		

4.a. Property and Casualty Pools (*taken out of order*)

Mr. Dwyer distributed to the Board the Operations and Funding Report for the Property/Liability and Workers' Compensation Pools, noting that they did not include the IBNR reserve, but that otherwise the data was very similar in composition to that provided and discussed the previous day. The Operations and Funding Report was shown for both Pools as of August 31, 2012. Mr. Dwyer also distributed to the Board the Report showing the Adjusted Loss Ratio on a consolidated basis for both Pools.

Mr. Dwyer briefly discussed several key factors for changes in the Adjusted Loss Ratios for both Pools. With respect to the Workers' Compensation Pool, he noted that the lines were very stable. He then commented on the trends, but cautioned that the summer months usually show a lower activity level. With respect to the Property/Liability Pool, Mr. Dwyer noted that, recently, it has become more volatile. He then briefly discussed some claims that impacted the trends significantly. He concluded by discussing the long term trend lines. There were no questions or comments from the Trustees and the discussion concluded.

On a motion made by Trustee Petrarca, seconded by Trustee DeAngelis, the Board voted unanimously to accept the Operations and Funding Report for the Property and Casualty Pools as presented.

<u>Trustee</u>	<u>Vote</u>	<u>Trustee</u>	<u>Vote</u>
Stephen Alfred	aye	Bruce Keiser	aye
Jack Ambrogi	aye	John Mainville	aye
Scott Avedisian	aye	Diane Mederos	aye
Jeffrey Ceasrine	aye	Lori Miller	absent
Peter DeAngelis	aye	Michael Petrarca	aye
David Faucher	aye	Melinda Thies	aye
Robert Hicks	aye		

5. Informational Items

Informational Items were placed on file.

6. Adjournment

On a motion made by Trustee DeAngelis, seconded by Trustee Hicks, the Board voted unanimously to adjourn the meeting.

<u>Trustee</u>	<u>Vote</u>	<u>Trustee</u>	<u>Vote</u>
Stephen Alfred	aye	Bruce Keiser	aye
Jack Ambrogi	aye	John Mainville	aye
Scott Avedisian	aye	Diane Mederos	aye
Jeffrey Ceasrine	aye	Lori Miller	absent
Peter DeAngelis	aye	Michael Petrarca	aye
David Faucher	aye	Melinda Thies	aye
Robert Hicks	aye		

The meeting then stood adjourned at approximately 11:50 a.m.

Respectfully Submitted,

A handwritten signature in black ink, appearing to be 'Ian C. Ridlon', written in a cursive style.

Ian C. Ridlon
Corporate Secretary