

**ANNUAL CONSIDERATION OF
PREMIUM RATES, COVERAGE LIMITS,
COMMISSION RATES, & PREMIUM DISTRIBUTION
BACK TO SUBSCRIBERS**

DEPARTMENT OF ENVIRONMENTAL PROTECTION (DEP) RECOMMENDATIONS

SUMMARY OF MSI BOARD ACTIONS BEING RECOMMENDED BY DEP MANAGEMENT:

- (1) Adopt the Business Rules and Practices, as provided in this section, for the disbursement of premiums back to subscribers.
- (2) Keep premium rates at their 2009 levels.
- (3) Authorize a \$1 million premium disbursement.
- (4) Increase the maximum coverage amount to \$500,000.
- (5) Keep commission rates at their 2009 levels.

BACKGROUND, REASONING AND JUSTIFICATION

PREMIUM: Of the two options currently available to reduce premiums, a rate reduction or a credit toward the next premium, DEP recommends that the Board next provide those who were subscribers during Fiscal Year 2008-09 with a credit toward their next premium. The credit to premiums is recommended because, as demonstrated in the "Statement of Changes in Unreserved Fund Balance" (Attachment 2.2 page 2), there is in excess of \$1 million that can safely be distributed. This will provide the greatest benefit (on average about a 16% reduction) to the subscribers who collectively created the surplus. The administrative problems that made credits to premiums unmanageable in the past have been resolved by the Board's adoption of the business rules. One of the business rules is that credits to premiums will not occur in years when premium rates are reduced. Doing both in the same year creates complications to DEP's computing systems that, at this time, can not be resolved. In addition, doing both in the same year would likely cause premium payments to rise sharply in the subsequent year. The credit will begin on July 1, 2010.

COVERAGE LIMIT: An increase in the maximum coverage amount, currently \$250,000, is indicated. There is strong demand for the limit to be raised to \$500,000, and the historic claim experience indicates that such a dramatic increase would not adversely affect the financial position of the MSI Fund. On the contrary, it is expected to improve it. Therefore, DEP recommends increasing the coverage limit to \$500,000.

COMMISSION RATE: Although producer applications are down from levels achieved in recent years, DEP does not recommend any changes to the commission rate because the overall numbers of applications rose from the previous year, which is attributable to the online application systems and reduced premium rates.

PREMIUM RATES

Residential: First \$5,000 @ 0.0020, each subsequent dollar @ 0.0006.

Non-Residential: First \$5,000 @ 0.0040, each subsequent dollar @ 0.0012.

Senior citizens receive a 10% discount for their primary residence.

Residential			Non-Residential	
Coverage	Residential	Sr. Rate	Coverage	Rate
5,000	\$10.00	\$9.00	5,000	\$20.00
10,000	\$13.00	\$11.70	10,000	\$26.00
15,000	\$16.00	\$14.40	15,000	\$32.00
20,000	\$19.00	\$17.10	20,000	\$38.00
25,000	\$22.00	\$19.80	25,000	\$44.00
30,000	\$25.00	\$22.50	30,000	\$50.00
35,000	\$28.00	\$25.20	35,000	\$56.00
40,000	\$31.00	\$27.90	40,000	\$62.00
45,000	\$34.00	\$30.60	45,000	\$68.00
50,000	\$37.00	\$33.30	50,000	\$74.00
55,000	\$40.00	\$36.00	55,000	\$80.00
60,000	\$43.00	\$38.70	60,000	\$86.00
65,000	\$46.00	\$41.40	65,000	\$92.00
70,000	\$49.00	\$44.10	70,000	\$98.00
75,000	\$52.00	\$46.80	75,000	\$104.00
80,000	\$55.00	\$49.50	80,000	\$110.00
85,000	\$58.00	\$52.20	85,000	\$116.00
90,000	\$61.00	\$54.90	90,000	\$122.00
95,000	\$64.00	\$57.60	95,000	\$128.00
100,000	\$67.00	\$60.30	100,000	\$134.00
105,000	\$70.00	\$63.00	105,000	\$140.00
110,000	\$73.00	\$65.70	110,000	\$146.00
115,000	\$76.00	\$68.40	115,000	\$152.00
120,000	\$79.00	\$71.10	120,000	\$158.00
125,000	\$82.00	\$73.80	125,000	\$164.00
130,000	\$85.00	\$76.50	130,000	\$170.00
135,000	\$88.00	\$79.20	135,000	\$176.00
140,000	\$91.00	\$81.90	140,000	\$182.00
145,000	\$94.00	\$84.60	145,000	\$188.00
150,000	\$97.00	\$87.30	150,000	\$194.00
155,000	\$100.00	\$90.00	155,000	\$200.00
160,000	\$103.00	\$92.70	160,000	\$206.00
165,000	\$106.00	\$95.40	165,000	\$212.00

170,000	\$109.00	\$98.10	170,000	\$218.00
175,000	\$112.00	\$100.80	175,000	\$224.00
180,000	\$115.00	\$103.50	180,000	\$230.00
185,000	\$118.00	\$106.20	185,000	\$236.00
190,000	\$121.00	\$108.90	190,000	\$242.00
195,000	\$124.00	\$111.60	195,000	\$248.00
200,000	\$127.00	\$114.30	200,000	\$254.00
205,000	\$130.00	\$117.00	205,000	\$260.00
210,000	\$133.00	\$119.70	210,000	\$266.00
215,000	\$136.00	\$122.40	215,000	\$272.00
220,000	\$139.00	\$125.10	220,000	\$278.00
225,000	\$142.00	\$127.80	225,000	\$284.00
230,000	\$145.00	\$130.50	230,000	\$290.00
235,000	\$148.00	\$133.20	235,000	\$296.00
240,000	\$151.00	\$135.90	240,000	\$302.00
245,000	\$154.00	\$138.60	245,000	\$308.00
250,000	\$157.00	\$141.30	250,000	\$314.00

Residential: First \$5,000 @ 0.0020, each subsequent dollar @ 0.0006.

Non-Residential: First \$5,000 @ 0.0040, each subsequent dollar @ 0.0012.

Senior citizens receive a 10% discount for their primary residence.

COVERAGE LIMIT

\$250,000.

COMMISSION RATE

One half of the first year's premium.

PREMIUM RATE REDUCTION

Rating Program Proposal

Rating Element	Present		Proposed		Change		
	Res.	Non-Res.	Res.	Non-Res.	Res.	Non-Res.	Total
Rate/\$1 First \$5,000	0.0020	0.0040	0.0018	0.0018	-10.00%	-45.00%	-11.53%
Rate/\$1 Each Subsequent \$1	0.0006	0.0012	0.0005	0.0005	-12.50%	-41.67%	-13.77%
Overall		1st \$5,000 -11.53%		Subsequent -13.77%			Total -13.71%

Premium Comparison

	Coverage	Present	Proposed
Res.	\$50,000	\$37.00	\$31.50
Non-Res.	\$50,000	\$74.00	\$31.50
Res.	\$100,000	\$67.00	\$56.50
Non-Res.	\$100,000	\$134.00	\$56.50
Res.	\$150,000	\$97.00	\$81.50
Non-Res.	\$150,000	\$194.00	\$81.50
Res.	\$200,000	\$127.00	\$106.50
Non-Res.	\$200,000	\$254.00	\$106.50
Res.	\$250,000	\$157.00	\$131.50
Non-Res.	\$250,000	\$314.00	\$131.50

Premium @ 2 times second half of FY 2008: \$5,608,509.86
 Premium with 13.71% rate reduction: \$4,839,583.16

**DISTRIBUTING EXCESS MONIES
OF THE
MINE SUBSIDENCE INSURANCE (MSI) FUND
TO
SUBSCRIBERS**

PURPOSE: At its annual meeting, the MSI Board will evaluate the finances of the Fund for the calendar year to date to determine if there are likely to be excess monies that can be reimbursed to the Department of Environmental Protection for the costs it will incur administering the program and to further determine if there are additional excess monies that can then be distributed back to those who were subscribers during the year. The Board will evaluate the formula used to determine the excess monies and instruct DEP to update the information as close to the end of the year as possible (similar to the way it calculates the inflation index) and should there be excess after setting aside a reimbursement for administrative cost, to distribute it to the subscribers. The following business rules, practices and formulas are established to assure the consistent and administratively prudent implementation of those practices.

Business Rules:

- 1) Subtract the anticipated administrative costs of the MSI Program, including contingencies, from any excess monies.
- 2) Eligible subscribers are those with active policies during the fiscal year being analyzed.
- 3) Establish a maximum % of distribution (not to exceed 50%).
- 4) No distributions will occur in years in which premium rates are changing.
- 5) No multi-year distributions.
- 6) Minimum cash disbursement is \$5.
- 7) [Distributions will begin at the beginning of a fiscal year.](#)

Business Practices

- 1) Establish calculations to determine if there are surplus funds for a fiscal year (an amount within a range). The actuarial report provided a wide range of factors and currently recommends \$7.5 per \$1,000 of coverage.
- 2) Using the formula prescribed in Section 10(c) of the act, the Board will determine if there are excess monies.
- 3) Divide the excess money amount by the total of premiums paid that year to get a % of distribution.
- 4) Establish code and formulas in database.
- 5) Disbursement by check to those canceling during the year
- 6) Disbursement as a credit to the next premium for active policies (as a reduction factor in the database operations).

Formulas:

- 1) Surplus and Excess Money Calculations: Cash and Investments as reported by the Comptroller – (Reserves for Outstanding Claims +Catastrophic Reserves +Reinsurance Reserves + Unearned Premiums) = Surplus - Administrative Costs = Excess Money
- 2) Reserves in Lieu of Reinsurance: A percentage of Underwritten Coverage or a calculation that examines premiums collected for the year verses costs and reserves.
- 3) Premium calculations
 - 1) Current (simplified, no coverage limit logic): $(2^{\text{nd}} \text{ Coverage} * 2^{\text{nd}} \text{ Rate}) + (1^{\text{st}} \text{ Coverage} * 1^{\text{st}} \text{ Rate}) = \text{Premium}$
 - 2) New calculation: $((1^{\text{st}} \text{ Coverage} * 1^{\text{st}} \text{ Rate}) + (2^{\text{nd}} \text{ Coverage} * 2^{\text{nd}} \text{ Rate})) * \text{Disbursement Factor} = \text{Premium}$

DATA SUMMARY

Unless otherwise noted, all data is for the end of Fiscal Year 2008-09.

Policy Data

Number of Policies in Force: 58,177
Number of Residential Policies: 57,028
Number of Non-Residential Policies: 1,149

Number of Structures Values \geq \$250,000 = 7,380 (499 Non-Res.)
Number \geq \$250,000 \leq \$350,000 = 4,693 (68 Non-Res.)
Number $>$ \$350,000 \leq \$400,000 = 936 (36 Non-Res.)
Number $>$ \$400,000 \leq \$450,000 = 486 (28 Non-Res.)
Number $>$ \$450,000 \leq \$500,000 = 300 (31 Non-Res.)
Number $>$ \$500,000 = 965 (336 Non-Res.)

Percent of Policies with Structure Values \geq \$250,000: 12.8%

Number of Policies in Force: 58,177

Number of Residential Policies: 57,028
Number of Residential Policies Processed July - December: 26,121
Number of Residential Policies Processed January - June: 30,907

Number of Non-Residential Policies: 1,149
Number of Non-Residential Policies Processed July - December: 555
Number of Non-Residential Policies Processed January - June: 594

Percentage of Policies:
Residential: 98.%
Non-Residential: 2%

Premium & Coverage Data

Premium Income: \$6,057,306.03
July – December: \$3,253,051.10
January – June: \$2,804,254.93

Residential Premium: \$5,630,050.77
% Residential: 93%
Residential July – December: \$2,948,028.18
% July - December: 91%
Residential January – June: \$2,682,022.59
% January – June: 95.5%

Non-Residential: \$427,255.26
% Non-Residential: 7%
Non-Residential July - December: \$305,022.92
% July – December: 9%
Non-Residential January – June: \$122,232.34
% January – June: 4.5%

Average Residential Coverage Amount July – December: \$130,000
Average Residential Premium July – December: \$112.86
Average Residential Coverage Amount January – June: \$132,962
Average Residential Premium January – June: \$86.77

Average Non-Residential Coverage Amount July -December: \$167,200
Average Non-Residential Premium July – December: \$549.59
Average Non-Residential Coverage Amount July – December: \$159,815
Average Non-Residential Premium January – June: \$205.78

Coverage Increases Excluding Inflation Increases

Number July – December: 80
Amount July – December: \$20,085
Premium July – December: \$12.05
Number January – June: 427
Amount January – June: \$14,947,550
Premium January – June: \$9,469.92

Comparison of Paid Claims in Years with Both Residential and Non-Residential Claims

Number of Paid Claims 1998-2007

Residential: 49
Non-Residential: 4

Average Residential Claim Value

1999 \$36,384
2004 \$26,119
2005 \$49,311
Average: \$37,271

Average Non-Residential Claim Value

1999 \$42,202
2004 \$27,610
2005 \$22,500
Average: \$30,771

Residential Premium @ \$145,000: \$ 94
Non-Residential Premium @\$145,000: \$188