KENTUCKY SCHOOL BOARDS INSURANCE TRUST **KSBIT**

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BY:

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To: All Present and Prior Kentucky School Boards Insurance Trust Members

From: Kentucky School Board Insurance Trust Board of Trustees

Date: January 14, 2013

Re: Update on KSBIT Workers' Compensation Pool and Property and Liability Pool

On behalf of the Kentucky School Boards Insurance Trust ("KSBIT" or "Trust"), we are writing to update you on the status of the Trust and a series of proposed and potential actions that will affect your district, college or university based on its current or past participation in KSBIT's Workers' Compensation Self-Insurance Pool and/or its Property and Liability Self-Insurance Pool (collectively "Pools"). Despite years of work to eliminate deficits in these Pools, the latest financial statements indicate a significant increase in the deficits of both Pools, which under the law requires corrective action.

The KSBIT Unemployment Service is a separate non-risk bearing fund. Accordingly, it is not affected by the financial position of the self-insured Pools.

As you may recall, KSBIT was created in 1978 to provide coverage through nonprofit self-insured pools authorized under Kentucky law. These Pools allow school districts, colleges and universities to combine their resources while sharing the risks. KSBIT began in response to an extended hard market in which many schools could not obtain affordable coverage from commercial carriers. While KSBIT has taken a number of steps to address the Pools' deficits including management and a loan by the Kentucky League of Cities Insurance Services Association in January 2010, cutting operating costs, attempting to rebuild market share, shifting to a managed care model to reduce medical costs, and increasing premium rates sharply, the deficits have grown as claims costs have escalated and a substantial number of districts have continued to leave the two Pools due to competitive pressures.

The Board of Trustees of KSBIT had claims and reserve reviews undertaken by independent outside firms to confirm the Pools' deficits. As a result of these reviews and after consultation with the Kentucky Department of Insurance, which oversees the regulation of these self-insurance Pools, KSBIT will be taking the following actions as part of a corrective action plan required by law:

- An assessment, under a fair methodology to be approved by the Kentucky Department of Insurance, of current and past participating members to fund the deficit and the transfer of liability to a qualified insurer/reinsurer. Factors in the assessment methodology will consist of premiums paid, the projected cost of claims in each pool by member, and the number of years of participation by each member in years generating a deficit. The total combined assessment for the KSBIT Workers' Compensation and the Liability portion of the Property and Liability Pools is expected to be from $50 million to $60 million. It will vary based on the costs of the transfer of liability and other factors;

- A financing option negotiated by the Kentucky School Boards Association (KSBA) that will give participating districts the choice of paying their portion of the assessment over a twenty-year period to help minimize the impact;
- Pursuing a contract to transfer all claims and liabilities for all future claims payments to a qualified insurer/reinsurer, thereby providing certainty and finality to the obligations of members of the Pools; and
- The KSBIT self-insurance Pools will no longer accept new or renewal business after January 2013. (Current members will continue to have uninterrupted coverage through June 30, 2013, and KSBIT will continue to accept modifications during the current policy period.) KSBA is negotiating agreements with partners to assure future coverage options.

Over the course of this difficult situation, we want to remain as transparent as possible. As information is available on the contract to transfer claims and liabilities, the assessment amounts, financing, and future coverage options, we will provide that information to you. We have set up a special website – ksbit.org – to provide you timely and accurate responses to your questions and updates on developments. The KSBIT financial statements for the Pools are posted online. In the upcoming weeks, we will be communicating more information to you including information about the assessment methodology, the estimated amount of your expected assessment, the financing process, the proposed transfer of liability to cut off any future liability and assessment, and the process for accomplishing all of this.

We know that you are going to receive questions locally about why this is happening and how it will affect your school district, college, or university. We want to work with you to answer those questions. In addition to the website, we have set up a toll free number at 877-208-5643. We will direct your inquiries to the appropriate person who will respond as soon as possible.