PROGRAM DETAILS

Introduction

April 2016

To: Chapter Officers

The Phi Kappa Sigma International Fraternity Executive Board implores each Chapter to thoroughly review the attached methodology and plan now to affect any necessary changes.

The methodology is being distributed early in the process so that all Chapters will have time to understand the risk factors and make the necessary changes in their current operations to reduce these risks. The information contained within this communication is vital for your Chapter to review, understand, and enact as it impacts how your costs will be computed over the upcoming 2016-2017 policy year. Failure to respond to this information could result in a higher costs being billed. Please review the information and table below for an explanation and comparison of next year's billing methodology.

Process

In an effort to bring more objectivity to the Phi Kappa Sigma Insurance and Risk Assessment Allocation process, the Phi Kappa Sigma Executive Board chose specific criteria that, in consultation with our insurance carrier, reflected greater or less risk, depending on the behavior of our Chapters.

When we speak of objectivity in terms of allocating the premium that the Fraternity pays for insurance, we are referring to the various surcharges and discounts that a Chapter could be subject to. By being subjected to one or more surcharges/discounts, a Chapters can affect exactly what their total cost will be, relative to a certain insurance base rate. These surcharges/credits are intended to reflect the level of risk associated with the Fraternity carrying Insurance coverage for all Chapters participating in the Fraternity's Insurance Program. The Executive Board believes these categories to be objective measures of the level of risk across all Chapters.

Action Items

Enclosed with this communication are educational materials and an **ESTIMATE** of what your cost might be for your Chapter using the information we have on file with the International Headquarters today. Therefore, we need you to take action on several items.

1) Review the educational materials to ensure you understand for each surcharge/discount category, the Definition, Risk Element, Surcharge/Discount Trigger, and Actions to Reduce/Eliminate the Surcharge.

2) Review each category for applicable impacts to your Chapter. If you are unsure of why you are being surcharged in a particular category, please contact your Educational Consultant or call the International Headquarters for a current status. If you believe a surcharge should be

adjusted or a discount provided, please provide information/documentation supporting your request.

3) Review the estimate for the number of active members you will have for the 2016-2017 policy year (**adjust the graduation information for your members in Phi Kap Connect**). The International Headquarters will extract rosters on July 1 for final calculations.

Make sure you make all changes no later than July 1.

Failure to make any corrections by this date will result in a higher cost being billed.

REMINDER: *Per our insurance carrier's requirements, only active, initiated members on the Chapter roster, and registered new members, are covered under our liability insurance policy!*

4) Based on your review of the projected number of members, adding 25% to account for projected <u>future</u> members, and surcharge/discount impacts, modify your Chapter's budget now; we strongly encourage you to add 15% to anticipate the Insurance billing due to be issued in September.

An updated estimate will be provided by June and in July before the bills will be produced in September.

We trust you will take the opportunity **<u>now</u>** to address all areas of impact as well as to budget appropriately for your anticipated insurance costs.

Thank you for your attention to this most important matter.

Phi Kappa Sigma Executive Board

Methodology Overview

	Previous Method	1st Year of Implementation (2002-2003)	Last 10 Years and Next Year (Next = 2016-2017)
Billable Membership	3 Year Average	Actual # of Active Members as reported by Chapters (or 3 year avg. if not reported) plus 25% for New Member target	Actual # of Active Members as reported by Chapters plus 25% for projected New Members
Rate Determination (See attached descriptions for more information)	Rate for "High Risk" Chapters Rate for "Average Risk" Chapters	Based on Risk Factors ○ 5 year Claim History ○ House / No House ○ Level of Risk	***Based on Risk Factors*** ○ ***5-Year Claim History*** ○ ***Risk Management*** ○ ***Show Cause Status*** ○ ***Chapter Property*** ○ ***Property Program*** ○ ***Inspection / Loss Control*** ○ ***MCS Status*** ○ ***GPA Status*** ○ ***GreekLifeEdu Completion*** ○ ***Membership Agreements*** ○ ***Men of Honor Attendance*** ○ ***CSI Attendance*** ○ ***Grand Chapter Attendance (in Grand Chapter Years)***
Invoice Payment Due Date	November 1 (Late Fee $250)	November 1 (Late Fee $250)	November 1 (Late Fee $300)
Who is Covered	○ Active / New Members ○ Chapter Advisors ○ Phi Kappa Sigma Executive Board	○ Active / New Members on the Intl. Headquarters Membership Lists ○ Named Housing Corporations ○ Named Alumni Board Organizations ○ Chapter Advisors ○ Phi Kappa Sigma Executive Board	○ Active / New Members on the Intl. HQ's Roster submitted by Chapter ○ Chapter Advisors & Advisory Board Officers ○ Phi Kappa Sigma Executive Board ** Billed Separately ○ Housing Corporations ○ Alumni Chapters/Associations
Who Developed		Developed by an Executive Board Committee (Grand Beta, Grand Sigma, and Grand Thetas) with approval from the Executive Board	Executive Board committee with undergraduate and alumni representation.

RATIONALE

We are continuing to improve the allocation methodology for many reasons. However, for these changes to be effective, we must rely on your timely and accurate reporting of active and new member information and changes. **This is critical to the success of this approach.**

- Once again, only active members on the International Headquarters rosters, and new members paid for and reported to the Headquarters on a timely basis will be covered.
  - No change for 2016-2017.

- Due to the uncertainty around the number of and when New Members are initiated in any given year, and a need to reflect the cost of New Members in the Insurance Allocation Methodology, the Committee decided to maintain a conservative targeted growth percentage as representative of the average New Member growth anticipated among all Chapters. How Chapters in turn recover those charges from their New Members is a local Chapter decision.
  - New Member Target remains at 25% for 2016-2017.

- Refining the surcharge/discount categories based on additional objective measures is always a goal to further improve the determination of which rate a Chapter is invoiced based on measures that are deemed to correlate with risk.
  - Changes made to the GreekLifeEdu and MCS Status were made.

- The methodology does not penalize Chapters that are doing the right things to reduce risk (e.g. follow policy, manage their operations properly, and perform well on Mitchell Chapter Standards). In fact, we have increased the discounts available for such actions. However, chapters that are not working to reduce risk will incur surcharges and ultimately pay higher per-man costs.

If you have any questions or concerns regarding risk management or the insurance allocation methodology, please contact your educational consultant or by calling the International Headquarters at 610-469-3282.

Frequently Asked Questions

Why do our insurance costs seem so expensive?

Fraternities in general are high-risk operations. Data provided to chapters locally and at Grand Chapters showed we had remitted to the insurance company about $1.2M between 1990 and 2000. This is in direct contrast to the amount the insurance company paid out in claims/expenses during that same time of $3.5M (the insurance company paid out more than double what they collected.) In addition, the insurance market for fraternities as well as the insurance market in general continues to be volatile. This all adds up to positioning us where we are today.

However, it should be noted that the Base Rate for Phi Kappa Sigma has dropped on average in the last 4 years. By working together and changing providers in 2012, the Fraternity was able to substantially decrease the Base Rate and has continued to target lowering it each year.

With changes on our educational programming, the Base Rate has been targeted with a slight increase.

What are you doing to reduce this cost?

The Fraternity's Executive Board is working multiple strategies to affect the cost. First, we changed our insurance agent FRMT, Ltd and continue to focus on an extensive Risk Management program that includes the recent updating of our Insurance and Claims Manual (see www.pks.org/insurance), the further inclusion of those Chapters owning property to join the Fraternity's Property Program, and the creation of a multitude of communication materials regarding the inherent risks on college campuses today along with possible solutions.

Second, we have been using an objective cost allocation methodology to better allocate the costs to those Chapters who exhibit high risk behaviors and reward those Chapters who are lowering their level of risk.

Finally, we are stepping up efforts to manage claims more efficiently by encouraging prompt reporting, full disclosure, and working to negotiate potential settlements/restitutions much more quickly than in the past.

Of late, we working to collect “membership agreements” in an attempt to better communicate the expectations we all have of each other. We also have implemented GreekLifeEdu to provide state of the art educational programming on the risks related to alcohol, hazing, and sexual assault.

Starting in the 2016-2017 year, Phi Kappa Sigma joined the EverFi Coalition to better support the programs offered by the Fraternity, review the data collected through GreekLifeEdu, and provide guidance to our staff.

We believe these measures will greatly impact our collective ability to manage our risks. But ultimately, it is the decision making of our undergraduate members who will dictate in large part whether these costs shrink or not.

What are these so-called surcharge/discounts categories and why so many?

The insurance premium charged by our carrier is a fee based on the anticipated level of risk associated with the covered entity (i.e., an international fraternal organization). Given the nature of our entity, we must devise a way to fairly and adequately collect that cost from our members. While many attempts have been carried out in the past, some more successful than others, we believe the current methodology satisfies all of the desired criteria for objectivity, fairness, risk, and equity. Based on the successful implementation and results of several years now of using this approach, we are not changing the strategy in the hopes that it continues to drive behaviors that we believe are related to low risk.

Why have claim and expense levels been factored in when assessing a surcharge for "5 Year Claim History"?

Situations happen; reporting early can create an easier management of that situation. Part of the reality we are faced with is that things can and will happen relative to insurance claims. When these incidents occur, we want to encourage prompt and accurate reporting so that we can minimize any eventual cost. Insurance industry data shows that this is one of the best ways to manage one's expenses. The question becomes then at what point does it warrant surcharging a Chapter as a result of a claim. That is a very difficult question to answer and in fact, there probably is no perfect answer. However, for this year's purpose (as was done in past years), the Board decided to implement surcharge levels for indemnity claims over $1,000, or expense claims over $5,000 paid within the past 5 years. This is based on our experience with claims over the past 15+ years.

Why does having a "chapter property" result in a surcharge?

As previously discussed, the intent of our program is to drive costs based on higher and lower risk behaviors. Insurance industry data shows that Chapters living together in a so called “chapter house” have a higher incident rate than chapters that don't live together in a house. This has been extended to include Chapters that utilize property but not for living together. As such, the surcharge for non-residential property is a must lower rate.

Help me understand why things like GPA, Mitchell Chapter Standards, and Chapter Financial condition relate to risk management.

We agree that factors like these don't immediately seem to relate to levels of risk. However, when one considers the entire chapter operation and its effect on the Chapter's level of risk, one can begin to surmise that indicators of a "well run" Chapter might in fact lead to lower levels of risk. The theory being that if a Chapter manages its operations efficiently by running proper meetings, following up on actions items, budgeting properly, collecting its revenues efficiently, paying its bills on time, conducting effective officer transitions, etc., that in fact the Chapter will be more aware of its responsibilities and therefore, more aware of its level of risk. These categories are the Board's attempt at defining objective categories that should be indicative of those behaviors.

Why are those Chapters with an "owned" property being "encouraged" to join the Fraternity’s Property Insurance Program? Isn't this just creating more business?

We believe there are significant benefits through a well managed and thorough program.

First, upon reviewing many of the property policies our Chapters carried on their properties, we found most of them to be woefully deficient in terms of proper coverage’s. In particular, we found many properties with inadequate replacement cost coverage which is needed should a property suffer a catastrophic loss.)

Secondly, Chapters that participate in our Property Program undergo frequent inspections. Inspections done during the past several years have turned up a number of inadequacies that could have resulted in potential losses to both property and possibly human life. Participating in our program ensures that all Chapters will undergo life safety inspections and in turn, remain cognizant of those risks. This in turn leads to a reduction in claims on the liability side.

In summary, what happens on the property side affects the liability side. Therefore, we believe it is prudent risk management to provide for and encourage both programs.