

Minutes
Tennessee Risk Management Trust
February 23, 2009

Trustees of the Tennessee Risk Management Trust met February 23, 2009 at the Sheraton Nashville Downtown Hotel. Attending the meeting was: Chairman Mark Farley, Vice-Chairman Dawn Robinson, Trustees Denise Brown, Billy Joe Evans, David Jones, Paul Ward, Frank Lacey, Joe Treece; program manager John Evans of Next Generation Underwriters; Buck Wiley of Merrill Lynch Investments; Lisa Dennison of By The Numbers Actuarial; John Wilburn Trust Administrator; Tom Meares and Alice Carnahan Finance. Trustee Larry Griffin was unavailable to attend.

Chairman Mark Farley called the meeting to order at 3:30 p.m.

Billy Joe Evans gave the invocation.

Chairman Farley asked for any revisions in the consent agenda.

ROBINSON/LACEY: Motion to approve the consent agenda, which included the October 23, 2008 minutes.

Motion Carried Unanimously.

Trust Administrator's Preliminary Remarks. Mr. Wilburn reviewed the day's agenda topics. He discussed with the board information concerning two recent fatality claims, a major fire loss in November and 14 new claims from the recent windstorm activity, along with a significant freeze claim that occurred in late January. He also reviewed the previous meeting's topic concerning certain classes of activities that might prompt an increase in premium. The Loss Control staff were requested to check on these situations, and it has been determined that there are some classes, such as the cosmetology (chemical exposure) and some ROTC (live ammunition, repelling) that could be perceived to be more hazardous than classes found in the more standard curriculum, but each of those are supervised by responsible instructors who has been trained in each of these fields. Thus the hazard is no greater than one would find in a wood working shop when it is properly supervised. At this time he is not recommending any premium increase, but we will continue to monitor these classes and analyze claims from them.

He informed the board that trustee elections will be coming up in March for Districts 1, 6, 8.

He reviewed the activities that have been and will continue to take place with the membership concerning presentations involving the Trust coverage and the value of membership in the Trust.

Actuarial Report. Ms. Lisa Dennison of By the Numbers Actuarial Consulting Firm began her presentation with a brief review of the Workers' Compensation losses as of December 31, 2008. She referred to her report of June 30, 2008 and indicated the current reserve estimates had increased by \$861,864, almost all of it in the most recent year. In reviewing reports since 2000 in the last four years within the same monthly time frame this is the first increase that has been recorded.

Her report for Board Liability indicated there had been a decrease in the estimated reserves of \$2,007,842.00 during the same six month period, thus the combination of the program estimates would have the effect of adding \$1,145,978.00 to surplus.

EVANS/TREECE: Motion to approve Actuarial Report as presented.
Motion Carried Unanimously.

Investment Report. Buck Wiley of Merrill Lynch reviewed the current economic crisis in reference to the Trust portfolio investments. The effects of the current financial crisis are seen in the stock market, but not so much in the government securities market. In fact, he stated that government securities did very well in 2008 because there is not that much risk in government securities. Fear of the crisis has a positive effect on the bond market.

A review of the Trust portfolio for the prior three months indicates a 2.92 % rate of return, while for the previous year there was a return of 5.64% indicating an approximate increase of \$2.3 million increase for 2008. The asset allocation has remained the same for the year with short term investments (three years or less) which earned 5.16%; two of a longer term longer term (eight years or more) which have earned 8.00%, and then TIPS, bonds that adjust for inflation, which are down approximately 1.43% due to deflation. Why would the Trust want to continue in TIPS? It is an important part of the portfolio because as interest rates go up, the value of bonds will go down. Although no one is certain when we will experience inflation, the long term outlook is that the stimulus plan will fuel inflation, thus it is prudent to remain in TIPS. Currently, 25% of the investments are in TIPS.

Mr. Wiley stated that the balance of the portfolio at the end of January was \$43.5 million and he believed at this time the portfolio is well positioned and he would recommend that we make no changes in the investment strategy at this time.

LACEY/WARD: Motion to approve January 31, 2009 investment report as presented. **Motion Carried Unanimously**

Financial Report. Tom Meares reviewed the financial report as of 1/30/2009 and indicated the financials are currently on target with the budget, and in fact, we are slightly ahead of budget by some \$461,744.00. He reviewed the total of all investments and indicated he felt the Trust had a fairly solid investment portfolio, and should some unknown situation arise, we have sufficient funds to take care of the needs.

Mr. Meares stated he felt the Trust is in excellent shape for an insurance company in these tough times.

Mr. Wilburn injected our surplus as of the end of February 2009, is better than the same time last year. Last year we had \$19.5 million and this year we currently have \$21 million, and barring any unforeseen circumstance we will be in good shape by year end, but reminded everyone that during the spring, we may be faced with an increase in weather related claims.

Mr. Wilburn stated that these financials are just a snapshot in time and thus no vote needs to be taken.

Renewal Process. Mr. Evans of Next Generation provided the board with handouts concerning renewal for excess reinsurance costs and terms proposals. He reviewed each reinsurance proposal, and noted that it appears that our cost for reinsurance will actually decrease in the coming year by as much as 7%. He did mention that the excess liability carrier had quoted based on an increase in the retention level referring. We will go from an SIR of \$200K to an SIR of \$250K. He pointed out that the caps under the GTLA had increased and with that, the exposure to Markel Re had increased.

He spoke with the Board concerning the actual renewal process with the membership.

LACEY/EVANS: Motion to allow Mr. John Wilburn to accept the reinsurance quotes if they were flat or less than the current year.
Motion Carried Unanimously

Break 4:20 p.m.-Ms. Dennison and Mr. Wiley excused themselves from the meeting at this time.

Resumed 4:30 p.m.

Investment Income: Mr. Wilburn spoke to the Board concerning short term investments going forward. He advised the Board that the current interest we are receiving on the money markets is 0.37%, and felt that we could move the money market investments to CD's, stagger the maturities, that we should realize greater investment income as a result. Mr. Meares provided an overview of the money market investment and the funds that would be available for short term CD investments.

LACEY/WARD: Motion to authorize John Wilburn to investigate different available short term investments and move the investments as he deems appropriate. **Motion Carried Unanimously**

Staff Health/Retirement Programs: Mr. Wilburn discussed the current staff health and retirement programs and requested he be given the authority to research availability of the staff being able to participate in the TCRS and state health programs. He stated that some members of the staff had inquired about the availability of participation in these programs.

LACEY/WARD: Motion to authorize John Wilburn to investigate the availability of participation in the state health program and TCRS by the Trust staff. **Motion Carried Unanimously**

Dividends. Mr. Wilburn stated that in previous three years that dividend payments had been well received by the membership and based on what has been supplied by Mr. Meares in the availability of funds he would request the Board approve the distribution of dividends for the upcoming policy year. He suggested the same previous guidelines be used for distribution along with the \$2 million dollar cap for the entire dividend program.

EVANS/BROWN: Motion to approve the distribution of dividend be given to renewing membership with a 2 million dollar cap.
Motion Carried Unanimously

Superintendent Study Council Presentation. Mr. Wilburn and Mr. Evans review the presentation of slides and information that have been shown at the Superintendent Study Council Meetings concerning insurance coverage and expenses.

Next meeting date set Friday June 26, 2009.

Meeting adjourned 5:30 p.m.


Mark Farley, Trust Chairman


John Wilburn, Trust Administrator