

MINUTES OF THE MEETING
THE FLORIDA BIRTH-RELATED
NEUROLOGICAL INJURY COMPENSATION ASSOCIATION

August 30, 2018
Orlando Airport Hyatt
Orlando, Florida

EXECUTIVE SESSION

The Executive Session of the August 30, 2018 meeting of the Board of Directors of the Florida Birth-Related Neurological Injury Compensation Association was called to order by Charlie Lydecker.

Present and constituting a quorum were:

Charlie Lydecker
Bryan Anderson
Steven Dukes, M.D.
Marcos Lorenzo, M.D. (by phone)
Robert White (by phone)

Also present:

Kenney Shipley, NICA Executive Director
Tim Daughtry, NICA Deputy Director
Steve Ecenia, NICA General Counsel

Current and potential litigation issues were discussed.

Kenney Shipley and Tim Daughtry left the room and Russell Perkins of Thomas Howell Ferguson then joined the Executive Session.

The procedures and results of the June 30, 2018 audit were discussed.

The Board then met in regular session.

GENERAL SESSION

Charlie Lydecker then called the General Session of the Board meeting to order.

Present and constituting a quorum were:

Charlie Lydecker
Bryan Anderson
Steven Dukes, M.D.
Marcos Lorenzo, M.D. (by phone)
Robert White (by phone)

Also present:

Kenney Shipley, NICA Executive Director
Tim Daughtry, NICA Deputy Director
Steve Ecenia, NICA General Counsel
Tamara St. Hilaire, Office of Insurance Regulation (by phone)
Tammy Martina, Department of Financial Services (by phone)
Russell Perkins, Thomas Howell Ferguson
Janice Yecco, NICA Investment Consultant
Steve Lehmann, Pinnacle Actuarial Resources
Linda Nelson, IT Consultant
Matt Dufek, Kikoda, IT Consultant
Felicia Bennett, Wilshire Consulting (by phone)
Warren DeKinder, Intech (by phone)
Jeremy Agrinzonas, BlackRock (by phone)
Adnan Virani, Sterling Capital Management (by phone)

The Chair asked for a motion to approve the minutes of the June 15, 2018 Board meeting conference call.

A motion was made to approve the minutes as drafted. The motion passed unanimously.

Investments

Janice Yecco followed with a discussion of overall economic fundamentals as well as NICA's investment performance results. For the trailing twelve months ending June 30, 2018, the NICA portfolio returned 4.26% compared to the policy index of 3.61% and return objective of 5.77%. The portfolio had added approximately \$56 million in market value during the year. The allocation to equities had increased as a result of the outperformance of equity markets relative to fixed income markets. For the twelve months ending July 31, 2018 the NICA portfolio returned 4.62% compared to the policy index of 3.84%.

In July, consistent with NICA's investment policy, the portfolio was rebalanced based on a recommendation from Wilshire, due to an overweight to U.S. equities. Wilshire recommended the sale of \$13 million in U.S. Equity and the purchase of \$13 million in Long Duration Bonds. This was implemented in July by selling \$11 million in U.S. Large Cap Growth equities, \$1 million in U.S. Mid Cap and \$1 million in U.S. Small Cap. The proceeds were invested in Long Duration Bonds.

Ms. Yecco followed with a discussion of the managers within the core fixed income asset class. A review of this asset class indicated that active management had more consistent success over time in delivering returns in excess of the benchmark.

Investment Recommendation:

It was recommended that NICA liquidate the approximately \$6.3 million in the BlackRock Core Bond Index Fund and transfer those funds to Sterling Capital.

A motion was made to approve the asset rebalance and to approve the asset rebalance and the fixed income allocation. The motion passed unanimously.

Felicia Bennett of Wilshire Consulting then presented the executive summary for the quarter ending June 30, 2018 and the investment manager Watch List as of June 30, 2018. There was one manager on the Watch List, Intech (since September 30, 2016). Intech had underperformed, net of fees, for the five year period. Relative to their peers, they were in the second and third quartile. It was recommended that NICA continue to monitor this manager.

Reserve Evaluation

Steve Lehmann followed with the March 31, 2018 and June 30, 2018 actuarial reserve evaluations. There had been modest increases in both those quarters.

For the quarter ending March 31, 2018 the overall recommended reserve for loss and loss adjustment expenses, including both allocated and unallocated loss adjustment expense, was \$829.3 million gross of anticipated reinsurance recoveries. This was an increase of \$2.1 million since December 31, 2017. Anticipated reinsurance recoveries of \$22.1 million were unchanged since the December 31, 2017 report. No change was proposed in the risk margin reserve of \$73.5 million.

Summary exhibits from the March 31, 2018 actuarial report were presented. The exhibits detailed case reserves as established by NICA, payments and incurred but not reported (IBNR) and loss development amounts by birth year. The assumptions used for prospective inflation of 3.5% and prospective investment rate of return of 5% had not changed since the last evaluation. Mr. Lehmann pointed out that the significant factor is the differential between the two which was 1.5%. The other key assumption was the incurred loss development factor of 1.103 for 351 months to ultimate. The present value of case reserves of \$550.3 million had increased by \$2.7 million since December. The reserve for IBNR and development of \$278.9 million decreased by approximately \$0.6 million for the quarter.

Exhibits summarizing the estimated reinsurance recoveries as of June 30, 2018 were presented. The estimated recoveries of approximately \$22.1 million were comprised of specific excess of \$10.1 million, aggregate excess of \$11.5 million and experience refunds of \$427,215. These amounts were unchanged from the previous quarter.

The June 30, 2018 actuarial reserve evaluation included a recommended reserve for loss and loss adjustment expenses, including both allocated and unallocated loss adjustment expense, of \$832.4 million gross of anticipated reinsurance recoveries. This represented a \$3.1 million increase since the quarter ending March 31, 2018 presented above. There was no change in the anticipated reinsurance recoveries of \$22.1 million. No change was recommended to the risk margin reserve of \$73.5 million.

The assumptions for prospective inflation of 3.5% and investment return of 5% had not changed since the March 31, 2018 report. The loss development factor of 1.101 had changed slightly. An exhibit summarizing the estimated outstanding loss and expense as of June 30, 2018 was presented. The present value of case outstanding of \$556 million had increased by \$5.7 million since March 31. The IBNR reserves of \$276.4 million represented a decrease of \$2.5 million since March 31.

Exhibits summarizing the anticipated reinsurance recoverables as of June 30, 2018 were presented. The anticipated recoverable of \$22.1 million had not changed since the March 31, 2018 report. Mr. Lehmann pointed out that the numbers presented were conservative since they did not include any investment return from the valuation date (seven years after the expiration of each birth year) to present.

A motion was made to approve the March 31, 2018 actuarial reserve evaluation and the June 30, 2018 actuarial reserve evaluation. The motion passed unanimously.

Audited Financial Statements

Russell Perkins of Thomas Howell Ferguson followed with a presentation and discussion of the audited financial statements for the fiscal year ending June 30, 2018. Mr. Perkins thanked Ms. Shipley and Mr. Daughtry for promoting both an efficient and effective audit. The Statement of Net Position as of June 30, 2018 reflected total net position of \$308 million. The statement of Revenues, Expenses and Changes in Net Position reflected a change in net position for the fiscal year of \$23.3 million. The Report of Independent Auditors rendered an unqualified opinion. There were no management recommendations, significant weaknesses or material weaknesses identified as part of the financial statement audit.

The Chair advised those in attendance that the Board had met privately in Executive Session with Mr. Perkins to discuss the audit.

A motion was made to approve the June 30, 2018 audited financial statements. The motion passed unanimously.

IT Update

Linda Nelson and Matt Dufek discussed NICA's IT system. In April, 2016 the Board had approved a budget to hire staff and develop the new CARES system. On July 1, 2016, the staff was hired with Matt as the architect.

When the project began, it was determined that the legacy system required significant maintenance and updates in order for the NICA staff to continue using it while the new system was being developed.

The new system is cloud based and is not dependent on physician hardware, servers or location. It is robust, secure, flexible, auditable and compliant with federal and state privacy and security requirements. The new system automated, eliminated or redesigned cumbersome manual processes into an auditable, controlled workflow system. Information is collected

electronically and may be used to process, track, share collaborate, archive and manage business processes.

A reconciliation of the capitalized expenses associated with the project was presented.

The research and analytical capabilities of the CARES system had been presented to the Medical Advisory Committee in July. Dr. Duker advised the Board that the Medical Advisory Committee supports enhancements and expansions to make the historical data searchable and usable for research.

Budget

The proposed budget of general administrative expenses for the fiscal year ending June 30, 2019 was presented.

A motion was made to approve the budget. The motion passed unanimously.

Commutation of Reinsurance

The arbitration regarding the commutation process with Gen Re continued and had been discussed in Executive Session.

There being no further business before the Association, the meeting was adjourned.