

STATE OF OREGON

**Department of Administrative Services
Risk Management**

2017-19 Risk Charge Methodology Allocation Review

DAS Risk Management Program

Introduction

DAS Risk Management insures and protects the people, property and activities of state government. We insure what others won't: The unique, diverse and often hazardous business of state government.

- ❑ Our experts recommend mitigation strategies to minimize or prevent the cost of loss, both minor and catastrophic.
- ❑ When loss does occur, we manage the claim process that lets state agencies fiscally recover and carry on with their mission.
- ❑ When appropriate, DAS Risk Management partners with insurance brokers to purchase commercial insurance.

DAS Risk Management Program

The lines of coverage available to customers are:

- ❑ **General Liability:** coverage for claims alleging error and omissions made by state employees, agents and volunteers
- ❑ **Auto Liability:** coverage for public's losses resulting from automobile accidents when the state is alleged to be at fault
- ❑ **General Property:** coverage for state property losses
- ❑ **Auto Property:** coverage for damage to state vehicles
- ❑ **Workers Compensation:** coverage for employees and volunteer work-related injuries and illnesses
- ❑ **Volunteer Injury:** optional coverage for volunteers in lieu of workers compensation that supplements their existing health insurance coverage
- ❑ **Special Coverage:** coverage for unique risks not covered in the above types of coverages. Examples include excess property, aviation, catastrophic loss, inmate injury, and employee dishonesty

DAS Risk Management Services

- ❑ **Claims Management**
 - Investigation
 - Claims payments
 - Mediation
 - Litigation

- ❑ **Risk Consulting**
 - Consultations
 - Risk assessments
 - Commercial insurance
 - Training

- ❑ **Management of the Insurance Fund**
 - Actuarial reviews
 - Cash flow analysis
 - Reserve reports
 - Fund status reports, BCAR & NAIC's RBC
 - Investment allocation

Problems Facing The Risk Fund

- ❑ **Legal expenses are increasing significantly**

- ❑ **Tort cap limit increases**

- ❑ **Complexity of liability claims and litigations**

- ❑ **Workers' Comp cost increases**
 - *Older workforce*
 - *Increased medical cost*
 - *Increases in time loss paid*

- ❑ **Legislative mandated transfers**

- ❑ **A-87 penalty**

- ❑ **Timing of the receipt of SAIF dividends –Linked to A-87 penalty**

What Are the Costs Built Into Risk Charges

❑ Risk Management Program Administration Cost

- Claims management cost : Legal, underwriting and other costs
- Risk consultation cost
- Finance cost
- Administrative overhead costs

❑ Commercial Insurance Cost including

- Workers' Comp insurance premium
- Liability insurance premiums
- Excess property premiums
- Boiler & Machinery commercial insurance premiums
- Crime insurance premium
- Aviation liability
- Employee dishonesty & Public official liability bond

Note: The cost of commercial insurance premiums comes from the insurance broker

❑ The Projected ultimate statewide losses:

- Are determined from annual actuarial forecasts based on past losses and trends by the independent actuary - AON
- Then, adjusted by existing fund balances and expected investment earnings.

Forecasted and Billed Risk Charges

Cost of Risk	Billed Charges (2013-15)	Forecasted Charges (2015-17)	Billed After LFO (2015-17)
Total Workers' Comp	\$ 45,716,198	\$ 52,685,775	\$ 45,541,776
Total Property (Auto & General)	\$ 20,131,997	\$ 21,400,038	\$ 18,498,254
Total Liability (Auto & General)	\$ 42,378,349	\$ 49,585,029	\$ 42,861,467
Total Risk Admin	Included in the coverage lines		
Total Cost of Risk	\$ 108,226,544	\$ 123,670,843	\$ 107,250,203
Percentage Increase/Decrease		14.3%	-0.9%

Note:

A business decision was made by DAS Risk Management in consultation with the Customer Utility Board to keep risk charge increases stable by reducing the budgeted \$123.7 M to \$111.3 M with a 10% investment offset.

Forecasted and Billed Risk Charges-Continues

Cost of Risk	Billed After LFO (2015-17)	Forecasted Charges (2017-19)	Published Charges (2017-19)
Total Workers' Comp	\$ 45,541,776	\$ 58,003,592	\$ 44,908,536
Total Property (Auto & General)	\$ 18,498,254	\$ 16,557,166	\$ 14,618,858
Total Liability (Auto & General)	\$ 42,861,467	\$ 48,410,632	\$ 37,496,229
Total Risk Admin	N/A	\$ 10,226,580	\$ 10,226,580
Total Cost of Risk	\$ 107,250,203	\$ 133,197,970	\$ 107,262,243
Percentage Increase/Decrease		24.2%	0.01%

- A business decision was also made by DAS Risk Management in consultation with the CUB to maintain cash & investment balances @ \$107.3 million as well maintain the 2015-17 risk charge levels for the 2017-19 biennium

Historical Data - Forecasted and Billed -Published Risk (2011/13 - 2017/19)

2011 -13 Billed Risk Charges

Property	Liability	Workers' Comp	Risk Admin	Total	Percent Change	Remarks
\$ 15,887,255	\$ 38,990,790	\$ 51,602,886	N/A	\$ 106,480,931	0%	

2013 -15 Billed Risk Charges

Property	Liability	Workers' Comp	Risk Admin	Total	Percent Change	
\$ 21,131,997	\$ 42,315,701	\$ 45,812,189	N/A	\$ 108,259,886	1.7%	

2015 -17 Forecasted Risk Charges

Property	Liability	Workers' Comp	Risk Admin	Total	Percent Change	
\$ 21,400,038	\$ 49,585,029	\$ 52,685,775	N/A	\$ 123,670,843	14.2%	10% Investment Offset

2015 -17 Billed Risk Charges

Property	Liability	Workers' Comp	Risk Admin	Total	Percent Change	
\$ 18,498,254	\$ 42,861,467	\$ 45,541,776	N/A	\$ 107,250,203	-0.9%	Additional \$4.6 Million LFO Reduction

2017 -19 Forecasted Risk Charges

Property	Liability	Workers' Comp	Risk Admin	Total	Percent Change	Risk Charges Forecasted To Increase By 24.2%
\$ 16,557,166	\$ 48,410,632	\$ 58,033,592	\$ 10,226,580	\$ 133,197,970	24.2%	

2017 -19 Published Risk Charges

Property	Liability	Workers' Comp	Risk Admin	Risk Admin	Percent Change	With The Approval of The CUB, Cost Kept at 2015-17 Levels or a 0.01% Increase
\$ 14,618,858	\$ 37,496,229	\$ 44,908,536	\$ 10,226,580	\$ 107,262,243	0.01%	

Risk Charge Allocation Methodologies Review

Definitions

- Frequency:** # of claims
- Severity:** Total cost of claims
- FTE:** # of full-time equivalent positions
- TIV:** Total Insurable Value. Total property value and assets reported on the annual risk report

Minimum charge:

- Nominal charge agencies pay to be part of Insurance Fund.
- Ensures agencies pay a portion of costs.
- Historically, minimums worked with waivers to subsidize costs.

Waiver:

- Deduction of one or more losses of a stated amount.
- Historically, waivers worked with minimums to stabilize budget disruptions especially for smaller agencies that suffered a loss.
- Waived amount are reallocated, resulting in larger agencies or agencies with more losses paying the redistributed amounts.

Issues With The Old Allocation Methodology

Risk Administration

- Not currently paid by all agencies
- Many non-claims related services provided

Waivers

- Costs don't disappear
- They are reallocated and paid by other agencies
- Amount allocated is forward looking
- Allocation methodology is backward looking and heavily loss weighted

2017-19 Rate Allocation Goals

- Implement allocations that are
 - Equitable
 - Eliminate / Reduce subsidy
 - Avoid / Minimize agency budget disruption

Changes to the Allocation Methodology for 2017-19

- Waivers eliminated
- Minimums eliminated for all but Risk administration
- Risk administration now a separate allocation bucket
- Minor allocation change for Workers' Compensation

Risk Rate Methodology Comparison Summary

2015-17 Risk Rate Methodologies

2017-19 Risk Rate Methodologies

Auto Property:

- Allocation based on 20% Frequency, 80% Severity
- No waivers
- No minimum charge
- No Risk Administration charges

Auto Property:

- Allocation based on 20% Frequency, 80% Severity
- No waivers
- No minimum charge
- Risk Administration costs allocated separately

General Property:

- Allocation based on 75% Severity, 25% Total Insurable Value (TIV)
- No waivers
- No minimum charge
- Risk administration charges included in loss allocation

General Property:

- Allocation based on 75% Severity, 25% Total Insurable Value (TIV)
- No waivers
- No minimum charge
- Risk administration costs allocated separately

Risk Rate Methodology Comparison Summary-Continues

2015-17 Risk Rate Methodologies

Auto Liability:

- Allocation based on 20% Frequency, 80% Severity
- Waive one loss up to \$100k
- No minimum charge
- Risk Administration charges included in loss allocation

2017-19 Risk Rate Methodologies

Auto Liability:

- Allocation based on 20% Frequency, 80% Severity
- No waivers
- No minimum charge
- Risk Administration costs allocated separately

General Liability:

- Allocation based on 15% Frequency, 75% Severity, 10% FTE
- Waive one loss up to \$200k
- \$2,000 minimum charge
- Risk Administration charges included in loss allocation

General Liability:

- Allocation based on 15% Frequency, 75% Severity, 10% FTE
 - No waivers
 - No minimum charge
 - Risk Administration costs allocated separately
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Risk Rate Methodology Comparison Summary-Continues

2015-17 Risk Rate Methodologies

2017-19 Risk Rate Methodologies

Workers' Compensation:

- Allocation based on 100% Severity
- Waive up to 4 claims average time loss
- \$1,500 minimum charge
- Risk Administration costs included in loss allocation

Workers' Compensation:

- Allocation based on 90% severity and 10% FTE
 - No waivers
 - No minimum charge
 - Risk Administration costs allocated separately
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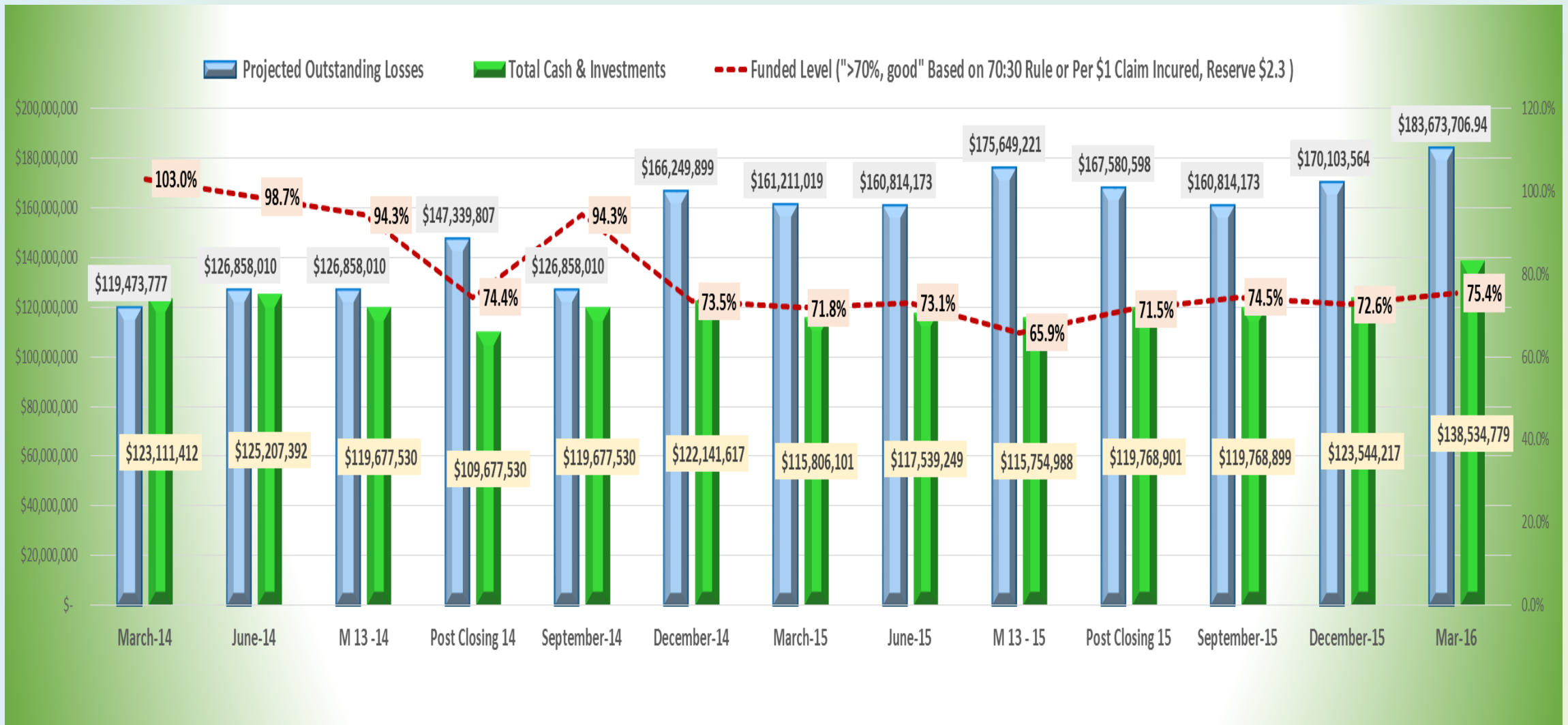
Risk Administration:

- Included in Workers' Comp, General Property, Auto Liability and General Liability rates

Risk Administration:

- Allocation based on 25% each Frequency, Severity, FTE and TIV
 - \$1,250 minimum charge
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Projected Outstanding Losses, Cash & Investment and Funded Level Report



Questions?

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