



Bickmore Risk Services & Consulting

12/08/08 10:00 AM

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 Liability Program

Dear Mr. Costello:

As you requested, we have completed our review of El Dorado County's self-insured liability program. Assuming an SIR of \$1,000,000 per occurrence, we estimate the ultimate cost of claims and expenses for claims incurred during the 2008-09 and 2009-10 program years to be \$1,851,000 and \$1,842,000 respectively. 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 2008-09 and 2009-10 claims translate to rates of \$1.40 and \$1.60 per \$100 payroll respectively.

In addition, we estimate the program's liability for outstanding claims to be \$4,846,000 and \$4,854,000 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 \$5,320,000 as of June 30, 2008, the program was funded between the 65% and 70% confidence levels on that date (see Graph 1 on Page 9.)

The \$4,846,000 estimate is the minimum liability to be booked by the County at June 30, 2008 for El Dorado County's liability 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.

El Dorado County
Self-Insured Liability Program
Estimated Liability for Unpaid Loss and LAE
at June 30, 2008

	Expected	Marginally	Recommended Range			
		Acceptable	Low	Target	High	Conservative
		70% CL	75% CL	80% CL	85% CL	90% CL
Loss and ALAE	\$4,989,000					
ULAE	261,000					
Investment Income Offset	(404,000)					
Discounted Loss and LAE	\$4,846,000	\$5,466,000	\$5,752,000	\$6,087,000	\$6,503,000	\$7,056,000
Available Funding	5,320,000					
Surplus or (Deficit)	\$474,000	(\$146,000)	(\$432,000)	(\$767,000)	(\$1,183,000)	(\$1,736,000)

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.

El Dorado County
Self-Insured Liability Program
Estimated Liability for Unpaid Loss and LAE
at June 30, 2009

	Expected	Marginally	Recommended Range			
		Acceptable	Low	Target	High	Conservative
		70% CL	75% CL	80% CL	85% CL	90% CL
Loss and ALAE	\$4,979,000					
ULAE	284,000					
Investment Income Offset	(409,000)					
Discounted Loss and LAE	\$4,854,000	\$5,475,000	\$5,762,000	\$6,097,000	\$6,514,000	\$7,067,000
Available Funding	4,694,000					
Surplus or (Deficit)	(\$160,000)	(\$781,000)	(\$1,068,000)	(\$1,403,000)	(\$1,820,000)	(\$2,373,000)

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 2008-09 fiscal year. At a minimum the County should contribute \$3,606,000 during 2008-09 to be in compliance with CSAC Excess Insurance Authority standard. The County's planned contribution of \$2,197,000 is less than this amount.

El Dorado County
Self-Insured Liability Program
Funding Guidelines for 2008-09
Self-Insured Retention (SIR) of \$1,000,000

	Expected	Marginally	Recommended Range			
		Acceptable	Low	Target	High	Conservative
		70% CL	75% CL	80% CL	85% CL	90% CL
Loss and ALAE	\$1,884,000					
ULAE	172,000					
Investment Income Offset	<u>(205,000)</u>					
Discounted Loss and LAE	\$1,851,000	\$2,203,000	\$2,386,000	\$2,603,000	\$2,876,000	\$3,243,000
Non-claims Related Expenses	<u>1,403,000</u>	<u>1,403,000</u>	<u>1,403,000</u>	<u>1,403,000</u>	<u>1,403,000</u>	<u>1,403,000</u>
Indicated Funding	\$3,254,000	\$3,606,000	\$3,789,000	\$4,006,000	\$4,279,000	\$4,646,000
Rate per \$100 of 2008-09 Payroll	\$2.47	\$2.73	\$2.87	\$3.03	\$3.24	\$3.52

The funding recommendations shown in the table above do not include any recognition of the existing funding margin at June 30, 2008.

The table below shows our funding recommendations for El Dorado County for the 2009-10 fiscal year. For example, to achieve funding at the 70% confidence level as of June 30, 2010 the County's fiscal year 2009-10 contribution should total \$4,369,000, including \$2,192,000 for claims and loss adjustment expenses, \$1,396,000 for non-claims related expenses, and \$781,000 towards the June 30, 2009 deficit at the targeted 70% confidence level.

El Dorado County
Self-Insured Liability Program
Funding Guidelines for 2009-10
Self-Insured Retention (SIR) of \$1,000,000

	Expected	Marginally Acceptable 70% CL	Recommended Range			Conservative 90% CL
			Low 75% CL	Target 80% CL	High 85% CL	
Loss and ALAE	\$1,876,000					
ULAE	171,000					
Investment Income Offset	(205,000)					
Discounted Loss and LAE	\$1,842,000	\$2,192,000	\$2,374,000	\$2,590,000	\$2,862,000	\$3,227,000
Non-claims Related Expenses	1,396,000	1,396,000	1,396,000	1,396,000	1,396,000	1,396,000
(Surplus)/Deficit at 6/30/09	160,000	781,000	1,068,000	1,403,000	1,820,000	2,373,000
Indicated Funding	\$3,398,000	\$4,369,000	\$4,838,000	\$5,389,000	\$6,078,000	\$6,996,000
Rate per \$100 of 2009-10 Payroll	\$2.94	\$3.78	\$4.19	\$4.67	\$5.26	\$6.06

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.

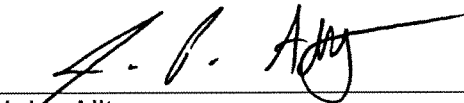
We appreciate the opportunity to be of service to El Dorado County in preparing this report. Please feel free to call Derek Burkhalter at (916) 244-1167 or John Alltop at (916) 244-1160 with any questions you may have concerning this report.

Sincerely,

Bickmore Risk Services



Derek Burkhalter
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Associate, Casualty Actuarial Society
Member, American Academy of Actuaries



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