



Risk Management Division
"Together Providing Risk Management Solutions"

RISK FINANCING

Understanding Our "Risk Fund"

**Board of
Supervisors
May 21, 2012**

RISK FINANCING:

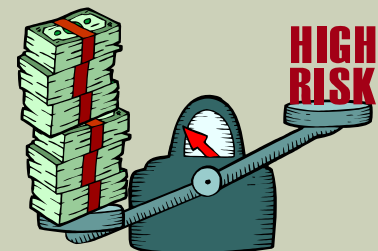
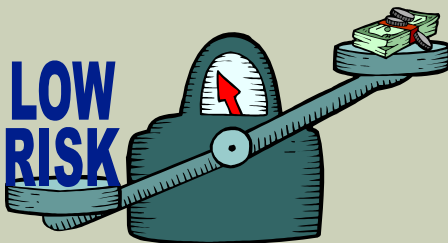
is a process to determine the *strategy* achieving the optimal balance between retaining and transferring risk within an organization.



RISK TRANSFERENCE/SHARING

Insurance = most common Transfer of Risk mechanism:

- **CSAC – Excess Insurance Authority** (Excess of \$1M SIR)
- **Special Liability Programs**
(Airports, Medical Malpractice, Watercraft, Special Events, Volunteer Accident, etc.)
- **Additional Insured Endorsements**
(Naming County its officials, officers, employees, and volunteers.)



SELF-INSURANCE RETENTION (SIR)

County Retains the First \$1,000,000 Million Dollars of Coverage
SIR = \$1M



- Enables Control of the Most Prevalent Claims
- Reduces overall costs for risk
- Enables County to decide on Tolerance / Acceptance on an individual basis.

CSAC-EIA

CA State Association of Counties – Excess Insurance Authority

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

“THE RISK FUND”

**ALSO KNOWN AS:
THE RISK MANAGEMENT INTERNAL SERVICE FUND**

Established in 1980 as a Risk Management Authority.

**Designed to provide insurance and financing for the
County and several Fire Districts.**

**Formed as a Joint Powers Authority (JPA), a very common
approach for public entities.**

**Over the years became the financing structure for
“covered risks.”**

GENERAL LIABILITY

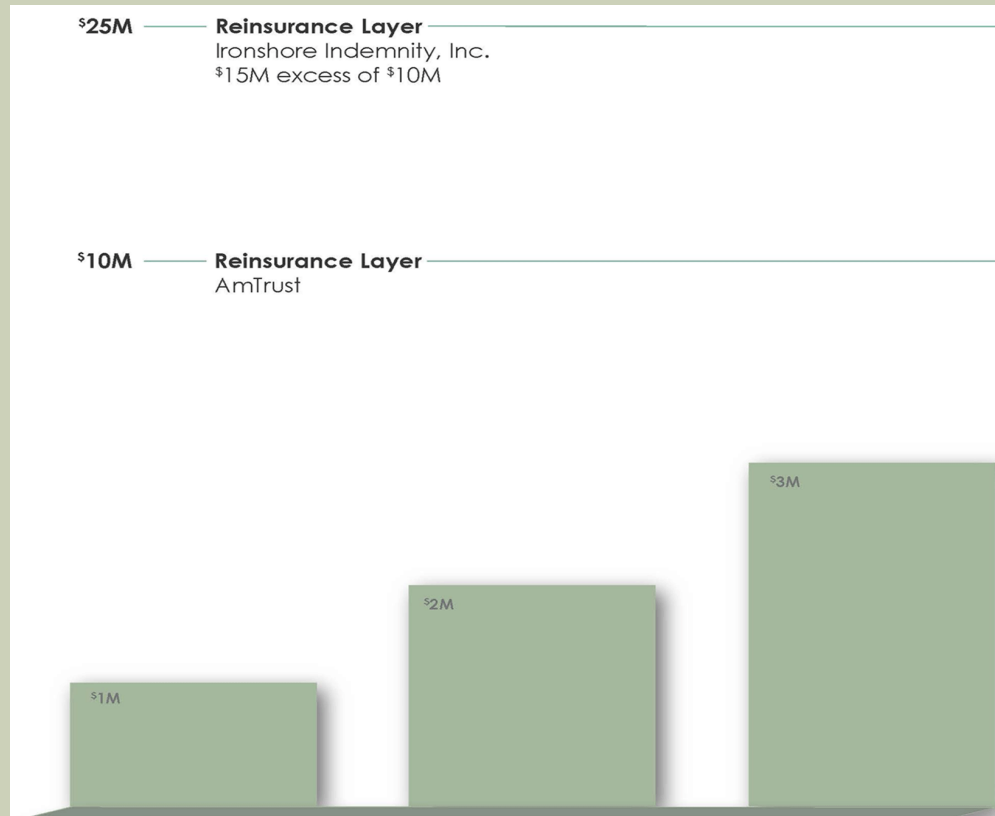
\$1,000,000 SIR/DEDUCTIBLE

- **The General Liability II Program (GLII) provides coverage for claims from third parties alleging damages due to negligence on the part of the member arising out of:**
 - Personal injury
 - Property damage
 - Public officials errors and omissions
 - Automobile liability
 - Employment practices liability

- **The GLII Program provides the following special coverage features:**
 - Excess medical malpractice coverage (not applicable to all members)
 - Time element pollution coverage
 - Subsidence coverage (not applicable to all members)
 - No sabotage and terrorism exclusion

GLII PROGRAM STRUCTURE

The GLII Program was specifically designed to offer larger members the advantages of the joint purchase of excess coverage while maintaining their ability to handle and fund their primary losses.



WORKER'S COMPENSATION

\$300,000 SIR/DEDUCTIBLE

The Workers' Compensation Program provides bodily injury coverage to employees when they are injured on the job. Coverage also includes compensation for loss of earnings at statutory rates.

Since the Program was formed, it has been restructured many times to provide the members with the best coverage at the lowest possible cost. Due to the continual restructuring and significant membership volume, the Program has the financial strength and flexibility to react and withstand market conditions.

Members can be assured that they will receive the best possible coverage at the lowest cost for years to come.

WORKER'S COMPENSATION

\$300,000 SIR/DEDUCTIBLE

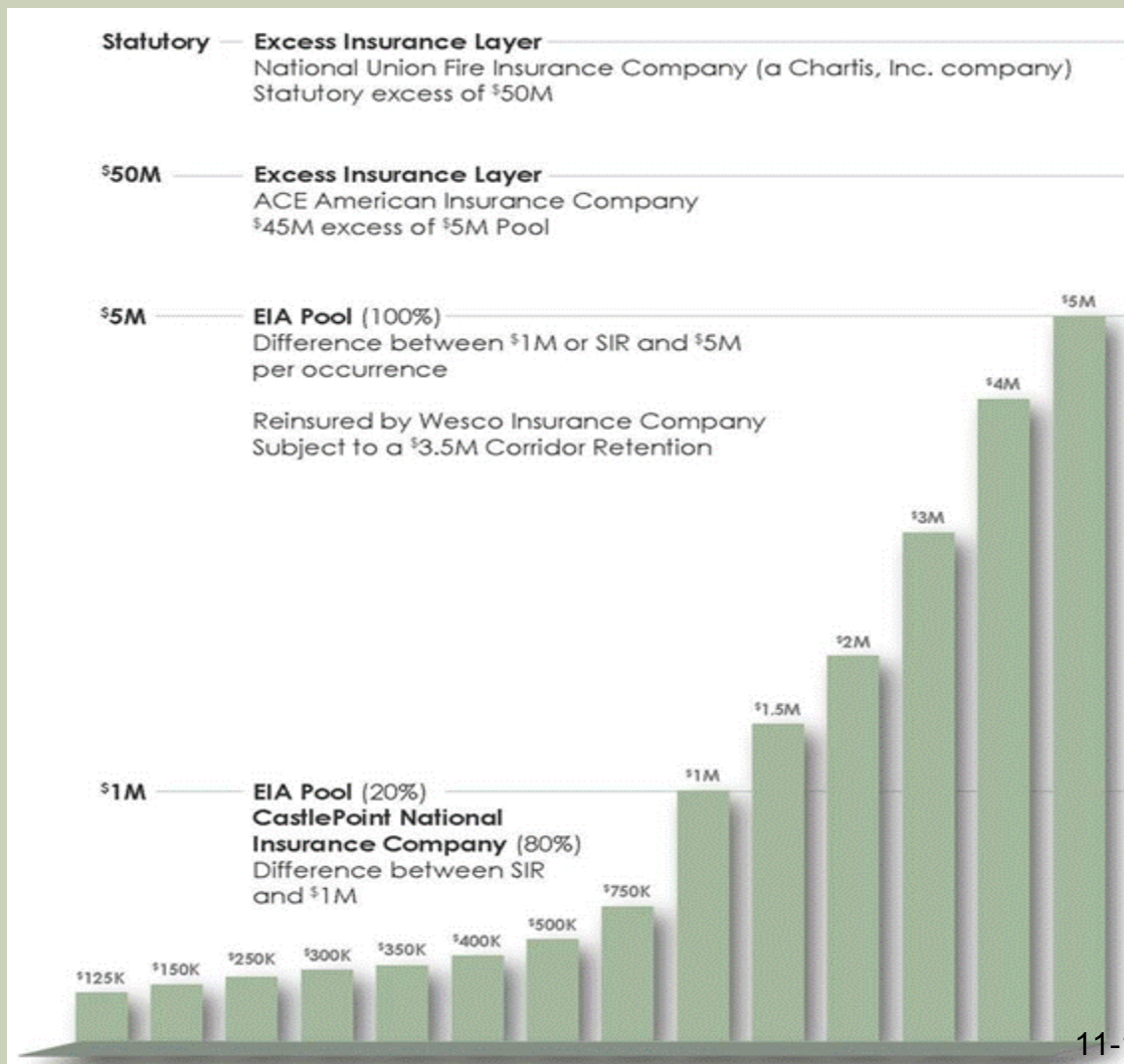
The Worker's Compensation Program provides the following special coverage features:

- Volunteers included (subject to adoption of resolution by employer prior to injury)**
- Defense costs included within SIR and limit**
- No terrorism exclusion**

The members of this Program are expected to obtain an actuarial study every three years and a claims audit every two years. The EIA provides subsidies to assist members with obtaining these services.

The members are expected to provide prompt reporting of potential excess claims. Members are also expected to adhere to the EIA's claims administration guidelines.

The WC Program currently has a \$5 million pooled limit, which makes it a very competitive program. Through long-term agreements with reinsurance carriers, the EIA has been able to establish higher Program limits and eliminate sabotage and terrorism sub-limits.



MEDICAL MALPRACTICE

\$10,000 SIR/DEDUCTIBLE

The Medical Malpractice Program provides coverage for alleged negligence arising from health care operations including, but not limited to:

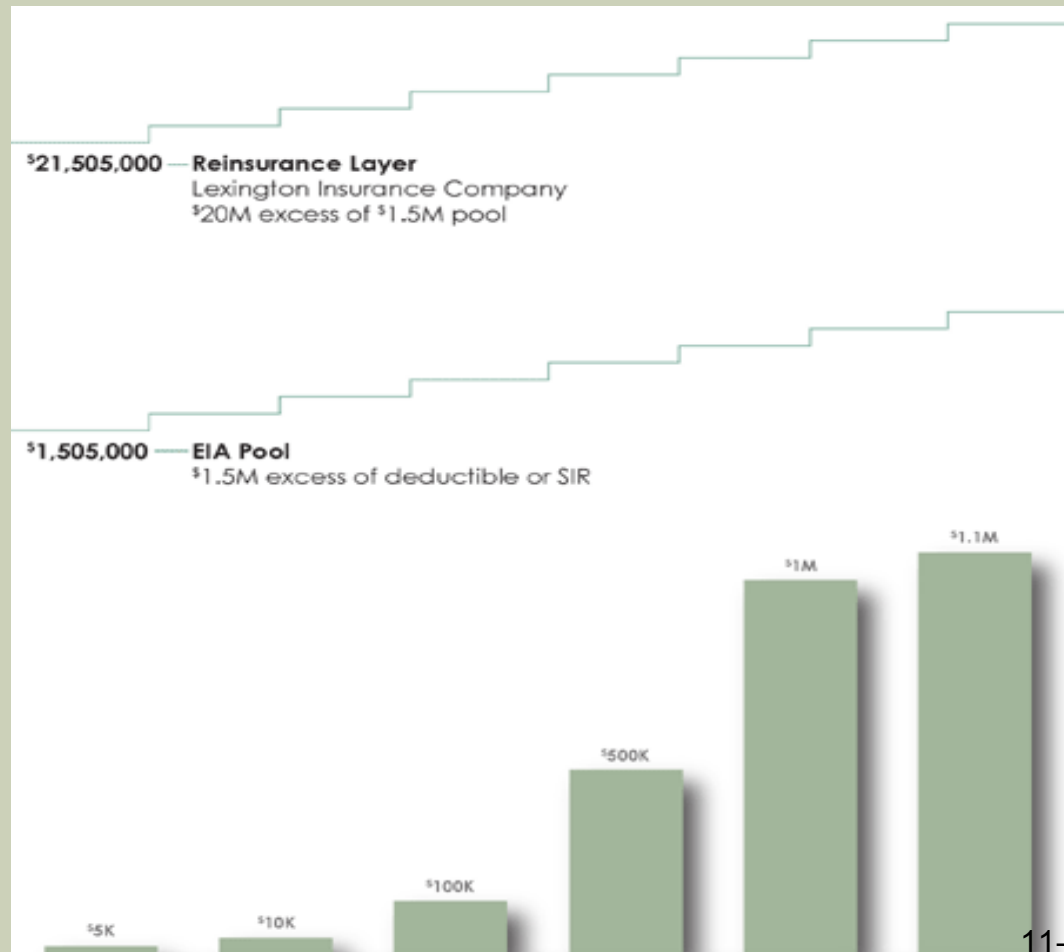
- **Clinics**
- **Hospitals**
- **Mental Health**
- **Public Health**
- **Jail Clinics**
- **Coroner Operations**

The Medical Malpractice Program's success has been linked to its ability to remain competitive yet flexible.

The Program provides the following special coverage features:

- **Automatic coverage for all employed and contract physicians**
- **Covers managed care exposures**
- **Health Facilities General Liability**
- **Occurrence based reinsurance layer**

The Medical Malpractice Program is unique in that it is divided into two groups for underwriting purposes: Program I for members with self-insured retentions (SIRs) and Program II for members with deductibles. The two programs share a common pooling layer designed for potential dividends, risk sharing and program flexibility.



PROPERTY PROGRAM

\$25,000 SIR/DEDUCTIBLE

The Property Program provides coverage for physical damage to member's property or the property the member is responsible to insure as a result of:

- "All Risk" perils
- Flood (included automatically)
- Earthquake (optional)

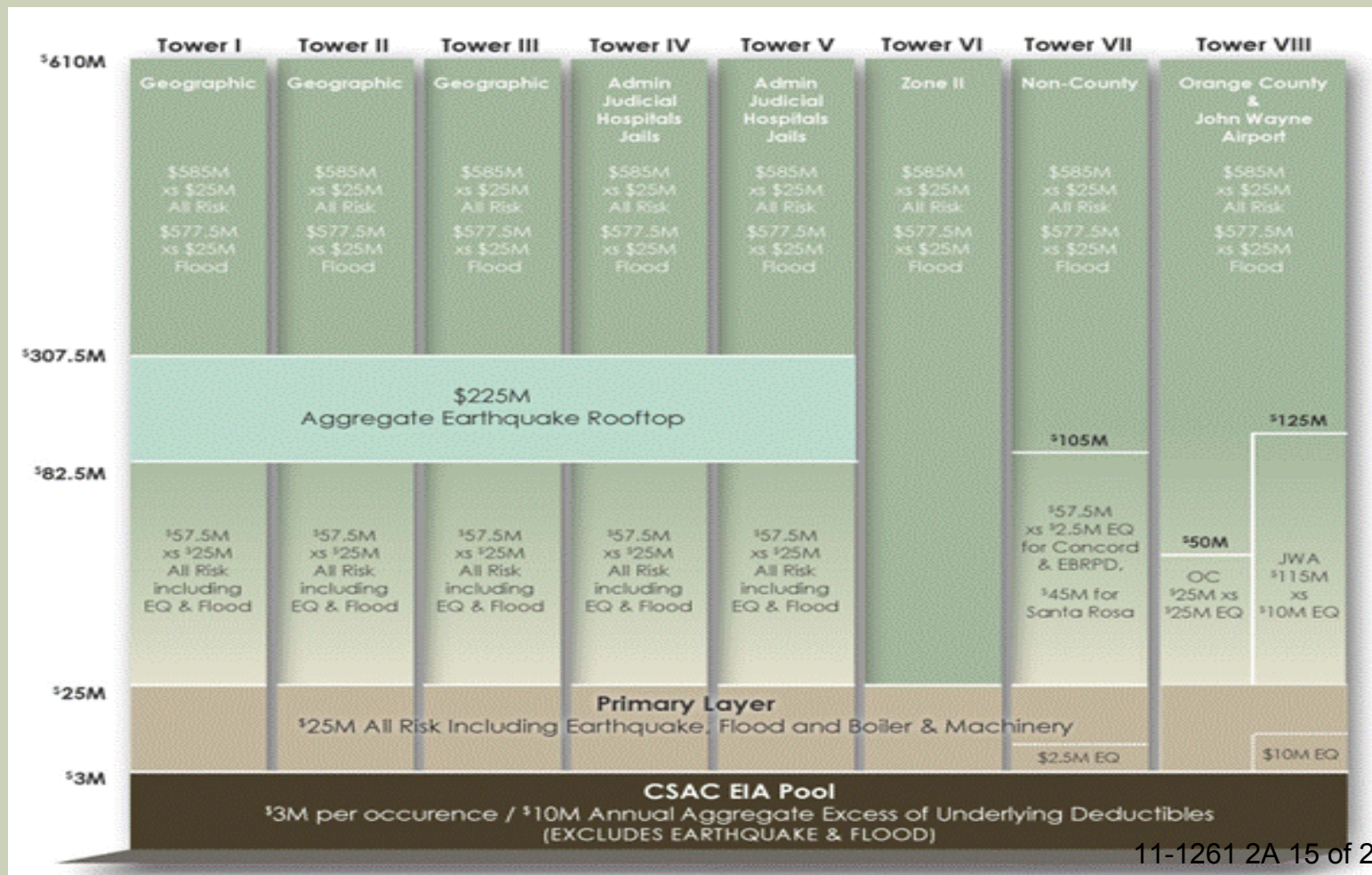
With 80 members participating, including 51 member counties, the Property Program is one the EIA's most popular programs. The volume of the membership, the success of the Program, and long-term relationships with insurers and underwriters have allowed the development of creative solutions in solving the difficult problems associated with earthquake coverage.

The Property Program provides the following special coverage features:

- Three year pre-paid primary layer
- Repair or replacement available for real and personal property
- Includes boiler and machinery coverage
- Library book valuation endorsement
- Includes appraisal every 5 years

The Property Program is currently structured with an aggregated pool and primary insured layer, above which excess layers of coverage are placed. Exposure is allocated among separate "towers" to diversify the risk geographically. The unique structure of the Program and its risk sharing features have afforded members higher loss limits, reduced costs, and coverage stability.

El Dorado County is in Tower VI.



SPECIAL LIABILITY PROGRAMS

- Airports and Aircraft\$15M, \$10M Aircraft , \$0 SIR/Deductible
- Master Crime Bond\$10M, \$2,500 SIR/Deductible
- Pollution\$10M, \$500,000 SIR/Deductible
- Special Events\$2M, \$0 SIR/Deductible
- Volunteer Accident\$10,000, \$100 SIR/Deductible
- Watercraft\$1M, \$1,000 SIR/Deductible
- Zone of Benefit\$5M, \$10,000 SIR/Deductible

PROGRAM COSTS

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

ACTUARIAL REVIEWS:

- 1) Determines *required funding* based upon loss history and predicted confidence levels.**
- 2) Formulated using potential “covered losses” which are determined by the CSAC-EIA Memorandum of Coverage (MOC) document.**
- 3) Does *not* include potential losses *not* covered by the MOC!**

REQUIRED FUNDING:

Self-Insured Liability Program Estimated Liability for Unpaid Loss and Loss Allocated Expenses at June 30, 2012 (3% Discount Assumption)

	Expected	Marginally	Recommended Range			Conservative
		Acceptable	Low	Target	High	
Confidence Level		70%	75%	80%	85%	90%
Loss and Allocated Loss Adjustment Expense (ALAE)	\$ 4,390,000					
Unpaid Loss Adjustment Expense (ULAE)	249,000					
Investment Income Offset (3% rate)	(278,000)					
Discounted Loss and Loss Adjustment Expense (LAE)	\$ 4,361,000	\$ 4,937,000	\$ 5,203,000	\$ 5,512,000	\$ 5,900,000	\$ 6,419,000
Available Funding	7,693,000	7,693,000	7,693,000	7,693,000	7,693,000	7,693,000
Surplus or (Deficit)	\$ 3,332,000	\$ 2,756,000	\$ 2,490,000	\$ 2,181,000	\$ 1,793,000	\$ 1,274,000

REQUIRED FUNDING:

Self-Insured Worker's Compensation Program Estimated Liability for Unpaid Loss and Loss Allocated Expenses at June 30, 2012 (3% Discount Assumption)

	Expected	Marginally	Recommended Range			Conservative
		Acceptable	Low	Target	High	
Confidence Level		70%	75%	80%	85%	90%
Loss and Allocated Loss Adjustment Expense (ALAE)	\$ 12,389,000					
Unpaid Loss Adjustment Expense (ULAE)	984,000					
Investment Income Offset (3% rate)	(1,866,000)					
Discounted Loss and Loss Adjustment Expense (LAE)	\$ 11,507,000	\$ 12,566,000	\$ 13,003,000	\$ 13,509,000	\$ 14,131,000	\$ 14,948,000
Available Funding	18,833,000	18,833,000	18,833,000	18,833,000	18,833,000	18,833,000
Surplus or (Deficit)	\$ 7,326,000	\$ 6,267,000	\$ 5,830,000	\$ 5,324,000	\$ 4,702,000	\$ 3,885,000

GOVERNING POLICIES

- **OMB CIRCULAR A-87**

(REVISED 05/10/04)

- establishes principles and standards to provide a uniform approach for determining costs

- **EL DORADO COUNTY, CALIFORNIA
OMB A-87**

**ACTUAL COSTS FOR FY 2010/2011
FOR USE IN 2012/2013**

- **Handbook of Cost Plan Procedures for California Counties**

- **JOHN CHIANG**

California State Controller

- Handbook of Cost Plan Procedures for California Counties
- Section 4270: Rate Development (County Cost Plan)

**Self-Insured Liability Program
Funding Guidelines for 2012-13
Amortized Over Three Years**

Self-Insured Retention (SIR) of \$1,000,000 (3% Discount Assumption)

	Expected	Marginally	Recommended Range			Conservative
		Acceptable	Low	Target	High	
Confidence Level		70%	75%	80%	85%	90%
Loss and Allocated Loss Adjustment Expense (ALAE)	\$ 1,775,000					
Unpaid Loss Adjustment Expense (ULAE)	173,000					
Investment Income Offset (3% rate)	(156,000)					
Discounted Loss and Loss Adjustment Expense (LAE)	\$ 1,792,000	\$ 2,136,000	\$ 2,317,000	\$ 2,532,000	\$ 2,804,000	\$ 3,168,000
Non-claims related Expenses	\$ 1,654,000	\$ 1,654,000	\$ 1,654,000	\$ 1,654,000	\$ 1,654,000	\$ 1,654,000
(Surplus)/Deficit at 6/30/12 Amortized Over Three years	\$ (1,143,000)	\$ (946,000)	\$ (854,000)	\$ (748,000)	\$ (615,000)	\$ (437,000)
Indicated Funding	2,303,000	2,844,000	3,117,000	3,438,000	3,843,000	4,385,000
Rate per \$100 of 2012-13 Payroll	\$ 1.99	\$ 2.46	\$ 2.70	\$ 2.97	\$ 3.32	\$ 3.79

Surplus Liability as of June 30, 2012						\$ 2,756,000
					Less 4th Qtr Cost Applieds Billing	(717,650.00)
						2,038,350.00
					Surplus Amortized / 2 yrs	1,019,175.00
FY 2012/13 Recommended Funding						2,844,000.00
					Less Amortized Surplus	(1,019,175.00)
					Total FY 2012-13 Liability Funding	\$ 1,824,825

**Self-Insured Workers' Compensation Program
Funding Guidelines for 2012-13
Amortized Over Three Years**

Self-Insured Retention (SIR) of \$300,000 (3% Discount Assumption)

	Expected	Marginally Acceptable 70%	Recommended Range			Conservative 90%
			Low 75%	Target 80%	High 85%	
Confidence Level						
Loss and Allocated Loss Adjustment Expense (ALAE)	\$ 2,635,000					
Unpaid Loss Adjustment Expense (ULAE)	331,000					
Investment Income Offset (3% rate)	(389,000)					
Discounted Loss and Loss Adjustment Expense (LAE)	\$ 2,577,000	\$ 2,979,000	\$ 2,317,000	\$ 2,532,000	\$ 2,804,000	\$ 3,168,000
Non-claims related Expenses	\$ 782,000	\$ 782,000	\$ 782,000	\$ 782,000	\$ 782,000	\$ 782,000
(Surplus)/Deficit at 6/30/12 Amortized Over Three years	\$ (2,514,000)	\$ (2,151,000)	\$ (2,001,000)	\$ (1,827,000)	\$ (1,614,000)	\$ (1,333,000)
Indicated Funding	845,000	1,610,000	1,098,000	1,487,000	1,972,000	2,617,000
Rate per \$100 of 2012-13 Payroll	\$ 0.73	\$ 1.39	\$ 1.67	\$ 2.00	\$ 2.40	\$ 2.93

Surplus Worker Comp as of June 30, 2012					\$ 6,267,000
				Less 4th Qtr Cost Applieds Billing	(494,551)
					5,772,449
				Surplus Workers Comp / 2 yrs	2,886,225
FY 2012/13 Recommended Funding					3,761,000
				Less Amortized Surplus	(2,886,225)
				Total 2012-13 WC Funding	\$ 874,776

RECOMMENDATIONS TO THE BOARD

- 1) Recommend to the Board of Supervisors to adopt our proposal to follow the State Controller's Office guidelines and the Auditor/Controller's directive to reduce the funding levels of both the General Liability Program and Worker's Compensation Program in the Risk Management Internal Service Fund.**

**THIS CONCLUDES
THE
PRESENTATION**