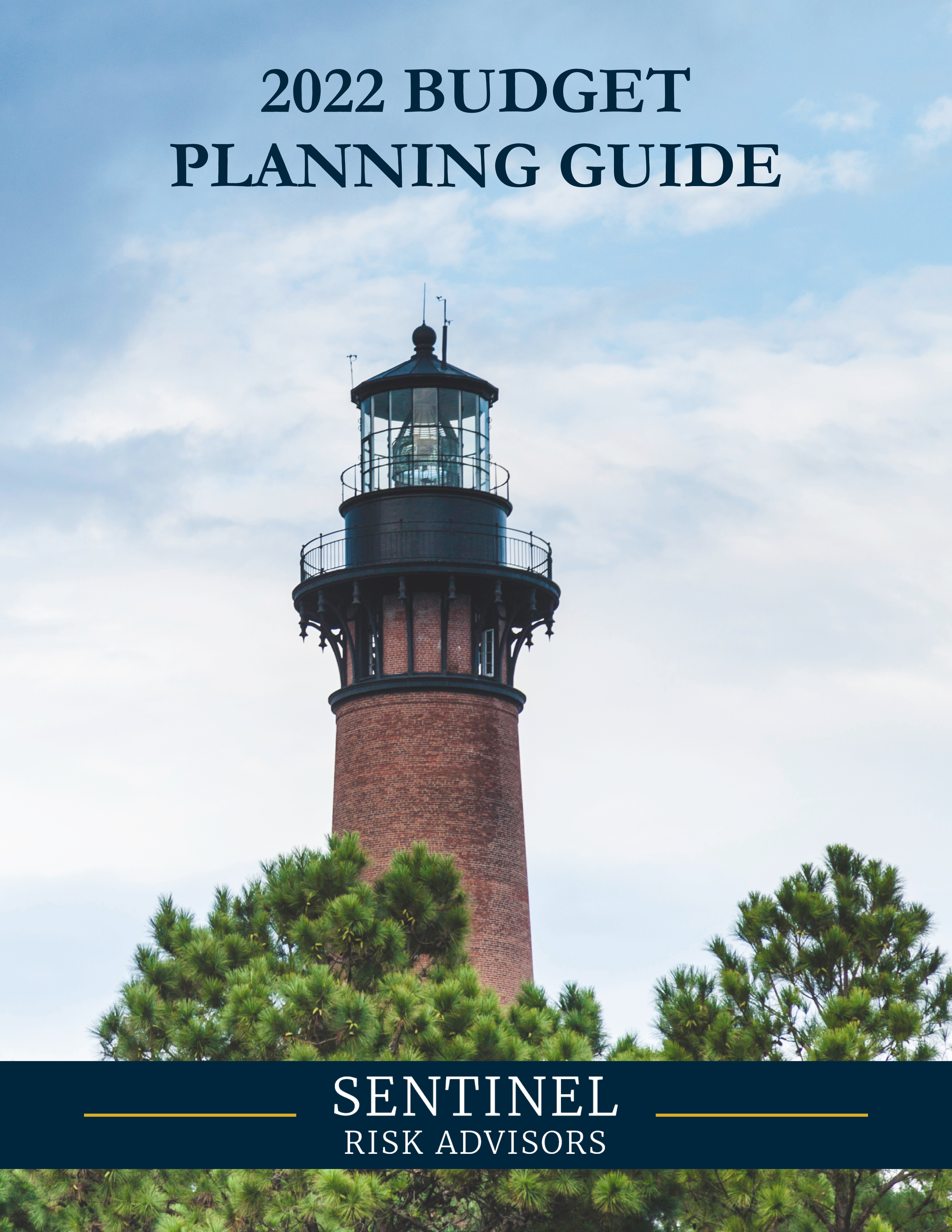
2022 BUDGET PLANNING GUIDE



SENTINEL
RISK ADVISORS

EXECUTIVE SUMMARY

James L. Holmes, Jr., CPA
Managing Partner
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A clear advantage of being a dynamic, privately held organization is that we can be flexible in our approach and nimble in our ability to address the needs of our clients. Case in point is our exclusive Market Review and Forecast, which is traditionally produced each November. For 2022, we have adjusted our method, splitting the Market Review and Forecast into distinct publications. This allows us to provide timely forecast information as you effectively prepare your 2022 budgets in fourth quarter while assembling a more comprehensive market review and evaluation of 2021 in early 2022.

Also new to these reports is the addition of Employee Benefits information. In September of 2021, Sentinel Risk Advisors, LLC expanded its partnership with Curi to offer employee benefits solutions. The joint venture (Sentinel Risk Advisors - Benefits Consulting Solutions), builds upon an alliance that began in 2016, further integrating the two firms' approach to risk management and insurance solutions.

As we transition to the fourth quarter, Sentinel Risk Advisors, LLC stands alone as a firm who can offer combined Property & Casualty and Employee Benefits backed by deep industry experience. Our unmatched, comprehensive service platform enables us to present customized solutions implemented through a full suite of technology resources and talented advisors.

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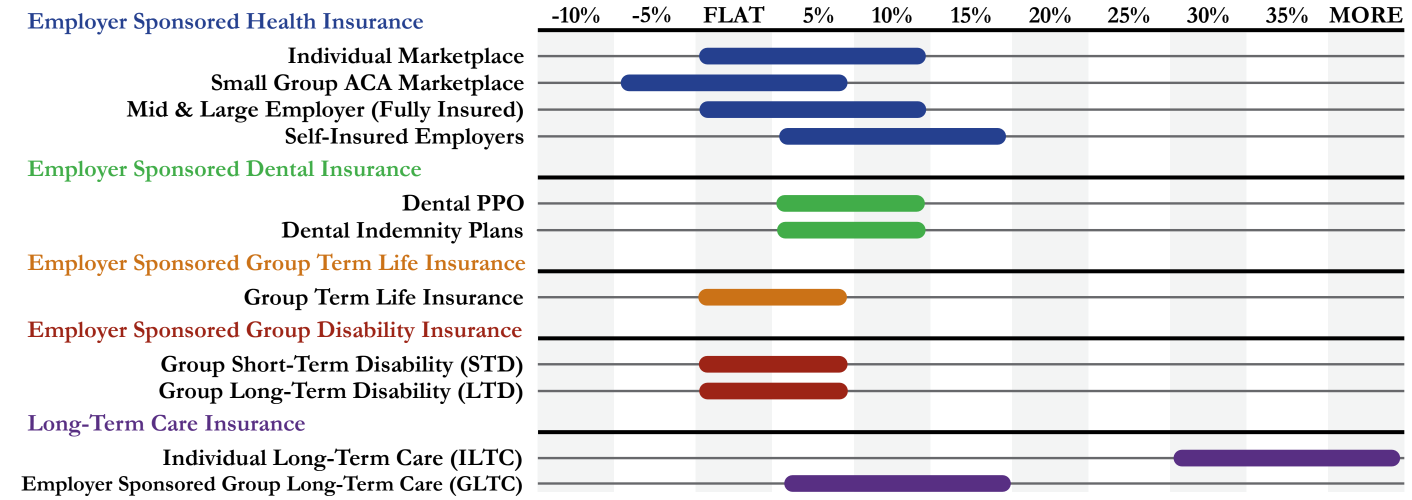
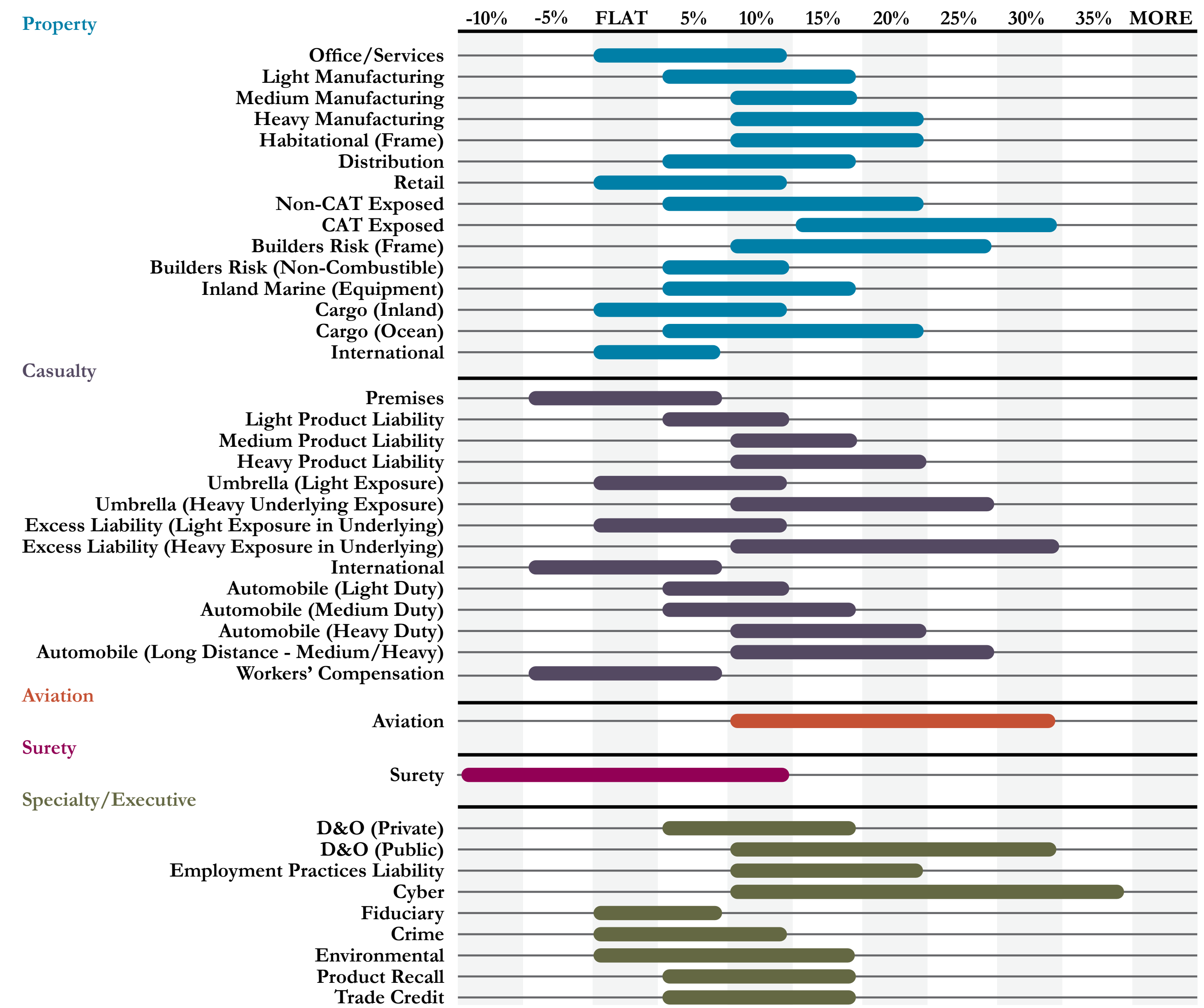
AS YOU BEGIN TO PLAN AND BUDGET FOR 2022, WE HIGHLY RECOMMEND THAT YOU CONTEMPLATE INCLUDING THE FOLLOWING PAGES IN YOUR BUDGETING PROCESS:

PROJECTED RATE CHANGES FOR EMPLOYEE BENEFITS



PROJECTED RATE CHANGES FOR RISK & INSURANCE



DOMINANT DRIVERS OF HEALTHCARE TRENDS

HEALTH CARE DEFERRED

Healthcare spending by employers was lower than expected in 2020 and 2021. In some geographic areas, expenditures for routine health care, preventative care, elective surgeries, etc. have been down by as much as 30%. Some healthcare services were deferred at the start of the COVID-19 pandemic, and are expected to return in 2022. This return will likely be a driver of increased healthcare spending.

COVID-19

The cost of testing, physician office visits, hospital visits, along with ICU visits will persist to 2021 & 2022. The COVID-19 pandemic has changed how and where individuals gain access to care. This change is large enough to influence multiple aspects of price and utilization. The pandemic and its aftereffects on the health care system are expected to drive up spending in 2021 and 2022, however changes to consumer behavior and provider network and payment models are expected to drive down cost in the long run. According to a study by PriceWaterhouseCooper, health costs in 2022 will increase 6.5% – slightly less than the 7% increase in 2021. The positive news is that major insurance payors have not suffered extreme financial losses as a result of the pandemic because many consumers deferred or canceled preventive and elective health care services, therefore offsetting the unexpected claims from COVID-19. It is yet to be seen how the emergence of the DELTA variant will revise projected cost trends heading into 2022.

OVERALL HEALTH OF INDIVIDUALS

Poor health behaviors such as increased substance abuse, poor nutrition, and delay of essential care for chronic illnesses has led to a deterioration of the overall health of the US population which will eventually lead to increased healthcare spending.

MENTAL HEALTH

There has been a dramatic increase in depression and other related mental illnesses which will have a direct impact on increased health care spending.

PRESCRIPTION DRUGS

Prescription drug cost trends continue to be double digit increases annually and with the introduction of new "specialty" drugs there are no indications that this trend will not continue. In 2021, more than half of pharmacy spend was on specialty drugs and total pharmacy spend accounts for approximately 19% to 25% of employers' total healthcare cost. Insurance payors and prescription benefit managers (PBMs) continue to look for ways to deflate the escalating cost through formulary changes, elimination of certain drugs classes and limited pharmacy networks.

TELEHEALTH

The utilization of Telehealth has exploded during the COVID-19 pandemic. According to a survey from FAIR Health, there was a 4347% increase nationally in telehealth utilization from March 2019 to December of 2020. Many providers and hospitals are encouraging patients to utilize telehealth services instead of going to the office or hospital for non-life-threatening care.

The benefits of telehealth are:

- Limiting healthcare workers and other patients to exposure to the coronavirus and other diseases.
- Increased services for chronic patient monitoring, follow-up visits, therapy appointments and post-operative care.
- Increased access to care, particularly for preventive services, therefore improving outcomes.
- Greater ability for patients to follow shelter-in-place restrictions or suggestions by staying home and away from hospitals, except for emergencies.
- Increased convenience due to receiving care in the comfort of your home.
- Cost savings, depending on the health plan; an average telehealth call costs $10 vs. an average of $35 to $75 for an in-person office visit.

PREMIUM SURCHARGE

With FDA's full approval of Pfizer's COVID-19 vaccine, another very possible trend is some employers may tack on health coverage surcharges for employees who refuse to get fully vaccinated against COVID-19.
The health insurance surcharge for unvaccinated employees could be like those that have been levied for tobacco users.

TIERED & NARROW NETWORK HEALTH PLANS

Insurance carriers have been developing tiered and narrow networks to direct enrollees to more cost-effective providers. These networks are restricted to a limited number of providers that agree to meet relatively stringent cost and/or quality objectives. These plans have been found to significantly lower premiums and overall spending without necessarily harming access to care, even though fewer providers are covered. Narrow network plans are relatively common in the individual market. Employers have been reluctant to adopt this strategy, with only approximately 5% offering these plans in 2020.

SENTINEL
RISK ADVISORS

Our Vision

To protect and improve each client - personally and professionally - by elevating strategic risk management services and innovative insurance solutions to unparalleled standards.

Our Mission

We endeavor to provide advice, guidance and counsel via strategic risk management services and innovative insurance solutions to organizations and individuals who require a customized, high-touch service approach.

Our commitment to remaining independently owned allows us to empower team members to think dynamically about the unique characteristics of each client, while leveraging the resources and talents of a comprehensive technical and service platform.

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EMPLOYEE BENEFITS

EMPLOYER SPONSORED HEALTH INSURANCE

The trend to shift more out-of-pocket claims cost to employees will most likely continue. 73% of employers across all market segments have company sponsored health plans with individual deductibles of $2,000 and 70% have employee out-of-pocket maximums of $4,000 or higher. Initial North Carolina insurers' rate filings suggest COVID-19 pandemic will not be the dominant driver of healthcare spending in 2022. The increase in spending due to COVID-19 has been offset by the deferral of routine care resulting in insurance carriers not experiencing losses as feared when the pandemic began to take hold in the US.

Individual Marketplace

Depending on insurance carrier and geographic region the range of increases will range from 2% to 9.5%.

Small Group ACA Marketplace

Depending on the insurance carrier and geographic region the range of base rate adjustments will range from (-3) to 5%.

Mid and Large Employer, Fully Insured

Experts predict an average base rate increase of 6.5%.

Self-insured Employers

Administration costs should remain stable. Medical claims cost is trending between 5 to 6.5% annually. Reinsurance Stop Loss coverage is forecasted to increase by an average of 8%. While delayed routine care utilization began to return in early 2021, the surge with the Delta variant may result in delayed care once again resulting in another short-term reduction in gross utilization cost.

HEALTH INSURANCE RATE CHANGES

EMPLOYER SPONSORED GROUP TERM LIFE INSURANCE

Group Term Life Insurance plans will experience minimal premium increases in 2022 with an average of 0% to 5%.

EMPLOYER SPONSORED SHORT-TERM & LONG-TERM DISABILITY INSURANCE

Expect minimal increases in both Employer Sponsored Short Term (STD) & Long-Term Disability (LTD) in 2022. Industry experts expect STD claims to increase as more employees are missing time away from work and filing STD claims due to COVID-19.

EMPLOYER SPONSORED DENTAL INSURANCE

COVID-19 has had an impact on routine dental care also. Deferred Dental care in 2020 resulted in a reduction in spending by an average of 30%. While Dental care in 2021 has returned close to pre-covid levels, the Delta variant could reverse this trend during the latter part of 2021. Dental PPO plans are the norm in the market with most enrollees in PPO or Passive PPO Plans. Indemnity dental plans account for about 10% enrollment.

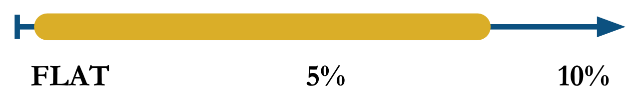
Dental PPO

Cost trend projection for 2022 is an average of 4.5%.

Dental Indemnity Plans

Trending at just above the Dental PPO plans at 4.6%.

DENTAL INSURANCE RATE CHANGES



LONG-TERM CARE INSURANCE

Individual Long-Term Care

Long-Term Care premiums have been increasing at double digit rates for the past several years. Baby boomers who bought policies in the 1990s have continued to pay premiums and keep policies in-force at a far greater percentage than had been forecast. Most long-term care insurers had anticipated a 10% policy lapse rate, however the lapse rate for many has only been around 1%.

The average premium rate increase filing for 2021 was approximately 35%, depending on the state. An Individual Long-Term Care (ILTC) policy purchased in the 1990s would have increased in premium by approximately 300% by 2021. Even with the dramatic premium increases most ILTC polices are of great benefit. The average cost of a private room in a standard long-term nursing facility will average more than $100,000 annually.

Employer Sponsored Group Long-Term Care

A robust benefit plan is a great tool to attract and retain employees. Group Long-Term Care (GLTC) has less restrictive underwriting and can be offered as employer paid or voluntary employee paid. Premiums are far more affordable than individual policies and can be underwritten with a base amount and allow employees to buy up to greater daily benefit amounts. These policies are typically portable and can be converted to an individual policy if employment terminates.

RISK & INSURANCE

Over the last two years, most businesses have experienced insurance rate increases, not to mention exposure changes in several areas (revenues, number of employees, payrolls, business income exposures, property values, number of automobiles, etc.). Rate increases, depending on the line of coverage have ranged from 10-40% (or more). According to information recently released by the *Insurance Information Institute*, property and casualty insurers are projected to have less than expected underwriting profits in 2021. Combined Ratios of 99.6 are forecast in 2021, which is an increase from 98.7 in 2020. These ratios are targeted to rise again for 2022 and 2023 to 98.9 and 99.3, respectively.

Losses from natural disasters worldwide established a 10-year high in the first half of 2021, at just over $42 billion. The extreme cold in the United States in February, Spring thunderstorm and hail losses, as well as continued drought conditions and raging wildfires are all major factors indicating a hardening property market will persist. Liability lines including commercial automobile and general liability are struggling to get combined ratios under 100. Commercial automobile is significantly impacted by increased litigation trends. Social inflation is now a leading factor in the overall growth of automobile claims--to the tune of almost $8 billion according to the *Insurance Information Institute*.

PROPERTY

Rate increases will range from 'Flat' to 20% (Non-Cat exposed depending upon type of construction with frame being the higher range) and 15% to 40% (CAT exposed). For each category, (CAT and Non-CAT) if you have had losses expect increases to be higher.

Inland Marine

Rate increases will range from 'Flat' to 15%.

Builders Risk

Rate increases will range from 'Flat' to 15%.

Marine

Rate increases will range from 10% to 20% (depending upon shipping routes and values – higher values and more risky routes will see higher rates).

PERSONAL RISK ASSESSMENT

You work hard to protect your business from unplanned risk, but what about your personal wealth? Our dedicated **Private Client Services** team invests their time, knowledge, and experience to fully understand the various risks and exposures associated with your portfolio of assets.

Our process begins with a complimentary Personal Risk Assessment - **a thorough analysis of your personal risk profile to identify your asset and liability protection needs.**

This includes an analysis of your exposure to risk based on your lifestyle, as well as reviewing your existing insurance program to identify any potential gaps in coverage. Based on the results, our team presents options and recommendations custom-tailored to your specific needs.

Complete your complimentary Personal Risk Assessment by visiting www.sentinelra.com/privateclientservices

CASUALTY

General Liability

Rate increases will range from 5% to 15%, businesses with higher risk product exposures will experience increases of 15% to 25%. If you have had losses expect increases to range 20% and up.

Umbrella

Rate increases will range from 10% to 30%.

Excess Liability

Rate increases will vary by layer, with 1st Excess being more expensive with increase ranges from 15% to 25%. Higher layers rate increases will range from 10% to 30%.

Automobile

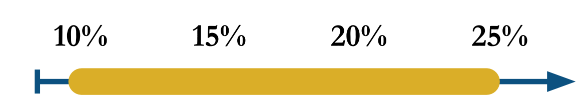
Rate increases will range from 5% to 20%, businesses with more difficult losses and heavier fleets may see rate increases of up to 50%.

Workers' Compensation

Rates may range from decreases of 5% to 10% to increases of 5% to 10%. Despite the Experience Modifier reflecting losses, insurers will reduce credits and discounts which can effectively increase rates for businesses with losses.

AVIATION RATE CHANGES

Rate increases will range from 10% to 25%.



SURETY RATE CHANGES

Rates will range from 10% decreases to 10% increases, depending upon the business' financial statements.

RISK & INSURANCE - SPECIALTY LINES

CYBER LIABILITY

Without question the coverage to watch in 2021 has been Cyber/Privacy and Security. **It is an absolute necessity for insureds to manage their cyber risk.** Ongoing reliance on remote workforces and additional technology across all industries only reinforce the obvious. Stories of cyberattacks and ransomware continue to dominate national and international media coverage.

The insurance market continues to remain in flux; with increased pressure on controls (how many times have you talked about Multi-Factor Authentication/MFA this year alone?), a growing list of questions and supplemental applications from carriers, increasing retentions and waiting periods, decreasing limits, available carriers, and overall capacity. When you factor increased regulations that mandate the purchase of cyber insurance for selected businesses into the equation, the result is an ever-changing cyber liability insurance marketplace.

Standard & Poor's reported early in 2021 that Cyber insurance premiums were expected to increase 20%-30% per year for each of the next five years on average. Throughout 2021 we have seen rate increases of 10% to 50% depending on the individual insured's practices and the carrier's appetite and capacity. As we enter 2022, we expect risks with excellent controls to experience rate increases of 10% with an uptick of up to 30% or higher.

EXECUTIVE LIABILITY

Directors & Officers Liability

Expect a rate push of approximately 5-10% as suits from investors for poor performance continued in 2021. By mid-2022 many experts predict renewal rates may be flat. This coming after 2021 rate increases of 7-10% and 15 consecutive quarters of year-over-year rate and premium increases.

Employment Practices Liability

The number of allegations for discrimination and harassment continue to rise. Insurers are now expressing concerns about an expected wave of discrimination claims as employees return to office environments. There are roughly 3,000 COVID-19 related employment lawsuits in the United States since the pandemic began.

These suits have included disputes over remote working, workplace safety and discrimination according to Fisher Phillips law firm. Increasing worries about discrimination allegations involving vaccinations and testing have underwriters watching closely. Companies that have not carried Employment Practices Liability in the past are expressing interest in options in an environment where rates have risen 25% and more over the past 18 months. Rate pressures of 10-20% are predicted as we enter 2022.

SPECIALTY/EXECUTIVE RATE CHANGES 2022

-10% -5% FLAT 5% 10% 15% 20% 25% 30% 35% MORE

POLLUTION LIABILITY

Market experts predict an increase in frequency and severity of environmental claims throughout the remainder of 2021 into 2022. Uptick in lawsuits against perceived polluters for the presence of perfluoroalkyl and polyfluoroalkyl substances (PFAS) in groundwater and the resultant adverse health effects are the new environmental craze. According to the National Association of Insurance Commissioners, the growth among environmental carriers has outpaced the general property and casualty marketplace with double digit growth in prior years. As we enter 2022 expect modest increases in rates of renewal policies at 5-15%.

PROFESSIONAL LIABILITY

The 2021 trend of professionals leaving corporate settings to start their own independent firms along with continued heightened litigation across many industries has led to an increase in the demand for and payment of professional liability policies. The construction industry was widely impacted by the pandemic and almost every construction project experienced some type of delay. There continues to be several claims filed as a result. This increased demand and number of allegations will affect the overall rate structure and terms of policies as we enter 2022. Expect rate increases of at least 10%; but check your renewal policies carefully for differing terms and conditions.

CONCLUSION

For many insurance companies, 2020 started off strong following favorable financial results in 2019. Unfortunately, reality soon set in and the insurance market dramatically changed with the outbreak of COVID-19. The pandemic exasperated an already strained marketplace following tough years of increasing loss activity. Overall, across the board insurer profitability is not expected for most of 2021, which means there are no signs the hardening market will dissipate.

Insureds should expect to continue to face continued rate pressure and possible decreasing carrier capacity across multiple coverage lines. Buyers should be prepared for another strenuous insurance renewal as we enter 2022.

Now more than ever it is important to partner with a leader like Sentinel Risk Advisors, LLC who can represent you in the marketplace. Sentinel was built to be customer centric - to help you build strategies for the unexpected and guide you to withstand the tumultuous market changes.

Learn more about Sentinel at www.sentinelra.com.

THE SENTINEL DIFFERENCE

At Sentinel, what we do is manage and mitigate risk for businesses and individuals.
It's who we are that makes all the difference. The Sentinel difference extends beyond simply protecting the value of your business, home, autos and personal articles.

In an industry that is known for placing insurance, Sentinel positions clients for prosperity. At a time when other providers are moving toward automation and an impersonal service platform, Sentinel is elevating our service commitment to uncompromising standards.

Our clients are our partners. The power and privilege of that partnership means that when you choose Sentinel, you have a whole team invested in your success, putting smart strategies into place on your behalf. Your Sentinel team marshals the highest level of resources, experience and intelligence in the industry today.

Ours is a commitment that never stops caring. A trust that never stops working. Every day and always. For Sentinel, earning your business is a privilege we work hard for on day one, and every day thereafter.

**We will not compromise on matters of value to your benefit, and will work tirelessly on your behalf.
You deserve nothing less. And that's a promise.**

SENTINEL
RISK ADVISORS

Safeguarding Your Success

About the Cover Image

The Currituck Beach Light is a lighthouse located in North Carolina on the Outer Banks.
It stands 162 ft tall and opened in 1875. The Currituck lighthouse was officially added to the National Register of Historic Places on October 15, 1973.

Sentinel Risk Advisors is the Carolinas' premier, independently owned risk management firm. Our reputation is built on exceptional client experience. Our greatest endeavor is investing in the success of the clients we represent. Sentinel offers a broad scope of property, casualty, risk management, and employee benefit solutions for today's global marketplace.

Innovative Solutions

Property & Casualty
Employee Benefits
Private Client Services
Surety Practice Group

Resourceful Services

Risk Performance Group
Sentinel Connect
Health & Well-being
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Safeguarding Your Success