



**EDUCATIONAL
SERVICE
DISTRICT 112**

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SOUTHWEST WASHINGTON RISK MANAGEMENT INSURANCE COOPERATIVE

TO: Interested Actuarial Firms

FROM: Peggy Sandberg, Director of Insurance Programs, ESD 112

SUBJECT: Request for Proposal for Actuarial Services for the Southwest
Washington Risk Management Insurance Cooperative
DUE JUNE 8, 2018

DATE: May 11, 2018

I. Overview

The Southwest Washington Risk Management Insurance Cooperative (SWRMIC) is a self-insured, self-administered property/casualty cooperative of 32 public school districts and related entities in Washington State that has been in operation for over 30 years. More information about us can be found on our website at <https://www.esd112.org/insurance/sw-risk/>.

II. Invitation

The SWRMIC is soliciting proposals from qualified firms to perform actuarial services for a five-year term commencing Sept. 1, 2018, with an option for five additional single year terms. The actuarial firm selected will conduct a solvency report as of the end of the fiscal year (by October 22nd) and a rate setting report for the coming year (by March 15th) and provide other related services as requested.

III. Administrative Requirements

A. RFP Coordinator

All communications regarding this RFP must be directed to:

Peggy Sandberg, Director of Insurance Programs
Educational Service District 112
2500 NE 65th Avenue
Vancouver, WA 98661-6812
Phone: (360) 750-7504
Email: peggy.sandberg@esd112.org

All communication back to bidders will also come from the RFP Coordinator.

B. RFP Schedule

RFP distribution & advertisement	May 11, 2018
Deadline for receipt of proposals	June 8, 2018 at 5 pm PDT
Selection of actuary & notification of bidders	by June 22, 2018
Contract for actuary services begins	September 1, 2018
Data collected for transmission to actuary	by October 1, 2018
Initial solvency report from actuary	by October 22, 2018
Final solvency report from actuary	by December 5, 2018

The firm's proposal must be received at the ESD 112 in Vancouver, WA no later than 5:00 p.m. PDT on Friday, June 8, 2018. Firms providing proposals that are incomplete or do not provide the information requested in this RFP may be disqualified.

C. Proposal Format

One original unbound copy of the proposal, signed by a person duly authorized by the firm to contractually bind the firm, plus one electronic copy of the proposal (sent to the RFP Coordinator's email address) must be submitted by the deadline for receipt of proposals. The firm must certify that its proposal will remain in effect for a minimum of 90 days after the proposal due date. The firm's proposal, insofar as it is not inconsistent with the RFP, will be incorporated into the final agreement by reference.

D. Process

Proposals will be scored using the criteria in Washington Administrative Code (WAC) 200-100-215, including the following factors: the consultant's fees or costs, ability, capacity, experience, reputation, responsiveness to time limitations, responsiveness to solicitation requirements, quality of previous performance, and compliance with statutes and rules relating to contracts.

References may be contacted. SWRMIC staff will review each firm's response to the RFP. At their discretion, staff may interview one or more firms to further assist in the selection process. We reserve the right to negotiate with any or all firms regarding the proposals.

IV. Background

A. Coverage

SWRMIC provides property, liability, crime, and cyber liability coverage for its 29 member school districts, ESD 112, and two interlocal cooperatives. SWRMIC has a \$250,000 self-insured retention (SIR) for both property and liability, which it self-funds. There is a \$25,000 deductible for Equipment Breakdown coverage.

Excess coverage is provided through a manuscript Coverage Agreement from another interlocal school district cooperative - the Washington Schools Risk Management Pool (WSRMP). Through WSRMP, SWRMIC has the following limits: Property & Equipment Breakdown - \$1 billion, Liability- \$40 million.

B. Claims

Claims are handled by SWRMIC staff, utilizing the SWRMIC Risk/Claim Management System, an in-house developed claims management software. Loss runs are made available in Excel format.

C. Current Rating Plan

The contribution rating formula is as follows: Exposure Units x Contribution Rate x Experience Modification Factor = Contribution. This formula is applied in four categories of exposure: property, auto physical damage, general liability and auto liability.

Exposure Units are: for property - replacement cost of buildings, and contents values; for auto physical damage and auto liability – the number of buses and other vehicles, for general liability – student full time equivalent (FTE).

Experience Modification Factors have the following components:

- Separate loss experience modifiers are calculated for property, auto physical damage, general liability and auto liability.
- Individual losses are capped per occurrence depending on district size: \$5K (under 99 student FTE), \$10K (100-999 FTE), \$25K (1,000–1,999 FTE), or \$50K (over 2,000 FTE).
- Modifiers are capped at 0.70 of base line rates on the lower end, and no cap on the upper end.

- A member's modifier cannot change more than 10 points from one year to the next.
- A member's prior modification factor is used (instead of 1.0) for the stability component.
- Members are given credibility weighting based on their size.
- Modification factors are based on a three-year rolling history.

D. Fiscal Year

SWRMIC's fiscal year is September 1 to August 31.

V. **Scope of Services**

A. End-of-Year Solvency Review: Conduct an actuarial valuation of SWRMIC as of August 31 each coverage year, consisting of the following:

- Perform data quality assurance tests to uncover any data anomalies and reconcile with staff. Verify calculated loss run totals with SWRMIC.
- Estimate the outstanding claim obligations, including incurred but not reported (IBNR), unallocated loss adjustment expense (ULAE) and loss development, for SWRMIC's self-insurance programs as of the end of the fiscal year.
- Project claim costs on prior years' claims for the upcoming fiscal year.
- Evaluate the adequacy of the current funding.
- Determine the surplus equity position of SWRMIC.
- Estimate the SWRMIC's solvency confidence level at the amount of equity stated (assuming SWRMIC closed its doors and had to pay for its remaining obligations).
- Provide estimated amounts of equity necessary to achieve confidence levels of 55%, 70%, 80%, 90% and 95%.
- Recommend a ratio of self-insured retention to equity which, in your opinion, is the minimum for safe operation of the SWRMIC.
- Prepare a schedule showing projected claims disbursements for purposes of cash flow analysis.
- Prepare a size of loss analysis.
- Assist SWRMIC in complying with GASB 10 by providing necessary reports and information, including a projected ULAE.
- Prepare a schedule which adjusts IBNR claims on an annual basis as claim years age.
- Provide the following amounts requested by the State Auditor:
 - For the Statement of Revenues and Expenses: current year losses, claims paid, case reserves, IBNR reserves, change in provision for prior year losses, ULAE incurred, and ceded claims and expenses.

- For the Balance Sheet: case reserves for current year losses and prior year losses, IBNR reserves for current year losses and prior year losses, ULAE reserves, and ceded claims and expenses.
- Perform the State Risk Manager solvency tests in compliance with WAC 200-100-03001. This includes the Primary and Secondary Asset Tests.
- Compare SWRMIC solvency level with levels recommended in the most recent capital modeling study.

A draft of this report shall be submitted to the SWRMIC in mid-October, and the actuary who prepared the study shall be available by telephone to answer questions regarding the study. Any necessary revisions arising from these discussions must be made so that a final report can be emailed to the SWRMIC Executive Committee at least one week before its meeting in early December. The actuary who prepared the report shall be present at the meeting to present the study and answer questions.

B. Rate-Setting Report: Conduct a rate study as of January 31 each coverage year for the next coverage year starting September 1, consisting of the following:

- Perform data quality assurance tests to discover any data anomalies and reconcile with staff.
- Estimate the amount of losses that will be incurred during the remainder of the current fiscal year, including IBNR and loss development.
- Estimate the amount of losses that will be incurred during the next fiscal year following the close of the fiscal year, including IBNR and loss development.
- Calculate confidence levels for funding next year's losses for various rate scenarios as presented by the SWRMIC. (For instance, show the confidence level which would result for the program if rates were unchanged from the prior year; were increased by 5%; increased by 10%, etc.).
- Calculate rate-funding confidence levels separately considering only the upcoming fiscal year's funding alone. Calculate funding rate at the following confidence levels: 70%; 80%, 90% and 95%.
- Compare SWRMIC solvency level with levels recommended in an updated capital modeling study.
- Provide experience modification factor calculations for each member in accordance with each member's own loss experience. (See section C for details.)
- Propose an equitable system of allocation of contribution among member districts. (It is important to take into account the impact of the

proposal if it amounts to a substantial increase in contribution to any given district in one year.)

A draft of this report shall be submitted to the SWRMIC by March 15th, and the actuary who prepared the study shall be available by telephone to answer questions regarding the study. Any necessary revisions arising from these discussions must be made so that a final report can be mailed to the SWRMIC Executive Committee at least one week before its meeting which will be scheduled in April. The actuary who prepared the report shall be present at the meeting to present the study and answer questions.

C. Other Services

SWRMIC may require additional actuarial services during the contract period. These services are to be negotiated in advance, with written permission obtained from SWRMIC. An example would be to calculate the experience rating and impact to the cooperative of adding a new member.

Although not a part of this contract, please include a cost for conducting a Capital Modeling Study within the first five years. The last Capital Modeling Study for SWRMIC was done in 2012.

D. Reports

Reports shall contain an Executive Summary which synthesizes the report. The actuary shall provide SWRMIC with one unbound copy of the original report from which additional copies may be made, and one electronic copy of the report. It is understood that complete copies of the reports will be provided by SWRMIC to the State Risk Manager's Office and the State Auditor's Office without additional express approval from the actuary.

E. Working Papers

Working papers shall be retained by the actuary according to statute requirements, unless and until SWRMIC approves of their disposal. These working papers shall be available for review by the SWRMIC government representatives and other individuals designated by the SWRMIC.

H. Resources to be provided by the SWRMIC

Copies of current and prior years' financial statements, budgets, member exposure units, claims loss runs, prior actuarial studies and audits are available to the actuary. The actuary will need to work with SWRMIC staff to help identify and organize the necessary information and materials for

data collection and transfer. SWRMIC will assign staff to assist by collecting data and providing required information and explanations.

VI. Qualifications

Each proposal shall contain as a minimum:

- A. Identification of the prospective actuarial firm: Name of firm submitting the proposal, including mailing address, telephone number and the individual to contact for further information.
- B. Project Manager: Name of the project manager who will be responsible for the work product. This individual must be a casualty actuary, a Fellow of the Casualty Actuary Society, and have at least five years experience with public entities and public entity pooling. The firm will not be permitted to change the project manager without prior approval of the SWRMIC.
- C. Personnel: Include an organizational chart of the account team. A description of the qualifications of all professional personnel who will conduct the studies, including:
 - 1. A brief resume for each person, including the rate charged for their services.
 - 2. A statement indicating what tasks each individual will be assigned to perform during the study and an approximation of the amount of time spent on this project.
- D. Organization: A brief description of the firm or organization.
- E. Scope of Services: A description of the firm's understanding of the scope of services to be provided, indicating the approach that would be used to complete the assignments.
- F. Subcontracts: Subcontractors may not be used without the SWRMIC's express approval.
- G. Methodology: The prospective actuary's description of the overall approach to the study, including the work plan, specific techniques that will be used, specific administrative management expertise, and principles/standards that will be employed. Particular attention should be paid to clearly stating any assumptions used and explaining the rationale for the selected method of loss development and its impact on the estimate of SWRMIC's solvency. Provide a sample of the anticipated finished product.

- H. Timeliness: Provide a statement of assurance that the time deadlines for reports will be met. (The dates for subsequent evaluations will be negotiated with the actuary following successful completion of the initial report.)
- I. Conflict of interest: Disclose any past or current business or other relationship with the SWRMIC that may have an impact on the outcome of the study. Include a statement declaring independence from the program being audited, its vendors, insurers and third party administrators; this includes: SWRMIC, ESD 112, Washington Schools Risk Management Pool, Puget Sound ESD, United Educators, Hallmark/Markel, Lloyds, Allied World National, Illinois Union (ACE), and Arthur J Gallagher,
- J. Hold Harmless: Provide a statement of assurance that the firm shall hold harmless, defend at its own expense and indemnify the SWRMIC against any and all liability, claims, losses, damages or expenses arising from errors or omissions of the firm, its officers, agents or employees in the preparation of these actuary reports.
- K. Insurance: Provide proof that the firm carries professional liability insurance with at least \$1 million limits.
- L. Fee: The total annual contract fee for the Scope of Work described, inclusive of all costs, including travel and other expenses. Fee should be broken out by year and type of report. The cost must be detailed as to classes of personnel to be used in the study and include the estimated number of hours and the cost for each class. Provide a fee schedule to be used for "Other Services." Fees shall not exceed the quote provided in response to this RFP unless the scope of services change and only with SWRMIC's prior written approval.
- M. References: A list of clients (including name, address and phone number of a contact person; and description of work performed) for whom similar services have been performed by the key personnel that will be assigned to our account. Particular attention should be paid to listing references which include: school districts; governmental entities; self-insureds; pools and cooperatives; and clients located in Washington and Oregon. At least one should be a property and/or casualty self-insurance pool.

VII. Additional information

Failure to properly address all items set forth above may disqualify the firm's proposal from consideration.

Data and documentation included in the proposal become the property of SWRMIC and become public information upon opening the proposals.

SWRMIC reserves the right, at its sole discretion, to award the contract to the actuary of its choice or none.

The Southwest Washington Risk Management Insurance Cooperative appreciates your interest in this selection process. We look forward to receiving your proposal at ESD 112 in Vancouver, WA by Friday, June 8, 2018 at 5:00 pm PDT.