

ATTACHMENT 1

DRAFT MINUTES

**DRAFT MINUTES
COMMONWEALTH OF PENNSYLVANIA
COAL AND CLAY MINE SUBSIDENCE INSURANCE BOARD MEETING**

December 14, 2011

A meeting of the Mine Subsidence Insurance (MSI) Board (Board) was called to order at 10:00 a.m. on December 14, 2011, in the 10th Floor Conference Room of the Rachel Carson State Office Building, 400 Market Street, Harrisburg, Pennsylvania.

Board members present at the meeting were as follows: Thomas Callaghan, Director, Bureau of Mining Programs (BMP), Designated Chair for Michael Krancer, Secretary of the Department of Environmental Protection (DEP); Mark Lersch, Director, Bureau of Property and Casualty Insurance, Designated Representative for Board Member Michael F. Consedine, Commissioner of Insurance; and Jennifer Langan, Assistant Counsel, Designated Representative for Board Member Robert McCord, State Treasurer.

Also attending the meeting were John Small, Deputy State Treasurer for Cash Management and Investments, State Treasury, and the following DEP employees: William Cumings, Esq., Assistant Counsel; Jessica Shirley, Policy Office; Paul Pocavich, Chief, Division of Environmental Analysis and Support; Lawrence Ruane, MSI Program Administrator; Amy Berrios, BMP Administrative Officer; and Nicholle Harman, MSI Board Recording Secretary.

Issues discussed and actions taken at the meeting:

Call to Order/Approval of December 9, 2010 MSI Board Meeting Minutes

The Board reviewed, corrected and then unanimously approved the minutes of the December 9, 2010 Board Meeting.

Review of Operational and Financial Performance

The Board reviewed charts and graphs prepared by DEP and the Comptroller's Office that summarized the operational and financial performance of the MSI Program and MSI Fund (Fund). The performance of the Fund during Fiscal Year (FY) 2010 (July 1, 2010 through June 30, 2011) was typical for any FY over the past 10 years. During FY 2010, subscriptions rose from 57,774 to 57,856 and underwritten coverage rose from about \$8.5 billion to a little over \$9 billion. Premium income decreased from about \$5.5 million to about \$4.75 million, which was due to the combination of the residual effects of a permanent premium rate reduction and more significantly by a temporary reduction in premium income resulting from the one-time disbursement of premium back to subscribers. Although the number of claims paid at 14 was up slightly from 10 during the previous FY, the cost of claims decreased from \$462,082 to \$332,024. Both of those claim measures were down from the ten year average of about 16 paid claims at a cost of about \$565,000.

Review of Investment Performance

Mr. Small summarized the investments of the MSI Fund and explained that the Treasury invests MSI funds into short-term (Pool 99) and long-term (Pools 98 and 198) investments. Pool 99 short-term investments consist mostly of overnight bank deposits. They had an average daily rate of return of .26 percent and an average daily book value of about \$11.3 million. Pools 98 and 198 long-term investments include equities, bonds and securities. They had an average daily rate of return of 13.31 percent and an average daily book value of about \$70 million.

Business Issues and Actions Taken by the Board

Pursuant to its annual obligations to administer the MSI Fund, the Board unanimously took the following actions:

1. Authorized a coverage inflation factor, which provides a premium option that allows subscribers to maintain coverage at levels that keep pace with inflation, of 2.2 percent for calendar year 2012;
2. Made no changes to policy premium rates, coverage limits and insurance producer commission rates;
3. Authorized up to \$780,725 for loans and grants for projects that contribute to the operations of the MSI Program;
4. Established that reserves in lieu of reinsurance would continue to be maintained at \$7.43 for every \$1,000 of underwritten coverage; and
5. Did not distribute premium back to subscribers during FY 2012.

Reimbursement for Program Costs

The Board reviewed estimated costs for the administration of the MSI Program during FY 2012, which included contingencies for operations that would be required if significant subsidence activity occurred and costs associated with the continued development of Geographic Information Systems (GIS) to support the marketing of MSI coverage directly to those at risk. The Board then unanimously approved an expenditure of up to \$3,578,766 from the MSI Fund to reimburse DEP for administrative costs of the MSI Program during FY 2012.

Other Business, Next Meeting and Adjournment

The Board established that a special meeting will be held on April 10, 2012 to review the results of an actuarial study and that an annual meeting would be held on December 11, 2012. The meeting was adjourned at 11:05 a.m.

KEY OBLIGATIONS:

DEP will adjust the coverage inflation factor, which is used to calculate a premium option that allows subscribers to maintain coverage at levels that keep pace with inflation, to 2.2 percent on January 1, 2012.

**DRAFT MINUTES
COMMONWEALTH OF PENNSYLVANIA
COAL AND CLAY MINE SUBSIDENCE INSURANCE BOARD MEETING**

April 10, 2012

A meeting of the Mine Subsidence Insurance (MSI) Board (Board) was called to order at 10:00 a.m. on April 10, 2012, in the 10th Floor Conference Room of the Rachel Carson State Office Building, 400 Market Street, Harrisburg, Pennsylvania.

Board members present at the meeting were as follows: Thomas Callaghan, Director, Bureau of Mining Programs (BMP), Designated Chair for Michael Krancer, Secretary of the Department of Environmental Protection (DEP); Mark Lersch, Director, Bureau of Property and Casualty Insurance, Designated Representative for Board Member Michael F. Consedine, Commissioner of Insurance; and Jennifer Langan, Assistant Counsel, Designated Representative for Board Member Robert McCord, State Treasurer.

Also attending the meeting were John Wade, Pinnacle Actuarial Resources, Inc.; Ben Stieglitz, Pinnacle Actuarial Resources, Inc.; John Small, Deputy State Treasurer for Cash Management and Investments, State Treasury, and the following DEP employees: William Cumings, Esq., Assistant Counsel; Robert Altenburg, Policy Office; Edward Motycki, Chief, MSI Section; James Welsh, MSI Program; Drew Frost, MSI Program; Paul Pocavich, Chief, Division of Environmental Analysis and Support; Lawrence Ruane, MSI Program Administrator; Amy Berrios, BMP Administrative Officer; and Nicholle Harman, MSI Board Recording Secretary.

Issues discussed and actions taken at the meeting:

Call to Order/Approval of December 14, 2011 MSI Board Meeting Minutes

The Board was called to order and the Board determined that the minutes from the December 14, 2011 will be reviewed during the December 11, 2012 meeting.

Review and Discussion of Actuarial Analysis

Representatives from Pinnacle Actuarial Resources, Inc. presented their "Report on the Valuation of the Pennsylvania Mine Subsidence Insurance Fund, Actuarial Analysis as of December 31, 2011." After a discussion between the Board and the representatives from Pinnacle regarding the report and its recommendations, the Board considered modifications to the financial operations of the MSI Fund. Board Member, Mr. Lersch, also requested that Pinnacle provide information related to median claim amounts, which Pinnacle will provide.

Issues Under Consideration

In the meeting, the Board unanimously approved an overall 17.3% premium rate reduction, which is comprised of a 16.7% reduction in residential base rates, a 58.3% reduction in nonresidential base rates, and a 50% rate reduction for the initial \$5,000 of nonresidential coverage. The Board also unanimously approved that \$3,600 would be used as the initial reserve amount for a claim in both the Anthracite and Bituminous Coal Regions, that the maximum coverage rate would remain

at \$500,000 for any single loss and that the factor of \$7.43 per \$1,000 of Underwritten Coverage that has been used exclusively to calculate the amount of Reserves in Lieu of Reinsurance be replaced with a range of factors, which have a low benchmark of \$4.44 and a high benchmark of \$12.95, so that prudent reserves against losses are retained and an Unreserved Fund Balance of about \$1 million is maintained.

Other Business, Next Meeting and Adjournment

No other business was considered by the Board. The next meeting of the Board meeting will be its annual meeting, which will be held on December 11, 2012. The meeting was adjourned at 11:00 a.m.

KEY OBLIGATIONS:

Pinnacle will provide information regarding median claim amounts.

DEP will implement the change to the reserve amount as soon as possible, implement the premium rate reductions on July 1, 2012 and adjust the reserve factor as needed to meet the reserve objectives established by the Board.



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April 27, 2012

Lawrence V. Ruane
Administrator, Mine Subsidence Insurance Program
Division of Environmental Analysis and Support
Pennsylvania Department of Environmental Protection
Bureau of Mining and Reclamation
Rachel Carson State Office Building
P.O. Box 8461
Harrisburg, PA 17105-8461

Dear Mr. Ruane:

Enclosed is a supplemental report to our final report for the Pennsylvania Mine Subsidence Insurance Fund (MSI Fund) on the actuarial valuation of premium and outstanding liabilities as of December 31, 2011. This supplement is the result of a question from the Board of Directors representative from the Pennsylvania Department of Insurance. The Department was curious about median claim amounts in addition to the average claim amounts developed and utilized in our report.

The attached Exhibit shows our development of the median claim amount in each report year. The median claim amount varies from \$11,000 to \$61,000 across the 1997-2010 report years. We selected a median claim amount of \$25,000 to be reflective of all the report years. This compares to the \$45,000 average claim we selected in our initial study. Both selections reflect adjustment to ultimate development and adjustment for trend.

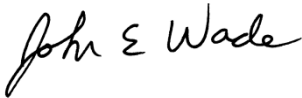
We do not recommend any changes to our report or our recommendations at this point. We feel the average claim amount is a better indicator of the MSI Fund's liabilities than the median claim amount. The impact of using one over the other is minor within the report itself. The claim amounts are used in calculation of the average reported reserve factor (Exhibit 9 of the original report), which in turn you might use to establish a portion of the liability you post to your financial statements. However, the actuarially calculated outstanding liability (Exhibit 1 of the original report) is dependent on methodologies independent of the average claim amount or the median claim amount. The median income therefore has no impact on our estimated liabilities.

This analysis also does not change the recommended range for Surplus to Coverage in Force benchmarks provided in the original report. That range remains at \$4.44 to \$12.95 per \$1000 of Coverage in Force. The following table summarizes key elements of the analysis.

Element	Average	Median
Selected Ultimate Trended Claim Amount	\$45,000	\$25,000
Reported Reserve Factor	\$3,600	\$2,000
Low Estimated Outstanding Liability	\$480,000	\$480,000
High Estimated Outstanding Liability	\$775,000	\$775,000
Surplus to \$1000 Coverage in Force Factors	\$4.44 - \$12.95	\$4.44 - \$12.95

Please contact me at (317) 889-5760 or by email at JWade@PinnacleActuaries.com if you have any questions.

Sincerely,



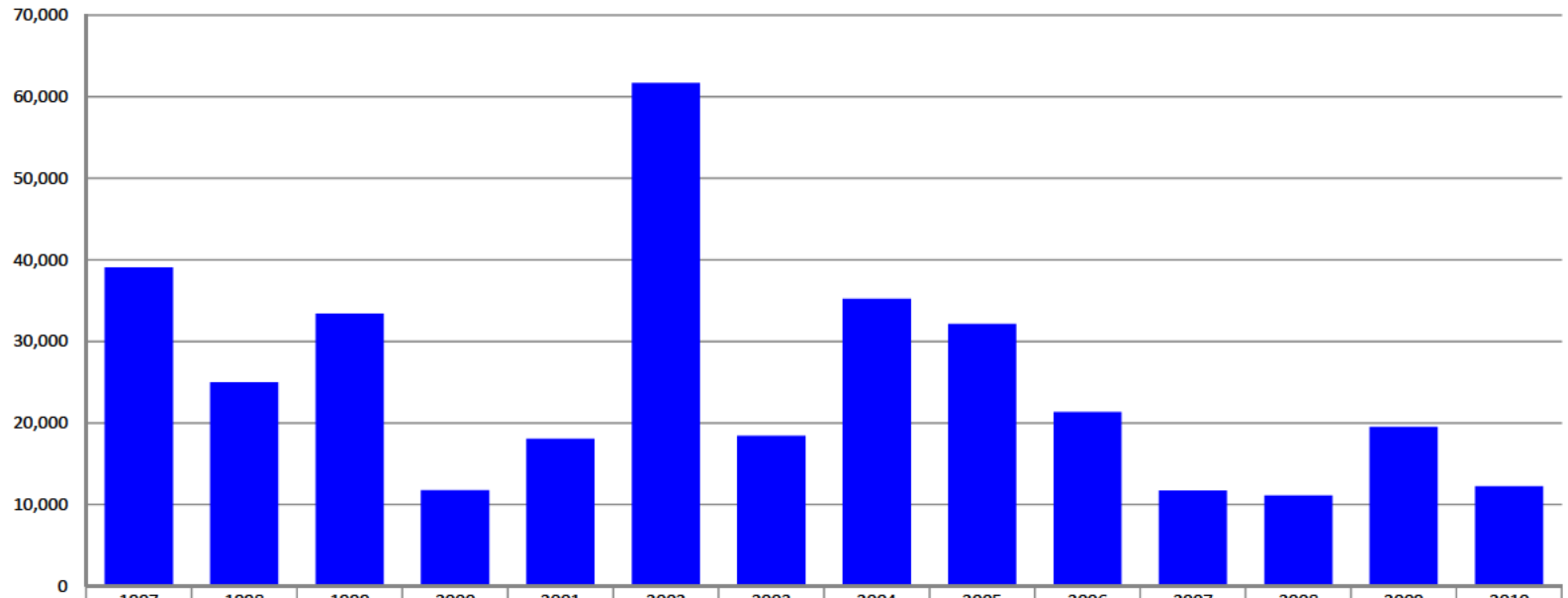
John E. Wade, ACAS, MAAA
Senior Consulting Actuary

Pennsylvania Mine Subsidence Insurance Fund 2011 Actuarial Review Estimated Average Median Claim Amount as of 12/31/2011				
Fiscal Report Year Beginning 7/1	Paid Claim Count	Median Claim Amount	Ultimate Median Claim Amount	Trended Ultimate Median Claim Amount
(1)	(2)	(3)	(4)	(5)
1997	14	23,769	24,238	39,076
1998	22	15,713	16,025	24,997
1999	13	21,703	22,136	33,412
2000	13	7,884	8,046	11,752
2001	15	12,498	12,768	18,044
2002	21	44,122	45,121	61,697
2003	9	13,600	13,922	18,420
2004	8	26,855	27,518	35,229
2005	25	25,281	25,931	32,122
2006	8	17,314	17,812	21,350
2007	18	9,668	10,083	11,694
2008	52	9,248	9,887	11,095
2009	16	16,290	17,985	19,529
2010	31	10,100	11,659	12,249
Total				
Average				25,047
Weighted Average				23,213
Selected				25,000

Notes:

- (2) Provided by MSI.
- (3) From MSI Claim Detail
- (4) Col (3) after adjustment for Ultimate Development Factor
- (5) Col (4) after adjustment for Trend Factor

**Pennsylvania Mine Subsidence Insurance Fund
Trended Ultimate Median Claim Amount**



■ Trended Ultimate Median	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
	39,076	24,997	33,412	11,752	18,044	61,697	18,420	35,229	32,122	21,350	11,694	11,095	19,529	12,249

Fiscal Year