

FundScripts

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2012

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LOYALTY HAS ITS REWARDS

DIVIDENDS WILL BE RETURNED TO
KENTUCKY AGC/SIF MEMBERS FOR THE
18TH CONSECUTIVE YEAR!

The Kentucky AGC/SIF Board of Trustees approved the release of \$14,823,004 in dividends and Special Fund taxes to be paid in March of 2012 at its regularly held meeting on October 25, 2011. This dividend payment marks the 18th consecutive year that the Kentucky AGC/SIF has returned premium dollars to its members, bringing the total dividends and Special Fund taxes paid to over \$113 MILLION!!

Total premiums being returned to Fund members from the 2007 year are \$13,918,314 and the Special Fund taxes being returned are \$904,690, bringing the total being returned back to Fund members to \$14,823,004.

Dividends being released at the end of this month represent a 19.6% return of total premiums paid in for the 2007 Fund year as of October 31, 2011.

Historically, 94-95% of members have qualified for a dividend check. As of October 31, 2011, 96% of members who were in the Fund in 2007 and who remain in the Fund are eligible for a 2012 dividend check. How do you know if you will receive a dividend check? You must meet the following criterion:

- ◆ Have a loss ratio of less than 100% for the year in which the dividend is being paid (2007 year)
- ◆ Were a member in the year for which the dividend is being paid (2007 year)
- ◆ Be a CURRENT member at the time of the dividend payment (2012 year)
- ◆ Be current in ALL payment obligations to the Fund and the Trade Association of which you are a member

Currently available on the Kentucky AGC/SIF's website (www.kyagscif.com), members and agents can access ESTIMATED dividend returns that will be issued later this month. Registered users can log in, go to the reports menu and select "Estimated Dividend Report." If you are not currently a registered user, simply go to the website home page and click on "Need to Register?" in the upper right hand corner. Again, please note that the amounts shown are ESTIMATES only.

If you have any question whether your company may be eligible for a dividend paid in 2012, please contact the Fund Office at (502) 245-2007 or (800) 928-7135.

WARNING!

FRAUDULENT SALES CALLS

Recently, some Fund members have received fraudulent phone calls from individuals claiming to represent JV Resources, Inc., the Fund's third-party Loss Control provider. These individuals have attempted to sell "mandatory" OSHA materials. Please be advised that JV Resources does NOT contact Fund members to solicit product sales of any kind.

Should your company receive a sales call from anyone claiming to represent JV Resources, or the Fund, contact the Fund Office immediately at (800) 928-7135 with the person's name and phone number, if possible.



MEET YOUR NEW TRUSTEE

The Kentucky AGC/SIF's Board of Trustees is pleased to welcome one of their newest members to the Board, David Jackson!



DAVID JACKSON

David Jackson was appointed by the Associated General Contractors of Kentucky. David has been around the construction industry his entire life, as his father served in various supervisory positions for large infrastructure projects.

David earned a Bachelor of Science in Construction degree from Eastern Kentucky University, where his involvement in the AGC of Kentucky began in the student chapter. Over the years, David has served in various capacities for the AGC of Kentucky including serving twice as President in 2006 and 2009. Currently, he is serving as Treasurer.

David is the Owner and President of Hacker Brothers, Inc., a commercial general contractor located in London. In his spare time, David enjoys spending time with his wife and son, Delores and Jarrett, as well as water sports, fishing and serving in community and church activities.

PREMIUM AUDIT TIME

TIME TO PREPARE FOR THE 2011

Premium Audit

The Kentucky AGC/SIF has begun the annual task of conducting the workers' compensation premium audits for the 2011 policy year. As always, we are committed to making this task as painless as possible for our members, but we need your cooperation in order to assure a satisfactory and equitable audit. The Fund employs the independent auditing firms of Overland Solutions, Inc. (OSI) and Chylstek and White Services (C & W), as well as Trina Haggard (the Fund's internal auditor). Please follow these helpful suggestions to make sure the audit process goes as smoothly as possible.

1. You will receive advanced written notice of the upcoming premium audit. Please utilize the time to prepare for your audit by gathering documentation for the auditor.
2. The pertinent documentation should include the following for ALL named insureds on the policy:
 - All payroll records (including payroll records for Regularly Employed Kentucky Employees who worked out of state) in the form of ledgers and journals
 - All Out of State payroll records for members with Safety National policies
 - All federal and state quarterly tax returns
 - All cash disbursement journals
 - All Certificates of Insurance for subcontractors used
(Note: You will be charged premium for any subcontractor for which you do not have a Kentucky Workers' Compensation Certificate of Insurance.)
 - All 1099s
3. Prepare a list of any questions you may have about your audit before the auditor arrives.
4. Either the owner or officer of the company or bookkeeper/accountant should be present during the audit to have a clear understanding of the process.



THE UNDERWRITER'S CORNER

A REVIEW OF ADVERSE CLAIMS EXPERIENCE

In this edition of the *FundScripts*, we are introducing a new and recurring column called *The Underwriter's Corner*. In this column, we will explore various topics of interest in an effort to explain and/or clarify various Fund policies and procedures, in addition to other general underwriting topics. For this inaugural column, we will focus on the topic of adverse claims experience.

To begin, each year the Fund determines what is called an Expense Ratio. Simply put, the Expense Ratio is a fixed percentage of every premium dollar that is attributable to underwriting expenses such as loss control, premium audits and administration, just to name a few. For example, the Expense Ratio for 2012 is 29%. That means that \$0.29 of every \$1.00 of premium received by the Fund will be attributed to underwriting expenses. This leaves the remaining \$0.71 of each \$1.00 of premium to cover loss expenses. So, what does the Expense Ratio have to do with adverse claims experience?

To illustrate, let's look at a hypothetical company, Random Construction Co., Inc. Currently, Random has paid in \$100,000 in premiums to the Fund and incurred losses of \$75,000. In order to determine adverse claims experience for Random, we need the Fund's predetermined Expense Ratio, which we have determined to be 29%, as well as Random's Loss Ratio. In order to determine the Loss Ratio for Random, we simply divide the incurred losses of \$75,000 by the premiums paid of \$100,000. Doing so yields a Loss Ratio of 75% for Random. Remember, after we deduct \$0.29 from each \$1.00 of premium, we only have \$0.71 left over to pay for loss expenses, meaning Random can only have up to a 71% Loss Ratio for the Fund to break even ($\$0.29 + \$0.71 = \$1.00$). Now, because Random has a Loss Ratio of 75%, that means that the Fund needs \$0.75 of every \$1.00 of premium Random has paid to cover Random's loss expenses. Therefore, Random Construction Co., Inc. has adverse claims experience. Why? For every \$1.00 of premium Random has paid to the Fund, the Fund is paying out \$1.04 ($\$0.29 + \$0.75 = \1.04) in underwriting and loss expenses. Obviously, if an entity has greater cash outflows than inflows, it would be an unsustainable business model, unless of course the entity in question is the United States Government. In that case, this math would make perfect sense! But we digress.

In closing, remember that determining adverse claims experience is a function of two (2) variables: 1) the Fund's predetermined Expense Ratio and 2) the individual member's Loss Ratio. If the member's Loss Ratio exceeds a certain threshold, such as 71% in the example above, that member has adverse claims experience. Tune in next time, as we will discuss what steps are taken if a member has adverse claims experience with the Fund.

If you have any questions or comments in regards to this, or any other underwriting topic, please contact the Fund Office at (502) 245-2007 or (800) 928-7135.

OOS/CROSS-BORDERS PROGRAM

A SUMMARY OF SUCCESS

In 2010, the Kentucky AGC/SIF partnered with its Excess Insurance provider, the *Safety National Casualty Corporation*, to provide a groundbreaking service to the Fund's membership known as the **Out-of-State/Cross-Borders Program**. The OOS/Cross-Borders Program was designed to provide Fund members with the opportunity to place coverage for their exposures outside the state of Kentucky, and for which the Fund could not provide coverage, while simultaneously allowing members to keep coverage for their Kentucky exposures, including Regularly Employed Kentucky Employees (REKE's) working out of state in most cases, with the Fund.

To date, the OOS/Cross-Borders Program has provided over 100 policies covering exposures in eighteen (18) states including *Alabama, Arkansas, Florida, Georgia, Illinois, Indiana, Louisiana, Maryland, Michigan, Minnesota, Missouri, New York, North Carolina, Pennsylvania, South Carolina, Tennessee, Virginia, and West Virginia*.

For inquiries regarding eligibility requirements for the OOS/Cross-Borders Program, please contact Marrison Barr at the Fund Office at (502) 245-2007 or (800) 928-7135, or visit the Fund's website at www.kyagsif.com.

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ENDURING EXCELLENCE

A.M. BEST RENEWS THE FUND'S RATING
FOR THE 15TH CONSECUTIVE YEAR

The Kentucky AGC/SIF is once again very pleased to offer Fund members the security of having an A.M. Best ***Financial Strength Rating*** category of **A- (Excellent)**. An A- rating category is assigned to companies which, in A.M. Best's opinion, have an "excellent" ability to meet their ongoing obligations to policyholders. Ratings are issued only after A.M. Best has conducted a comprehensive quantitative and qualitative evaluation of a company's balance sheet strength, operating performance, and business profile. **The Kentucky AGC/SIF has maintained a category A- rating since its initial rating in 1998.**

The Fund is also pleased to announce that A.M. Best's ***Financial Size Category*** for the Fund is maintained at a category VII. To enhance the usefulness of ratings, A.M. Best assigns each letter rated (A++ through D) insurance company a Financial Size Category (FSC). The FSC is designed to provide a convenient indicator of the size of a company in terms of its statutory surplus and related accounts. A category VII indicates an adjusted policyholders' surplus of \$50 million to \$100 million.

The Kentucky AGC/SIF was formed to offer an alternative workers' compensation insurance product for the construction industry. Low rates and dividends are by far the most popular benefits that Fund members want to claim by joining and remaining in the Kentucky AGC/SIF, but the A.M. Best rating is a benefit as well. Not many self insurance groups have an A.M. Best rating, including no other self insurance groups in Kentucky. And while A.M. Best's evaluation is not the only test that the Fund undergoes to balance and maintain its financial integrity, it is undoubtedly a very important one. It is the report card that allows agents and Fund members alike to have added confidence in the Fund's **continued** ability to not just offer its product, but to provide a stable product and benefits.

If you would like to view the Kentucky AGC/SIF's A.M. Best rating, you can do so at www.ambest.com (the Fund's A.M. Best number is 55002) or click on the A.M. Best link from the Fund's website at www.kyagscif.com.