

## **ATTACHMENT 5**

### **ROUTINE BUSINESS**

- 1) INFLATION FACTOR**
- 2) PREMIUM RATES**
- 3) CLAIM PAYMENT DEDUCTIBLES**
- 4) INCIDENTAL COSTS**
- 5) COMMISSION RATE**
- 6) COVERAGE LIMITS**
- 7) LOAN AND GRANT FUNDING LIMIT**
- 8) RESERVES IN LIEU OF REINSURANCE**
- 9) PREMIUM DISTRIBUTION**
- 10) EVALUATION OF MSI CLAIMS FOR FISCAL YEAR 2020**

- 1) **Inflation Factor:** This factor is used to calculate the annual inflation protection option that, by law, is offered to subscribers. **The inflation factor for Calendar Year 2022 is 18.5%**, as calculated by using the most recent 12 months of data from the US Bureau of Labor Statistics, Producer Price Indexes (PPI), Residential Construction Tables.

2022 Inflation Factor Calculation					
10/01/2021		10/01/2020			Inflation Factor
275.0	-	232.0	X	100	= 18.5 %
	232.0				
	<b>10/01/2020</b>				

10 YEAR MSI INFLATION FACTOR HISTORY									
2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
3.8%	3.9%	2.0%	0.0%	0.6%	4.1%	7.0%	0.0%	2.0%	18.5%

- 2) **Premium Rates:** Maintain the premium rates for Residential and Non-Residential policies at the same rate as follows: first \$5,000 @ \$0.0010/dollar and subsequent coverage @ \$0.00025/dollar. Senior citizens discount remains at a 10% on their primary residence. See attached rate chart.
- 3) **Claim Payment Deductibles:** No change is recommended to the current deductible, which the Board has established at \$0.
- 4) **Incidental Costs:** No changes are proposed for the calculations of incidental cost payments.
- 5) **Commission Rate:** No change is proposed to the commission rate that is used to determine the compensation paid to insurance producers for the sale of MSI policies, which is one half of the first year's premium.
- 6) **Coverage Limits:** Maintain the existing limits of \$1,000,000 for both residential and non-residential policies.
- 7) **Loan and Grant Funding Limit:** The limit for FY 2022 shall be \$1,212,962. The "Loan and Grant Funding Limit" formula, as established in 25 Pa. Code Chapter 401, is one percent of the "Unreserved Fund Balance" (0.01 x \$121,296,192). NOTE: For the purpose of this calculation, the "Unreserved Fund Balance" is not reduced by the amount of "Reserves in Lieu of Reinsurance" as it is in the "Financial Performance" documents provided by the Comptroller's Office. At the time when the "Loan and Grant Funding Limit" formula was developed, the "Unreserved Fund Balance" included the funds that are retained as "Reserves

in Lieu of Reinsurance.” See the Budget Detail, Attachment 6, for proposed loan and grant spending for FY 2021.

- 8) Reserves in Lieu of Reinsurance:** No change is proposed to the range of factors that are used to calculate the amount of reserves to be held in lieu of the purchase of reinsurance. The MSI Board has established that reserve factors within a range of \$4.44 to \$12.95 per \$1,000 of “Underwritten Coverage” be used to maintain “Reserves in Lieu of Reinsurance” at levels that result in “Unreserved Fund Balances” of about \$1 million. Rounded to the nearest penny, the factor used at the end of FY 2020 was \$8.69, which is well within the established range.
- 9) Premium Distribution:** A premium distribution is not proposed.
- 10) Evaluation of MSI Claims for Fiscal Year 2020:** Annual report requested by the Board to evaluate and summarize MSI claim investigations. See attached MSI Claims for FY 2020.



## MINE SUBSIDENCE INSURANCE

### Annual Premiums

Effective July 1, 2021

Coverage	Premium	Senior Citizen
\$10,000	\$6.25	\$5.63
\$20,000	\$8.75	\$7.88
\$30,000	\$11.25	\$10.13
\$40,000	\$13.75	\$12.38
\$50,000	\$16.25	\$14.63
\$60,000	\$18.75	\$16.88
\$70,000	\$21.25	\$19.13
\$80,000	\$23.75	\$21.38
\$90,000	\$26.25	\$23.63
\$100,000	\$28.75	\$25.88
\$110,000	\$31.25	\$28.13
\$120,000	\$33.75	\$30.38
\$130,000	\$36.25	\$32.63
\$140,000	\$38.75	\$34.88
\$150,000	\$41.25	\$37.13
\$160,000	\$43.75	\$39.38
\$170,000	\$46.25	\$41.63
\$180,000	\$48.75	\$43.88
\$190,000	\$51.25	\$46.13
\$200,000	\$53.75	\$48.38
\$210,000	\$56.25	\$50.63
\$220,000	\$58.75	\$52.88
\$230,000	\$61.25	\$55.13
\$240,000	\$63.75	\$57.38
\$250,000	\$66.25	\$59.63
\$260,000	\$68.75	\$61.88
\$270,000	\$71.25	\$64.13
\$280,000	\$73.75	\$66.38
\$290,000	\$76.25	\$68.63
\$300,000	\$78.75	\$70.88
\$310,000	\$81.25	\$73.13
\$320,000	\$83.75	\$75.38
\$330,000	\$86.25	\$77.63
\$340,000	\$88.75	\$79.88
\$350,000	\$91.25	\$82.13
\$360,000	\$93.75	\$84.38
\$370,000	\$96.25	\$86.63
\$380,000	\$98.75	\$88.88
\$390,000	\$101.25	\$91.13
\$400,000	\$103.75	\$93.38
\$410,000	\$106.25	\$95.63
\$420,000	\$108.75	\$97.88
\$430,000	\$111.25	\$100.13
\$440,000	\$113.75	\$102.38
\$450,000	\$116.25	\$104.63
\$460,000	\$118.75	\$106.88
\$470,000	\$121.25	\$109.13
\$480,000	\$123.75	\$111.38
\$490,000	\$126.25	\$113.63
\$500,000	\$128.75	\$115.88

Coverage	Premium	Senior Citizen
\$510,000	\$131.25	\$118.13
\$520,000	\$133.75	\$120.38
\$530,000	\$136.25	\$122.63
\$540,000	\$138.75	\$124.88
\$550,000	\$141.25	\$127.13
\$560,000	\$143.75	\$129.38
\$570,000	\$146.25	\$131.63
\$580,000	\$148.75	\$133.88
\$590,000	\$151.25	\$136.13
\$600,000	\$153.75	\$138.38
\$610,000	\$156.25	\$140.63
\$620,000	\$158.75	\$142.88
\$630,000	\$161.25	\$145.13
\$640,000	\$163.75	\$147.38
\$650,000	\$166.25	\$149.63
\$660,000	\$168.75	\$151.88
\$670,000	\$171.25	\$154.13
\$680,000	\$173.75	\$156.38
\$690,000	\$176.25	\$158.63
\$700,000	\$178.75	\$160.88
\$710,000	\$181.25	\$163.13
\$720,000	\$183.75	\$165.38
\$730,000	\$186.25	\$167.63
\$740,000	\$188.75	\$169.88
\$750,000	\$191.25	\$172.13
\$760,000	\$193.75	\$174.38
\$770,000	\$196.25	\$176.63
\$780,000	\$198.75	\$178.88
\$790,000	\$201.25	\$181.13
\$800,000	\$203.75	\$183.38
\$810,000	\$206.25	\$185.63
\$820,000	\$208.75	\$187.88
\$830,000	\$211.25	\$190.13
\$840,000	\$213.75	\$192.38
\$850,000	\$216.25	\$194.63
\$860,000	\$218.75	\$196.88
\$870,000	\$221.25	\$199.13
\$880,000	\$223.75	\$201.38
\$890,000	\$226.25	\$203.63
\$900,000	\$228.75	\$205.88
\$910,000	\$231.25	\$208.13
\$920,000	\$233.75	\$210.38
\$930,000	\$236.25	\$212.63
\$940,000	\$238.75	\$214.88
\$950,000	\$241.25	\$217.13
\$960,000	\$243.75	\$219.38
\$970,000	\$246.25	\$221.63
\$980,000	\$248.75	\$223.88
\$990,000	\$251.25	\$226.13
\$1,000,000	\$253.75	\$228.38

**Note:** Policyholders who are at least 65 years of age by the effective date of coverage receive a 10% discount on the premium of their primary residence.

## Evaluation of MSI Claims Opened During Fiscal Year 2020

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### Introduction

This report was prepared in response to the Mine Subsidence Insurance (MSI) Board's request to evaluate and summarize investigated MSI claims. The Board originally requested this evaluation during the January 2018 annual board meeting. Since then the report is prepared on an annual basis and provided to the MSI Board. All MSI claims opened during Fiscal Year 2020 (July 1, 2020 → June 30, 2021) were reviewed in detail. The MSI engineering reports prepared for each investigated claim were summarized and that data used to compile this report.

### Background

Two hundred and thirty-eight (238) claims were opened with the MSI Fund during FY 2020. A claim is considered 'opened' when a policyholder contacts the California District Office (CDO) and indicates that he or she wishes to file an MSI claim. At that time, a Damage Claim Form is sent to the policyholder via email and/or US Mail. Once the damage claim form is returned, the claim investigation process commences. The MSI Program's claim investigation process includes but is not limited to: a detailed review of available mining information, review of past issues in the area, and a structure investigation conducted by a licensed professional engineer and/or a subsidence investigator (unlicensed engineer). All investigations are conducted by a licensed professional engineer or under the responsible charge of a licensed professional engineer.

The following table summarizes the status of all claims opened in FY 2020.

Denied Claims	189
Supported Claims	11
Investigation Ongoing	7
Claims Abandoned by policyholder	24
Claims Withdrawn by policyholder	7
<b>Total Claims Opened</b>	<b>238</b>

- Denied Claims – Claimed and/or observed damages were not covered by terms of the insuring agreement. The damages were not caused by mine subsidence or an unexpected breakout of mine water during the policy period. Further explanation of denied claims is provided in the Discussion section of this report.
- Supported Claims – Claimed and/or observed damages were covered by terms of the insuring agreement.
- Investigation Ongoing – MSI's investigation is still ongoing. A final decision for the claim has not been made.

- Claim Withdrawn by policyholder – The policyholder requested either verbally or in writing that their claim be withdrawn. A claim investigation was not conducted.
- Claim Abandoned by policyholder – The policyholder failed to return the Damage Claim Form. The claim was closed without investigation.

## **Discussion**

The total number of claims investigated during Fiscal Year 2020 were approximately 33 percent higher than in Fiscal Year 2019 (207 claims versus 155 claims), and the total number of claims opened during the same period increase approximately 40 percent (238 claims versus 169 claims). The following discussed the details associated with the various claim statuses.

### *Abandoned or Withdrawn Claims*

Of the 238 claims opened with the MSI Fund in FY 2020, 31 (or 13%) of the claims opened were either abandoned or withdrawn by the policyholder. Policyholders abandoned or withdrew their claims for various reasons. Some of these reasons include no longer wishing to proceed with a claim, further discussion with MSI staff alleviated their initial concerns, and no further communication from the policyholder to the MSI program.

As noted by the figures, policyholders simply failed to return their damage claim form in 24 cases and their claim was considered Abandoned. This does not prevent the policyholder from filing a new claim. The Insuring Agreement requires that policyholders return the Damage Claim Form within 60 days of receipt. However, as a business practice and courtesy to policyholders, MSI routinely provides policyholders at least 120 days to return Damage Claim Forms before a claim is considered Abandoned.

Subtracting the abandoned and withdrawn claims, Damage Claim Forms were received and claim investigations were conducted for 207 claims opened during FY 2020.

### *Open Claims*

Seven (7) claims opened during FY 2020 remain under investigation. Reasons include pending geotechnical exploration work by outside engineers and lack of MSI access due to family disagreements and COVID-19.

### *Supported Claims*

Eleven (11) claims were supported during FY 2020. This is approximately 5% of all claims investigated. The damages observed by MSI investigators were covered by terms of the insuring agreement, i.e., the damages were caused by mine subsidence or were the result of a sudden, unexpected outbreak of mine drainage during the policy period. Supported claims also include cases where, in the professional judgement of the investigator, subsidence cannot be ruled out as a possible cause of the damage. As such, the 'benefit of the doubt' is given to the policyholder and the claim is supported.

### *Denied Claims*

One hundred eighty-nine (189) claims were denied during FY 2020. This amounts to 79% of the total claims opened (238) or 91% of the total claims investigated (207). In all 189 cases, the claimed damages and observed issues were not due to mine subsidence damage (or damage related to a mine water breakout) that occurred during the policy period.

Review of the engineering reports for each claim revealed the following:

- In 183 of the denied claims, the investigator determined problems were not related to mine subsidence.
- In 6 denied claims, it was determined the structure was not undermined and not at risk of a mine water breakout. Therefore, the claimed damages were not the result of mine subsidence or a mine water breakout. The MSI policy had no value to the policyholder. Policy premium refunds were offered to the policyholder.
- In 1 denied claim, at least some of the claimed the damages were not apparent to the MSI investigator. The investigator was unable to observe the damages the policyholder believed were present. No damage indicative of mine subsidence was observed.

Undermined buildings are at risk of damage from mine subsidence and mine subsidence damage can be severe. However, there are numerous factors, unrelated to mine subsidence, that can cause damage to a building and many are far more common than mine subsidence. Some common causes of damage observed by MSI engineers and investigators, unrelated to mine subsidence, include:

- Lateral earth pressure.
- Poor surface water drainage conditions.
- Improperly routed downspouts.
- Structural fatigue.
- Corrosion of window lintels due to age and/or lack of maintenance.
- Expansion of concrete subbase.
- Shrinking and swelling of soils due to changing moisture conditions.
- Slope instability.
- Poor construction practices.
- Inadequate main beam support.
- Construction on fill and/or poor soils.

Often, there are multiple non-subsidence related factors damaging a home. Poor drainage conditions can exacerbate lateral earth pressure problems or lead to slope instability. Many older buildings exhibit signs of structure fatigue (sagging) that can be compounded by inadequate beam support. As illustrated by the statistics comparing denied claims versus claims investigated, most buildings MSI investigates are experiencing damages not related to mine subsidence.

There is no monetary cost or risk for policyholders to file an MSI claim. An MSI claim denial does not prevent policyholders from filing future claims. Policyholders often make statements to MSI staff like, "I just wanted to have someone inspect the damages" or "I just wanted to make sure it was not subsidence".

MSI commonly receives claims filed by homeowners at the recommendation of contractors. Homeowners routinely engage contractors to assess existing damages within their homes. Contractors

may be unsure of the cause of the damages and suggest that homeowners file a claim with MSI. Mine subsidence damage investigations are a specialized discipline within engineering. MSI staff are trained and experienced in conducting these investigations. Generally, homeowners, contractors, and many other engineers are not trained or familiar with subsidence investigations and are unsure of the movement patterns and damages indicative of mine subsidence. This can lead to homeowner uncertainty regarding the cause of damages in their home. MSI engineers and investigators determine if the damages are related to mine subsidence, and if not, often assist homeowners with finding the cause of the damages.

## **Conclusion**

The MSI fund conducts complete engineering investigations by experienced licensed professional engineers or under the responsible charge of an experienced licensed professional engineer. The percent of denied claims during FY 2020 was 79% of all opened claims and 91% of all investigated claims. The FY 2020 percentages are in-line with the previously analyzed FY 2019 percentages of 81% and 88% respectively and MSI's experience in investigating mine subsidence damage claims. Most of the structures investigated do not have mine subsidence damage. Numerous other and more common factors cause most of the damages the MSI program observes.

As noted above the number of claims opened and investigated during Fiscal Year 2020 have increased significantly over those opened and investigated during Fiscal Year 2019. It is anticipated that the number of claims opened and investigated will increase during Fiscal Year 2021 as new policy rates and increased policy limits began at the start of the Fiscal Year.