The County of El Dorado

Risk Management Division

"Together Providing Risk Management Solutions"

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TO: Board of Supervisors

FROM: Randy Rafoth

SUBJECT: Risk Financing Staff Report

Discussion of the Risk Management Internal Service Fund and recommendation to reduce Cost Allocations (Cost Applieds) to the Liability Program and Worker's Compensation Programs.

Risk Financing:

Risk financing is a process to determine the strategy achieving the optimal balance between retaining and transferring risk within an organization. It is appropriate to transfer risk when feasible, however, as a public agency that provides many different services and works with many diverse groups and entities, some of the risks cannot be shared or transferred, and must be retained.

Risk Transfer:

Insurance is one of the most common forms of risk transfer. We simply purchase an insurance policy to provide coverage for our risk. We are all familiar with auto, home and life insurance that we use in our personal lives (coincidentally, these are called "personal lines" of insurance).

Another form of risk transfer is commonly used when we ask others to include us in their insurance coverage. In essence, we ask to be added as an "additional insured" on their insurance policy. We commonly use this technique for all of our contracts with others whom we conduct business. The County asks for Certificates of Insurance, naming us (the County, its officers, officials, employees, and volunteers) as additional insured's on their policies. We request that they issue us an "additional insured endorsement" to their policy. Many entities with whom we conduct business also request the same of us, and we comply.

Self-Insurance Retention (SIR):

Deductibles and Self-Insurance Retention (SIR) amounts also help us to control and finance risks. Again, using your personal lines as an example, if your auto insurance has a $1,000.00 deductible for collision, any collision damages that you incur less than the $1,000.00 deductible amount, will not be covered by insurance.

Moreover, by controlling your deductible amount ($250.00, $500.00, or $1,000.00) you may decide what expenses you want insurance to cover, and thus control your own insurance costs (premiums).

The County does exactly the same thing. We have a self-insurance retention (SIR) amount of $1,000,000. This means that whenever we have a loss that is $1,000,000 or less, we must fund that loss out of the General Fund.

While the SIR creates some unfunded exposures, it also allows us to control our costs, and we can opt to cover some losses that would not normally be covered (excluded), by insurance. We may also decide not to cover

Insurance:

CA State Association of Counties (CSAC) Excess Insurance Authority (EIA) was formed in 1979, when 29 California counties came together to form their own JPA to pool their risk and provide a viable and cost effective solution for the counties' insurance and risk management needs.

The Risk Management Internal Service Fund ("Risk Fund") was established in 1980 as a component of the El Dorado County Risk Management Authority, a Joint Powers Authority (JPA) designed to provide insurance services for El Dorado County and several fire protection districts within the County.

In 1992, the County joined CSAC-EIA, a risk sharing pool of California public agencies, dedicated to controlling losses and providing effective risk management solutions. Since its inception, the EIA's membership has expanded to include 93% of the counties in California and nearly 61% of the cities, as well as numerous school districts, special districts, housing authorities, fire districts, and other Joint Powers Authorities.

The EIA is governed by a 61 member Board of Directors, composed of one representative from each member county and seven members elected by the public entity membership. The Board members actively participate in the development, oversight, and future direction of the EIA's programs and services. Because membership involvement is a critical component of success, the EIA has made this issue one of its highest priorities. Just as a note, Kim Kerr, our Assistant Chief Administrative Officer, is one of CSAC-EIA's past presidents, and currently a member of the Board of Directors. The County Risk Manager is also a board member.

The EIA has dramatically reduced insurance costs for the members by leveraging the combined purchasing power and financial size of the group. Annually, the EIA compares the cost of its major programs to the estimated cost members would pay if they were purchasing similar coverage on their own.

The EIA has created nine major coverage programs related to Workers' Compensation, General Liability, Medical Malpractice, Property, and Employee Medical plans.

In addition, these Special Liability Programs:

Airports and Aircraft	$15M,	$10M Aircraft, $0 SIR/Deductible	$16,177
Special Events	$2M,	$0 SIR/Deductible	Per event
Volunteer Accident	$10,000,	$1000 SIR/Deductible	$1,948
Zone of Benefit	$5M,	$10,000 SIR/Deductible	$33,574

PROGRAM	Member Since	2010-11	2011-12	Estimated 2012-13
General Liability (GLII)	5/1/1992	$ 313,105	$ 295,170	$ 332,597
Excess Worker's Compensation	7/1/2002	$ 366,822	$ 423,071	$ 533,928
Property	7/1/1994	$ 162,413	$ 158,193	$ 177,000
Watercraft	8/19/2011	$ -	$ 2,250	$ 4,000
Medical Malpractice	3/7/1993	$ 56,604	$ 79,338	$ 95,000
Crime Bond	9/1/2000	$ 11,252	$ 10,689	$ 13,910
Pollution	9/1/2001	$ 10,010	$ 10,010	$ 33,100
		$ 920,206	$ 978,721	$ 1,189,535

So, now that we have a basic understanding of the County's risk retention and transfer methods, the next question is how do we fund the risk program?

Actuarial Reviews:

Each year Bickmore Risk Services, through CSAC-EIA, conducts an actuarial review of the Self-Insured Liability Program and the Self-Insured Worker's Compensation Program. Based upon the estimated liabilities and unpaid losses, the recommended funding guidelines are established.

In the January 2012 review, Bickmore recommended that the County implement a *three-year* funding plan to bring assets within the desired confidence level, and in addition, return an amortized portion of the projected surplus as of June 30, 2012.

Subsequent to the actuarial review, the CA State Controller's Office audit of County Cost Plan (OMB A-87) revealed that the funding for the County's Self-Funded Excess Liability Program and the Self-Insured Worker's Compensation Program are overfunded.

On April 13, 2012, the Auditor/Controller informed risk management that the County Cost Plans for the Self-Insured Excess Liability Program and the Self-Insured Worker's Compensation Program were funded well above the acceptable 70% confidence level, and were funded over 100% based upon review by the CA State Controller. The Auditor/Controller further advised that steps should be taken immediately to reduce this overfunding.

Request that the Board of Supervisors authorize the risk manager to reduce the County cost allocations (Cost Applieds) for Departments for the fourth quarter 2011-12, due to overfunding. Additionally, we request that the cost allocations be revised for 2012-13, to reduce the funding levels in accordance with the State Controller's Office directive.

Reason for Recommendation:

This recommendation is to comply with the CA State Controller's audit of the County Cost Plan (OMB A-87) and to reduce the funding amounts for the Self-Insured Liability Program and the Self-Insured Worker's Compensation Program to the 70% confidence levels.

Action To Be Taken Following Board Approval:

The risk manager will implement a *two-year* funding plan to reduce County Cost Allocations (Cost Applieds) to the 70% confidence levels and revise the amortized portion of the projected surplus as of June 30, 2012.

An annual actuarial will be conducted in 2012-13 to revise the funding plan and confirm these funding adjustments.