Oregon State Bar
Meeting of the Board of Governors
Special Open Session Agenda
Thursday, October 13, 2011, 8:00 a.m.
Teleconference

1. Call to Order

2. PLF Primary Assessment and Excess Rates [Mr. Piucci]

A.	Approve the 2012 Excess Rates	Action	Exhibit
B.	Approve the 2012 Assessment	Action	Exhibit

3. Good of the Order (Non-action comments, information and notice of need for possible future board action)

OREGON STATE BAR
Board of Governors Agenda

Meeting Date: October 13, 2011
Memo Date: October 10, 2011
From: Ira Zarov — CEO, Professional Liability Fund
Re: Approve PLF Excess Rates

Action Recommended

Approve the 2012 Excess Rates pursuant to PLF Policy 7.400(A).[1]

Background

Each year the BOG approves the PLF Excess Rates. This year the rates for excess coverage have increased in the following amounts:

$700,000 Class I coverage has increased from $882 to $961
$700,000 Class II coverage has increased from $1,589 to $1732

$1,700,000 Class I coverage has increased from $1,644 to $1,792
$1,700,000 Class II coverage has increased from $2,827 to $3,081

The rate increases reflect increased claim costs over the last several years. No increases for coverage above $1,700,000 have been made.

ATTACHMENT

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[1] 7.400 <u>EXCESS COVERAGE ASSESSMENT</u>

(A) The assessment rates for excess coverage will be established by the Board of Governors upon the recommendation of the PLF Board of Directors. The assessment may include debits or credits for firms based on prior claims, practice specialties, the extension of prior acts coverage (waiver of retroactive date), and other factors.

(B) The Board may establish requirements and procedures concerning the payment of excess coverage assessments including, but not limited to, payment due dates, cancellation for non-payment, and financing of assessments.

(C) The excess program may be assessable against the program participants, including firm members. Supplemental assessments will be made if required according to the terms of the excess coverage plan.

(BOD 12/6/91, BOG 3/13/92; BOD 9/23/92, BOG 11/13/92; BOD 10/9/09; BOG 10/30/09)

Oregon State Bar

Professional Liability Fund

Ira R. Zarov

2012

CLASS 1

Coverage Level	2011 Rates	2012 Rates	Change
$700,000	$882	$961	8.96%
$1,700,000	$1,644	$1,792	9.00%
$2,700,000	$2,391	$2,540	6.23%
$3,700,000	$2,749	$2,897	5.38%
$4,700,000	$2,978	$3,130	5.10%
$9,700,000	$5,006	$5,158	3.04%

CLASS 2

Coverage Level	2011 Rates	2012 Rates	Change
$700,000	$1,589	$1,732	9.00%
$1,700,000	$2,827	$3,081	8.98%
$2,700,000	$4,040	$4,295	6.31%
$3,700,000	$4,622	$4,875	5.47%
$4,700,000	$4,994	$5,253	5.19%
$9,700,000	$8,288	$8,547	3.13%

OUT OF STATE CLASS 1

Coverage Level	2011 Rates	2012 Rates	Change
$700,000	$4,382	$4,461	1.80%
$1,700,000	$5,144	$5,292	2.88%
$2,700,000	$5,891	$6,040	2.53%
$3,700,000	$6,249	$6,397	2.37%
$4,700,000	$6,478	$6,630	2.35%
$9,700,000	$8,506	$8,658	1.79%

OUT OF STATE CLASS 2

Coverage Level	2011 Rates	2012 Rates	Change
$700,000	$5,089	$5,232	2.81%
$1,700,000	$6,327	$6,581	4.01%
$2,700,000	$7,540	$7,795	3.38%
$3,700,000	$8,122	$8,375	3.11%
$4,700,000	$8,494	$8,753	3.05%
$9,700,000	$11,788	$12,047	2.20%

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OREGON STATE BAR
Board of Governors Agenda

Meeting Date: October 13, 2011
Memo Date: October 10, 2011
From: Ira Zarov – CEO PLF
Re: Assessment

Action Recommended

Approve the 2012 Assessment of $3,500 per covered party.

Background

The PLF Board of Directors approved the proposed assessment and budget at its September 26, 2011 meeting. Pursuant to PLF and OSB policies the BOG also must approve the budget and assessment for the coming year. *This year, the recommendation is to maintain the assessment at the 2011 amount of $3,500.*

The assessment is based on predicted claim liabilities and the PLF operating budget. In past years the BOG has approved both the PLF Budget and Assessment together, however, because the salary pool for 2012 has not yet been determined, the PLF Board of Directors is requesting approval only of the 2012 assessment. Approval of the 2012 budget will be requested at the November BOG meeting. (The assessment will not change unless the BOG increases the PLF 2012 budget substantially.)

Although final approval of the PLF Budget is not being requested, the proposed budget and an accompanying explanatory memo is attached in order to provide the BOG with supporting documentation for the recommended action.

In summary, the actuarial rate study recommended an increase of the cost per claim from $19,500 to $20,000 for the first half of 2012. The increase was based on increasing defense costs. The budget includes a new claims attorney position to begin in the middle of 2012 which reflects both a substantial increase in claims over the last three years as well as succession planning, a proposed 2% salary pool, and an increase in benefits as a result of PERS requirements.

Attachments

September 13, 2011

To: PLF Finance Committee (Bill Carter, Chair; Tim Martinez and Fred Ruby) and PLF Board of Directors

From: Ira Zarov, Chief Executive Officer
R. Thomas Cave, Chief Financial Officer

Re: 2012 PLF Budget and 2012 PLF Primary Assessment

I. Recommended Action

We recommend that the Finance Committee make the following recommendations to the PLF Board of Directors:

1. Approve the 2012 PLF budget as attached. This budget uses a 2012 salary pool recommendation of 2.0 percent. This recommendation has been made after consultation with Sylvia Stevens and the Board of Governors.

2. Make a recommendation to the Board of Governors concerning the appropriate 2012 PLF Primary Program assessment. We recommend that the 2012 assessment be $3,500, which is unchanged from the 2011 assessment.

II. Executive Summary

1. Besides the two percent salary pool, this budget includes increased costs for PERS and medical insurance. It includes a $200,000 PLF contribution for the OSB Bar Books. The budget anticipates replacing two staff members who will retire in the fourth quarter of 2011. It includes an additional claims attorney position starting in April, 2012 in anticipation of additional retirements. The budget also includes a new IT position that will be shared with the Bar.

2. The PLF has experienced increased claim frequency and severity in recent years. The actuarial rate study estimates a cost of $2,700 per lawyer for new 2012 claims. This budget also includes a margin of $300 per lawyer for adverse development of pending claims.

III. 2012 PLF Budget

Number of Covered Attorneys

We have provided the number of covered attorneys by period for both the Primary and Excess Programs. (The figures are found on pages 1 and 8 of the budget document.) These statistics illustrate the growth in the number of lawyers covered by each program and facilitate period-to-period comparisons.

For the Primary Program, new attorneys paying reduced primary assessments and lawyers covered for portions of the year have been combined into "full pay" units. We currently project 6,965 full-pay attorneys for 2011. Since 2007, the average annual growth of full-pay lawyers is 1.44 percent. Our estimate for 2012 assumes growth of 1.4 percent from our 2011 projection which translates to 7,063 full-pay attorneys.

Although the Excess Program covers firms, the budget lists the total number of attorneys covered by the Excess Program. Participation in the Excess Program has declined since 2010 because of competition from commercial insurance companies. We currently project 2011 excess program participation at 2,325 lawyers which is about 75 fewer than was expected. We project 2012 participation to decline 2 percent from 2011 levels. If you include the other providers of excess insurance, more than 50% of the practicing lawyers in Oregon have excess insurance.

Full-time Employee Statistics (Staff Positions)

We have included "full-time equivalent" or FTE statistics to show PLF staffing levels from year to year. FTE statistics are given for each department on their operating expense schedule. The following table shows positions by department:

	2011 Projections	2012 Budget
Administration	8.75 FTE	8.00 FTE
Claims	17.60 FTE	18.75 FTE
Loss Prevention (includes OAAP)	11.83 FTE	11.83 FTE
Accounting	5.90 FTE	7.15 FTE
Excess	1.00 FTE	1.00 FTE
Total	**45.08 FTE**	**46.73 FTE**

We continue to have some permanent positions staffed at less than full-time levels for both 2011 and 2012. Some staff members work from 33 to 36 hours per week. These part-time arrangements fit the needs of both the employee and the PLF. Part-time and staff changes are the reason for the fractional FTE's.

The PLF will have two long-term employees retire in the fourth quarter of 2011. One position in the administration department has a number of tasks in HR, benefits, and processing Excess Program applications. There will be some changes in responsibilities and this position will be shifted to the Accounting Department. Filling this position should help in succession planning for some of our accounting staff who are nearing retirement age. The other retiring employee is a long-time claims attorney who will leave near the end of 2011. We plan on hiring a successor claims attorney in January of 2012. Both of the retiring employees have worked for the PLF more than twenty years and both replacements will be hired at lower salary levels.

The 2012 budget also includes a new claims attorney position with a hire date of April, 2012. We expect that other claims attorneys will retire in the next few years. In addition, the amount spent with outside defense counsel exceeded $9 million in 2010 and continues to increase. We hope that additions to the claims department will reduce the funds spent on outside counsel.

There is an additional ¼ data procession position in the accounting department. The PLF hopes to share an employee with the Bar and reduce its dependence on outside contract programmers. The addition of this position is part of the PLF's successor planning. The PLF added a full-time information technology position in March of 2011. The addition of this position has significantly reduced the amount spent on outside IT contractors and improved user training and support.

Allocation of Costs between the Excess and Primary Programs

In 1991, the PLF established an optional underwritten plan to provide excess coverage above the existing mandatory plan. There is separate accounting for Excess Program assets, liabilities, revenues and expenses. The Excess Program reimburses the Primary Program for services so that the Primary Program does not subsidize the cost of the Excess Program. A portion of Primary Program salary, benefits, and other operating costs are allocated to the Excess Program. These allocations are reviewed and adjusted each year. The Excess Program also pays for some direct costs, including printing and reinsurance travel.

Salary and benefit allocations are based on an annual review of the time PLF staff spends on Excess Program activities. The current allocation includes percentages of salaries and benefits for individuals specifically working on the Excess Program.

Besides specific individual allocations, fourteen percent of the costs of claims attorneys and ten percent of all loss prevention personnel are allocated to the Excess Program. The total 2012 allocation of salary, benefits and overhead is about 15.15 percent of total administrative operating expense.

The 2011 Excess Program allocation was 18.66 percent. The 2012 allocation was reduced after careful review of each staff member's work with the Excess Program. In addition, the goal of the Excess Program is to financially break-even. In recent years, the Excess Program's revenues have dropped because of competition from commercial carrier. The lower allocation of expenses should reduce Excess Program losses. We will review and modify the allocation again for 2013 if necessary.

Primary Program Revenue

Projected assessment revenue for 2011 is based upon the $3,500 basic assessment paid by an estimated 6,965 attorneys. The budget for assessment revenue for 2012 is based upon a $3,500 assessment and 7,063 full-pay attorneys. Primary Program revenue also includes our forecast for SUA collections of $185,000 for 2011 and $187,000 for 2011. This forecast assumes that there is no change in the current SUA policies.

The investment environment has been very volatile recently. There were strong investment gains for the first six months followed by declines during July and August. Our investment return projections for the remainder of 2011 and for 2012 began with the July 31, 2011 market value of all current investments. Investment revenue was calculated from July forward using the rates of return for the different asset categories recommended by R. V. Kuhns & Associates, Inc. (3% for the short-term cash flow bond fund, 5% for intermediate bonds, 8.15% for domestic equities, 8.60% for foreign equities, 7.75% for hedge fund of funds, 7% for real estate, and 6.75% for absolute return). These rates of return are lower than historical figures but reflect the current reduced expectations of our investment consultants. The overall combined expected rate of return for 2012 is about 7.21 percent.

Primary Program Claims Expense

For any given year, claim expense includes two factors – (1) the cost of new claims and (2) any additional upward (or downward) adjustments to the estimate of costs for claims pending at the beginning of the year. Factor 1 (new claims) is much larger and much more important than factor 2. However, problems would develop if the effects of factor 2 were never considered, particularly if there were consistent patterns of adjustments. The "indicated average claim cost" in the actuarial report calculates an amount for factor 1. The report also discusses the possibility of adding a margin to the indicated costs. Adding a margin could cover additional claims costs from adverse development of pending claims (factor 2) or other possible negative economic events such as poor investment returns. We have included margins in the past several years to good effect.

The PLF experienced a significant increase in the frequency of new claims during 2008 and 2009. The frequency level continued to be high during 2010 (13.6%) but declined from 2009 levels. The first four months of 2011 had a high frequency of new claims; however, the frequency rate has dropped significantly since the start of May. The current rate of new claims is close to 13 percent. We currently conservatively project 935 new claims (13.4%) for 2011 at a cost of $20,000 per claim.

The 2011 budget included $1,412,600 (approximately $200 per covered party) for adverse development or actuarial increases to estimates in liabilities for claims pending at the start of the year. The adjustment recommended in the June 30, 2011 actuarial review of claim liabilities was greater than this budget amount ($2.4 million). Most of the adjustment came from adverse development of claims from recent claim years; in particular, the 2009 claim year. In their review, the actuaries recommended increasing the average cost figure for expense from $9,500 to $10,000. (Claims expense is defined as payments made to individuals other than the claimant; e.g., defense costs.) The total average cost is now $20,000 per claim which is an increase of $1,000 during the past 18 months. We do not know if pending claims will continue to develop adversely. It is very possible that the December 31, 2011 actuarial adjustment will be positive rather than negative. However, we continue to have concerns about the effects of the ongoing poor economy on claims and we feel it is prudent to project an additional adverse adjustment of $600,000 for the second half of 2011.

Primary Program new claims expense for 2012 was calculated using figures from the actuarial rate study. The study assumed a frequency rate of 13.5 percent, 7,063 covered attorneys and an average claim cost of $20,000. Multiplying these three numbers together gets a 2012 budget for claims expense of $18.7 million. This would also translate to about 953 claims at $20,000 for 2012.

We have added a margin of $300 per covered lawyer to cover adverse development of claims pending at the start of 2012. If pending claims do not develop adversely, this margin could offset even greater 2012 claims frequency, cover other negative economic events, or help the PLF reach the retained earnings goal. The pending claims budget for adverse development is equal to $2,118,900 ($300 times the estimated 7,063 covered attorneys). The concept of using a margin will be discussed again in the staff recommendation section regarding the 2012 assessment.

Salary Pool for 2012

The total dollar amount that is available for staff salary increases in a given year is calculated by multiplying the salary pool percentage increase by the current employee salary levels. The salary pool is the only source available for cost of living *and* merit increases. Although there is no policy requiring them, the PLF and OSB historically provide increases to staff that are generally consistent with cost-of-living adjustments.

After consultation with Sylvia Stevens and the Board of Governors, a two percent salary pool increase is recommended for 2012. The salary pool is used to adjust salaries for inflation, to allow normal changes in classifications, and when appropriate to provide a management tool to reward exceptional work. As a point of reference, one percent in the salary pool represents $36,978 in PLF salary expense and $12,441 in PLF benefit costs.

Because all salary reclassifications cannot be accomplished within the three percent salary pool allocation, we are also requesting $15,761, for potential salary reclassification. Salary reclassifications generally occur in two circumstances, when a person hired at a lower salary classification achieves the higher competency required for the new classification, or when there is a necessity to change job requirements. The bulk of the salary reclassification amount reflects either the reclassification of relatively recently hired exempt employees or addresses an historical lack of parity between the salaries of employees in positions with equivalent responsibilities. (Exempt positions are generally professional positions and are not subject to wage and hour requirements.) Salaries for entry level hires for exempt positions are significantly lower than experienced staff. As new staff members become proficient, they are reclassified and their salaries are adjusted appropriately. As the board is aware, several new claims attorneys and an OAAP professional have been hired in recent years. (The major reclassification usually occurs after approximately three years, although the process of salary adjustment often occurs over a longer time period.) The 2011 budget did not include any additional funds for reclassification. All 2011 salary adjustments were done within the 2011 three percent salary pool.

Benefit Expense

The employer cost of PERS and Medical / Dental insurance are the two largest benefit costs for the PLF.

The specific employer contribution rate for PERS varies depending upon how long an employee has participated in PERS. The rates are changed periodically based upon actuarial studies of the PERS pension liability. Prior to July 1, 2009, the PLF paid between 12.49 percent and 13.98 percent of employee salary to PERS. As of July 1, 2009, the rates changed to 8.01 percent and 8.79 percent which was a drop of nearly 5 percent of salary. As we anticipated in the 2011 budget, the PERS rates increased substantially as of July 1, 2011 to between 14 percent and 15.5 percent. The 2011 projections and 2012 budget use these new rates.

Unlike many state employers, the PLF does not "pick up" the employee contribution to PERS. PLF employees have their six percent employee contribution to PERS deducted from their salaries.

PLF employees pay for a portion of the cost of providing medical and dental insurance to dependents. The cost of medical insurance continues to rise faster than salary levels. Although medical insurance rates are difficult to predict, we have included about a 10 percent increase for the cost of medical and dental insurance.

Capital Budget Items

The PLF added a full-time IT support position in 2011. Because of this new staff position, we have been able to replace several aging servers and upgrade our backup and disaster contingency plans. Recently, we have purchased 45 personal computer units costing about $36,000. As the current old machines are replaced, overdue upgrades to Windows 7, and upgrades to Microsoft Office will be implemented. These changes should ease ongoing support problems. We hope not to need to make significant changes to personal computer hardware or software for the next three years.

Other Primary Operating Expenses

The PLF has traditionally had defense panel meetings every other year. The 2011 budget included the costs of the defense panel meeting in Salishan. Defense panel members paid for their own lodging and meal expenses and some additional costs. The PLF did pay the cost of staff lodging and meals and a portion of supplies and speakers.

In addition to the major defense panel meeting, the claims department has also had some programs specifically geared to defense panel members with limited trial experience. These half-day programs are generally held at the Oregon State Bar Center with minor costs.

The 2011 budget included an outside claims department audit. PLF Policies require an outside claims department audit at least every five years. We anticipate that the cost of the 2011 audit will be less than the budget amount. We do not expect to have another claims audit for several years.

The 2011 budget included a $300,000 contribution to the OSB Bar Books. This contribution was made pursuant to a vote by the PLF Board of Directors at the request of the Oregon State Bar Board of Governors. The BOD believed there was substantial loss prevention value in free access to Bar Books via the internet which had the potential to reduce future claims. The $300,000 contribution was part of an agreement which provided the PLF contribute an additional $200,000 in 2012 and another $100,000 in 2013. The 2012 PLF budget includes the $200,000 contribution.

For many years, the PLF Primary Program has included a contingency budget item. For 2011, we included a contingency budget of equal to 2 percent of operating costs ($143,391). The costs of the SUA focus group ($11,608) and the anticipated costs of the Medicare reporting litigation ($48,266) have been charged against contingency in the 2011 projections.

The 2012 contingency budget again is 2 percent of operating costs ($145,541). While we are unaware of any item that might be charged to contingency for 2012, such a budget has proved to be prudent in the past.

Total Operating Expenses and the Assessment Contribution to Operating Expenses

Page one of the budget shows projected 2011 Primary Program operating costs to be slightly lower than the budget amount.

The 2012 Primary Program operating budget is 1.5% higher than the 2011 budget and 3.6% greater than the 2011 projections. The main reasons for the increase from projections are the 2 percent salary increase, the higher costs of PERS and the higher cost of medical insurance.

Excess Program Budget

The major focus of this process is on the Primary Program and the effects of the budget on the 2012 Primary Program assessment. We do include a budget for the Excess Program (page 8). Several firms switched from the PLF Excess Program to commercial competition for 2010 and 2011 coverage. As a result, the number of attorneys covered by PLF Excess for both years was less than anticipated. We expect competition to continue and we anticipate a further decline of 2 percent in participation for 2012.

The major revenue item for the Excess Program is ceding commissions. These commissions represent the portion of the excess assessment that the PLF gets to keep and are based upon a percentage of the assessment (premium) charged. Most of the excess assessment is turned over to reinsurers who cover the costs of resolving excess claims. We currently project ceding commission of $720,000 for 2011. The decline in ceding commission is greater than the decline in excess participation because many of the firms leaving the PLF purchased high levels of coverage and paid greater than average excess assessments. The 2012 budget estimates ceding commissions to decline 2 percent from the 2011 projections.

After three or four years from the start of a given plan year, the two reinsurance treaties covering the first $5 million provide for profit commissions if excess claim payments are low. If there are subsequent adverse developments, prior profit commissions are returned to the reinsurance companies. In recent years, excess claims have increased and it is quite difficult to predict profit commissions in advance. Actual profit commissions have proven to be rather small. As a result, no profit commissions have been included in the 2011 projections or 2012 budget.

Excess investment earnings were calculated using the same method described in the Primary Program revenue section.

The major expenses for the Excess Program are salary, benefits, and allocations from the Primary Program that were discussed in an earlier section. As was mentioned earlier, the allocation of Primary Program costs was reduced for the 2012 budget. These allocations will again be reviewed in future budgets in hopes that the Excess Program budget can approach break-even status.

IV. Actuarial Rate Study for 2012

This is the fourteenth time we have received a rate study from our actuaries to assist us in establishing the annual assessment. The attached rate study focuses on the estimate of the cost of 2012 claims. It relies heavily on the analysis contained in the actuaries' claim liability study as of June 30, 2011. The methodology used in that study is discussed by separate memorandum. The rate study only calculates the cost of new 2012 claims. It does not consider adjustments to pending claims, investment results, or administrative operating costs.

The actuaries estimate the 2012 claim cost per attorney using two different methods. The first method (shown on Exhibit 1) uses regression analysis to determine the trends in the cost of claims. Regression analysis is a statistical technique used to fit a straight line to number of points on a graph. It is very difficult to choose an appropriate trend. Because of the small amount and volatility of data, different ranges of PLF claim years produce very different trend numbers. The selection of the starting and ending points is very significant. For the PLF, including a low starting point such as 1987 or a very high ending point such as 2000 skews the straight line upward. Because of these problems, the actuaries do not favor using this technique to predict future claim costs.

The second method (Exhibit 2) involves selection of expected claim frequency and claim severity (average cost). Claims frequency is defined as the number of claims divided by the number of covered attorneys. For the indicated amount, the actuaries have used a 2012 claims frequency rate of 13.5 percent and $20,000 as the average cost per claim (severity). The average cost figure has increase by $500 from last years' study. We feel the $20,000 severity factor is appropriate given the increases in claim severity since 2008.The actuaries frequency rate was reduced from last years' figure of 14 percent. The change was made because the frequency of new claims dropped during the second half of 2010 and continues to drop during 2011. Although the current frequency rate is close to 13 percent, we feel that selection of a higher frequency rate is appropriate given the volatile claims experience of recent years. The actuaries prefer the result found with this second method. Their indicated average claim cost is $2,700 per attorney. This amount would only cover the estimated funds needed for 2012 new claims.

It is necessary to calculate a provision for operating expenses not covered by non-assessment revenue. As can be seen in the budget, the estimate of non-assessment revenue does not cover the budget for operating expenses. The 2012 shortfall is about $468 per lawyer assuming 7,063 full-pay lawyers.

The actuaries discuss the possibility of having a margin (additional amount) in the calculated assessment. On pages 8 and 9 of their report, the actuaries list pros and cons for having a margin in the assessment.

V. Staff Recommendations

If you add the operating expense portion of $468 per lawyer to the actuaries' indicated claim cost of $2,700, you would have an assessment of $3,168. We feel that it is appropriate to include a margin of $300 per attorney for adverse development of pending claims. This allows for a budget of about $2.1 million for adverse development of pending claims. While this amount sounds high, it is less than our current 2011 projection for adverse development ($3 million). An assessment of $3,500 would allow a projected budget profit of about $223,000.

We have some concerns with trends found in the latest actuarial review of claims. There are indications of increases in claims severity, particularly with the expense portion. This report indicates adverse development of pending claims and recommends an increase in claims expense of over $2.5 million for the first six months of 2011. Fortunately, claim frequency has dropped particularly in recent months. In addition, there are some indications that changes in the claims department may have lead to sooner recognition of severity for recent claim years. It is very possible that future actuarial adjustments could be positive instead of negative. However, given recent trends, it seems prudent to provide for negative development in 2011 and 2012.

The PLF currently has positive combined retained earnings of about $1.3 million. The Board of Directors has a long-term goal of $12 million positive retained earnings. A 2012 assessment with some margin makes it more likely that some small progress will be made toward that retained earnings goal.

Given the factors discussed above, the PLF staff feels that the current Primary Program assessment should be maintained for 2012. Accordingly, we recommend setting the 2012 Primary Program assessment at $3,500.

The Finance Committee will discuss these matters during its telephone conference call at 9:00 a.m. on September 20, 2011 and prepare recommendations for the Board of Directors. The full Board of Directors will then discuss the committee's recommendations via a telephone conference call at 9:30 a.m. on September 26, 2011. The Board of Directors will recommend a 2012 assessment figure to the Board of Governors, who will set the final 2012 assessment at its next meeting.

OREGON STATE BAR
PROFESSIONAL LIABILITY FUND
2012 PRIMARY PROGRAM BUDGET
Presented to PLF Board of Directors on September 26, 2011

	2009 ACTUAL	2010 ACTUAL	2011 BUDGET	2011 PROJECTIONS	2012 BUDGET
Revenue					
Assessments including SUA	$21,913,959	$22,244,406	$24,906,000	$24,563,839	$24,907,500
Installment Service Charge	333,900	350,469	355,000	386,000	401,000
Investments and Other	4,805,068	3,530,073	2,211,854	2,356,365	2,628,331
Total Revenue	$27,052,927	$26,124,948	$27,472,854	$27,306,204	$27,936,831
Expenses					
Provision for Claims					
New Claims	$18,648,114	$18,461,583	$19,281,990	$18,700,000	$19,070,100
Pending Claims	$91,673	$1,481,000	$1,412,600	$3,000,000	$2,118,900
Total Provision for Claims	$18,739,787	$19,942,583	$20,694,590	$21,700,000	$21,189,000
Expense from Operations					
Administration	$1,977,797	$2,014,918	$2,334,991	$2,314,375	$2,201,774
Accounting	525,401	530,396	663,146	644,570	789,960
Loss Prevention	1,679,807	1,682,064	1,782,238	1,729,499	1,818,430
Claims	2,163,248	2,219,444	2,389,198	2,334,246	2,466,873
Total Operating Expense	$6,346,253	$6,446,822	$7,169,573	$7,022,690	$7,277,036
Contingency	28,028	22,660	143,391	59,874	145,541
Depreciation	193,239	214,377	231,000	220,000	237,600
Allocated to Excess Program	(1,235,837)	(1,257,082)	(1,393,740)	(1,393,740)	(1,135,822)
Total Expenses	$24,071,470	$25,369,360	$26,844,814	$27,608,824	$27,713,355
Net Income (Loss)	$2,981,457	$755,588	$628,040	($302,620)	$223,476
Number of Full Pay Attorneys	6,797	6,894	7,006	6,965	7,063

CHANGE IN OPERATING EXPENSES:

Increase from 2011 Budget	**1.50%**
Increase from 2011 Projections	**3.62%**

OREGON STATE BAR
PROFESSIONAL LIABILITY FUND
2012 PRIMARY PROGRAM BUDGET
CONDENSED STATEMENT OF OPERATING EXPENSE
Presented to PLF Board of Directors on September 26, 2011

	2009 ACTUAL	2010 ACTUAL	2011 BUDGET	2011 PROJECTIONS	2012 BUDGET
Expenses					
Salaries	$3,640,425	$3,748,818	$3,880,231	$3,858,559	$4,016,426
Benefits and Payroll Taxes	1,037,568	1,019,242	1,230,380	1,217,160	1,441,242
Professional Services	365,413	379,245	360,050	326,261	309,000
Auto, Travel & Training	78,177	83,908	84,750	87,150	84,250
Office Rent	475,857	482,840	490,903	494,800	498,267
Office Expense	159,840	181,393	172,300	176,200	177,750
Telephone (Administration)	26,247	32,126	34,000	35,000	35,000
L P Programs	426,127	409,406	483,200	390,576	397,636
OSB Bar Books	0	0	300,000	300,000	200,000
Defense Panel Program	19,230	89	20,700	20,320	200
Insurance	60,520	60,806	62,059	60,664	61,265
Library	31,341	26,465	26,000	31,000	31,000
Memberships & Subscriptions	18,605	18,465	20,000	20,000	20,000
Interest & Bank Charges	6,903	4,019	5,000	5,000	5,000
Other	0	0	0	0	0
Total Operating Expenses	$6,346,253	$6,446,822	$7,169,573	$7,022,690	$7,277,036
Allocated to Excess Program	($1,202,476)	($1,221,441)	($1,350,104)	($1,350,104)	($1,099,826)
Full Time Employees (See Explanation)	44.31	44.33	44.63	44.08	45.73
Number of Full Pay Attorneys	6,797	6,894	7,006	6,965	7,063
Non-personnel Expenses	$1,668,260	$1,678,762	$2,058,962	$1,946,971	$1,819,368
Allocated to Excess Program	($307,307)	($317,976)	($388,938)	($388,938)	($275,635)
Total Non-personnel Expenses	1,360,953	1,360,786	1,670,024	1,558,033	1,543,733

CHANGE IN OPERATING EXPENSES:

Increase from 2011 Budget	**1.50%**
Increase from 2011 Projections	**3.62%**

OREGON STATE BAR
PROFESSIONAL LIABILITY FUND
2012 PRIMARY PROGRAM BUDGET
ADMINISTRATION
Presented to PLF Board of Directors on September 26, 2011

	2009 ACTUAL	2010 ACTUAL	2011 BUDGET	2011 PROJECTIONS	2012 BUDGET
Expenses					
Salaries	$618,342	$632,499	$652,737	$647,367	$624,175
Benefits and Payroll Taxes	198,641	173,709	204,092	200,533	222,967
Staff Travel	17,871	16,344	16,850	15,800	17,550
Board of Directors Travel	40,968	41,374	39,000	39,000	41,300
Training	2,359	6,167	5,000	4,000	4,000
Investment Services	26,692	26,966	27,000	27,000	27,000
Legal Services	13,972	23,963	20,000	10,000	15,000
Actuarial Services	18,390	18,904	19,000	19,000	19,000
Information Services	102,041	116,560	84,000	97,361	74,000
Offsite System Backup	28,841	23,203	10,800	2,000	0
Electronic Record Scanning	108,690	72,391	100,000	65,000	75,000
Other Professional Services	41,537	62,258	47,250	64,200	62,000
Pro Services - Medicare Reporting	2,550	11,200	12,000	11,500	12,000
OSB Bar Books	0	0	300,000	300,000	200,000
Office Rent	475,857	482,840	490,903	494,800	498,267
Equipment Rent & Maint.	37,630	52,910	41,000	51,000	54,000
Dues and Memberships	18,605	18,465	20,000	20,000	20,000
Office Supplies	72,154	80,975	80,000	77,000	75,000
Insurance	60,520	60,806	62,059	60,664	61,265
Telephone	26,247	32,126	34,000	35,000	35,000
Printing	10,953	9,643	12,000	10,000	10,000
Postage & Delivery	35,360	36,992	37,300	37,200	37,750
NABRICO - Assoc. of Bar Co.s	8,931	9,731	13,000	19,950	10,500
Bank Charges & Interest	6,903	4,019	5,000	5,000	5,000
Repairs	3,743	873	2,000	1,000	1,000
Miscellaneous	0	0	0	0	0
Total Operating Expenses	$1,977,797	$2,014,918	$2,334,991	$2,314,375	$2,201,774
Allocated to Excess Program	($450,185)	($472,598)	($559,903)	($559,903)	($430,118)
Administration Full Time Employees	8.88	9.10	8.90	8.75	8.00

CHANGE IN OPERATING EXPENSES:

Decrease from 2011 Budget	**-5.71%**
Decrease from 2011 Projections	**-4.87%**

OREGON STATE BAR
PROFESSIONAL LIABILITY FUND
2012 PRIMARY PROGRAM BUDGET
ACCOUNTING
Presented to PLF Board of Directors on September 26, 2011

	2009 ACTUAL	2010 ACTUAL	2011 BUDGET	2011 PROJECTIONS	2012 BUDGET
Expenses					
Salaries	$399,415	$400,066	$486,420	$474,882	$561,912
Benefits and Payroll Taxes	103,265	105,843	150,326	148,088	201,648
Travel	21	127	400	400	400
Financial Audit	22,700	23,800	25,000	20,200	25,000
Training	0	560	1,000	1,000	1,000
Total Operating Expenses	$525,401	$530,396	$663,146	$644,570	$789,960
Allocated to Excess Program	($121,609)	($120,166)	($144,052)	($144,052)	($128,721)
Accounting Full Time Employees	4.90	4.90	5.90	5.90	7.15

CHANGE IN OPERATING EXPENSES:

Increase from 2011 Budget	**19.12%**
Increase from 2011 Projections	**22.56%**

OREGON STATE BAR
PROFESSIONAL LIABILITY FUND
2012 PRIMARY PROGRAM BUDGET
LOSS PREVENTION (Includes OAAP)
Presented to PLF Board of Directors on September 26, 2011

	2009 ACTUAL	2010 ACTUAL	2011 BUDGET	2011 PROJECTIONS	2012 BUDGET
Expenses					
Salaries	$968,696	$991,252	$982,632	$1,015,166	$1,039,587
Benefits and Payroll Taxes	284,984	281,406	316,406	323,757	381,207
In Brief	64,818	45,575	62,000	62,000	62,000
PLF Handbooks	6,433	48,835	10,000	3,000	5,000
Library	325	248	300	100	200
Videotape	7,982	13,470	11,500	18,000	20,000
Audiotapes	20,175	19,883	18,000	18,000	20,000
Mail Distribution of Video and Audiotape	8,907	9,391	8,300	9,300	9,500
Web Distribution of Programs	12,255	13,710	13,000	14,000	14,000
Program Promotion	41,878	17,263	45,000	30,000	35,000
Expense of Closing Offices	11,891	7,707	14,000	7,000	14,000
Facilities	32,566	47,487	60,000	50,000	5,500
Speaker Expense	9,025	(144)	10,000	5,000	10,000
Accreditation Fees	787	1,307	1,200	1,300	1,400
Beepers & Confidential Phone	4,811	4,019	4,500	3,500	4,000
Expert Assistance	18,458	1,500	15,000	0	5,000
Bad Debts from Loans	500	0	0	0	0
Memberships & Subscriptions	10,653	9,773	12,050	10,000	10,250
Travel	31,743	34,266	39,050	28,355	36,300
Training	27,864	23,972	41,700	25,100	40,150
Downtown Office	115,056	111,144	117,600	105,921	105,336
Miscellaneous	0	0	0	0	0
Total Operating Expenses	$1,679,807	$1,682,064	$1,782,238	$1,729,499	$1,818,430
Allocated to Excess Program	($252,606)	($248,096)	($246,921)	($246,921)	($202,122)
L P Depart Full Time Employees (Includes OAAP)	12.28	11.83	11.83	11.83	11.83

CHANGE IN OPERATING EXPENSES:

Increase from 2011 Budget	**2.03%**
Increase from 2011 Projections	**5.14%**

OREGON STATE BAR
PROFESSIONAL LIABILITY FUND
2012 PRIMARY PROGRAM BUDGET
CLAIMS DEPARTMENT
Presented to PLF Board of Directors on September 26, 2011

	2009 ACTUAL	2010 ACTUAL	2011 BUDGET	2011 PROJECTIONS	2012 BUDGET
Expenses					
Salaries	$1,653,972	$1,725,001	$1,758,442	$1,721,144	$1,790,752
Benefits and Payroll Taxes	450,678	458,284	559,556	544,782	635,421
Claims Audit	0	0	15,000	10,000	0
Training	6,615	7,061	7,000	5,000	7,000
Travel	1,412	2,544	2,500	2,000	2,500
Library & Information Systems	31,341	26,465	26,000	31,000	31,000
Defense Panel Program	19,230	89	20,700	20,320	200
Total Operating Expenses	$2,163,248	$2,219,444	$2,389,198	$2,334,246	$2,466,873
Allocated to Excess Program	($378,076)	($380,581)	($399,228)	($399,228)	($338,865)
Claims Depart Full Time Employees	18.25	18.50	18.00	17.60	18.75

CHANGE IN OPERATING EXPENSES:

Decrease from 2011 Budget	**3.25%**
Increase from 2011 Projections	**5.68%**

OREGON STATE BAR
PROFESSIONAL LIABILITY FUND
2012 PRIMARY PROGRAM BUDGET
CAPITAL BUDGET
Presented to PLF Board of Directors on September 26, 2011

	2009 ACTUAL	2010 ACTUAL	2011 BUDGET	2011 PROJECTIONS	2012 BUDGET
Capital Items					
Furniture and Equipment	$13,075	$3,158	$15,000	$9,000	$10,000
Telephone	0	0	2,000	0	2,000
Copiers / Scanners	42,733	0	20,000	5,000	5,000
Document Management & Scanning	10,410	0	15,000	2,000	2,000
Data Processing					
Hardware	3,052	29,995	30,000	28,000	25,000
Software	0	1,234	15,000	10,760	10,000
Personal Computers and Printers	29,933	13,928	23,000	43,178	10,000
Leasehold Improvements	15,800	2,993	8,000	7,000	2,000
Total Capital Budget	$115,003	$51,308	$128,000	$104,938	$66,000

Increase from 2011 Budget	**-48.44%**
Decrease from 2011 Projections	**-37.11%**

OREGON STATE BAR
PROFESSIONAL LIABILITY FUND
2012 EXCESS PROGRAM BUDGET
Presented to PLF Board of Directors on September 26, 2011

	2009 ACTUAL	2010 ACTUAL	2011 BUDGET	2011 PROJECTIONS	2012 BUDGET
Revenue					
Ceding Commission	796,092	755,096	760,000	720,000	705,600
Profit Commission	11,298	13,508	0	0	0
Installment Service Charge	39,773	41,655	42,000	37,400	38,000
Other	4,739	424	1,500	1,500	1,500
Investment Earnings	534,515	427,932	245,761	293,644	228,551
Total Revenue	$1,386,417	$1,238,615	$1,049,261	$1,052,544	$973,651
Expenses					
Allocated Salaries	$681,121	$707,500	$732,877	$732,877	$608,431
Direct Salaries	63,995	57,918	65,879	65,582	66,304
Allocated Benefits	214,048	195,965	228,289	228,289	215,760
Direct Benefits	19,615	17,224	21,121	18,328	23,812
Program Promotion	500	500	500	1,000	1,000
Investment Services	3,308	3,034	3,500	3,200	3,200
Allocation of Primary Overhead	307,307	317,976	388,938	388,938	275,635
Reinsurance Placement Travel	2,618	5,498	12,000	6,000	12,000
Training	0	0	1,000	0	1,000
Printing and Mailing	4,169	4,872	5,000	5,000	5,000
Other Professional Services	17,043	0	2,500	500	2,500
Software Development	0	0	0	0	0
Total Expense	$1,313,724	$1,310,487	$1,461,604	$1,449,714	$1,214,642
Allocated Depreciation	$33,361	$35,641	$43,636	$43,636	$35,996
Net Income	$39,332	($107,513)	($455,979)	($440,806)	($276,987)
Full Time Employees	1.00	1.00	1.00	1.00	1.00
Number of Covered Attorneys	2,589	2,642	2,400	2,325	2,279

CHANGE IN OPERATING EXPENSES:

Decrease from 2011 Budget	**-16.90%**
Increase from 2011 Projections	**-16.22%**