

STATE OF OREGON

**Department of Administrative Services
Risk Management**

2015-2017 Risk Charge Methodology

Introduction: The Insurance Risk Charge

- The Insurance Risk Charge is the minimum amount of capital required to be held against insurance risks through ratemaking.**

- Agency Risk Charges have been developed based on the following principles:**
 - A rate is an estimate of expected value of future costs of insurance.**
 - A rate provides for all cost associated with insurance.**
 - A rate should be reasonable and not excessive.**
 - A rate should not be inadequate, or unfairly discriminatory.**

Risk Management Services

Claims Management

- Investigation
- Claims Payments
- Mediation
- Litigation

Risk Control

- Consultations
- Risk Assessments
- Special Event Insurance
- Special Insurance Policies

Management of the Insurance Fund

- Actuarial Reviews
- Cash Flow Analysis
- Reserve Reports
- Fund Status Reports
- Investment Allocation

Costs Built Into Risk Charges

☐ Risk Management Administration Cost

- Claim Management Costs : Legal, underwriting and other costs
- Risk Control Costs
- Finance Costs
- Administrative Costs

☐ Commercial Coverage

- Excess Property Policy
- Commercial Crime Policy
- Special Liability Policies, etc.

☐ Actuarially Projected Ultimate Outstanding Losses

- Claims Case Outstanding Reserves
- Claims IBNR (Incurred But Not Reported) Reserves
- Legal Outstanding Reserves
- Legal IBNR

Notes:

❖ *Case Reserves + Paid + IBNR = Projected Ultimate Outstanding Losses*

❖ *IBNR = Projected Ultimate Outstanding Losses – (Case Outstanding Reserves + Paid)*

How Do We Determine the Cost of Risk to Allocate?

The Cost of Risk to Allocate Includes:

- Projected Ultimate Outstanding Losses for all coverage lines**
- Risk Administration Cost**
 - **This comes from the independent actuary – (AON)**
 - **All overhead & claim handling costs**
- Commercial Insurance Cost – (Broker)**
 - **Workers' Compensation commercial insurance costs**
 - **Liability Commercial insurance premiums**
 - **Excess Property premiums**
 - **Boiler & Machinery commercial insurance premiums**
 - **Crime commercial insurance premium**
- The Projected Ultimate Statewide Losses are:**
 - **Determined from biennial actuarial forecasts based on past losses and trends.**
 - **Adjusted by existing fund balances and expected investment earnings.**

13/15 BN Cost of Risk to Allocate

Actual Allocated Cost of Risk 2013-2015	FY 2014	FY 2015	Total
<u>Workers Comp</u>			
Estimated SAIF Payments for Losses	\$ 19,371,988	\$ 19,953,300	\$ 39,325,288
Estimated Basic Premium	\$ 1,124,632	\$ 1,158,371	\$ 2,283,003
Total Estimated Terrorism & Catastrophe	\$ 351,036	\$ 361,567	\$ 712,603
Estimated DCBS Assessment	\$ 1,191,776	\$ 1,227,530	\$ 2,419,306
Risk Management Admin	\$ 480,369	\$ 480,369	\$ 960,737
Commercial Insurance Costs	\$ 7,630	\$ 7,630	\$ 15,260
TOTAL WORKERS COMP LOSSES + SAIF + DCBS COSTS	\$ 22,527,431	\$ 23,188,766	\$ 45,716,198
<u>General-Property Total Cost of Risk</u>			
Auto Property Allocation	\$ 1,173,000	\$ 1,208,000	\$ 2,381,000
General Property Allocation	\$ 3,431,000	\$ 3,640,000	\$ 7,071,000
Commercial Insurance Allocation	\$ 4,293,649	\$ 4,715,514	\$ 9,009,163
Crime Insurance Allocation	\$ 50,000	\$ 50,000	\$ 100,000
Risk Management Allocation	\$ 785,417	\$ 785,417	\$ 1,570,834
Total 2013-15 Property Allocated Charge	\$ 9,733,066	\$ 10,398,931	\$ 20,131,997
<u>Liability</u>			
Auto Liability Allocation	\$ 920,000	\$ 943,000	\$ 1,863,000
General Liability Allocation	\$ 17,768,000	\$ 18,569,000	\$ 36,337,000
Risk Management Admin	\$ 2,051,175	\$ 2,051,174.5	\$ 4,102,349
Commercial Insurance Costs	\$ 38,000	\$ 38,000	\$ 76,000
TOTAL GENERAL LIABILITY COSTS TO ALLOCATE	\$ 20,777,175	\$ 21,601,175	\$ 42,378,349
2013-2015 Total Cost of Risk Allocated	\$ 53,037,672	\$ 55,188,872	\$ 108,226,544

15/17 BN Cost of Risk to Allocate

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Projected Cost of Risk 2015-2017			
TOTAL WORKERS COMP LOSSES + SAIF + DCBS COSTS	\$ 25,819,446	\$ 26,866,330	\$ 52,685,775
Property Total Cost of Risk			
Total 2015-17 Property Allocated Charge	\$ 10,599,054	\$ 10,800,984	\$ 21,400,038
Liability Total Cost of Risk			
TOTAL GENERAL LIABILITY COSTS TO ALLOCATE	\$ 24,477,049	\$ 25,107,979	\$ 79,369,707
2015-2017 Total Cost of Risk Allocated	\$ 60,895,549	\$ 62,775,293	\$ 123,670,843

Note:

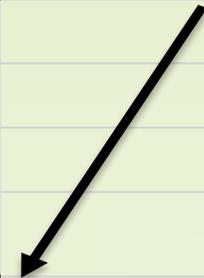
❖ *A business decision was made by DAS Risk Management in consultation with the Customer Utility Board to keep risk charge increases stable by reducing the budgeted \$123.7 M to \$111.3 M with a 10% investment offset.*

15-17 BN Final Allocated Cost of Risk with a 10% Investment Offset

Actual Allocated Cost of Risk 2015-2017	FY 2016	FY 2017	Total
<u>Workers Comp</u>			
Estimated SAIF Payments for Losses	\$ 19,687,183	\$ 20,483,019	\$ 40,170,202
Estimated Basic Premium	\$ 1,159,640	\$ 1,217,622	\$ 2,377,262
Total Estimated Terrorism & Catastrophe	\$ 349,783	\$ 367,272	\$ 717,055
Estimated DCBS Assessment	\$ 1,417,758	\$ 1,488,646	\$ 2,906,404
Risk Management Admin	\$ 612,095	\$ 612,095	\$ 1,224,189
Commercial Insurance Costs	\$ 11,043	\$ 6,867	\$ 17,910
TOTAL WORKERS COMP LOSSES + SAIF + DCBS COSTS	\$ 23,237,502	\$ 24,175,520	\$ 47,413,022
<u>General-Property Total Cost of Risk</u>			
Auto Property Allocation	\$ 1,369,125	\$ 1,410,750	\$ 2,779,875
General Property Allocation	\$ 2,772,000	\$ 2,912,112	\$ 5,684,112
Commercial Insurance Allocation	\$ 4,317,431	\$ 4,317,431	\$ 8,634,863
Crime Insurance Allocation	\$ 79,799	\$ 79,799	\$ 159,599
Risk Management Allocation	\$ 1,000,793	\$ 1,000,793	\$ 2,001,586
Total 2015-17 Property Allocated Charge	\$ 9,539,149	\$ 9,720,886	\$ 19,260,034
<u>Liability</u>			
Auto Liability Allocation	\$ 1,121,940	\$ 1,100,205	\$ 2,222,145
General Liability Allocation	\$ 18,259,560	\$ 18,853,309	\$ 37,108,692
Risk Management Admin	\$ 2,613,644	\$ 2,613,644	\$ 5,227,288
Commercial Insurance Costs	\$ 34,200	\$ 34,200	\$ 68,400
TOTAL GENERAL LIABILITY COSTS TO ALLOCATE	\$ 22,029,344	\$ 22,601,358	\$ 44,626,525
2015-2017 Total Cost of Risk Allocated	\$ 54,805,995	\$ 56,497,763	\$ 111,303,758

Historical Data - Cost of Risk to Allocate (11/13 – 15/17)

<u>11/13 Risk Charges</u>							
	Property	Auto Liability	General Liability	Workers' Compensation	Total	Percent Change	Remarks
Total Charge	\$ 15,887,255	\$ 2,313,044	\$ 36,667,746	\$ 51,602,886	\$ 106,470,931		
<u>13/15 Risk Charges</u>							
	Property	Auto Liability	General Liability	Workers' Compensation	Total		
Total Charge	\$ 20,131,997	\$ 1,863,000	\$ 40,452,701	\$ 45,812,189	\$ 108,259,886	1.7%	
<u>Preliminary 15/17 Risk Charges</u>							
	Property	Auto Liability	General Liability	Workers' Compensation	Total		
Total Charge	\$ 21,400,038	\$ 2,469,050	\$ 47,115,979	\$ 52,685,775	\$ 123,670,843	14.2%	%10 Investment Offset
<u>15/17 Risk Charges</u>							
	Property	Auto Liability	General Liability	Workers' Compensation	Total		
Total Charge	\$ 19,260,034	\$ 2,222,145	\$ 42,404,381	\$ 47,417,198	\$ 111,303,758	2.8%	



AON Actuarially Projected Financial Position

AON Projected Financial Position as of June 30th ,2014			
(Based on business Decision)			
Program	Estimated Outstanding Losses	Assets Available	Projected Financial Position
1	2	3	
Workers Comp	\$ 62,114,590	\$ 47,417,198	\$ (14,697,392)
Liability			
General liability	\$ 56,881,369		
Auto Liability	\$ 3,943,877		
Subtotal	\$ 60,825,246	\$ 44,626,526	\$ (16,198,720)
Property			
General Property	\$ 2,830,470		
Auto Property	\$ 320,100		
Subtotal	\$ 3,150,570	\$ 19,260,034	\$ 16,109,464
Total	\$ 126,090,406	\$ 111,303,758	
		\$ 123,670,843	
Projected Funded Level	With The Investment Offset	88%	
Projected Funded Level	Without The Investment Offset	98%	

Notes:

- ❖ The AON Projected Outstanding Losses of \$126.1 M is at 65% Confidence Level and 2% discount rate.
- ❖ The Projected Available Assets of \$111.3 M is based on the 10% Investment Offset from the budgeted amount of \$123.7 M.

Key Results

- ❑ **13-15 Actual Allocated Cost of Risk was = \$108.2 Million**
- ❑ **15-17 Budgeted Cost of Risk to Allocate is = \$123.7 Million**
- ❑ **But the 15-17 Adjusted Actual Allocated Cost is = \$111.3 Million**
- ❑ **This represents a 2.8% increase in risk charges across the board for all agencies instead of the budgeted 14.2% increase.**
- ❑ **A 10% investment offset was used to keep the risk charges' increase stable and to keep more funds with agencies to finance their operations.**
- ❑ **By implication, 10% of the Risk Fund's investments would be liquidated to finance the investment offset.**

2015-2017 Property Costs



Notes:

- ❖ *Total of \$19.2 M for 15-17 Biennium and \$20.1 M for the 13-15 Biennium or a 4.7% reduction*
- ❖ *The Risk Management Admin Cost includes personal services & supplies.*

Property Allocation

❑ **There were no changes to the Property Risk Charge Allocation Methodology for the 15-17 Biennium.**

❑ **Auto Property Allocation**

Data Used:

- **Claim count of vehicle damage**
- **Claim cost of vehicle damage = Total Incurred Losses less Recovery**

Allocation Methodology:

- **20% frequency weighted with a 4-year look back**
- **80% loss weighted with a 4-year look back**

❑ **General Property Allocation**

Data Used:

- **Claim count of Direct Property Damage**
- **Total Insurable Value from the Risk Report**

Allocation Methodology:

- **75% loss weighted with a 4-year look back**
- **25% exposure weighted (*TIV)**

**Total Insurance Value (TIV)*

2015-2017 Liability Costs



Note:

- ❖ *Total of \$44.3 M for the 15-17 Biennium while the cost for the 13-15 Biennium was \$42.4 M or 5.2% increase*

Liability Allocation

❑ **There were no changes to the Liability Risk Charge Allocation Methodology for the 15-17 Biennium.**

❑ **Auto Liability Allocation**

Data Used

- **Auto Liability claim count**
- **Auto Liability claim cost**

Allocation Methodology

- **20% frequency based with a 4-year look back**
- **80% loss based with a 4-year look back**
- ***Waive of the largest loss up to \$100,000***

❑ **General Liability Allocation**

Data Used

- **Claim count and cost of Employment & Medical Malpractice**

Allocation Methodology

- **10% exposure based (FTE from recent Legislatively Approved Budget)**
- **15% frequency based with a 4-year look back**
- **75% loss based with a 4-year look back**
- **Waive of the largest loss up to \$200,000**

Liability Pools

- Two pools are available for certain agencies with not more than 20 FTE.**
- For Risk Charges they are treated as a single agency and charges divided equally among the members of the pool.**
- There are two pools:**
 - **Licensing and General Government Pool**
 - **Promotional Commissions Pool**
- Affected agencies:**
 - **Agencies with staff at time of billing**

2015-2017 Workers' Compensation Costs



Notes:

- ❖ *Total of \$47.4 M for the 15-17 Biennium while the cost for the 13-15 Biennium was \$45.7 M or 3.7% increase.*

Workers' Compensation Allocation

- ❑ **There were no changes to the Property Risk Charge Allocation Methodology for the 15-17 Biennium.**

Data Used

- **Actuarially Estimated Losses x LCF = Estimated SAIF Payments for Losses**
- **Terrorism Premium = (Forecasted 15-17 Payroll/100*0.01)**
- **SAIF Basic Premium = (Forecasted 15-17 Payroll x SAIF Manual Rate)**
- **DCBS Tax or Assessment = 6.2%**
- **Commercial Insurance**
- **Risk Management Administration**

Allocation Methodology

- **100% loss based with a 4-year look back**
- **Waive up to four average time-loss claims (one per year)**
- **\$33,359,324 / 2,351 claims = \$15,040**
- **\$15,040 X 4 = \$60,160 maximum amount waived for 15-17 biennium**

Minimum Charges

Property

No minimum

Auto Liability

No minimum

General Liability

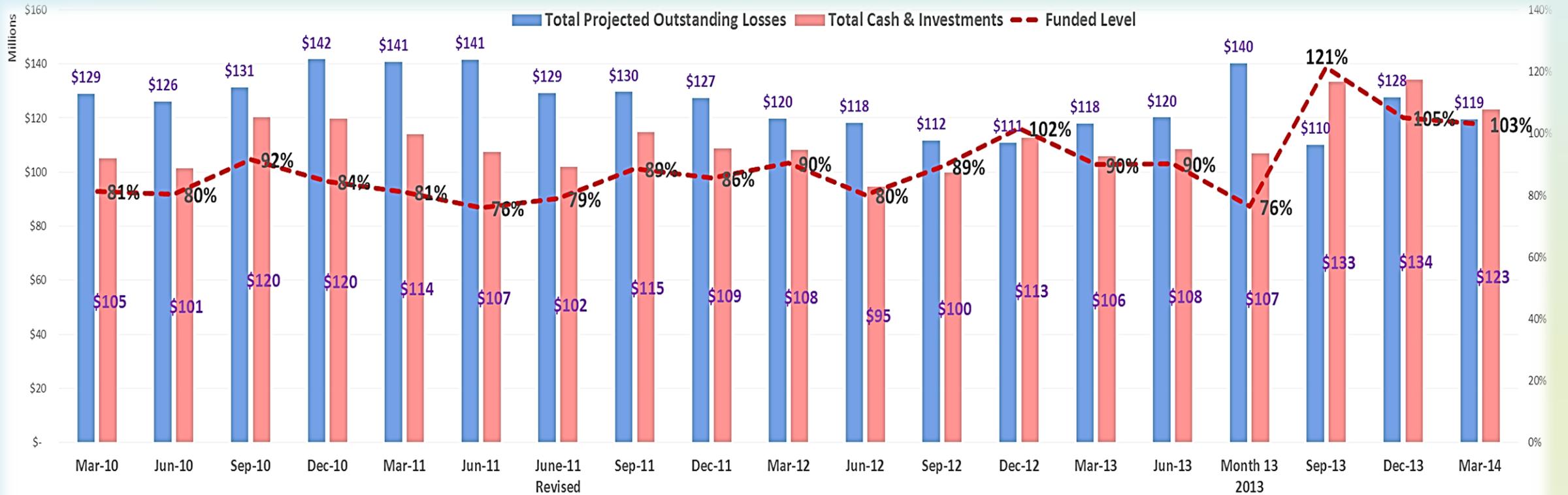
\$2,000 per agency (Agencies without paid losses and claims count)

\$8,000 per pool (4 X the rate for non-pool agencies)

Workers' Compensation

\$1,500 per agency (Agencies with payroll > \$50K and no losses)

May 2014 Insurance Fund Status By Quarter



Questions?

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