

HARRP NOTES

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Big Changes on the Horizon!

There are changes in the air at HARRP! Your HARRP Board of Directors and the HARRP staff have been laying the groundwork for many months and these changes are now seeing the light of day. The major changes to be discussed in this issue are rating changes coming up in January 2009 and the office relocation process.

Re-Rating Changes

HARRP was formed in 1987. Due to multiple State regulations regarding pooling, HARRP was required, at the onset of operations, to operate as a separate pool in each State. This required each State to develop rates independently. Legislation was soon changed for each State, which would allow for multi-State pooling, thus launching HARRP as one of the few pools that cross State lines.

HARRP has continued to rate its members based upon which State they reside. Each State is experience rated, meaning that every member in each State bears the loss cost factors of the entire State.

While experience rating is a widely accepted and practiced form of distribution of premium revenues to a pool, the manner in which HARRP performs this is independent of the safety resources dedicated to controlling losses by each of HARRP's members. Rather, it depends on the performance of the State as a whole.

HARRP began looking into this over a year and a half ago and believed that a new approach to distribution of contributions (premiums) to the pool was justified. The primary reasoning was to provide a more equitable distribution of costs; those members who have a poorer than average loss experience should be paying a higher portion of the loss funding requirements. Those with good loss experience should pay less for coverage.

HARRP attempts to do this through credits, such as low loss ratio credits and discounts for loss control activities. Alternatively, HARRP imposes a Supplemental Underwriting Assessment (SUA) to members with poorer than average loss experience. The SUA was never designed to offset the higher cost of losses by member, rather to alert the member of its negative impact on the pool's (and State) rates.

The secondary reasoning behind the investigation into re-rating the program was administrative. Over the past twenty years, there have been a total of 21 loss control discounts applied to rates. Designed to reduce the cost of coverage based on proactive loss control activities performed by the member, these discounts have become very burdensome to administer. The difficulty stems from HARRP's inability to ascertain whether the discounts are justified and the inconsistent application of these discounts.

In March 2008, the HARRP Board of Directors approved changing the method in which HARRP determines rates. This change will become effective for all January 1, 2009 and subsequent renewals.

The core of this change will be abandoning State rates based on State loss performance. Beginning January 1, 2009, each member will be categorized in one (1) of five (5) rating tiers based upon their exposures and loss experience. State loss experiences of HARRP members will no longer be utilized in determining rates. Under this rating arrangement, discounts will be eliminated, as will the SUA. The premise behind eliminating discounts is that these loss control practices all impact the loss experience of the member, by avoiding losses or minimizing their impact. The rationale behind abolishing the SUA is that the SUA does not compensate the pool's resources when a member has a high loss ratio.

Actuarial consultants have been engaged throughout the investigative process and have endorsed this approach. Beginning in the Fall of 2008, the HARRP actuarial consultants will develop loss ratios (premiums paid/claims paid) for each HARRP member, instead of each State. Independent loss experience and development of loss ratios will be the only new component in this year's actuarial study. All other factors, such as administrative costs, claims costs, exposure units, industry trends and legislative factors will be the same as always and used in determining the necessary funding requirements for the pool.

The approach is simple. The actuarial consultant will determine a base rate that develops the necessary revenue (premiums) to fund the program for its anticipated loss costs, administrative load and claims incurred but not reported (IBNR). That base rate will be adjusted, or allocated, into five tiers by a percentage increase or decrease of the base rate. Two tiers will be above the base rate and two tiers will be below the base rate, illustrated as follows;

Tier 1	Base Rate minus 25%
Tier 2	Base Rate minus 10%
Tier 3	Base Rate
Tier 4	Base Rate plus 10%
Tier 5	Base Rate plus 25%

Utilizing the standard factors in actuarial studies listed above, placement of each member in one of the five tiers will be dependent on the member loss ratio. When determining loss ratios, the actuarial consultant will be utilizing a credibility formula, which will compensate member's scope of operations, complexity and exposure units to align more accurately with smaller members. This "smoothing" will assure that larger members aren't penalized for losses that occur based on the fact that larger members have more exposures than smaller members.

Loss experience will be evaluated for the previous four (4) years. Four years was selected in lieu of three or five years of previous loss experience, based on the fact that five years seemed excessive to have a bad claim continue to impact the rate, and three years was insufficient to assure that the proper allocation of loss expense to the pool was adequately recovered from the affected member.

For comparison and generality, if each of the four States were categorized and assigned a tier, this would be the following breakdown:

California	Tier 1
Oregon	Tier 3
Nevada	Tier 5
Washington	Tier 5

This change will assure the pools stability, viability and further increase its efficiency in renewals and rate setting. It is the hope of the HARRP Board of Directors and HARRP's staff that these changes can be implemented effectively with minimal impact on our valued members!

What this indicates is that members in California can expect modest increases in the renewals. California has the lowest rates of the four states, which means they are offsetting the pools expenses the least. Oregon can expect rates to remain flat, while Nevada and Washington can see rates decrease. Please remember that this is based on current rates, State loss experience and revenue (premiums) generated to date, and does not accurately indicate your rates next year!

This article is intended to give members a heads-up on possible rate fluctuations in order to achieve equity among members going forward. To further assist members in understanding how this may affect upcoming premiums, HARRP has developed and will distribute a short PowerPoint presentation on a USB data stick. Your authority will be receiving this shortly. Following the short presentation, each member has been provided with a specific worksheet analysis which will give a general idea of which tier your authority may fall, based on current loss information, rates and premiums collected.

Office Relocation

As you are aware, HARRP will be moving into its new office building soon. The rehabilitation began on August 4, 2008 and is projected to conclude in middle to late September. The building will be receiving new siding, new roof, extensive concrete walks and handicap ramps, resurfacing of parking and drive areas, replacement of several windows and fresh paint and carpet.

Unfortunately, contrary to first reports, HARRP will be unable to maintain the current phone and fax numbers. HARRP will develop and distribute an announcement providing all of the contact information for the new office in mid August as the construction processes provide a more accurate completion date.

Please be aware of the move and HARRP will do everything possible to make the transition easy for your authority's staff.

Knock, Knock, Boiler Inspector Calling

Since January, all properties covered by HARRP have an expanded coverage feature. They include free Equipment Breakdown coverage, which includes Boiler and Machinery. Our contractor, (Hartford Steam and Boiler inspectors) are knocking on many members' doors asking to inspect pressure vessels requiring inspections. The inspector's know where the pressure vessels are because they have access to your state's permit database.

In a few cases, they have found latent hazards, which if not corrected, can cause property damage and even bodily injury. The inspector is providing a valuable service to HARRP members. Welcome them when they knock on your door and give them access to your facilities.

We would really appreciate it if, upon changes to your housing authority, (i.e. key personnel, address, phone numbers, etc.) HARRP is notified. We need to make changes to mailing lists, labels and renewal data.