Steven L. Beshear
Governor

Terry Holliday, Ph.D.
Commissioner of Education

EDUCATION AND WORKFORCE DEVELOPMENT CABINET
DEPARTMENT OF EDUCATION

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February 1, 2013

Mr. Bill Scott
Executive Director
Kentucky School Boards Association
260 Democrat Drive
Frankfort, KY 40601

RE: Questions about KSBIT

Dear Bill:

I have received numerous and varied comments and concerns from superintendents around the state since the announcement about the deficit in the Kentucky School Boards Insurance Trust (KSBIT) and the impending plan to dissolve the fund. I am sure that the Kentucky School Boards Association (KSBA) and the Kentucky League of Cities (KLC) have also heard similar concerns and I am confident that you are both working diligently to address them. It is critical that school districts receive consistent information about such concerns. Accordingly, I am forwarding to you what we have heard as concerns/questions for consideration and response:

1. As of January 2010, when management of KSBIT was turned over to KLC, the KSBIT insurance programs were deemed solvent. How in just three years did the deficit become $28 million?

2. It appears from the notes in the current financials that there has been a significant change in the actuarial loss assumptions for the fund for prior years, particularly in the last three or four years. How inaccurate were the loss assumptions that were used in the assessment of fund performance?

3. Prior to 2005, KSBIT had three pools – property, liability, and workers compensation. In determining the amount of a member's assessment, is participation in each pool being considered independently, or is participation in the property and liability pools being aggregated? Or, is participation in all three areas being aggregated?

4. In the past KSBIT purchased aggregate or stop-loss coverage as part of the property excess or reinsurance. Did KSBIT purchase such coverage for the policy periods ending 7/1/2012 and 7/1/2013? If so, does the proposed assessment for the policy periods take such stop-loss coverage into consideration? In other words, if a member had heavy losses, but these losses were limited to property only, would that member have any responsibility for the deficit in the property liability fund since KSBIT notes that the deficit relates largely to liability losses?

5. The proposed liquidation of KSBIT is based on a Loss Portfolio Transfer (LPT) that would include a novation with the company performing the LPT agreeing to assume all future liability for the fund – for which a premium would be charged. Don't the actuarial projections and assumptions for the pool – which are a factor

in calculating the amount of the deficit – already include amounts for claim development and Incurred But Not Reported (IBNR) claims? If so, isn't this the equivalent of asking the members to fund these potential losses twice?

6. How many companies were approached regarding the LPT and how were they selected?

7. Were the LPT proposals currently under consideration competitively bid? If an agent or broker was used to seek out LPT partners, was this service competitively bid?

8. KSBIT notes that they believe a transfer of liability is better than putting the program in a run-off status. What is the premium tied to the novation or transfer of liability for the program? How much, if any, in fees or commission will be paid to the agent/broker placing the LPT.

9. The alternative to the proposed LPT is to put the program into a "run off" position and contract with a Third Party Administrator (TPA) to pay claims until their ultimate conclusion. Has a cost comparison between this approach and the proposed LPT been conducted and, if so, what are the results? Also, if the run off option was studied, which TPAs were consulted, how were they selected, and did they have any involvement with or connection to the companies contacted regarding an LPT?

10. Are their mechanisms in place for members to contest or appeal the amount of their assessment? Along those lines, what contingences are in place if members simply refuse to pay their assessment?

11. Have KSBIT, KSBA and KLC board members been advised to notify their director and officer insurance carriers regarding potential exposures relative to the deficit position and ultimate dissolution of KSBIT?

On behalf of the superintendents who have raised these concerns, I am requesting a response as soon as possible in order for school districts to have the necessary information to make fully informed decisions about how to proceed. Thank you for your assistance in this critical matter.

Sincerely,

Terry Holliday, Ph.D.

cc: All Kentucky School District Superintendents