Oregon State Risk Management Report 2022

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DAS DEPARTMENT OF ADMINISTRATIVE SERVICES

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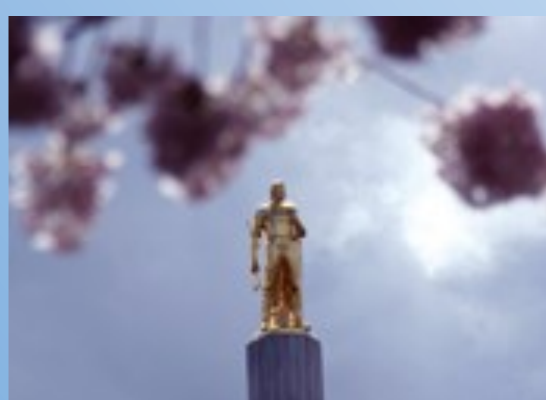


DATA DETAILS

Data compiled within this document was sourced using DAS Risk Managements Information System, data acquired from SAIF Corporation and DAS Risk Management Accounting Statements. Data sourced was validated accurate as of 12/31/2022, however could be subject to change if new data becomes available after publication.

Any questions related to data provided can be directed to DAS RM directly.

A MESSAGE FROM THE STATE RISK MANAGER

The fiscal year ending June 30, 2022 (FY22), continued a period of change for Department of Administrative Services Risk Management (DAS RM). Claim counts stayed stable while claim severity rose, testing the DAS RM team with complex cases, and threatening the State's Insurance Fund.

The pandemic challenged the State's Liability insurance program. Early in the pandemic claim counts decreased due to the legislature approving extra time for filing claims. Since then, claim counts have grown and claim severity and complexity has increased. Of about 4500 general liability claims reported since the beginning of the pandemic, only 7% were COVID related, but 36% of payments on those claims were COVID related.

The pandemic also affected Workers' Compensation (WC), especially by increasing claim counts. The WC claims reported in FY22 rose 38% to 2,246, the highest level since FY12. Financial results for WC were also among the worst ever. Several large serious injury and fatality (SIF) claims drove the negative results. These increases were offset by a $10.7 million dividend from SAIF, our WC carrier. The pandemic also drove a shift from in-office to remote work. This sudden shift increased the need to manage multiple WC programs for Oregon staff working out of state.

Total net payments from the Insurance Fund in FY22 rose 26%, from a record $69 million in FY21 to $88 million in FY22. Several large workers' compensation, liability and 2020 wildfire property claims drove the increases. The state's excess commercial property premiums saw an 18% increase caused by a "hard insurance market". Additionally, assets funding the program dropped to an all-time low.

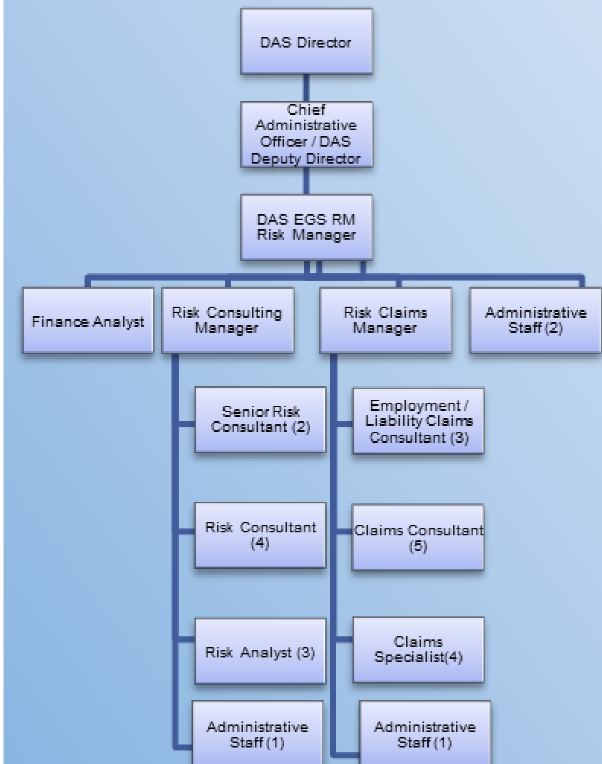
Total property and liability claims reported rose 2% to 2,506, yet the Claims Team closed 2,611 claims during the year - a remarkable achievement. They also continued their focus on settling the state's 2020 wind driven wildfire claims.

In FY22, the Risk Consulting Unit won an "Outstanding Achievement Award" from Oregon Public Risk and Insurance Management Association (OR PRIMA) for their work on the state's Contract Insurance Risk Assessment Toolkit. This tool is on the DAS RM website and is available to all Oregon state government agencies. This year saw a shift to a new risk management information system. Agency training on contract indemnity and state construction insurance challenges kept the team engaged. We were able to fill open positions, completing our team.

Though FY22 challenged our team, we are confident and remain committed to our mission of "leading state government in managing and minimizing the cost of risk through partnership, education and technical expertise".

Shelly Hoffman, State Risk Manager

OREGON'S RISK MANAGEMENT OVERVIEW



The state of Oregon's Department of Administrative Service Enterprise Goods and Services Risk Management (DAS RM) program is part of the Executive branch of state government. We insure what others can't or won't - the people, property and activities that include the unique, diverse, and often hazardous business of state government. Oregon Revised Statute 278 (ORS 278) provides DAS RM the authority and responsibility to manage all risk management and insurance programs for all branches of state government. We are a full-service risk management program. DAS RM provides insurance coverage through both self-insurance and commercial policies. Other services include providing claim management for liability and state property damage claims, risk management, training, and consultation.

Structure and People

DAS RM functions as a program with 29 full time employees (FTE). The program's services are provided by three teams.

The Claims team handles the state's tort claims, including all lawsuits (in partnership with Oregon's Department of Justice) and state property damage claims.

The Risk Consultation team manages the administration of the self-insurance policies, commercial policy purchases and renewals. They also manage program reporting, agency consultations, contract risk review, training, and outreach.

The Leadership team in partnership with all staff sets program goals, plans strategy for the program's long-term future, monitors the programs finances and insurance fund. They communicate concerns and issues to the state's Executive staff and provide guidance to the program.

MISSION

Serve Oregon by leading state government in managing and minimizing the cost of risk through partnership, education, and technical expertise.

VISION

Be the model and recognized leader for excellence, service, and leadership in risk management.

CORE VALUES

Accountability, Adaptability, Consistency, Honesty, Humor and Respect

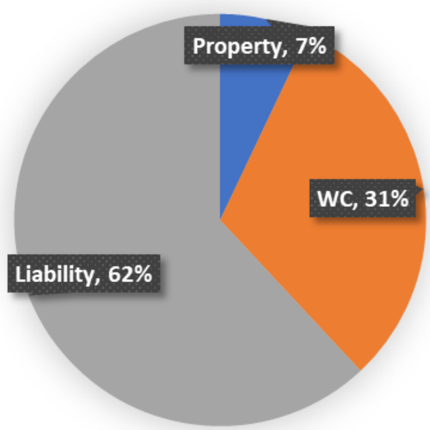
Program Summary

DAS RM provides risk protection for state agencies, allowing them to manage risks as they fulfill their missions. The program oversees a wide variety of coverages. These include agency property, agency tort liability, and workers' compensation.

ORS 278.425 creates the state's Insurance Fund. It currently includes funding for the below areas:

- Liability – Funding for Tort Claims as per ORS 30.260-300
- Property – Funding for state owned property losses
- WC – Funding for injury coverage required by law

Figure 1: Payments by Major Coverage past 10 FY's (excludes premium for excess property coverage)

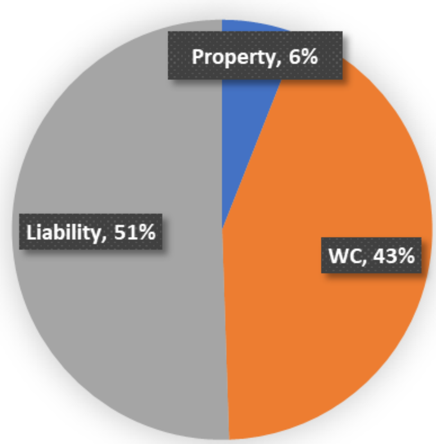


We use a mix of commercial coverages and self-insurance to manage risks. About 15% of the program's cost pays premiums for 24 commercial policies. The remainder covers the cost of risks retained by the state including seven self-insurance programs.

Our program has three major coverages. See Figures 1 and 2. These three coverages make up the claims we cover. Percentages of each can shift yearly, depending on exposures and random events.

Liability claims have grown over the last 10 years and account for 62% of program payments and 51% of the claim counts. WC accounts for 31% of payments despite being 43% of claim counts. These WC claims are managed by a third-party administrator SAIF Corporation. Property is the smallest, at 7% of payments and 6% of claim activity.

Figure 2: Claims Counts by Major Coverage past 10 FY's



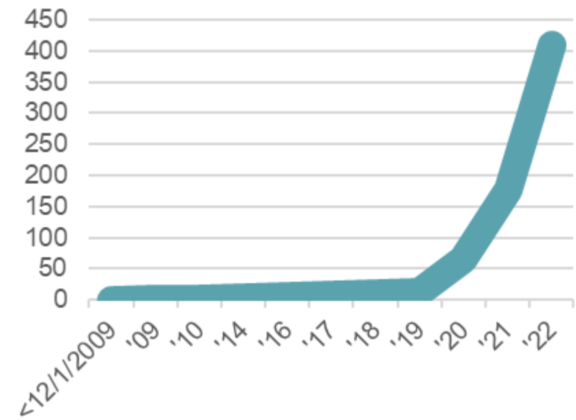
WORKERS' COMPENSATION PROGRAM COVERAGE

The state's WC program was affected by the pandemic and recovery. Two main issues arose. They were:

1. The state abruptly moved to remote work in 2020. The state now allows permanent out-of-state work.

2. FY22 claim counts and costs were higher than in the last 10 years due to COVID claims, a few Significant Injuries and fatality (SIF) claims and a law change around accepting Presumptive Post Traumatic Stress Disorder (PTSD) claims. Despite this, DAS RM analysis on the state's Claims Frequency Rate (CFR) showed reductions of the state's overall claims when excluding COVID claims. This helped reduce the amount of WC claims overall.

Figure 3: Employees outside the State of Oregon

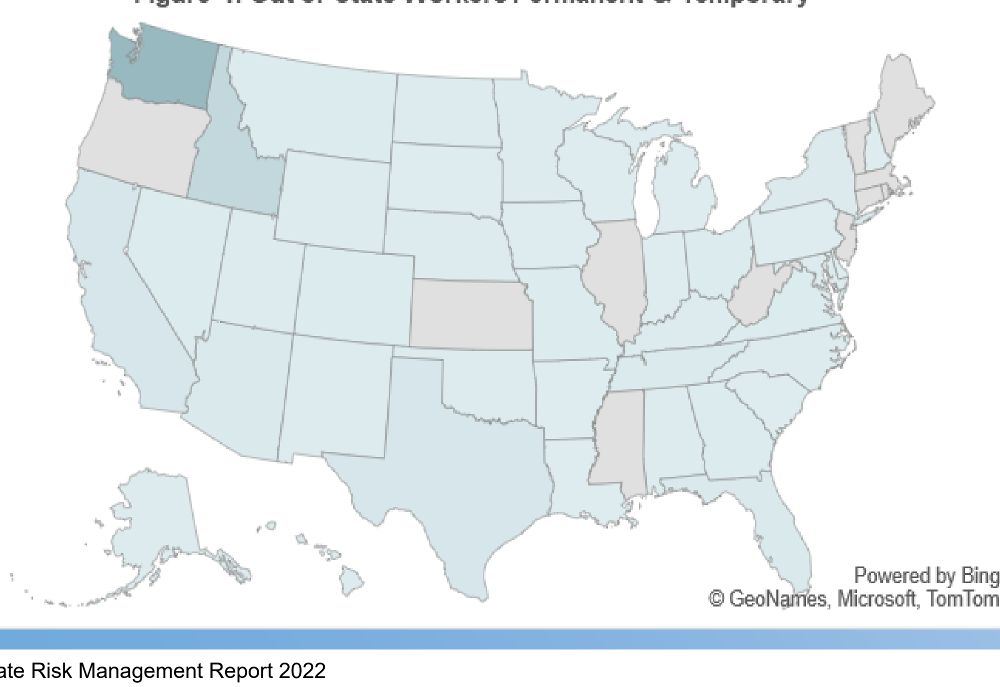


Out-of-State Workers' Compensation

The pandemic in 2020 hastened the move to remote and out-of-state work. During FY22, we ensured all Oregon state government employees in and out-of-state were covered by WC. The expanded program drove the need for six separate WC policies. SAIF Corporation covers all Oregon based employees. Each of the four monopolistic states (North Dakota, Ohio, Washington, and Wyoming) require policies purchased directly from them. The remaining states and Washington DC are covered under one commercial policy.

By the end of FY22 we had successfully placed just over 400 employees from 35 agencies on out-of-state work comp policies on a temporary or permanent basis. Oregon's out-of-state workers are in 39 states including the District of Columbia. We expect continued growth in numbers of out-of-state employees as more agencies hire from outside of Oregon or employees relocate outside of the state.

Figure 4: Out of State Workers Permanent & Temporary

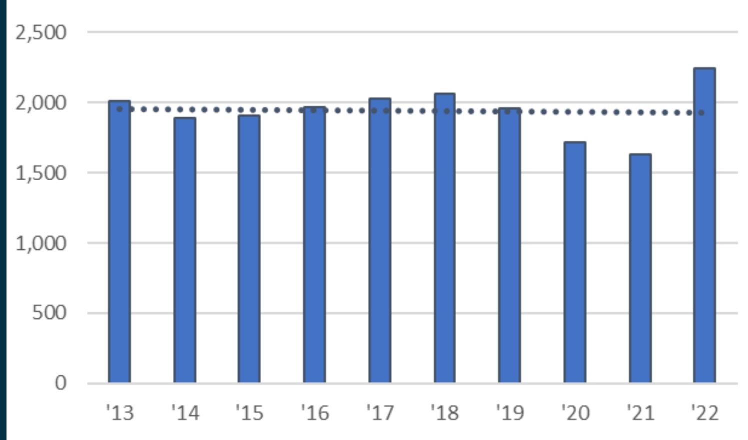


FY2022 WC Claim Counts

The claim count for FY22 was unusually high when compared to the WC claim counts of the past 10 years. Claim frequency was pushed by pandemic related claims as 27% of WC claims filed (601 of 2,246) were pandemic related. These claims costs accounted for about 15% of claim losses counted toward FY22.

In FY19, DAS RM introduced the Claims Frequency Rate (CFR) to agencies. This metric measures the number of claims per 200,000 hours worked (like the OSHA recordable rate). This allows a fair indexed rate to track injuries. It became our official WC frequency metric in FY22. See Figure 6.

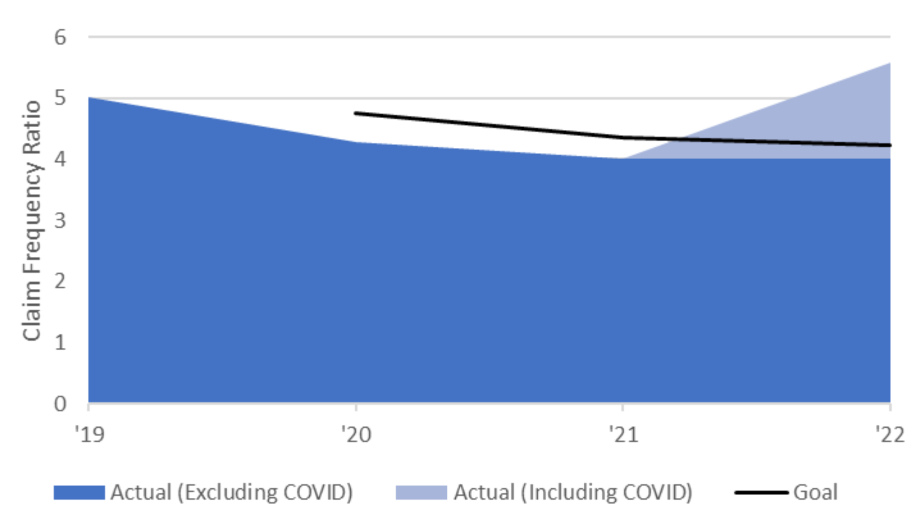
Figure 5: WC Claim Counts



DAS RM now sets a statewide CFR goal along with goals for larger agencies each year. We provide monthly reports to agencies on injuries, causes, costs, and mitigation strategies so they can focus their safety efforts.

Ten of twenty-one key agencies met or surpassed their goal in FY22. Figure 6 shows the CFR results both including and excluding pandemic claims. It shows the clear impact of the number of COVID claims in FY22, along with a more subtle reduction of the CFR excluding COVID in FY21 due to the move to virtual work.

Figure 6: Statewide CFR Actual versus Goal



FY2022 WC Claim Payments

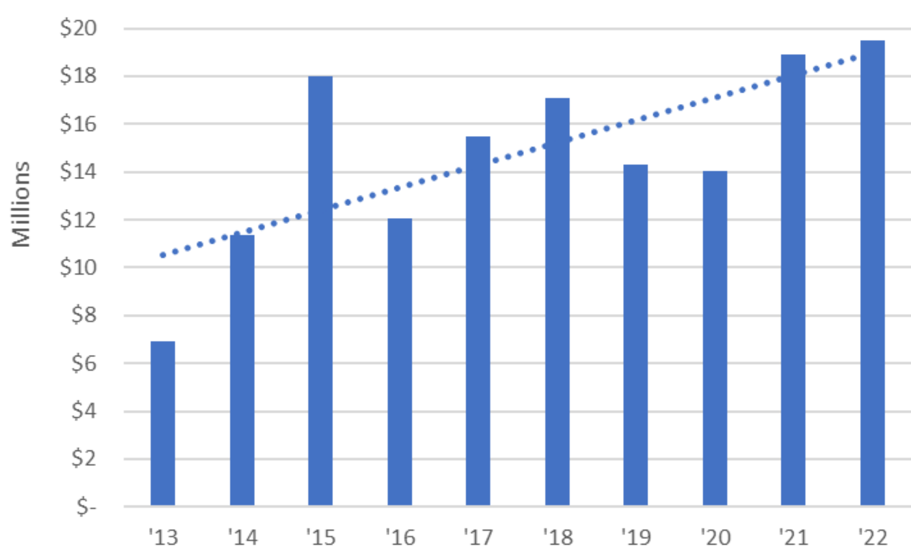
While claim frequency (excluding pandemic claims) has been declining, FY22 was particularly unfavorable from a claim payment perspective. There were two types of unusual claims which affected payments this year. They are the SIF and presumptive PTSD claims.

The top driver of this unusual increase are the SIF claims. There were three of these claims in FY22. In the last 30 years, there have only been nine of these SIF claims. They impact claim frequency less, but greatly impact claim payments. They often cost more than $1 million each. SAIF, DAS RM, and agencies are looking for ways to reduce and mitigate these claims.

A FY19 law change made PTSD claims for a select group of employees presumptively covered. The law covers employees from law enforcement and corrections officers. These employees are exposed to distressing emotionally charged situations, including physical attacks. There were 11 such claims in FY22. Losses prior to FY19 were limited, but since then losses could average about $3 million annually. The agencies with these exposures are exploring ways of further supporting their staff. SAIF is also engaging in research and assistance in developing new ways to mitigate these risks. Twelve agencies drove 94% of claim counts and 97% of incurred claims in FY22. Agency work and partnerships are strong and remain the key to continue reaching the goals of reducing claim counts and severity.

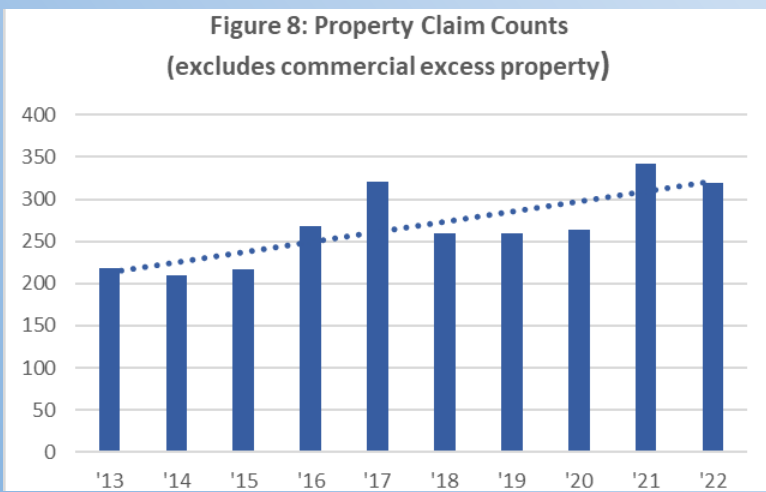
The state collected $20.5 million in WC risk charges from agencies in for FY22. The charges cover the FY22 net payments of $19.5 million. FY22 claims continue developing over time and will require ongoing payments. Depending on this cost development, this may mean the risk charges may not be adequate.

Figure 7: WC Claims & Expenses
All payments, net of dividends from SAIF



PROPERTY PROGRAM COVERAGE

The state's Property program is primarily self-insured. DAS RM purchases excess commercial coverage in the event of more catastrophic losses. The self-insurance portion absorbs the higher frequency/lower severity losses. We see about 200 - 300 claims annually, although counts have been above 300 recently. The self-insurance program covers losses up to the excess commercial policy retention of $1.5 million for all perils except for Earthquake and Flood. The self-insured retention for Earthquake and Flood is $4 million.

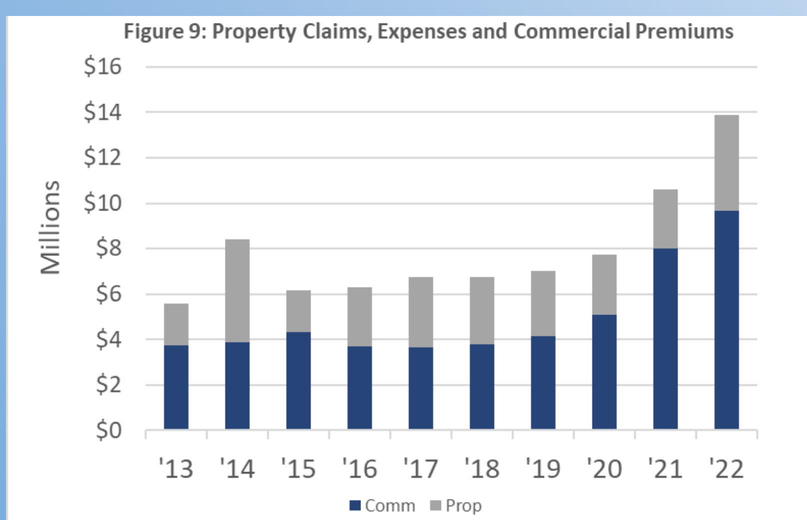


The excess commercial property program provides $425 million in catastrophic coverage to the state's property. The current excess policy program is complex and requires about 50 carriers.

FY22 was a quiet year for the property program. There were no new excess commercial coverage claims. The state's self-insured property claims were of standard counts and severity. These claims can close quickly.

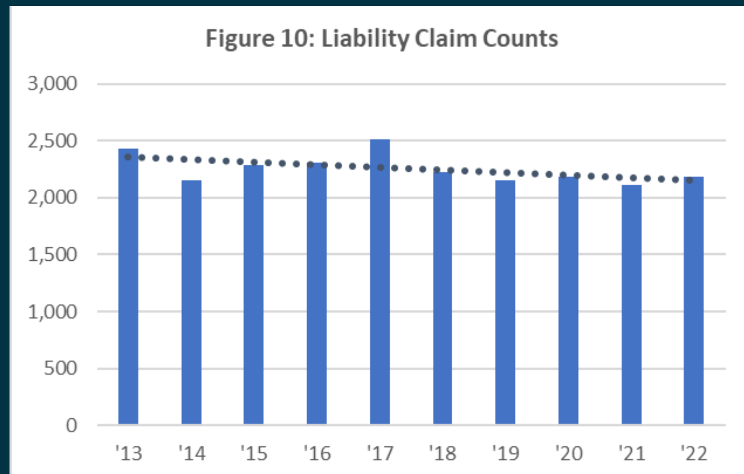
Figure 9 shows the claims and commercial insurance costs for the Property fund of over the last 10 years. The commercial insurance marketplace is hardening. This is reflected in the premium increases for the commercial excess policy.

FY22 showed $13.9 million in costs related to property clams, commercial insurance, and payments during the year. This was only slightly higher than the $13.5 million collected in risk charges from agencies for FY22.



LIABILITY PROGRAM COVERAGE

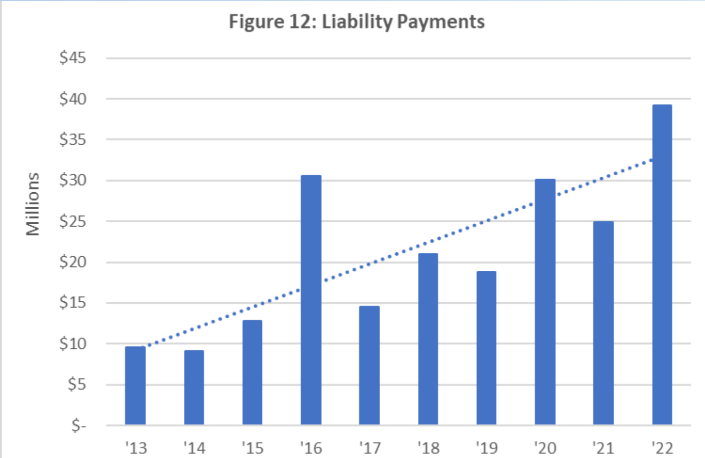
The state's Liability program uses self-insurance for financial protection against claims. DAS RM's claims team manages 2000 - 2200 claims in most years. In FY22, 2,185 liability claims were reported. We have several policies defining the overall self-insurance Liability program for Oregon.



The majority of liability claims result in either no payment, or a relatively small one. Figure 10 shows claim data from the last 10 years. There are only a few large claims that impact the program financially. We are seeing larger, more complex, and costly claims. Figure 11 reflects the Liability Claim Statistics over the last 10 years.

Figure 11: Liability Claim Statistics Last 10 years

Claim Size Range	Number of Claims	% Of Claims	Total Cost (millions)	% Of Cost	Takeaways
$0	14,844	65.4%	$0	0.0%	Large claims drive financials • 0.3% of claims drive more than half of payments • About 2% of claims drive 80% of payments Tiny claims drive activity • 79% of claims drive only 0.3% of payments This requires that DAS RM be very efficient in managing claim volume, and very skilled in managing the large complex cases.
$1 to $999	3,077	13.6%	$1	0.3%	
$1,000 to $9,999	2,728	12.0%	$10	2.6%	
$10,000 to $99,999	1,532	6.8%	$52	13.6%	
$100,000 to $999,999	442	1.9%	$122	32.3%	
$1,000,000 and above	62	0.3%	$194	51.3%	



DAS RM collected $32.3 million for liability charges from agencies for FY22. This is less than the $39.2 million in costs for liability claim payments. Historical decisions not to fund the program to actuarial recommended levels, larger claims, the pandemic and higher tort caps fuel this unsustainable trend. See Figure 12.

With the shortfall in risk charge assessments, this also means there is not reserve funds to cover the costs of the development of the claims. This will require careful monitoring of claims occurring in FY22 that continue to have payments well into the future.

PROGRAM FINANCIALS

Administrative Budget

DAS RM accomplished program administration with a budget of $14.7 million, which is half of the approved BN 21-23 amount. FY22 actual expenses totaled $15.4 million, which is $.7 million more than budgeted. $11.8 million (about 77%) of actual expenses were feed paid to the Department of Justice (DOJ) in supporting the administration of claims. These fees were $1.8 million over budget, creating the unfavorable variance. DAS RM continues working with DOJ on managing expenses. It is a challenge as complex liability claims continue to grow. The remainder of DAS RM's administration expenses totaled $3.7 million, coming in well under budget.

Program Income

The Insurance Fund receives income through agency assessments called risk charges. They are developed every biennium for all agencies. This allows state agencies to budget for insurance costs over a biennium. Risk charge development occurs over the 18 months prior to the beginning of a biennium.

These charges use a formula which assesses agencies based on their past claim history and long-term risk. The formula spreads out charges for predictability and budgeting purposes. Each agency receives their own charges separated into property, liability, and WC charge components. Current and past risk charge information is available on DAS RM's website under the Agency Costs tab.

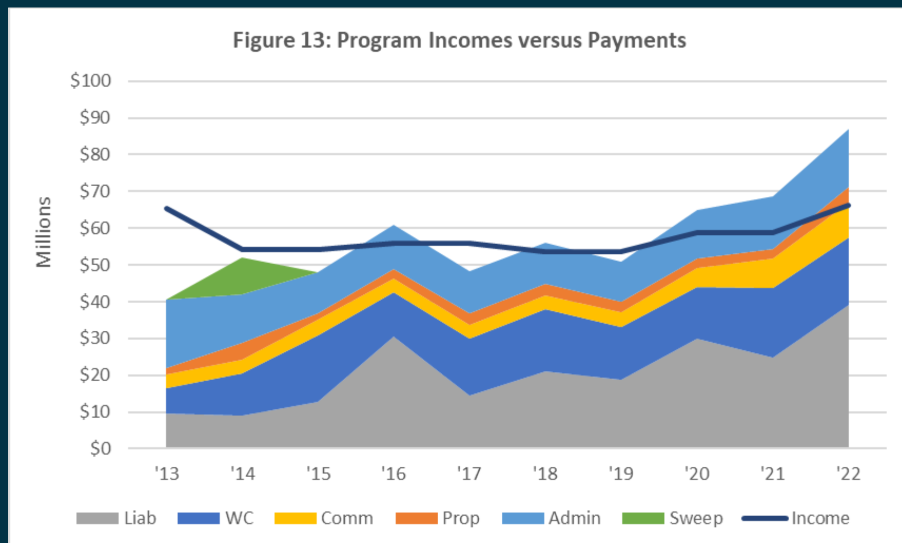
DAS RM's risk charge development begins with an external actuarial analysis. They recommend a level of funding in keeping with the statutory requirement of the insurance fund being actuarily sound. The actuaries recommended funding Biennium 21-23 (BN21-23) at $213 million or more. This was an estimate of the total amount needed to fund all losses and related payments for all claims occurring during the biennium. It included amounts needed for claims with longer payment periods.

The recommended $213 million was reduced to $179 million early in the budget process for affordability. The Legislatively approved BN21-23 risk charges were $132 million.

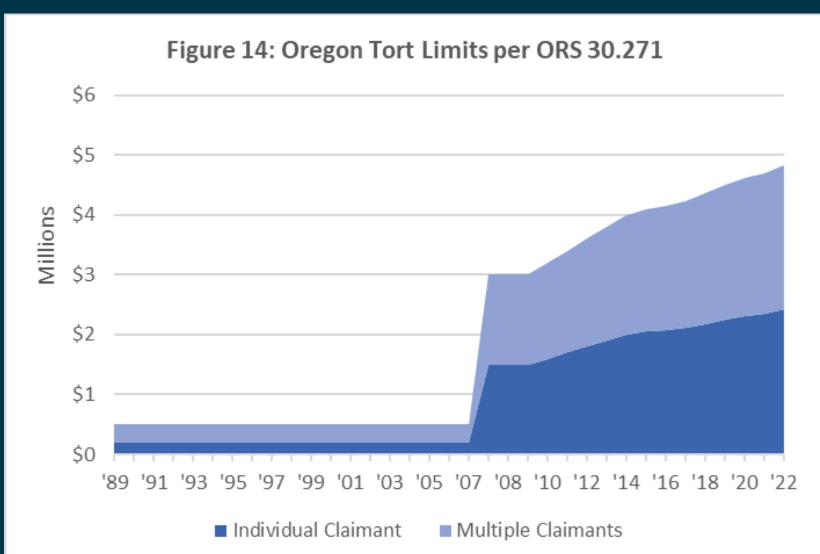
Normally, 50% of the total of $132 million would be collected from agencies in each of FY22 and FY23. DAS RM chose to accelerate risk charges from FY23 to have sufficient funds available to pay liability claims. This decision added $60 million to the Insurance Fund, supporting claim payments and expenses, and bringing the Insurance Fund asset balance to $164 million at FY22 end. Without the acceleration, Insurance Fund assets would have declined to $105 million, or 31% of the liabilities. This helped the Insurance Fund in FY22 but left the fund without any meaningful Risk Charge income in FY23.

Program Claims and Payments

Figure 13 illustrates payments from the Insurance Fund versus its income. It shows that during four of the last five fiscal years, income has been insufficient to pay claims and expenses. In FY22 payments totaled $88.2 million versus income of $66.3 million. The FY22 income shown in this graph excludes income accelerated from FY23.



There are several reasons for the growth in claims and payments. The COVID pandemic has hurt the program. While fewer than 10% of general liability claims reported since March of 2020 were driven by the pandemic, the pandemic related claims have been large and complex. They account for 36% of payments on those claims, or about $11 million by June 2022. This amount is expected to grow to at least $30 million before all the cases are closed.



Liability claims also continue to grow because tort cap limits continue to increase and due to Federal claims not being subject to Oregon's Tort Claims Limits. Figure 14 illustrates how the limits defined by ORS 30.271 have grown through the years.

Finally, there is an increase in the cost of the excess property commercial insurance program that covers more than $9 billion of state property. That premium has now grown to more than $10 million annually. It was well under $4 million as recently as 2017. Estimates show at least $180 million is needed to cover payments in a biennium. Even more is needed to cover payments that extend into the future from claims filed in a past biennium.

Insurance Fund Health

The best measure of financial health of the program comes from a comparison of program assets to liabilities. Below is the Insurance Fund balance sheet as of the end of FY22. It shows that total program assets are $163.7 million. Liabilities are $393.8 million. Liabilities include reserves, which are estimates of the amount needed for payments until all claims have been closed. This can take many years. The balance sheet shows that cash and invested assets are now about 39% of liabilities. This compares unfavorably with a goal of 70%. It means that the health of the Insurance Fund is poor. DAS RM and its stakeholders throughout state government are working on solutions to improve the situation.

Figure 15: High-Level Insurance Fund Balance Sheet as of June 30, 2022 (in Millions of Dollars)**

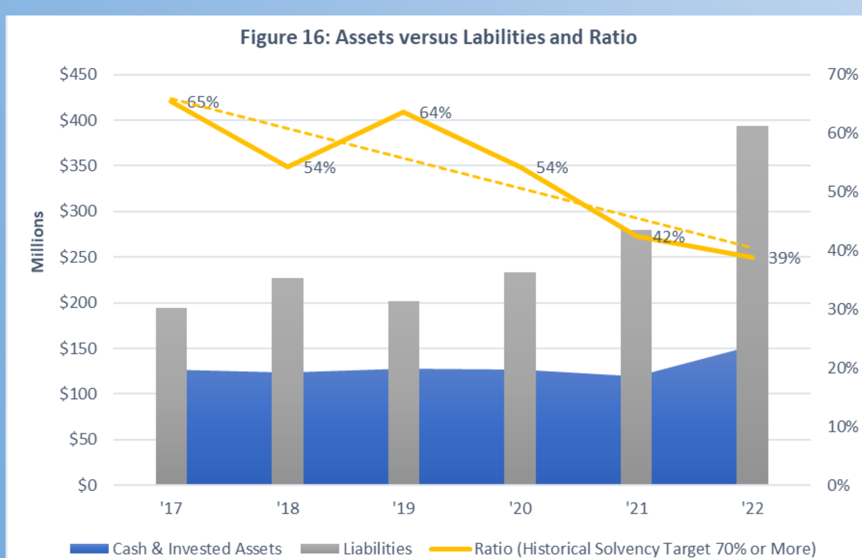
	Total
Cash	$ 122.0
Invested Assets	30.8
Other Assets	10.8
Total Assets	**163.7**
Reserves*	335.6
Other Liabilities	58.2
Total Liabilities	**393.8**
Surplus (or Shortfall)	**$ (230.1)**

* Reserves are estimates of additional amounts needed to pay for claims and expenses that have already occurred

** Amounts may not add accurately due to rounding

Figure 16 shows the historical health of the Insurance Fund, showing cash and invested assets versus total liabilities, along with the ratio and how it has fallen over recent years.

The falling ratio during the last three FYs means that the health of the Insurance Fund is deteriorating. As mentioned above, this is due mostly to increases in large liability claims. Increases in risk charges will be the primary solution to reversing the trend shown in Figure 16.



RECAP AND OUTLOOK

FY22 was a challenging year for DAS RM. It was also a year of change and transition. Even with all of that, we continued accomplishing our mission.

The global pandemic impacted work in both obvious and subtle ways. The trend toward remote work drove DAS RM to expand systems and processes for securing workers' compensation coverage for state employees working outside of Oregon. This amplified the need for more staff and training to set up and complete the new work. We are fully staffed with 29 approved FTEs. We are ready to meet needs of both more traditional and new challenges.

New COVID related claims increased claim counts, losses, and complexity. They accounted for 36% of payments on general liability cases reported since March 2020. General activity slowed during the pandemic but reversed in FY22 with an acceleration of claims and movement in the courts. This influenced the health of the Insurance Fund, driving the ratio of assets to liabilities to its lowest level in history.

We are working on initiatives to support the short-term health of the liability component of the insurance fund. Work also continues to advocate for increased program funding that is more aligned with the recommendations of external actuaries, which will help in the longer term.

FY22 marked the first full year of use for the state's new risk management information system. Data was converted to the new system early in the fiscal year. The system increases efficiency of both traditional and new work. It also streamlines much of the financial program work. Finally, it has improved the property and exposure data collection process and created a new searchable dataset available to claims adjusters.

DAS RM is optimistic about FY23. We plan continued focus in several areas. These include management of several large claims and the financial health of the Insurance Fund, work on the implementation of the out-of-state workers' compensation claim process, partnering with SAIF to manage both WC claim frequency and severity, and increasing the focus on improving risk mitigation within state contracts and grants.

FY23 includes the transition to a new governor, a full Legislative session and agencies requesting new coverages needed to support their missions. All of this can and will create new consulting opportunities and coverage requests impacting the Insurance Fund. While the work will be challenging, the team is prepared and well positioned to respond.

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