

**Tennessee Risk Management Trust**  
**October 23, 2008**

Trustees of the Tennessee Risk Management Trust met October 23, 2008 at the Trust offices on 404 BNA Drive in Nashville. Attending the meeting was: Chairman Mark Farley, Vice-Chairman Dawn Robinson, Trustees Denise Brown, Billy Joe Evans, David Jones, Paul Ward, Frank Lacey; program manager John Evans of Next Generation Underwriters; Buck Wiley of Merrill Lynch Investments; Lisa Dennison of By The Numbers Actuarial Consulting, Keith Dennen of Bone McAllister & Norton PLLC,; John Wilburn Trust Administrator; Tom Meares and Alice Carnahan Finance. Trustees Larry Griffin and Trustee Joe Treece were unavailable to attend.

Chairman Mark Farley called the meeting to order at 12:40 p.m.

Frank Lacey gave the invocation.

Chairman Farley asked for any revisions in the consent agenda.

**EVANS/JONES:** Motion to approve the consent agenda, which included the May 16, 2008 minutes. **Motion Carried Unanimously.**

**Trust Administrator's Preliminary Remarks.** Mr. Wilburn welcomed everyone and introduced two new trustees, Ms. Denise Brown, Director of Schools for Unicoi County and Mr. Paul Ward, Huntingdon Special School District Board Member.

Mr. Wilburn reviewed the day's agenda topics, he explained Mr. Ron Connor of Cole Reed Auditing Firm would be giving his presentation by phone and that Mr. Keith Dennen was present for any questions the trustees might have concerning contracts they would be voting on during the meeting.

Mr. Wilburn discussed with the board the growing number of claims concerning sexual misconduct.

**Contracts.** Mr. Wilburn referenced the contracts provided for the Trustees consideration. Mr. Wilburn prefaced the discussion by informing the board that in 2006 Attorney Keith Dennen had drawn up the original contracts and the only thing that has been changed from the originals would be the term and the numeration. The changes were the result of conversations with Mr. Evans of NGU/SEC regarding the number of persons required to carry out the duties of loss control.

Mr. Farley requested since there were two new board members that Mr. Wilburn might give a brief description of the Trust relationship with NGU/SEC involving the county government memberships. Mr. Wilburn explained the number of claims and loss control staff provided by the Trust office and the SEC office, and their functions.

Mr. Wilburn stated the fee schedule shown in the previous contracts was set at 2% of the gross premium and it was broken down for accounting purposes between Workers Comp and Board Liability. The proposed contracts suggest a reduction to 1.5% of the gross premium which results in a savings of \$183,248. He also indicated that the fees for claim service would increase to 3.7%. The net effect of the changes is that the Trust would recognize a savings of \$103,175. The contracts would be retroactive to July 1, 2008 and the contracts would be extend until June 30, 2012 if approved.

**ROBINSON/JONES:** Motion that the Board approve both contracts simultaneously.

Mr. Dennen interjected for the record that the Mr. Wilburn might want to speak to the quality of the loss control services provided by SEC to date. Mr. Wilburn stated the loss control results have been overall successful because after all we would not have been able to give the dividends due to our surplus having gone up over the last several years. I can tell you the loss control staff is doing a good job.

Chairman Farley called for a roll call.

|                        |                |
|------------------------|----------------|
| <b>Paul Ward</b>       | <b>Approve</b> |
| <b>Denise Brown</b>    | <b>Approve</b> |
| <b>David Jones</b>     | <b>Approve</b> |
| <b>Billy Joe Evans</b> | <b>Approve</b> |
| <b>Dawn Robinson</b>   | <b>Approve</b> |
| <b>Frank Lacey</b>     | <b>Approve</b> |
| <b>Mark Farley</b>     | <b>Approve</b> |

**Motion Carried Unanimously.**

**Actuarial Report.** Ms. Lisa Dennison of By the Numbers Actuarial Consulting Firm began her presentation with a brief overview of the insurance coverage and the actuary's roll within the programs for the new trustees. She began with the Workers' Comp program by reviewing a chart revealing the paid losses since the inception of the program in 1987 to 6/30/08 along with case reserves and estimated IBNR still active since 1999.

Ms. Dennison then explained the three ways that surplus funds can be affected.

For the WC program the estimates decreased \$381,334 for years prior to 7/1/07.

In reviewing the liability program, it was noted that surplus would decrease by \$1,251,392.

Combining the two programs the net assets for the Trust currently stands at \$19.5 million.

**LACEY/ROBINSON:** Motion to approve Actuarial Report as presented.  
**Motion Carried Unanimously.**

**Audit Report:** Mr. Ron Connor of Cole & Reed auditing firm presented their audit of the Trust as of June 30, 2008 by teleconference. Mr. Connor stated the firm had been working with the Trust for 3 years and the 2008 audit went very smoothly.

Mr. Connor indicated the purpose of the audit is to render assurance of an unqualified opinion of the financial status of the Trust. Connor indicated that based on their review, the information in the report is materially accurate and on which anyone can rely.

Mr. Conner reviewed the income statement and the statement of cash flow and indicated the Trust has been able to generate sufficient cash for operating activities that are coming due without having to use investments to meet those obligations. Further, positive cash flow suggest the premiums are being determined correctly and the claims are being managed well.

In conclusion, Mr. Conner stated that "We reviewed the internal control structure and we did not identify any issues with the internal control structure that we believe are significant deficiencies or material weakness that need to be reported to the Board or anyone reading this document."

**JONES/LACEY:** Motion to approve audit report as of June 30, 2008 as presented.  
**Motion Carried Unanimously.**

**Break 2:05 p.m.**

**Investment Report.** Buck Wiley of Merrill Lynch stated that the Trust portfolio is fine, that its value was up and exactly where one would think it should be in U. S. government investments. He reviewed the current economic climate and the merger of Merrill Lynch with Bank of America stating the merger would have no effect on the Trust portfolio.

Mr. Wiley stated there are some points concerning risk the trustees need to realize even with a government portfolio. With government backed securities one can assume there is no custody risk as the government can always print more money so it would never

default, but there is a risk. If the government does print more money, there could be inflation, and long term inflation is the number one risk of the Trusts portfolio.

The second type of risk is custody risk which means if your cash is in a CD at a bank or U. S. Treasury Bonds at a brokerage house and either one of them go under, what one could expect. Merrill protects your investments in three different ways. The investments with Merrill Lynch are in U. S. treasuries or agencies and your funds are held funds separately from Merrill's assets. Basically, they are registered in a separate account in the Trust's name with the DTC (Depository Trust Corporation). Secondly, Merrill has insurance through the Securities Investor Protection Corporation similar to the FDIC which is for security and brokerage firms, and third, Merrill has private insurance through the Lloyd's of London. Thus, if Merrill Lynch went bankrupt the portfolio should not be affected.

The third risk is investment risk. For example, if you have own a bond that pays 5% and interest rates go to 10% no one wants a bond that is paying 5%. This is the one concern the Trust would have and this concern is closely tied to inflation. Currently housing prices are dropping, unemployment is rising, America is deleveraging, they are getting debt off their balance sheets these three things are hugely anti-inflationary. Most economists say we are in a deflationary economy.

In looking at how the portfolio is being managed currently, we have looked at what we see as the risk of inflation, the risk of interest rates going up which go hand in hand. With this in mind we have position this portfolio to be diversified among the risk, 25% invested in TIPS (securities issued by the US Treasury) that adjusts every year with inflation, basically it is the only hedge the Trust can invest in against inflation.

Another part of portfolio in short duration bonds, which are more protected from increases in inflation and interest rates, currently holding 25% of the portfolio. The other 50% invested in regular government bonds and maturities. Looking at the maturity of the portfolio, 1/3 is short (less than 5 years). 1/3 is intermediate and 1/3 is long term. I feel this is a good balance for where we are right now and I would recommend keeping it there.

**EVANS/JONES:** Motion to approve September 30, 2008 investment report as presented. **Motion Carried Unanimously**

**Financial Report.** Tom Meares reviewed the financial report as of 9/30/2008. He stated the total revenue for three month period ending September 30, 2008 was \$9.6 million dollars. In reviewing several charts it was reflected that short term investment income has not met the budget projections. This is due to lower than expected interest rates being paid. The Trust is currently receiving 1.8% to 2% interest whereas last year at this time we were getting 5% return. Our long term investments have remained more consistent overall yielding a 5% return annualized with Merrill Lynch.

The monthly expenses excluding service fees actual versus indicate the Trust is out performing budget.

Mr. Wilburn drew the attention of the Trustees to Reinsurance and Underwriting cost as the gap will continue to widen about \$37,000 a month or \$450,000 for the year. With this in mind he requested an increase amendment to the budget at this time for the \$453,000.00.

**LACEY/WARD:** Motion to approve amendment to increase the Reinsurance Costs & Underwriting by \$453,000.00 in order to balance the annual cost. **Motion Carried Unanimously**

**Marketing Update:** Mr. Evans refer to a letter provided for the trustee's reference covering surety bonds for public officials. For some years we had difficulty in making sure that everyone was bonded according to state statute because as appointed superintendents are required to have a \$50,000 fiduciary bond which is to cover them in carrying out the responsibilities of their office and their handling of state funds. The Trust has a \$150,000 bond that covers everyone in the system, so we would cover the same thing that the \$50,000 fiduciary bond the state requires. The only difference is the state requires it to be issued on their form it is a specific two page form which be completed by the surety carrier.

It was suggested we issue this \$50,000 bond to those who are required to have it specifically on form required by the state as there is no increased exposure to the Trust. We are simply putting the Risk Management Trust name on the line as the surety.

Such a change would require some internal tracking. The only major issue we have would involve a change of superintendent which would require that we be ready to issue a new bond immediately, thus we would have to put stipulations on the bond that if the members leaves the Risk Management Trust or the persons change office the bond would expire immediately. This would save the each school system \$1,000.00 on the current separate bond they are purchasing.

**EVANS/JONES:** Motion to approve the issuance of a \$50,000 bond and the completion of the state required form by the Trust for School Directors only. **Motion Carried Unanimously**

Mr. Wilburn reviewed current requests by some members for coverage for activities on repelling towers and the certain activities within schools known as extraordinary operations such as laser hair removal and chemical peels. A survey was given to 88 applicable school districts, with 84 responses, only 1 system has the chemical peels and

laser hair removal. Within the survey the activities of high ropes courses (5 Yes), target ranges with live ammunition (6 Yes) and repelling (8 Yes).

A discussion by the staff and trustees continue on several related issues.

**EVANS/ROBINSON:** Motion the Administrative and Loss Control staff would investigate these particular areas of usage. All information would be reported back at the next Trust meeting for a decision concerning future coverage.  
**Motion Carried Unanimously**

Mr. Wilburn stated the subject of historical building replacement cost has been raised recently by a member. It is believed there are currently 15 or 16 historical buildings under coverage within the current members. After discussion with RAI (appraisal firm) under the appraisal program they use they can increase the evaluation level within the program to the 5<sup>th</sup> level which will increase the replacement cost on those particular buildings, which will increase the premium eventually. Under the increase evaluation by RAI at 125% replacement cost already being in the policy I do not feel this would hurt the Trust in the replacement of these buildings.

**LACEY/ROBINSON:** Motion that the Trust would cover the replacement cost of historical building under the current policy.  
**Motion Carried Unanimously**

**Membership.** The trustees were presented with the current 08/09 membership for their approval. Any additions or deletions were covered with the Board.

**EVANS/LACEY:** Motion to approve 08/09 membership as presented.  
**Motion Carried Unanimously**

**Policy.** Mr. Wilburn informed the Board these policies have been in use for a number of years and the request is for one deletion and one revision. Under Section 2000, sub-group 2380 (Outside Employment), removal of last two paragraphs. Proposed revision under Section 3000, sub-group 3080 (Determination of Premium and Collection of Premiums), item 3; revise to state that a payment postmarked by the tenth of the month would still allow the member an early pay discount.

**EVANS/LACEY:** Motion to approve so noted deletion and reversion as presented.  
**Motion Carried Unanimously**

**Other Business.** Mr. Evans reviewed an opportunity he has concerning the administration of a program for health insurance separate from his affiliation with the

Trust. He asked if anyone on the Board would see any conflict that if at some point there would be an opportunity to work with schools, counties or cities in the benefits side. This would have nothing to do with the Trust, except knowing someone within the membership that might need this type of coverage that would be the only conflict that would be that of acquaintance. He would be marketing to any facility that has health insurance. He has no intention of doing it himself except as supervisor of new staff members.

Consensus at this time there were no objections and if the Board had any further questions they could speak with Mr. Evans further.


Chairman Farley stated that this was Mr. Wilburn anniversary and the time for review of his current salary. Several members of the Board expressed appreciation to Mr. Wilburn for an excellent job as shown in the audit report and the relocation of the offices.

**EVANS/JONES:** Motion to approve a 5% salary increase for Mr. Wilburn.  
**Motion Carried Unanimously**

Next meeting date set Monday, February 23, 2009.

Meeting adjourned 3:55 p.m.

  
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Mark Farley, Trust Chairman

  
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John Wilburn, Trust Administrator