

June 4, 2013

Dear Superintendent, School Board Member and other Members:

The Kentucky School Boards Insurance Trust (KSBIT) Board of Trustees met on May 7 and May 21, 2013, to review options for addressing the deficit in the workers' compensation and liability pools and the administration of current and future KSBIT claims moving forward. The options considered included: 1) a run off of claims with an experienced administrator for the Trust that will continue making claims payments and 2) a reinsurance/novation transaction under which a highly rated reinsurer would assume all of the liabilities of KSBIT and its members for claims for a set amount and will continue making claims payments.

The Board engaged outside consultants to review the proposals received through a bid process on both options. The costs of the novation option are generally fixed. The costs of the runoff option may be lower, but there is no certainty that the projected costs of claims will be the actual costs of claims. The decision between the two options comes down to one of risk. Would the membership be better off with a novation's set price now offering certainty and eliminating the possibility of a second assessment? Or, would the membership rather take that risk and hope that they will pay out less, ultimately, under a runoff?

Because the members have to bear the cost of assessment(s), the Board voted to solicit feedback from the members subject to assessment prior to finalizing its decision. The Board also directed that meetings be held with Department of Insurance Commissioner Sharon Clark and Department of Education Commissioner Terry Holliday to inform them of KSBIT's status and seek their input. Pursuant to the Board's direction, we are providing you with the following information and requesting that you respond with your district's or policyholder's preference, if any, on the options by 3:00 p.m. Eastern Daylight Time on Friday, June 21, 2013.

Your feedback is important. All responses must be in writing and include the member's name (for example, school district's name). Each response will be compiled in its entirety and presented to the KSBIT Board for consideration at its June 24 Board meeting. Each response will be reviewed and considered by the Board when making its decision. Your responses will be a significant factor in the decision-making process. Please send your written response as soon as possible to info@ksbit.org.

After the June 24 Board meeting, KSBIT will provide a plan to the Department of Insurance ("DOI") which includes the option chosen by the Board, the estimated amount of the assessment and the assessment methodology ("Plan"). The DOI has final authority to approve the Plan. There will be a public hearing on the Plan. All members will receive notice of the hearing and have the opportunity to attend. No assessment will be finalized until after the Plan is approved. Utilizing the financing options available to school districts, the first assessment payment could be deferred until the 14-15 fiscal year.

[Go here for the information on the various options.](#) Revised estimates of your district's assessment liability based upon the various options being considered will be posted on the ksbit.org home page by Friday June 7. These numbers will not be the final assessment numbers and are subject to change. Updated reserve studies will be prepared based upon June 30, 2013 data and will likely change the estimates. However, we felt that providing these numbers would equip each member with the best information available before offering your input to the Board. Please review the information provided in this communication carefully and let the KSBIT Board know your district's preference. We appreciate your feedback.

On behalf of the KSBIT Board,

