1. **Inflation Factor:** This factor is used to calculate the annual inflation protection option that, by law, is offered to subscribers. **The factor for Calendar Year 2021 is 2.0%**, as calculated by using the most recent 12 months of data from the US Bureau of Labor Statistics, Producer Price Indexes (**PPI**), Residential Construction Tables.

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| **2021 Inflation Factor Calculation** |
| **10/01/2020 10/01/2019** **Inflation Factor**  232 **-** 227.5 X 100 **=** 2.0 %  227.5  **10/01/2019** |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **10 YEAR MSI INFLATION FACTOR HISTORY** | | | | | | | | | |
| **2012** | **2013** | **2014** | **2015** | **2016** | **2017** | **2018** | **2019** | **2020** | **2021** |
| 2.2% | 3.8% | 3.9% | 2.0% | 0.0% | 0.6% | 4.1% | 7.0% | 0.0% | 2.0% |

1. **Premium Rates:** After reviewing the latest actuarial study MSI Management is proposing to the Board to cut the premiums by half. The new premium rates for Residential and Non-Residential policies would be calculated as follows: first $5,000 @ $0.0010/dollar and subsequent coverage @ $0.00025/dollar. Senior citizens discount remains at a 10% on their primary residence. (See the attached Rate Chart.)
2. **Claim Payment Deductibles:** No change is recommended to the current deductible, which the Board has established at $0.
3. **Incidental Costs:** No changes are proposed for the calculations of incidental cost payments but the Incidental Cost Table was adjusted up to $1,000,000 to the new proposed coverage limits. (See attached Incidental Cost Table.)
4. **Commission Rate:** No change is proposed to the commission rate that is used to determine the compensation paid to insurance producers for the sale of MSI policies, which is one half of the first year’s premium.
5. **Coverage Limits:** After reviewing the latest actuarial study MSI Management is proposing to the Board a change in the limits from $500,000 to $1,000,000 for both residential and non-residential policies.
6. **Loan and Grant Funding Limit:** The limit for FY 2021 shall be $1,163,937. The “Loan and Grant Funding Limit” formula, as established in 25 Pa. Code Chapter 401, is one percent of the “Unreserved Fund Balance” (0.01 x $116,393,682). NOTE: For the purpose of this calculation, the “Unreserved Fund Balance” is not reduced by the amount of “Reserves in Lieu of Reinsurance” as it is in the “Financial Performance” documents provided by the Comptroller’s Office. At the time when the “Loan and Grant Funding Limit” formula was developed, the “Unreserved Fund Balance” included the funds that are retained as “Reserves in Lieu of Reinsurance.” See the Budget Detail, Attachment 6, for proposed loan and grant spending for FY 2020.
7. **Reserves in Lieu of Reinsurance:** No change is proposed to the range of factors that are used to calculate the amount of reserves to be held in lieu of the purchase of reinsurance. The MSI Board has established that reserve factors within a range of $4.44 to $12.95 per $1,000 of “Underwritten Coverage” be used to maintain “Reserves in Lieu of Reinsurance” at levels that result in “Unreserved Fund Balances” of about $1 million. Rounded to the nearest penny, the factor used at the end of FY 2019 was $8.43, which is well within the established range.
8. **Premium Distribution:** A premium distribution is not proposed.
9. **Evaluation of MSI Claims for Fiscal Year 2019:** Annual report requested by the Board to evaluate and summarize MSI claim investigations.
10. **MSI Marketing:** Open discussing on possible marketing means of MSI to the public.