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Monday, December 8, 2008

Mr. Larry Costello  
Sr. Risk Management Analyst  
El Dorado County  
330 Fair Lane  
Placerville, CA 95667

Re: Actuarial Review of the Self-Insured Workers' Compensation Program

Dear Mr. Costello:

As you requested, we have completed our review of El Dorado County's self-insured workers' compensation program. Assuming an SIR of \$300,000 per occurrence, we estimate the ultimate cost of claims and expenses for claims incurred during 2009-10 program year to be \$2,503,000. This amount includes allocated loss adjustment expenses (ALAE), unallocated loss adjustment expenses (ULAE), and a discount for anticipated investment income. ALAE is the direct cost associated with the defense of individual claims (e.g. legal fees, investigation fees, court charges). ULAE is the cost to administer all claims to final settlement, which may be years into the future (e.g. claims adjusters' salaries, taxes). The discount for investment income is calculated based on the likely payout pattern of the County's claims, assuming a 4% return on investments per year. For budgeting purposes, the expected cost of 2009-10 claims translates to a rate of \$2.17 per \$100 payroll.

In addition, we estimate the program's liability for outstanding claims to be \$12,108,000 and \$11,967,000 as of June 30, 2008 and June 30, 2009 respectively, again including ALAE and ULAE, and discounted for anticipated investment income. Given estimated program assets of \$16,809,000 as of June 30, 2008, the program was funded above the 95% confidence level on that date (see Graph 1 on Page 9.)

The \$12,108,000 estimate is the minimum liability to be booked by the County at June 30, 2008 for El Dorado County's workers' compensation program, in accordance with Governmental Accounting Standards Board (GASB) Statement #10. GASB #10 requires the County to accrue a liability on its financial statements for the ultimate cost of claims and expenses associated with all reported and unreported claims, including ALAE and ULAE. GASB #10 does not prohibit the discounting of losses to recognize investment income.

Our conclusions regarding the County's liability for unpaid loss and loss adjustment expenses (LAE) at June 30, 2008 are summarized in the table below.

EI Dorado County  
Self-Insured Workers' Compensation Program  
Estimated Liability for Unpaid Loss and LAE  
at June 30, 2008

	Expected	Marginally Acceptable 70% CL	Recommended Range			Conservative 90% CL
			Low 75% CL	Target 80% CL	High 85% CL	
Loss and ALAE	\$13,728,000					
ULAE	958,000					
Investment Income Offset	(2,578,000)					
Discounted Loss and LAE	\$12,108,000	\$13,186,000	\$13,622,000	\$14,142,000	\$14,760,000	\$15,583,000
Available Funding	16,809,000					
Surplus or (Deficit)	\$4,701,000	\$3,623,000	\$3,187,000	\$2,667,000	\$2,049,000	\$1,226,000

Our conclusions regarding the County's liability for unpaid loss and loss adjustment expenses (LAE) at June 30, 2009 are summarized in the table below.

EI Dorado County  
Self-Insured Workers' Compensation Program  
Estimated Liability for Unpaid Loss and LAE  
at June 30, 2009

	Expected	Marginally Acceptable 70% CL	Recommended Range			Conservative 90% CL
			Low 75% CL	Target 80% CL	High 85% CL	
Loss and ALAE	\$13,524,000					
ULAE	1,001,000					
Investment Income Offset	(2,558,000)					
Discounted Loss and LAE	\$11,967,000	\$13,032,000	\$13,463,000	\$13,977,000	\$14,588,000	\$15,402,000
Available Funding	15,577,000					
Surplus or (Deficit)	\$3,610,000	\$2,545,000	\$2,114,000	\$1,600,000	\$989,000	\$175,000

GASB #10 does not address an actual funding requirement for the program, but only speaks to the liability to be recorded on the County's financial statements. Because actuarial estimates of claims costs are subject to some uncertainty, we recommend that an amount in addition to the discounted expected loss costs be set aside as a margin for contingencies. Generally, the amount should be sufficient to bring funding to the 75% to 85% confidence level. The CSAC Excess Insurance Authority's standards also indicate that its members should maintain program assets for expected loss costs plus a

reasonable margin for contingencies. This may be translated into what we consider a marginally acceptable confidence level of 70%. We consider funding to the 90% confidence level to be conservative.

The table below shows our funding recommendations for El Dorado County for the 2009-10 fiscal year. Given the program's projected funding surplus as of June 30, 2009, we recommend that the County continue the five-year funding plan that we recommended two years ago in order to bring program assets back to the desired confidence level by June 30, 2012. Below, we provide funding guidelines to bring program assets back to the desired confidence level by June 30, 2012. Under this plan, the County should fund the full value of each prospective year's claims costs; but in addition, may need to return an amortized portion of the projected surplus as of June 30, 2009. For example, to achieve funding at the 70% confidence level as of June 30, 2012, the County's fiscal year 2009-10 contribution should total \$3,185,000, including \$2,871,000 for claims and loss adjustment expenses, \$1,196,000 for non-claims related expenses, less \$882,000 towards the June 30, 2009 surplus.

El Dorado County Self-Insured Workers' Compensation Program Loss and LAE Funding Guidelines for 2009-10 Amortized Over Three Years Self-Insured Retention (SIR) of \$300,000						
	Expected	Marginally Acceptable 70% CL	Recommended Range			Conservative 90% CL
			Low 75% CL	Target 80% CL	High 85% CL	
Loss and ALAE	\$2,685,000					
ULAE	288,000					
Investment Income Offset	(470,000)					
Discounted Loss and LAE	\$2,503,000	\$2,871,000	\$3,026,000	\$3,206,000	\$3,429,000	\$3,727,000
Non-claims Related Expenses	1,196,000	1,196,000	1,196,000	1,196,000	1,196,000	1,196,000
(Surplus)/Deficit at 6/30/09 Amortized Over 3 Years	(1,250,000)	(882,000)	(732,000)	(554,000)	(343,000)	(61,000)
Indicated Funding	\$2,449,000	\$3,185,000	\$3,490,000	\$3,848,000	\$4,282,000	\$4,862,000
Rate per \$100 of 2009-10 Payroll	\$2.12	\$2.76	\$3.02	\$3.33	\$3.71	\$4.21

The loss projections in this report reflect the estimated impact of benefit legislation, based upon information provided by the WCIRB. The ultimate impact on loss costs of legislated benefit adjustments are generally difficult to forecast in advance because the changes typically take place over a period of several years following enactment. Furthermore, actuarially derived benefit level evaluations often underestimate actual future cost levels. The shortfalls result from a variety of circumstances, including: increases in utilization levels, unanticipated changes in administrative procedures, and cost shifting among benefit categories. Thus, actual cost increases could differ, perhaps substantially, from the WCIRB's estimates.

The report that follows outlines the scope of our study, its background, and our conclusions, recommendations and assumptions. Judgments regarding the appropriateness of our conclusions and recommendations should be made only after studying the report in its entirety, including the graphs, attachments, exhibits and appendices. Our report has been developed for the County's internal use. It is not intended for general circulation.

We appreciate the opportunity to be of service to El Dorado County in preparing this report. Please feel free to call Derek Burkhalter at (916) 244-1167 or John Alltop at (916) 244-1160 with any questions you may have concerning this report.

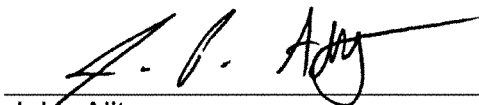
Sincerely,

Bickmore Risk Services



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Derek Burkhalter  
Manager, Property and Casualty Insurance Services, BRS  
Associate, Casualty Actuarial Society  
Member, American Academy of Actuaries



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John Alltop  
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