Oregon
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MEMORANDUM

To: Administrative and Business Services Directors, Budget Managers and Safety/Risk Managers

From: Shelly Hoffman, Risk Manager
Karl Anderson, Risk Finance Analyst

Date: August 6, 2021

Subject: Notice of DAS Risk Management Risk Charges

Risk Management has worked in conjunction with leadership within DAS, to develop the cost of providing insurance to all state agencies, boards and commissions for the 2021-2023 biennium.

This memo provides notification of the finalization and publication of the Legislatively Approved risk charges budgeted (the LAB risk charges) for the 2021-2023 biennium.

The risk charges for the 2021-2023 biennium were developed based on estimates of commercial insurance costs, risk overhead administrative expenses, legal expenses, and actuarially projected losses from an external, independent actuarial firm. There were no changes to the methods to allocate the overall costs to specific agencies from those used in the prior biennium.

Pursuant to ORS 278.435(1), the intent of the biennial risk charge is to reflect the expected losses for the period based on actuarial estimates. For this reason, the goal is to collect risk charges during a biennium in an amount sufficient to, along with interest income on the Insurance Fund, cover the present value of all forecasted losses which arise from activities during a biennium.

The goal, however, has proven to be elusive. The prior two biennia funded risk at lower than the theoretical actuarially recommended levels due to economic concerns and significant challenges within state agency budgets. For 2021-2023, total legislatively approved risk charges of $132,567,154, is $15,000,000 higher than the total approved for the prior biennium, but well below estimates of the present value of losses associated with activities with the biennium. The risk charges are, however, expected to at least be within $10 million or so of expenses charged to the insurance fund during the biennium, helping to maintain some semblance of acceptable funding for the program.

As of June 30, 2021, the assets backing the Insurance Fund total about $119 million, which when divided by estimated liabilities of $279 million needed over the long-term for claims and related

expenses for all past years, yields a "funded ratio" of about 43 percent. The funded ratio is at an all-time low, with 70 percent being a recent cutoff signifying health for the fund. While the $15 million increase will help slow the precipitous drop in the funded ratio, it is virtually certain that the $132 million approved for 2021-2023 will be insufficient to cover the risk costs, and that declines in the funded ratio will continue.

State agencies should expect continued strain on the program in coming years, resulting in increases to risk charges in the future, or other changes to the program to help better balance income and expenses.

For more information about risk charges, refer to the DAS Risk Management web site or contact Karl Anderson, Risk Finance Analyst, at karl.anderson@oregon.gov or 971-917-1519.