MARSH

SOLUTIONS...DEFINED, DESIGNED, AND DELIVERED.

2018 US EDUCATION INSURANCE MARKET UPDATE WEBCAST

February 13, 2018

Jean Demchak, Paul Sherbine, Mark Turkalo,
David Letzelter, Ken Simek

MARSH & McLENNAN COMPANIES

Jean Demchak, Managing Director Global Education and Public Entity Practice Leader

Jean has a career-long focus on higher education and the public entity sector, with 35 years of industry experience. She has been with Marsh for 31 years and is the senior relationship officer for all education and public sector accounts. Jean is responsible for identifying and responding to the emerging issues facing schools and public entity clients and developing and customizing specialized services to meet their needs. She serves as liaison with the marketplace as well as with key organizations in the higher education industry.

Phone: 860 723 5635
Email: jean.demchak@marsh.com

Agenda

- ➢Introduction/panel overview.
- ➢The market information resources/insurer financial review.
- ➢Casualty market, including professional liability update:
  - ✓ Higher education.
  - ✓ Primary and secondary schools.
- ➢Property market update:
  - ✓ Higher education.
  - ✓ Primary and secondary schools.
- ➢The Affordable Care Act and the impact on the education sector.
- ➢Q&A.

Marsh Panel Overview

Paul Sherbine, Managing Director
Market Information Group

As leader of Marsh’s Market Information Group, Paul is responsible for the analysis of the insurers Marsh clients use worldwide. He assists clients in assessing the relative strengths or weaknesses of various insurers when structuring their programs. In addition, he makes oral and written presentations to clients and prospects on the importance and methodology of insurer financial analysis.

Paul has been the featured speaker to industry trade groups and other interested parties on Marsh’s Market Information Group and the financial standing of the insurance industry in general. Prior to joining Marsh in 1986, Paul was a financial analyst with A.M. Best Company.

Phone: 212 345 0090
Email: paul.f.sherbine@marsh.com

Marsh Panel Overview

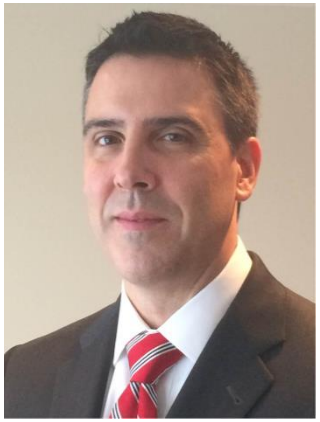
Mark Turkalo, Senior Vice President
Education and Public Entity Placement Leader

Mark is a senior placement specialist in charge of placing all new and renewal business for the education sector, including public and independent K-12 schools, vocational and technical schools, community and state colleges, and private and public higher education institutions.

Mark's responsibilities include insurance risk evaluations for Marsh's education clients as well as determination of the best possible risk transfer mechanisms. His background includes placement of public entity specialty industry programs. Prior to joining Marsh in 1993, Mark held several underwriting positions for 10 years, specializing in national accounts, cash flow programs, captives, and other risk financing techniques.

Phone: 212 345 5250
Email: mark.j.turkalo@marsh.com

Marsh Panel Overview



David Letzelter, Senior Vice President
US Property Practice, Pittsburgh Leader

As a senior property advisor, David provides clients with advice on program design, marketing, and strategy as well as guidance on technical aspects of large-limit property programs.

Among David's areas of expertise is finding solutions for clients in higher education on layered and quota share programs, captive use, and alternative risk finance. In addition, his consultation with colleges and universities represents more than $120 billion in insured values.

David joined Marsh in 1996 and currently also serves as the property practice leader for the Marsh's Pittsburgh office.

Phone: 412 552 5128
Email: david.l.letzelter@marsh.com

Marsh Panel Overview

Ken Simek, Partner
Mercer Consulting

Ken is a partner in Mercer's Chicago office and has been with Mercer for more than 20 years. He has more than 25 years of substantial consulting and engagement management experience in human resources strategy, compensation strategy and design, benefits strategy, benefits administration and process, human resources technologies, and benefits outsourcing.

As leader of Mercer's higher education industry practice, Ken is responsible for coordinating, managing, and leading client and market strategy and consulting services for all of Mercer's more than 400 higher education clients. Ken also spearheads a private university networking group consisting of 10 institutions that meets throughout the year to analyze issues and share information.

Phone: 312 917 9618
Email: ken.simek@mercer.com

2017 Third Quarter Results
Market Reactions to Record Losses

Paul Sherbine

2017 Third Quarter US Results

- The combined ratio was104.4%.
- Net premiums increased 4.5%, to $426 billion.
- Underwriting losses rose to more than $20 billion from about $2.3 billion as of September 2016.
- Policyholder surplus rose 2.7 %, to $741 billion from year end 2016.
- Net income was down 26%, to $23 billion, from prior-year period.
- Catastrophes added 9.8 points to the combined ratio in 2017, compared to 5.4 points in 2016.
- Net investment income increased $2 billion.
- Favorable loss reserve development lowered the combined ratio by 2 points, the same as in 2016.

Third Quarter 2017 Results — All About the CATs

- Reports from catastrophe modeling firms on the losses from Harvey, Irma, and Maria are all over the board.
- Harvey estimates range from $7.5 billion to $11.5 billion (Corelogic), >$10 billion (AIR), $15.4 billion (Karen Clark & Co), $25 billion- $50 billion (RMS).
- Irma estimates range from $22.5 billion to $25 billion (Corelogic), $25 billion (Karen Clark & Co), $32 billion -$50 billion (AIR), $35 billion- $55 billion (RMS).
- Maria estimates range from $15 billion to $30 billion (RMS), $30 billion (Karen Clark & Co), $40 billion - $65 Billion (RMS).
- The first estimate for California wildfires is $7.5 billion (PCS).
- Aggregated, these losses could go from $52.5 billion to $ 177 billion — quite a range.
- Most analysts are targeting $75 billion to $125 billion, which would be one of the worst years for US/Caribbean catastrophes.

Major Leaders in Catastrophe Losses

- Lloyd's: $3.8 billion without per hurricane breakout.
- Swiss Re: $3.6 billion without per hurricane breakout.
- AIG: $3.15 billion, with Harvey ($1.2 billion), Irma ($1.1 billion), Maria ($700 million), and Mexican earthquake ($150 million).
- Berkshire Hathaway: $3 billion without per hurricane breakout.
- Munich Re: $2.7 billion without per hurricane breakout.
- Chubb: $1.893 billion, with Harvey ($650 million), Irma ($891 million), Maria ($220 million), Mexican earthquake ($25 million), and others ($107 million).
- Liberty Mutual: $1.79 billion without per hurricane breakout.
- XL Catlin: $1.48 billion with Harvey ($370 million),Irma ($592 million) Maria ($370 million), and others ($148 million).
- Citizens Property: $1.23 billion for Irma.
- Everest Re: $1.2 billion without per hurricane breakout.

Major Leaders in Catastrophes Losses

- Fairfax: $1.01 billion without per hurricane breakout.
- Talanx Germany: $1 billion without per hurricane breakout.
- Allstate: $861 million without per hurricane breakout.
- Zurich: $717 million without per hurricane breakout.
- Travelers: $700 million without per hurricane breakout.
- Axis: $617 million without per hurricane breakout.
- Sompo: $616 million without per hurricane breakout.
- Renaissance re: $615 million without per hurricane breakout.
- QBE: $600 million without per hurricane breakout.
- SCOR: $598 million without per hurricane breakout.
- Markel: $503 million without per hurricane breakout

Total Industry Third Quarter 2017 Catastrophe Estimates

- During the third quarter, total catastrophe loss estimates were about $39 billion.
- Why the big discrepancy from modeling firms?
  - Many local Puerto Rican insurers have not announced losses, as theirs is a locally driven insurance arena.
  - Many alternative capital providers, being privately held, do not publish what they expect to pay unless good news.
  - Certain insurance executives see historic development on their original estimates in prior years being significantly higher than initial estimates. Being within 20% of ultimate loss is considered doing a good job.
  - The wide variability of estimates shows there is much to be fleshed out in coming months/years. One thing that’s for sure: the bar will do well.

How Will This Change Current Marketplace?

- Anyone who says they know what will happen is mistaken. Too many variables to consider. Among them are:
- Alternative reinsurance capital is not shying away from marketplace to date.
- Global insurance/reinsurance capital base can easily withstand losses in the $100 billion dollar range.US surplus alone was $735 billion in June.
- January 1, 2018, reinsurance renewals will give a good idea of how painful recent losses were to this part of industry.
- CAT bond market continues to trade, suggesting that pricing uncertainty is disappearing.
- Some companies will change their reinsurance buying strategy.
- One major group has already announced a shift in buying strategy. Guess who?

AIG: New Management, New Strategy, Again

- AIG reported a third quarter after-tax loss of $1.7 billion. Catastrophes were expected but…
- AIG reported adverse loss reserve development on 2016 accident year of $836 million pre-tax, primarily in commercial long-tail lines. This was not expected. No Wall Street analyst saw this coming.
- After reviewing 80% of these reserves, and based on adverse reserve development on these immature lines, AIG also raised loss estimates for 2017 accident losses.
- With a new CEO in 2017:
  - AIG has no need for any earnings drag for 2018.
  - AIG is undergoing a lot of changes. Considering large loss, analysts give management benefit of the doubt. Results for 2018 are very important now.
- No rating agency actions, so they sit and wait.

What Is AIG's Path to Success Now?

- New head of commercial PC business, new head of international PC business, and new head of US Canada PC business.
- Business is now two sides: PC and life/ retirement. Consumer title gone.
- Stock buybacks and dividend increases will be curtailed. No more cut to growth.
- More responsibility back in regions from COE. 2018 is "The Year of the Underwriter."
- Change in reinsurance buying. AIG had no reinsurance protection for any of the catastrophes, as attachment points were $1.5 billion per event. This will change in 2018.New reinsurance buyer hired in 2017.
- Technology push still part of the strategy. New head of this area.

A Shift In Priorities in 2017

- On January 22, 2018, AIG announced a $5.56 billion offer to acquire Validus Holdings, an insurance group primarily in reinsurance, Lloyd's, specialty lines (Western World Insurance), and crop insurance.
- This is the first move by senior management to grow the firm instead of repatriating cash to shareholders. On taking the CEO job, Duperreault said he means to grow AIG, not shrink it.
- Very little overlap, as AIG sold its reinsurance and Lloyd's operations and has no crop program.
- The last of the Bermuda class of 2005 went for a significant premium over book value.
- Part of the premium paid is belief by AIG new tax law will increase loss carryforward offsets with Validus income.
- New tax law also hurts Bermuda companies not filing US taxes. Could be more coming in the near future.

Casualty Education Market Update

Mark Turkalo

Education Segments

- Colleges and Universities
  - →Public
  - →Private
  - →Doctoral Research Institutions
  - →Consortia
- Primary and Secondary
  - →Public K-12 School Districts
  - →Independent Schools
- Other Educational Services
  - →For-Profit Institutions
  - →Education-Related Human/Social Services
  - →Charter Schools
  - →Vocational Schools
  - →Technical Schools

Higher Education

- Overall, stable market but remains firm — focus on coverage, service, and price for all core exposures in the primary, lead, and excess layers.
- Severity of loss trends continue: Wrongful death claims, discrimination, drowning, law enforcement, registered student organizations, fraternities and sororities, special events on and off campus.
- Disciplined underwriting: Concern regarding athletics, concussion management, use of drones, autonomous vehicles, student transport, and sexual assault claim activity.
- Internship programs, student volunteers, EMTs, and professional services (financial, legal, engineering programs).
- Summer sports camps at facilities and certificate requirements for SML coverage.

Higher Education

- Transportation service providers — MVR reviews.
- Study abroad programs growing with increased litigious legal environment.
- International travel:
  - →Local underlying policies DIC/DIL capacity.
  - →Chaperones, host families (background checks).
  - →Defense Base Act.
  - →USL&H: Research vessels.
- Presumptive injury claims continue to rise in workers' compensation for police and firefighters.
- Excess workers' compensation rates have stabilized; two-year agreements and policies are available.
- Excess capacity is available.

Higher Education

- Drones: Expansion to provide coverage for UAVs less than 55 lbs. for other than educational/research purposes with no sublimit on the excess.
- Impact of recent National Labor Relations Board decision granting employment status to graduate students and unionization.
- Immunity caps and status of limitations.
- Increased attention to ERM.
- Markets willing to manuscript coverage.
- Emergency preparedness and crisis response: coverage triggers differ among carriers (number of days to report).
- Exclusive benchmarking: *EPEDS*

Higher Education: Key Coverage and Issues to Consider

- Lead umbrella capacity: Fewer markets provide more than $10 million.
  → UE: $40 million liability and $40 million educators legal.
  → AIG/Lexington: Cutting back $25 million <u>and</u> with TBI/CTE exclusion.
- TBI/CTE: What is the future?
  → Chubb, Lexington, Navigators: Excluding TBI/CTE and requiring minimum attachment points on excess.
- USL&H self-insured status:
  → Excess workers' compensation policies can provide coverage but pay only state benefits.
  → For federal benefits (and to avoid possible fines), either apply to be self-insured for USL&H or obtain a guaranteed cost USL&H policy ($10,000 minimum premium).
- Decline of the for-profit market segment: Trump administration may scale back regulations.
- More marketing? More questions.

Other Education Risks: Market Concerns

- Alcohol / binge drinking
- Active shooter
- Agricultural products
- Autonomous vehicles
- Campus construction risk
- Background screenings
- Campus violence, crisis communications, and disaster planning
- E-Risk (cyber/network security liability)
- Daycare centers on campus
- Environmental
- Healthcare clinics
- Minors on campus
- Pandemic
- Protests on campus
- Off-campus housing
- Vehicle operations (15-passenger vans) and fleet safety
- Sanctuary campuses
- Student rights (FERPA)
- Summer camps

Higher Education Indicators

- **General liability** rates continue to increase due to severity, averaging in the low single- to sometimes low double-digit range. Exposure from athletics, student assaults, Title IX, 15-passenger van related accidents, date rapes, fan violence, excessive force by police, pool-related fatalities, suicides, sexual abuse, hazing, and violent acts on and off campus continue to rise.
- **Traumatic brain injury (TBI)** exposure will continue to be underwritten separately and given more scrutiny by all markets regarding intercollegiate football and other sports. A supplemental warranty application from United Educators remains mandatory; and all institutions are required to complete a concussion awareness training or education programs for coaches, athletic trainers, and medical staff.
- **Sexual molestation** claims stemming from childcare operations, summer sport camps, campus housing, fraternities, sororities, and athletics continue to discourage many insurers from offering these essential coverages in the primary, lead, and excess layers. Monoline coverage is available on a limited basis.
- **Drones (UAVs)** policy wording has been expanded to clarify and provide coverage grants in this area focused on educational and research activities.

Higher Education Indicators

- **Educators legal liability (T&O, E&O, and EPL)**: After a few years of stabilization, claims in the nonprofit education segments are increasing in severity; retentions and pricing may need to adjusted. Claim development continues — Title IX, discrimination and reverse discrimination, harassment, and failure to promote. Court cases are pending for special education needs and transgender accommodation.

- **Cyber** exclusions addressing bodily injury and physical damage arising out of access or disclosure of confidential or personal information: Amendments are available. These type of damages were not intended to be covered by general liability as emotional distress claims remain the greatest concern. AIG and Beazley are competitive.

- **Excess workers' compensation:** The market remains tight, but large rate increases have diminished. Ten years of loss experience is still required, and increased retentions are still being considered. Presumptive injury claims for police and fire are prevalent. Multiyear agreements and policies are available to signal a potential softening environment.

Insurance/Reinsurance Marketplace

- **AIG**
- **Allianz**
- **Allied World**
- **Arch**
- **Aspen**
- **AXIS**
- **Beazley**
- **Berkley**
- **Berkshire**
- **Brit**
- **Chubb**
- **Church Mutual**
- **CNA**
- **Crum & Forster**
- **Genesis**
- **Great American**
- **GuideOne**
- **Hanover**
- **Hartford**
- **Hiscox**
- **Liberty/LIU/Ironshore**
- **Lloyd's Syndicates**
- **Markel (WSI)**
- **Midlands**
- **Midwest Employers**
- **Munich Re**
- **Navigators**
- **Old Republic**
- **One Beacon**
- **Philadelphia**
- **PMA**
- **QBE**
- **Safety National**
- **Sentry**
- **Sompo**
- **Swiss Re**
- **Travelers**
- **United Educators**
- **Westchester**
- **XL Catlin**
- **Zenith**
- **Zurich**

Higher Education Rates

- General liability: Flat to 10% increase.
- Automobile liability: Flat to 9% increase.
- Workers’ compensation: Flat to 10% increase.
- Excess workers’ compensation: Flat to 7% increase.
- Educators legal liability: Flat to 10% increase.
- Lead umbrella: Flat to 5% =>10% increase.
- Excess umbrella: Flat to 5% increase.
- Foreign package: Flat to 5% increase.

Primary and Secondary Education

- Stable but remains firm.
- More carriers interested.
- Integrated programs and pools dominate public K-12.
- Guaranteed cost options available.
- Capacity available up to $10 million.
- Budget restrictions, reduction in staff = various results.
- Overall poor underwriting experience = volatility.

Primary and Secondary Education

- Rates:
  - →General liability: Flat to 10% increase.
  - →Automobile liability: Flat to 9% increase.
  - →Law enforcement liability: Flat to 10% increase.
  - →School board legal liability: Flat to 9% increase.
  - →Lead umbrella: Flat to 10% increase.

- Key Points / Conclusion:
  - →Become acquainted with alternative forms and coverage.
  - →Balance the value drivers between coverage, price, and service.

Property Education Market Update

David Letzelter

Property Market Conditions

- Looking back, most buyers of property insurance have enjoyed three to four consecutive renewals where the market was competitive and allowed them to purchase broader coverage and/or lower deductibles at reduced rates.
- In 2017, hurricanes Harvey, Irma, and Maria (H.I.M.) contributed to one of the worst natural catastrophe insured loss years ever.
- Insured losses in excess of $14 billion attributable to wildfires in 2017 smashed past record amounts for a given year.
- With mounting losses, the National Flood Insurance Program (NFIP) has had to rely on short-term extensions enacted by Congress to continue.
- Prior to September 2017, we anticipated that market reductions would begin to slow and move closer to flat following nearly 16 quarters of consecutive rate reductions on our portfolio. The events of 2017 could potentially hasten a firming of the market, especially for specific industries and accounts with loss frequency and/or heavy CAT exposure.
- Broad market rate reductions in the near future are doubtful; however, the variability of recent results indicates programs are being underwritten largely on their own merits.

P&C Policyholder Surplus and Past Catastrophes

Q2 2017 Policyholder Surplus
$735.1 billion

COSTLY US CATASTROPHES

HURRICANE KATRINA, WILMA

$73 billion
2005 full year Estimated US Insured Property Loss

$551 billion
2005 P&C Policyholder Surplus

13.2%
Property Loss as a Percentage of Surplus

SEPTEMBER 11 TERRORIST ATTACKS

$32.5 billion
2001 full year Estimated US Insured Property Loss

$374.3 billion
2001 P&C Policyholder Surplus

8.7%
Property Loss as a Percentage of Surplus

HURRICANE ANDREW

$17 billion
August 1992 Estimated US Insured Property Loss

$200.5 billion
1992 P&C Policyholder Surplus

8.5%
Property Loss as a Percentage of Surplus

HURRICANES HARVEY, IRMA, MARIA

$76 billion
December 2017 early estimate

$735.1 billion
Q2 2017 P&C Policyholder Surplus

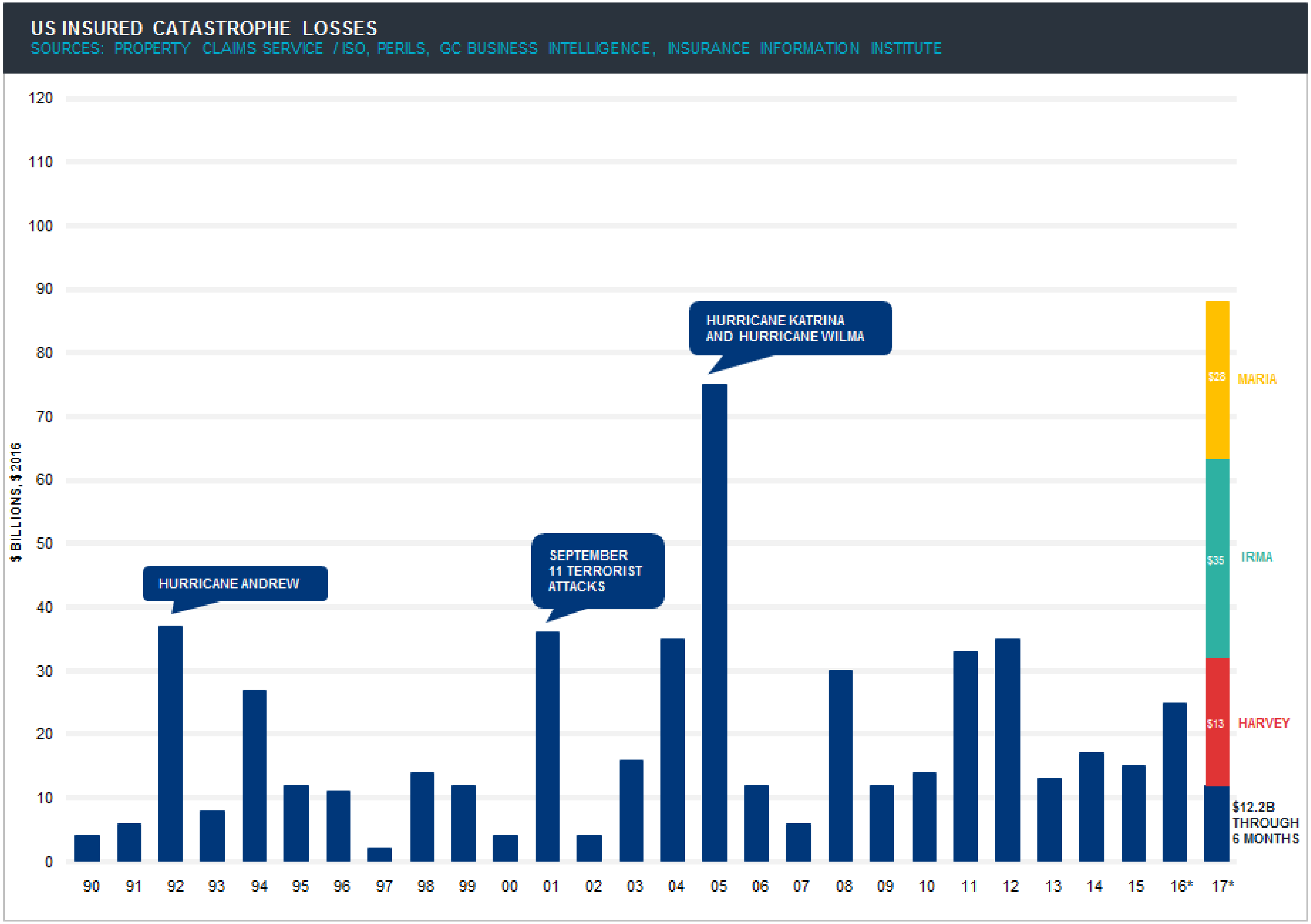
10.4%
Property Loss as “ Percentage of Surplus

Harvey, Irma, and Maria losses are preliminary estimates subject to significant uncertainty.

Note: Property loss and surplus totals represent dollars when occurred.

Sources: AM Best, 2017 Munich Re, Geo Risks Research, NatCatSERVICE as of February 2017, Insurance Information Institute, GC Business Intelligence,

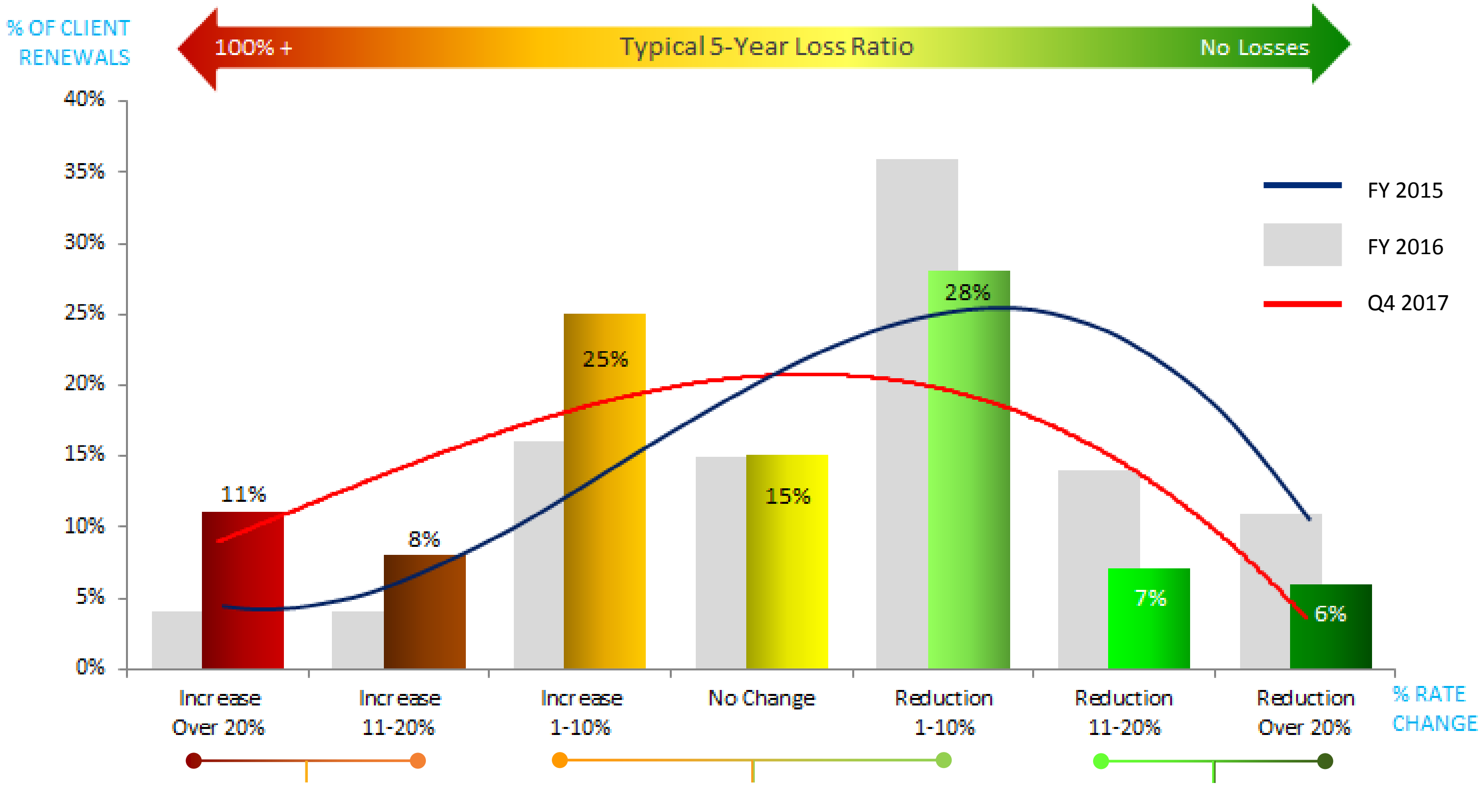
US Insured Catastrophe Losses 1990-2017



2013, 2014 and 2015 were welcome respites from 2011 and 2012, which were among the costliest years for insured disaster losses in the US. 2017 is now shaping up to be one of the worst on record.

**2016 and 2017 subject to change*

US PROPERTY RATE CHANGE BENCHMARKING
Q4 2017 Results



Significant INCREASE Examples

- Clients with adverse loss history.
- Insureds with significant CAT exposure or CAT losses.
- Renewals later in Q4.
- Challenging risks – e.g., frame habitational.

Nominal Change Examples

- Slight increase: Insureds with CAT exposure but no losses and larger programs (TIV > $5B).
- No change: Insureds with TIV < $5B.
- Renewals with multiple carriers quoting single carrier programs or a surplus of capacity in layered programs

Significant DECREASE Examples

- Renewals earlier Q4.
- Single insurer placements with multiple carriers quoting.
- Clients with an LTA or coming off a prior LTA that did not have market reductions.
- Special situations – e.g., large loss coming off the 5-yr record; large increase in values.

Q4 HIGHLIGHTS

- Significant variability within the results indicative of programs being underwritten on their individual merits.
- Nearly 1 in 5 (19%) insureds saw rate increases greater than 10%.
- 13% of renewals included a rate decrease greater than 10%.
- Overall, 44% of insureds experienced a rate increase, the greatest proportion since Q4 2013.
- 41% of clients had a rate decrease, the lowest share since Q4 2013.
- The average change for all clients was a 4.1% rate increase.
- Average rate changes:
  - Non-CAT: +4.1%
  - High-CAT: +5.4%
- Terrorism was purchased by 63% of clients.

Additional Considerations

- Flood risk is being closely scrutinized by underwriters.
- Underwriters are reviewing catastrophe deductibles for areas with higher hazard exposure.
- Programs with attritional loss activity will be more challenged than in prior years.
- Midwest convective storm model results may influence pricing and terms.
- Quality of data submitted for underwriting remains a focal point.
- January 2018 treaty renewal results better than projected by some.
- Influence of alternative capital remains steadfast.
  → Marsh Alternus.
- Very few insurers are considering multiyear policies at this time.

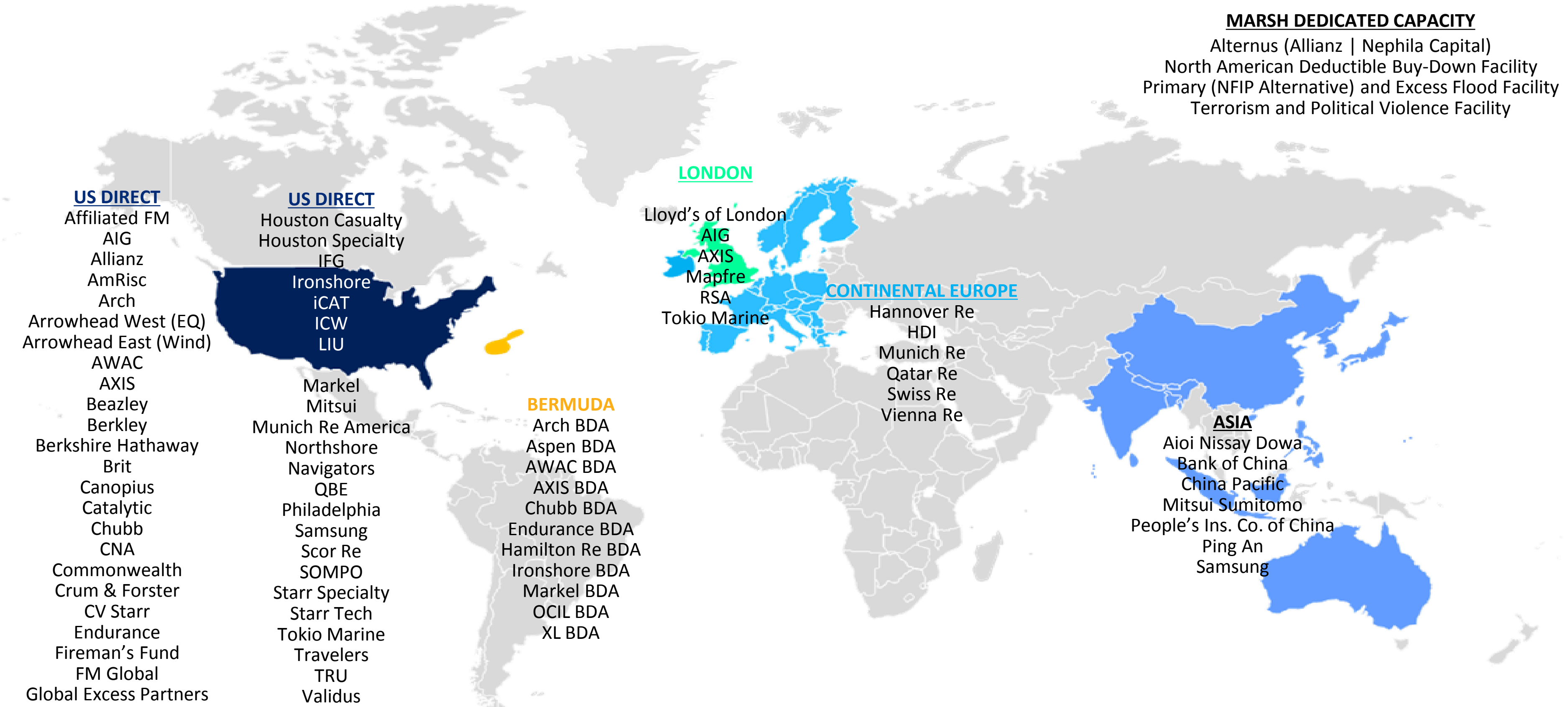
What to Expect

- Underwriters to maintain a disciplined approach.
- Increased scrutiny around the following:
  - → All flood coverage, including high hazard (SFHA/100 year flood zones) flood limits.
  - → High hazard (SFHA/100 year flood zones) flood deductibles.
  - → Named windstorm.
  - → Definitions of catastrophic perils.
  - → Convective storm and/or tornado/hail deductibles.
  - → Service interruption.
  - → Definition of occurrence.
  - → Cyber coverage afforded in property programs.

How to Prepare

- Start the renewal process early.
- Consider marketing programs that are not on a long-term agreement.
- Review past five years historic renewal experience.
- Enhance quality of underwriting data.
- Use CAT modeling (RMS 17.0) where meaningful natural catastrophe hazard exists.
- Provide a summary of lessons learned and mitigation actions from previous losses.
- Continue monitoring market conditions.
- Review alternative program solutions
  - → Difference-in-Conditions (DIC).
  - → Fine arts.
  - → Multiyear single limit (MYSL) programs.
  - → Inland marine.

Property Insurance and Reinsurance Marketplace



MARSH DEDICATED CAPACITY

Alternus (Allianz | Nephila Capital)
North American Deductible Buy-Down Facility
Primary (NFIP Alternative) and Excess Flood Facility
Terrorism and Political Violence Facility

US DIRECT

Affiliated FM
AIG
Allianz
AmRisc
Arch
Arrowhead West (EQ)
Arrowhead East (Wind)
AWAC
AXIS
Beazley
Berkley
Berkshire Hathaway
Brit
Canopius
Catalytic
Chubb
CNA
Commonwealth
Crum & Forster
CV Starr
Endurance
Fireman's Fund
FM Global
Global Excess Partners
Great American
Hanover

US DIRECT

Houston Casualty
Houston Specialty
IFG
Ironshore
iCAT
ICW
LIU
Markel
Mitsui
Munich Re America
Northshore
Navigators
QBE
Philadelphia
Samsung
Scor Re
SOMPO
Starr Specialty
Starr Tech
Tokio Marine
Travelers
TRU
Validus
XL Catlin
Zurich

BERMUDA

Arch BDA
Aspen BDA
AWAC BDA
AXIS BDA
Chubb BDA
Endurance BDA
Hamilton Re BDA
Ironshore BDA
Markel BDA
OCIL BDA
XL BDA

LONDON

Lloyd's of London
AIG
AXIS
Mapfre
RSA
Tokio Marine

CONTINENTAL EUROPE

Hannover Re
HDI
Munich Re
Qatar Re
Swiss Re
Vienna Re

ASIA

Aioi Nissay Dowa
Bank of China
China Pacific
Mitsui Sumitomo
People's Ins. Co. of China
Ping An
Samsung

TERRORISM

Lexington
Lloyd's of London
Validus
XL

REINSURANCE

Aspen Re
Everest Re
Liberty Mutual / Burt & Sheld
Munich Re
Paris Re
QBE Re
Sompo
Swiss Re
Transatlantic Re
White Mountains Re
XL Re

WHOLESALE

ACE Westchester
Arch Specialty
Argonaut E&S
Aspen Specialty
Avondale E&S
Berkley E&S
Catalytic E&S
CNA E&S
Chubb Custom
Colony E&S
Diamond State E&S
Endurance E&S
GenStar E&S
Hallmark E&S
Hiscox E&S
iCAT E&S
IFC E&S
James River E&S
Kinsale E&S
Liberty E&S
Markel E&S
Maxum E&S
RLI E&S
Rockhill E&S
RSUI E&S
Scottsdale E&S
Sigma E&S
SRU E&S
Steadfast E&S
Swiss Re E&S
Windward E&S
WKF&C E&S
XL E&S

Health & Benefits

Ken Simek, Mercer

Health and Benefit Changes

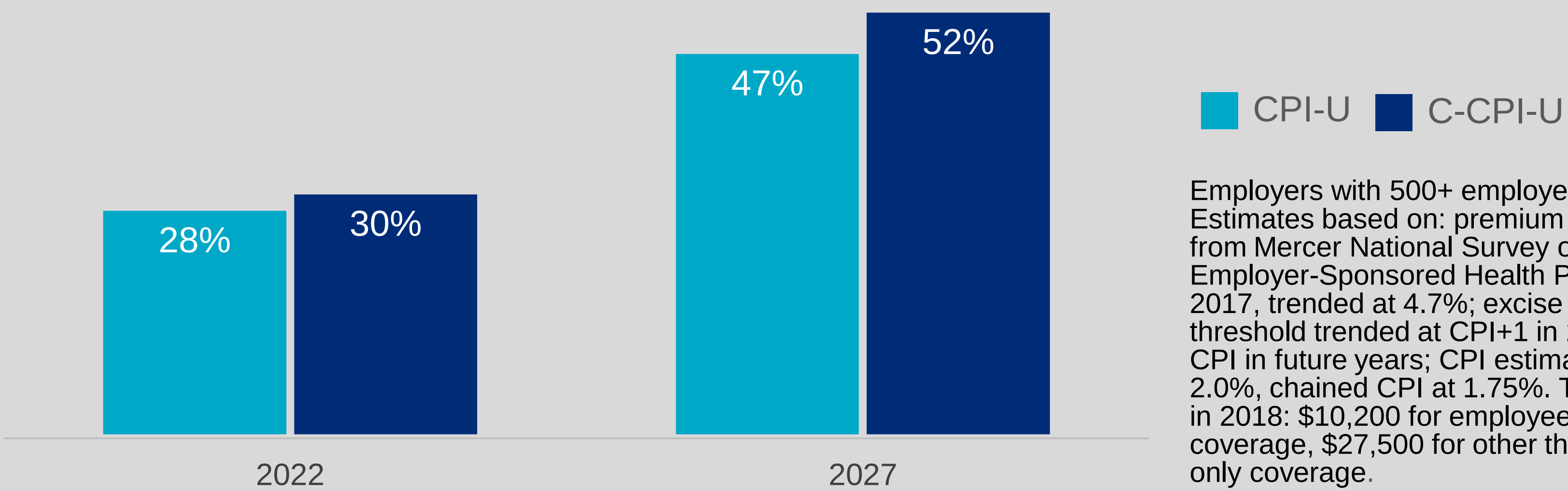
Tax Reform

1	**Penalty for individual mandate repealed effective 2019**
2	**Change in inflation index to chained CPI-U**
3	**New tax credit for paid family and medical leave for 2018 and 2019 only**
4	**Changes to taxation of qualified transportation plans**

CADILLAC TAX DELAY / INFLATION INDEX CHANGE MORE EMPLOYERS SUBJECT TO TAXATION

- Cadillac tax thresholds are indexed for inflation — tax law replaces original Consumer Price Index (CPI-U) with chained Consumer Price Index (C-CPI-U).
- Expect smaller annual indexing increases — over time, more employers will be subject to Cadillac tax.

Percentage of employers that will be subject to tax if they make no changes to their current plans



Employers with 500+ employees; Estimates based on: premium costs from Mercer National Survey of Employer-Sponsored Health Plans 2017, trended at 4.7%; excise tax threshold trended at CPI+1 in 2019 and CPI in future years; CPI estimated at 2.0%, chained CPI at 1.75%. Threshold in 2018: $10,200 for employee-only coverage, $27,500 for other than self-only coverage.

2018 Health Care Legislative Outlook

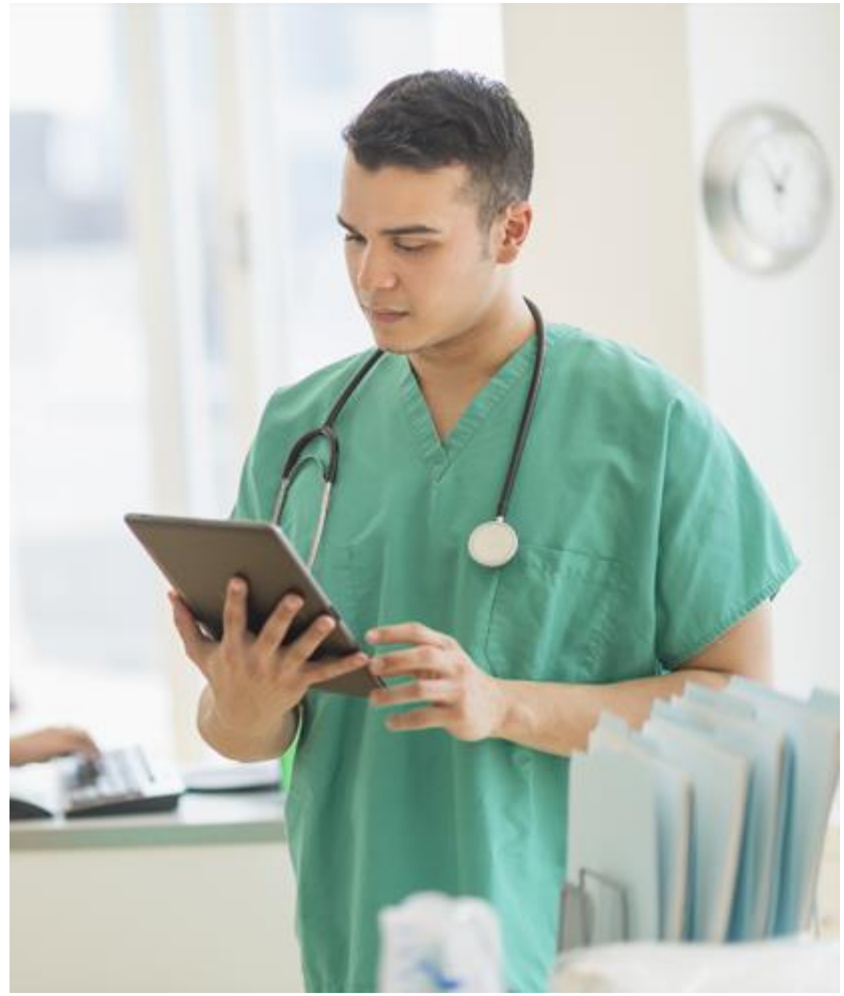
- Cadillac tax delayed to 2022 in government spending deal.
  - Medical device tax also halted for 2018 and 2019; "HIT" tax suspended for 2019.
- Individual market stabilization a goal for GOP moderates, Democrats.
  - Restore funding for cost-sharing subsidies, help states with reinsurance programs.
  - Additional state flexibility under ACA Section 1332 waivers.
- Employer ACA relief, HSA improvements proposed.
  - Retroactive relief from ACA employer mandate, full repeal of mandate.
  - Streamlined employer reporting (IRS Forms 1094 and 1095, B and C series).
  - Extensive list of potential HSA improvements includes higher contribution limits.
- Major ACA, entitlement changes not expected.
  - Health care fatigue, looming elections, lack of GOP Senate votes.
- More scrutiny for drug prices with Alex Azar at helm of HHS.
  - But enactment of legislation unlikely.

Employer Shared Responsibility
What Should Employers Do Now?

1. Complete 2017 reporting
   - Deadline extended to **March 2** for providing individual statements (Forms 1095 B/C)
   - File 1094/1095s with IRS by **Feb 28** (by paper) or **April 2** (electronically)
   - Good-faith standard extended for 2017 reporting
   - Lessons learned from 2015 assessment letters?
2. Respond to any 2015 assessment letters (Letter 226J)
3. Continue gathering data for 2018 reporting due in 2019
   - Probably won’t have good-faith standard for 2018 reporting

Some Uncertainty for Wellness Plans

- Rules permitting 30% incentives for physical exams or health screenings vacated effective Jan. 1, 2019 (*AARP v. EEOC*).
- EEOC could issue new rules or appeal.
- Employers should prepare for 2019:
  - Eliminate biometric screenings and health risk assessments?
  - Eliminate incentives/find other ways to encourage participation in biometric screenings and HRAs?
  - Use multicomponent program with incentives?



Final Disability Rules for ERISA Plans

- Rules apply to:
  - Claims made after April 1, 2018.
  - ERISA plans making disability determinations (that don't rely on TPA).
- Rules require:
  - Additional disclosures in denial notices.
  - New claimant response rights during appeals.
  - Enhanced independence and impartiality throughout the claim process.
- Employers should:
  - Determine which plans are subject to the new rule.
  - Work with carriers and/or TPAs to review and assess compliance strategies.
  - Review and update plan documents and SPDs or SMMs.
  - Review and update claims and appeal procedures and notices.

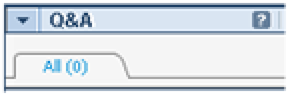
QUESTIONS

*1 For Telephone Questions

or

To submit a question while in full-screen mode, use the Q&A button on the bottom right-hand side of your screen.

To submit a question while in half-screen mode, use the Q&A tab on the bottom right-hand side of your screen.



<u>We are very interested in your opinion!</u>

We will be circulating a replay link and copies of the slides.

Please remember to take our survey when you receive the follow-up email to confirm:

- Did the presentation meet your expectations?
- Did you find it informative?
- What you would like to see covered in future presentations?