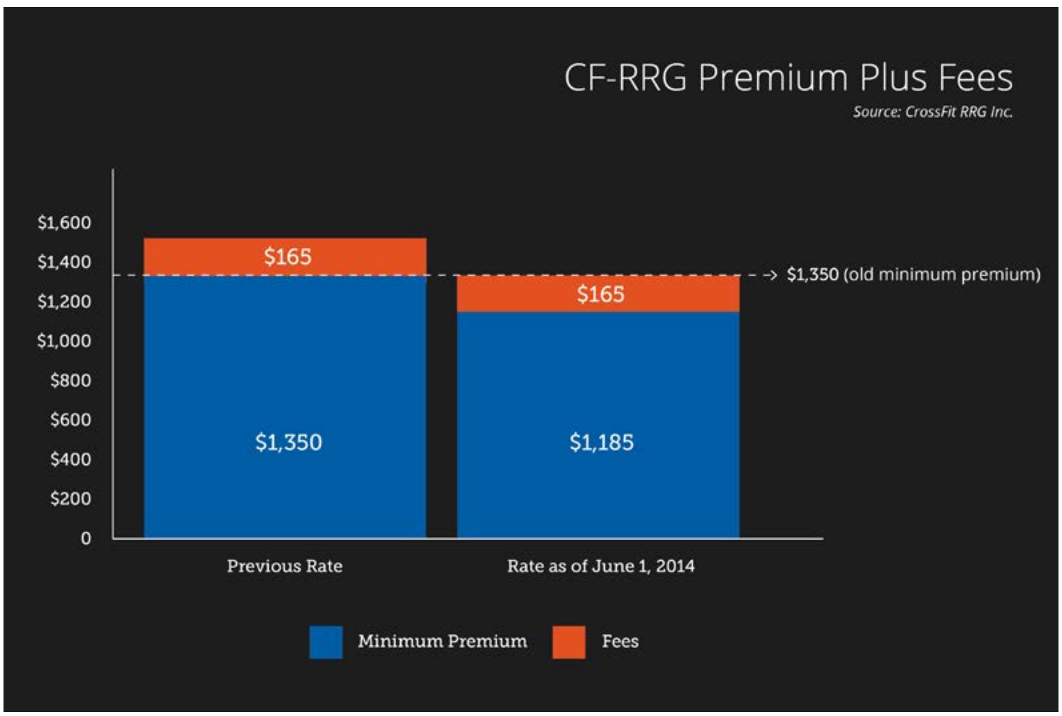
THE CrossFit JOURNAL

CrossFit Risk Retention Group Inc. Announces Premium Reduction, Claims-Free Discount

RRG members to save almost $1 million in premium costs from June 1 through 2015.

By Eric Reingen **May 2014**



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Effective June 1, 2014, CrossFit Risk Retention Group Inc. (CF-RRG) will implement two cost-reduction programs for its members.

First, the minimum premium for all affiliates will be lowered to US$1,185 annually, a cost savings of $165 per member. Second, the total premium cost will be discounted 20 percent for members who have not had a previous claim. The net decrease in cost is 14.7 percent, a savings of approximately $958,724 for CF-RRG members through 2015, according to a Perr & Knight study conducted in December 2013.

The changes validate the success of the CrossFit RRG program but more importantly confirm many of its original tenets.

As a whole, the CF-RRG community is safer than the fitness world at large, which has led to net profit for the insurance company. (The original rates and minimum premium were based entirely on fitness-industry-wide insurance data. This discount and reduced minimum are based partly on CF-RRG's own loss history, which has been much better than that of the fitness industry.)

As originally planned, CF-RRG will return its profits to its members in a manner that will not threaten the financial security of CF-RRG. The board of directors and its actuaries, administrators and regulators have come to a consensus that cost reductions are the best approach. CF-RRG truly is by the community, for the community: No other insurance company has returned its profit to the CrossFit community.

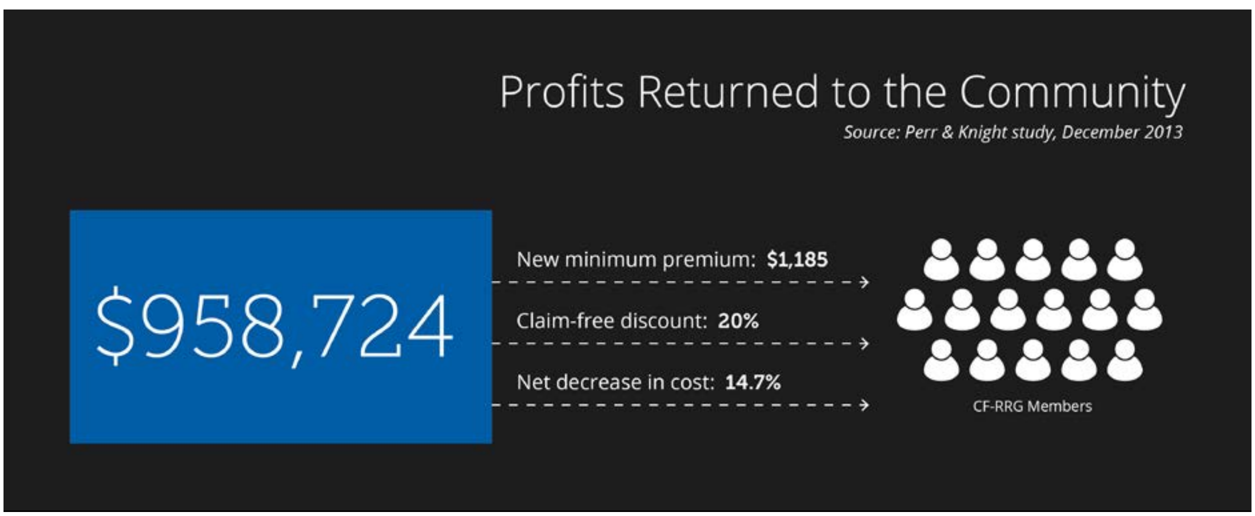
Premium Reduction Vs. Dividend Return

The RRG team has spent several months analyzing cost reductions, and research suggested premium reductions are better for both members and the RRG when compared to releasing a dividend. From the membership standpoint, premium reductions can help lower annualized costs while also standardizing the lowered cost over multiple years. With a dividend return, the lump sum would be a one-time event, and the total return could vary over time. More importantly, a dividend release could subject each member to capital-gains taxes, thereby reducing the total profit realized by each member. Premium reductions will prevent capital-gains taxes from becoming an issue.

From the CF-RRG perspective, premium reductions are also advantageous financially and administratively and help the RRG remain competitive in the marketplace. Financially, the CF-RRG is able to keep its capital and surplus growing at an aggressive pace. Capital and surplus are very important for an insurance company because of minimum-holding requirements from regulators and also because they form the basis of investment funds. Releasing a dividend directly impacts the capital and surplus of the insurance company, which decreases the ability to make a return on investments. This is a disadvantage. Premium-reduction techniques affect the net profit, rather than reducing the insurance company's surplus, which allows investments to continue to amass at a greater rate. Increasing capital allows CF-RRG to rely more on its investments for profits, increasing the ability to reduce future premiums. Higher capital levels also reduce the need for expensive reinsurance.

By reducing premiums, we can more easily accomplish the reduction programs without affecting the member experience. Administratively, the CF-RRG can continue to place its focus on modernizing the insurance process rather than tracking dividends for each member. We can also reward members who have had no claims, a category that includes the vast majority of affiliates and trainers. This will encourage members to practice better loss control within their boxes, thus improving the likelihood of another decrease in rates as the company continues to mature.

Dividend returns do not have an impact on the competitive marketplace. However, premium reductions will place CF-RRG in a better position. Since inception, CF-RRG has been comparatively more expensive because of its broad and inclusive product offering, but now we can offer the same broad product at a much lower cost without jeopardizing value. For those who shop for insurance based on price and not necessarily



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coverage, CF-RRG is now an even more attractive option. This will lead to higher membership numbers within the RRG, ultimately providing the source for further premium reductions as total premium volumes grow.

Premiums Vs. Fees

As our analysis was conducted, we also looked at the impact of decreasing premiums vs. decreasing policy fees. A fee can be used for administrative expenses or broker's compensation. Premium defines the amount paid to an insurer for bearing the risk described in the policy. Because our members are the owners of the CF-RRG, the total cost of insurance should be primarily premiums—not fees—to maximize the profit sharing available to our members.

Premiums increase surplus and also help fight claims, pay defense attorneys, hire adjustors, allow for investment income and more. Fees do not have these advantages.

Market studies indicate CF-RRG competitors use fees at an alarming rate. Although the CF-RRG administrator charges $165 per policy, our study indicated that fees of $250-$500 weren't uncommon with competitors. This greatly affects the community.

The new minimum premium of $1,185 was selected so premium plus fee would be $1,350. We encourage affiliates to compare premium plus fees when they shop for insurance.

What's Next?

Current CF-RRG members will see the cost-reduction programs automatically implemented on their next policy renewal. Keep in mind members who experience a huge amount of growth over the year will still see premiums increase. Even when the rate is lowered, increased revenue affects the total cost.

For example, a box earning $100,000 in 2013 paid the $1,350 minimum premium. If it projects to make $100,000 again in 2014, it will pay the new $1,185 minimum premium. However, if it projects to make $400,000 in revenue, the premium would be $6.96 per $1,000 of revenue, which is $2,784 annually (vs. the old rate of $8.70, which would create costs of $3,480 annually). Although the total cost increases, the rate has been lowered by 20 percent.

New CF-RRG members will have the same advantages as all other members effective June 1.

One of the primary goals of CF-RRG was to return profit to its members as soon as it was able to do so. As the company continues to grow, premium returns will be analyzed every year. If membership continues to increase, we believe premiums will continue to decrease for the CF-RRG community. The possibility of continually decreasing premiums is one of the primary advantages CF-RRG holds over commercial insurance companies.

For more information visit CrossFitRRG.com.

About the Author

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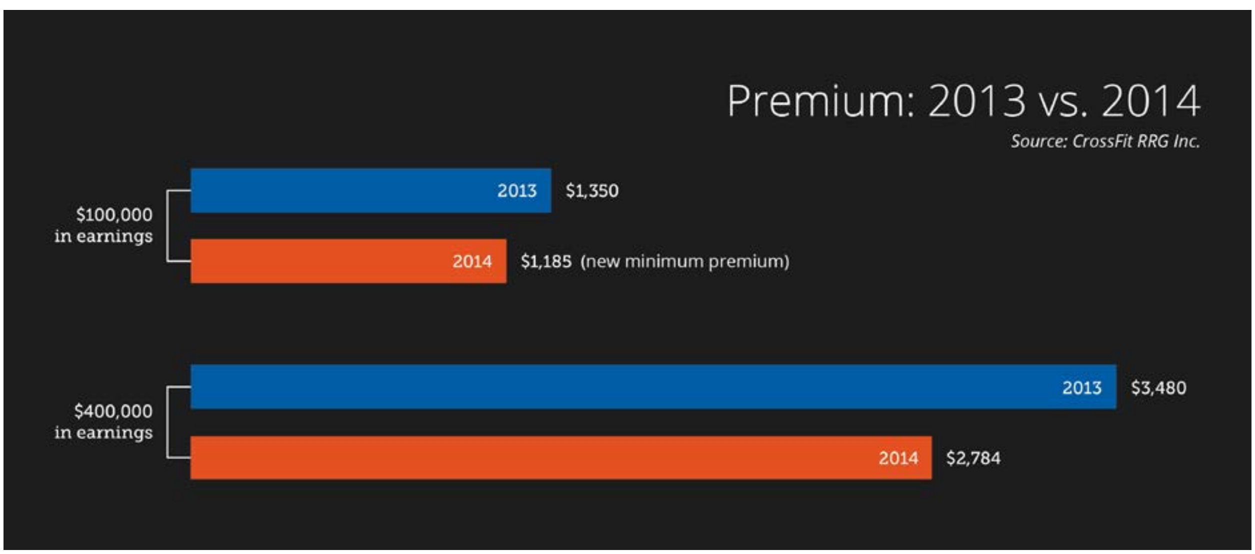

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