Allocation of Oregon's Total Cost of Risk to Agencies

2021-2023 BIENNIUM

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JULY 2021 VERSION

LEGISLATIVELY APPROVED BUDGET

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Document Purpose/Use

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1. Documentation of Work to Date

2. Presentation/Discussion re TCOR
   - Context
   - Direction
   - Issues

3. Presentation/Discussion re Agency Allocation
   - Direction
   - Issues

4. Discussion of Next Steps

5. Optional – Agency Specific Discussion (w Agency Specific Appendix)

Introduction

- The Risk Management (RM) group within the Department of Administrative Services (DAS) is charged with the management of risk (ORS 278.405).

- Long-standing Legislative history requires, and experience has demonstrated that a mix of self-insurance and purchased commercial insurance allows for effective management of the risks of the State of Oregon.

- DAS RM administers an Insurance Fund (ORS 278.425) that provides commercial insurance and self-insurance for state agencies. DAS RM determines and collects risk charges from each state agency to provide funding for its risk management.

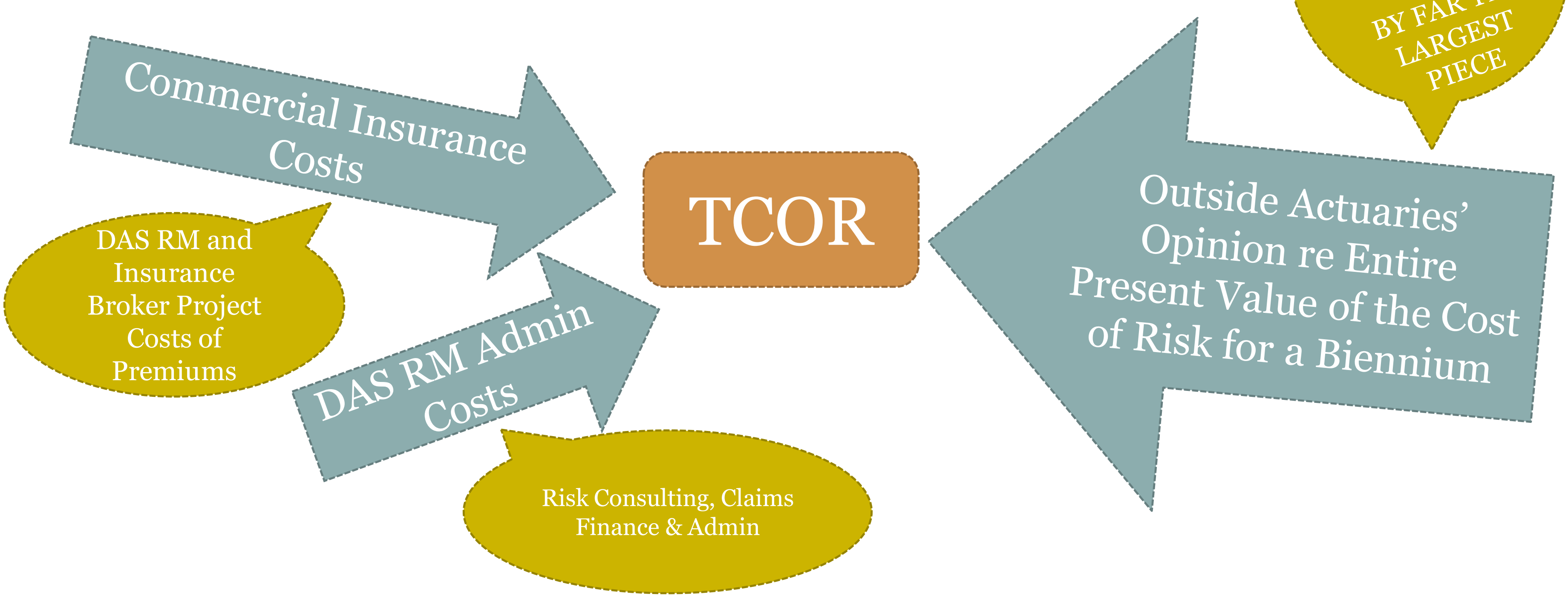
- A wide variety of risks, including broad liability, property, and workers' compensation risks are managed biennially, via this process.

- DAS RM has concluded three iterations of risk charge allocations to agencies for the 21-23 biennium. The Legislature has approved the rates, and initial invoices for the risk charges should go to agencies in the September 2021 timeframe.

Total Cost of Risk (TCOR)

Q: What is step 1 of calculating risk charges for an agency?

A: Determine theoretical TCOR for Oregon overall.



TCOR Components

- 21-23 TCOR has been reduced from theoretical $213M to more manageable $179M for ARB, and $132M was legislatively approved
- Compounded growth greatest for liability, then property, then admin, and it is negative for WC
- Auto coverages are dwarfed by general liability and property
- Outside actuaries' estimates based on 65% confidence but best estimate (50%) also increasing dramatically
- *Some numbers approximate. All accurate enough to understand trends and draw strategic conclusions*

TCOR Over Time and by Iteration within the 2021-2023 Budget Process

	2015-2017	2017-2019	2019-2021	Theoretical 2021-23	Agency Request 2021-23	Legislatively Approved 2021-2023
Total Workers Comp Cost	**$ 51,325,566**	**$ 58,003,592**	**$ 59,501,033**	**$ 64,541,712**	**$ 52,664,866**	**$ 39,360,933**
(Compounded Growth from 2015-17)				**3.9%**	**0.4%**	**-4.3%**
Liability Coverage						
General (Actuarial Estimate*#)	$ 41,307,880	$ 45,899,342	$ 58,021,974	$ 103,513,418	$ 84,473,117	$ 55,409,789
Auto (Actuarial Estimate*)	$ 2,469,050	$ 2,511,290	$ 2,737,130	$ 4,662,478	$ 3,803,931	$ 3,318,273
Total Liability Cost	**$ 43,776,930**	**$ 48,410,632**	**$ 60,759,103**	**$ 108,175,896**	**$ 88,277,047**	**$ 58,728,062**
(Compounded Growth from 2015-17)				**16.3%**	**12.4%**	**5.0%**
Property Coverage						
General (Actuarial Estimate*)	$ 6,315,680	$ 6,069,560	$ 4,956,108	$ 6,164,586	$ 5,029,441	$ 3,411,880
Auto (Actuarial Estimate*)	$ 3,088,750	$ 2,512,400	$ 2,492,087	$ 4,520,229	$ 3,687,875	$ 3,181,849
Subtotal (Actuarial Estimate)	**$ 9,404,430**	**$ 8,581,960**	**$ 7,448,195**	**$ 10,684,815**	**$ 8,717,316**	**$ 6,593,729**
Property Excess (Commercial Coverage)	$ 9,436,292	$ 6,560,639	$ 8,458,836	$ 17,444,845	$ 17,444,845	$ 17,444,845
Equipment Breakdown (Commercial Coverage)	$ -	$ 790,826	$ 135,575	$ 176,186	$ 176,186	$ 176,186
Terrorism	$ 158,000	$ 384,222	$ 347,488	$ 300,077	$ 300,077	$ 300,077
Subtotal (Commercial Property)	**$ 9,594,292**	**$ 7,735,687**	**$ 8,941,899**	**$ 17,921,108**	**$ 17,921,108**	**$ 17,921,108**
Crime (Commercial Coverage)	$ -	$ 239,519	$ 347,488	$ 116,809	$ 116,809	$ 116,809
Subtotal (Crime)	**$ -**	**$ 239,519**	**$ 347,488**	**$ 116,809**	**$ 116,809**	**$ 116,809**
Total Property Cost	**$ 19,176,054**	**$ 16,557,166**	**$ 16,737,582**	**$ 28,722,732**	**$ 26,755,233**	**$ 24,631,645**
(Compounded Growth from 2015-17)				**7.0%**	**5.7%**	**4.3%**
Administrative Expense						
Risk Admin (Workers Comp)	$ 1,360,210	$ 1,348,935	$ 1,284,091	$ 2,032,606	$ 2,032,606	$ 1,709,122
Risk Admin (Liability)	$ 5,808,099	$ 5,980,114	$ 2,639,001	$ 2,731,481	$ 2,731,481	$ 5,840,620
Risk Admin (Property)	$ 2,223,984	$ 2,897,531	$ 5,296,709	$ 6,946,071	$ 6,946,071	$ 2,296,772
Total Risk Admin Cost	**$ 9,392,293**	**$ 10,226,580**	**$ 9,219,801**	**$ 11,710,158**	**$ 11,710,158**	**$ 9,846,514**
(Compounded Growth from 2015-17)				**3.7%**	**3.7%**	**0.8%**
Theoretical/Intermediate	**$ 123,670,843**	**$ 131,260,995**	**$ 146,197,531**	**$ 213,150,498**	**$ 179,407,304**	
Legislatively Approved	**$ 107,200,000**	**$ 107,400,000**	**$ 117,567,154**			**$ 132,567,154**

TCOR

Theoretical, Agency Request, & Legislatively Approved

$132M TCOR to Allocate

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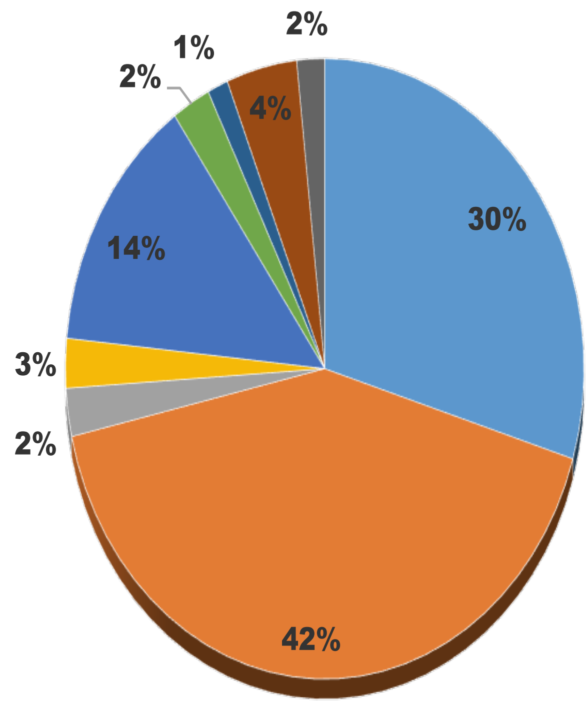
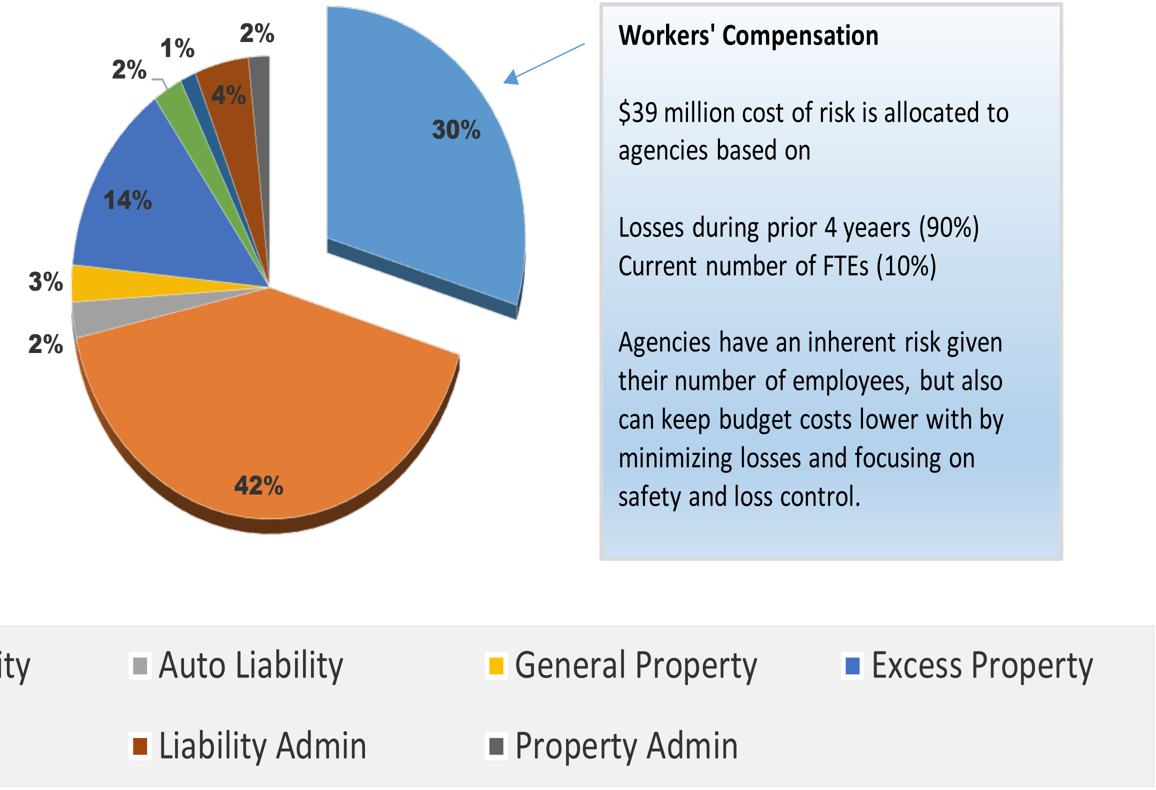
Workers' Comp and General Liability account for almost 75% of TCOR



Costs for all of these risks are allocated to agencies based on their relative risk and actual loss histories.

$132M TCOR to Allocate – Work Comp

Protection against effects of injuries at work



Workers' Compensation

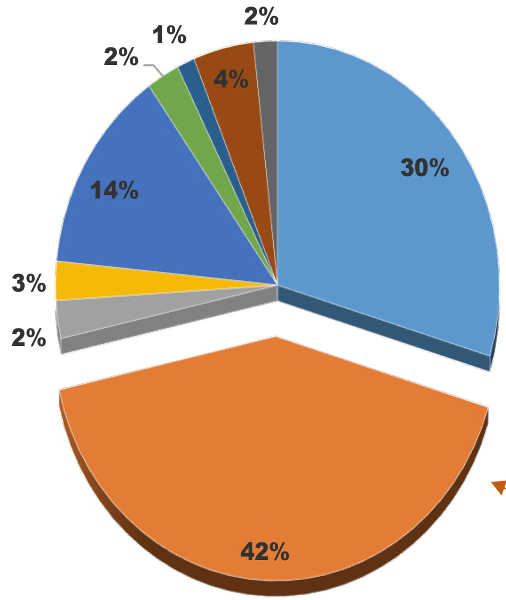
$39 million cost of risk is allocated to agencies based on

Losses during prior 4 yeears (90%)
Current number of FTEs (10%)

Agencies have an inherent risk given their number of employees, but also can keep budget costs lower with by minimizing losses and focusing on safety and loss control.

$132M TCOR to Allocate – Gen Liability

Protection against effects of a wide variety of liability claims



General Liability

$55 million cost of risk is allocated to agencies based on

Losses during prior 4 years (75%)
Claim count during prior 4 years (15%)
FTEs (10%)

Agencies have an inherent risk given their number of employees, but also can keep budget costs lower with by minimizing losses and focusing on risk management and loss control.

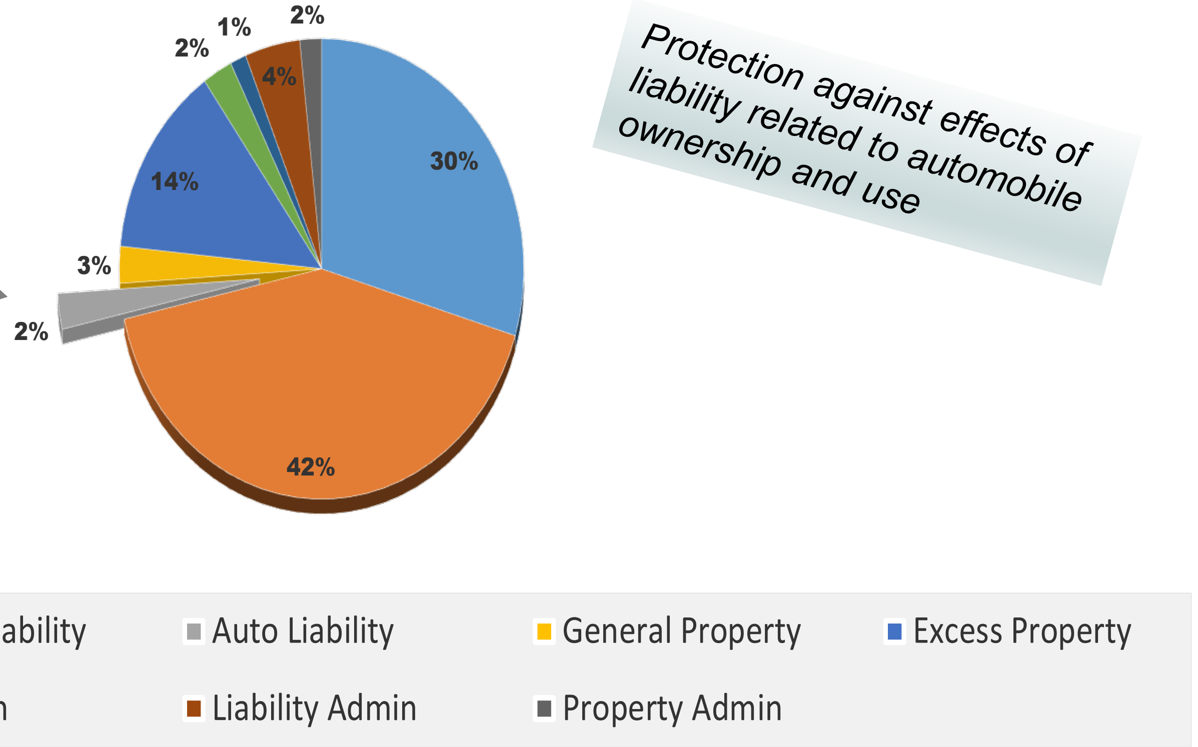
$132M TCOR to Allocate - Auto Liability

Auto Liability

$3 million in auto liability is allocated to agencies based on

Losses during last 4 years (80%)
Claim count during last 4 years (20%)

Agencies can minimize auto liability costs by introducing policies and practices to reduce the number and severity of automomobile claims.



Protection against effects of liability related to automobile ownership and use

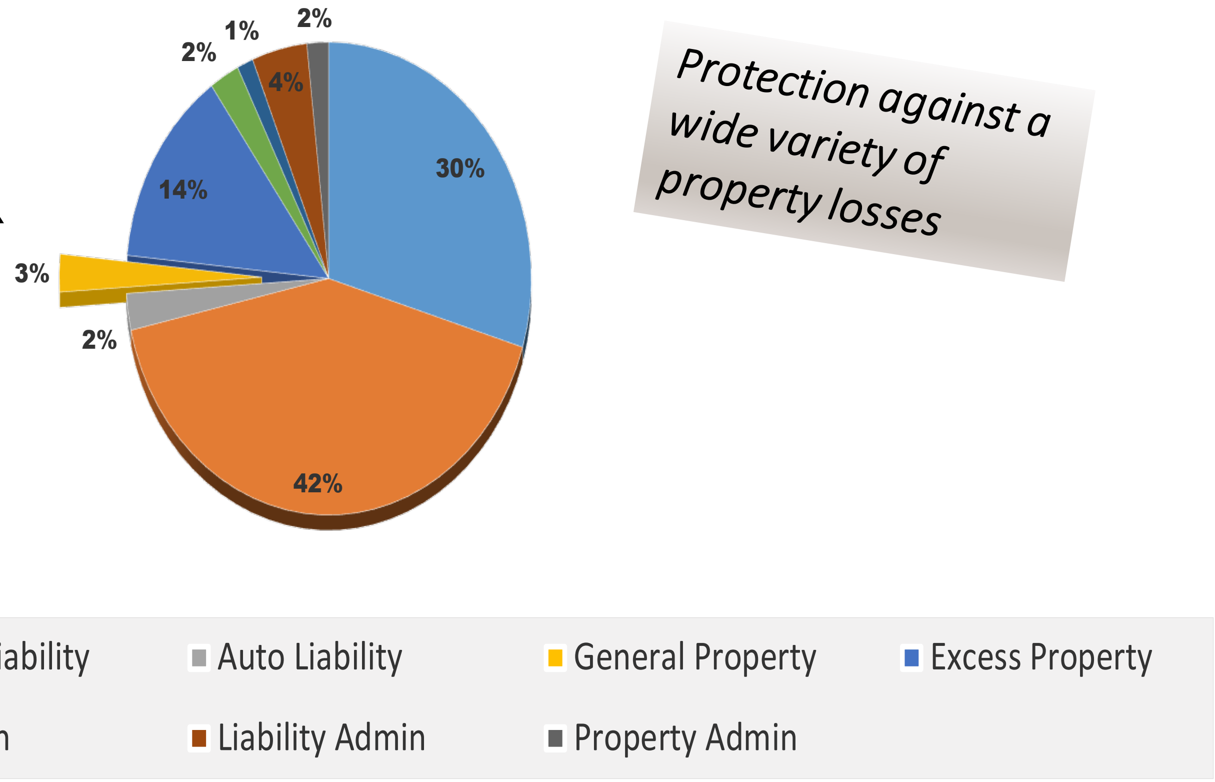
$132M TCOR to Allocate – Gen Prop

General Property

$3 million in general property is allocated to agencies based on

Losses during last 4 years (75%)
Current property value (25%)

Agencies have some inherent risk of property loss because of property they own, but 75% of the cost of expected losses are allocated based on actual losses in an agency compared to the rest of the state. Costs can be managed by implementing solid loss control practices.



Protection against a wide variety of property losses

$132M TCOR – Commercial Insurance

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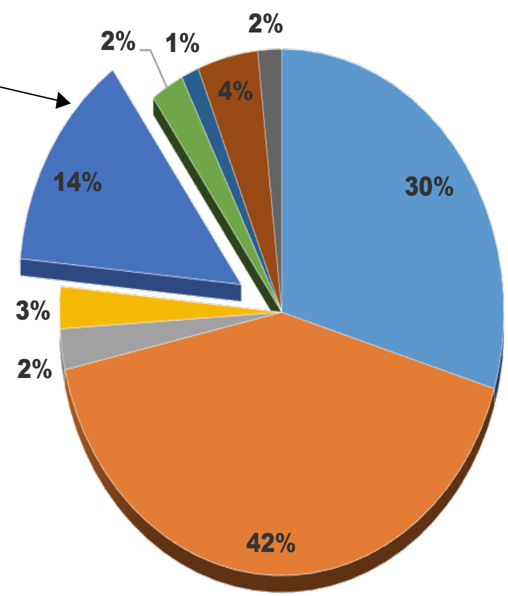
Commercial Insurance (Excess Property)

$18 million in commercial insurance (more than half being excess property coverage) is allocated to agencies based mostly on

Current Property Values (100%)

Agencies have some inherent risk of property loss because of property they own, and the the commercial policy that insures for risks beyond self insurance limits are based completely upon property valuations.



Further protection against effects of a wide variety of property losses, these costs are growing relative to others and becoming a material portion of TCOR

$132M TCOR to Allocate – Auto Prop

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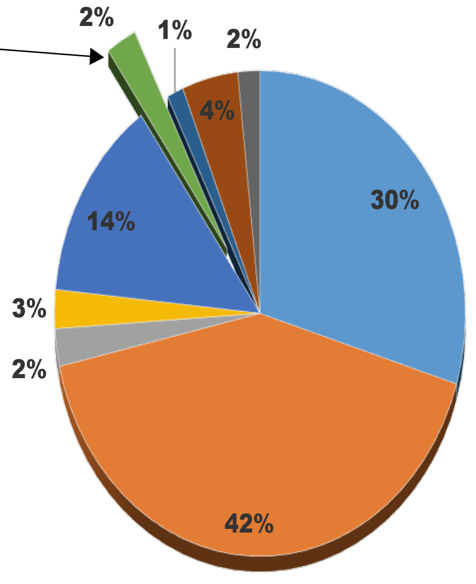
Auto Property

$3.2 million in auto property insurance is allocated to agencies based on

Losses during last 4 years (80%)
Claim counts during last 4 years (20%)

Agencies can minimize costs of auto property coverage by managing the exposure (number and value of vehicles and miles driven) and instituting safe driving practices.



Protection against automobile property damage losses

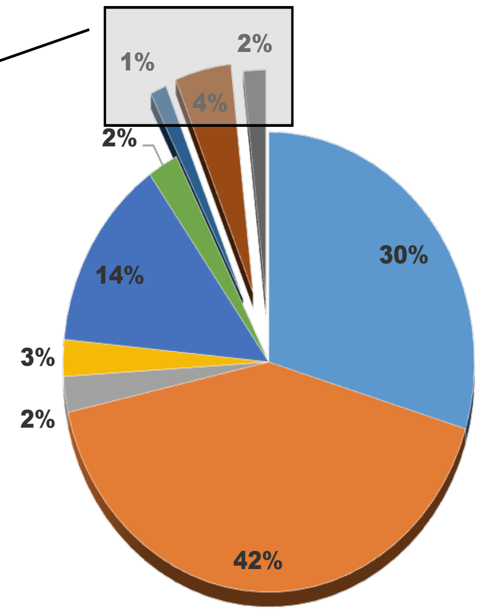
$132M TCOR to Allocate – Admin Costs

Administrative Expenses

The administrative expenses of $1.7 million for workers' comp, $5.8 million for liability coverage, and 2.3 million for property coverage are divided among agencies based on the following, each at 25% weighting:

Losses during prior 4 years
Claim counts during prior 4 years
Current value of property
Current FTEs

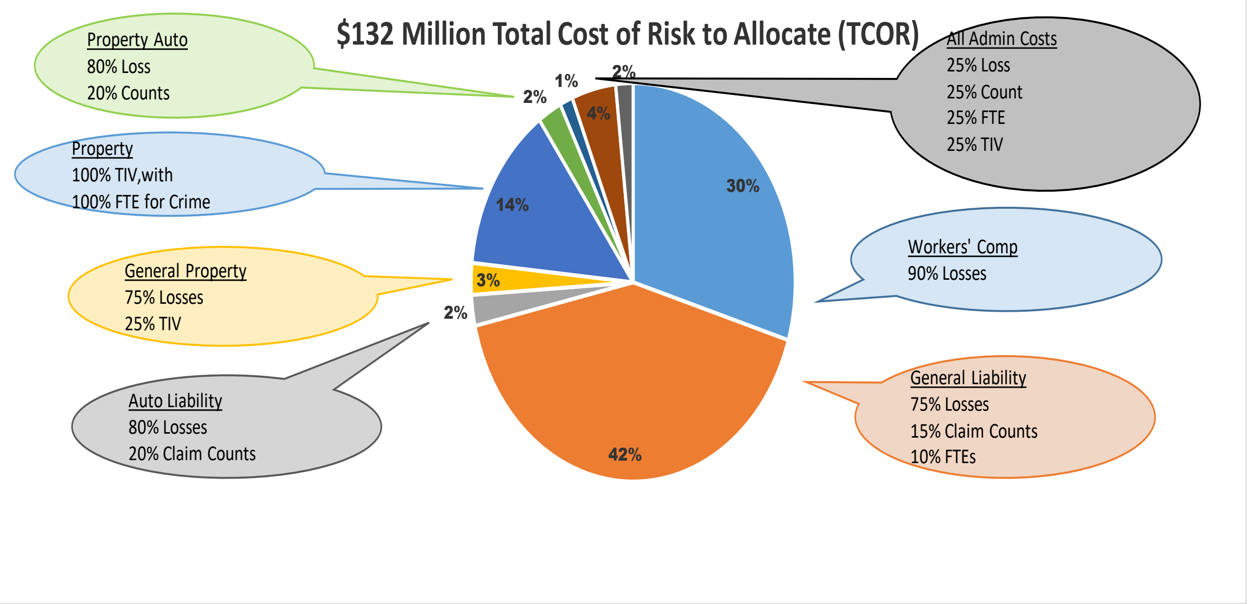
There are certain fixed costs that arise due to the existance of FTEs and property, and costs can be minimized with solid safety management and loss control practices.



Administrative costs of administering the risk management program of the state.

- The various risk costs are allocated to agencies based on an agencies share of losses, claim counts, FTEs and/or total insured value (TIV).
- No allocation methodology is perfect, but the goal is to balance predictability of cost with responsibility for loss (and benefit from loss control).

Summarizing
How are risk costs allocated?



The above is a helpful summary of the variety of ways costs of risk are allocated

- General Liability risks are allocated based on
    - exposure (10%),
    - incidence (15%) and
    - claim severity (75%).

  Hence, actual claim losses in prior 4 years drive GL charges.
- Other risks (e.g., auto liability, property, workers comp) use different allocation drivers
- In this case agency losses accounted for 0.59% of the state's losses, but the agency only accounted for 1.17% of the FTEs in the state.
- The agency benefited from its losses being relatively low relative to its share of FTE and claim counts.

General Liability 19-21	$ 50,709,508	Total Cost to be Allocated to Agencies
Sample Agency		
10%	$ 5,070,951	to be allocated based exposure (agency FTEs relative to total state FTEs)
15%	$ 7,606,426	to be allocated based incidence (agency claim count relative to total state claim count)
75%	$ 38,032,131	to be allocated based severity (agency losses relative to total state losses)
100%	$ 50,709,508	

Allocation Data		Ratio	Sample Agency Risk Charge
479	= Agency FTEs	1.17%	$ 5,070,951 x 1.17% = $ 59,541
40,816	= State FTEs		
$ 19	= Agency Claim Count	0.27%	$ 7,606,426 x 0.27% = $ 20,372
$ 7,094	= State Claim Count		
$ 195,788	= Agency Claim Losses	0.59%	$ 38,032,131 x 0.59% = $ 225,494
$ 33,021,835	= State Claim Losses		
			TOTAL $ 305,408

Allocation to Agencies

BN19-21, Sample Agency, General Liability

How does it work?

Allocation to Agencies

BN21-23, Sample Agency, General Liability

How can charges change?

- The total amount to allocate to agencies increased from $50.7 million to $55.4 million between 19-21 and 21-23.
- This agency had fewer claims than for 19-21, so allocations based on claim counts remained low.
- But claim losses increased significantly, even relative to counts and FTEs, driving significant increases to the allocated risk charge.

General Liability 21-23		$ 55,409,789	Total Cost to be Allocated to Agencies
Sample Agency			
10%	$	5,540,979	to be allocated based on exposure (agency FTEs relative to total state FTEs)
15%	$	8,311,468	to be allocated based on incidence (agency claim count relative to total state claim count)
75%	$	41,557,342	to be allocated based on severity (agency losses relative to total state losses)
100%	$	55,409,789	

Allocation Data			Ratio	Sample Agency Risk Charge						
	479	= Agency FTEs	1.06%	$	5,540,979	x	1.06%	=	$	58,730
	45,216	= State FTEs								
$	12	= Agency Claim Count	0.16%	$	8,311,468	x	0.16%	=	$	13,489
$	7,394	= State Claim Count								
$	455,371	= Agency Claim Losses	1.11%	$	41,557,342	x	1.11%	=	$	461,551
$	41,000,891	= State Claim Losses								
					TOTAL				$	533,770

Summarizing – Allocation

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- The process from the prior slides is repeated for all components of risk, and the pieces are combined into risk charges for (1) workers' comp, (2) liability, and (3) property.

- There is no perfect allocation method.

- Still, allocations are reviewed biennially, and seek to balance
  - Agency responsibility for its losses
  - Agency benefit from loss control efforts
  - Consistency and predictability in risk charge

- In 21-23, the LAB increased $15 million to $132,567,154. The increase is significant, but almost certainly insufficient to cover the full cost of risks for the biennium. Still, it may bring challenges to some agency budgets.

Insurance Fund

- The Insurance Fund is comprised of several individual funds including:
  - Workers Compensation to cover injured state workers,
  - Liability to cover tort claims and other lawsuits,
  - Property to cover damage to state property, and
  - Inmate Injury to cover inmates injured performing assignments while incarcerated

- DAS Risk Management has a statutory duty to maintain an actuarially sound self-insurance

- Contributions are made to the various components of the fund; claims and expenses are deducted.

- The insurance fund must be managed on an actuarially sound basis, which means, from ORS 278:005

  - "funding and insurance sufficient to pay those losses and their related costs which are know or are projected by the Oregon Department of Administrative Services from analyses of claims, loss experience and risk factors."

Summary – Conclusions – Next Steps

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- **Risk Management, Oregon Department of Administrative Services, (DAS RM) is charged with risk management for Oregon**
- **DAS RM accomplishes this responsibility by facilitating management of a combination of self insurance and commercial insurance programs**
- **Total cost of risk (TCOR) for the program is more than $200 million for the biennium, growing nearly 10% per year, which is unsustainable in the long run**
- **The theoretical TCOR had already been reduced by about 15% yielding the $179 million agency request budget for risk charges, for the 2021 – 2023 biennium. This was the initial request, which was further reduced to the Legislatively Approved total of $132,567,154.**
- **Risk costs are allocated to agencies based on previous claim numbers and severity, as well as exposure (employee counts and property values). While no allocation methodology is perfect, this one seeks charge agencies for their basic risk exposure, and also adjust materially for the actual favorable or unfavorable past claim experience.**
- **The Risk Fund helps manage risk, accepting risk charges and paying for claims and other expenses. Currently, fund assets are below 50 percent of liabilities, a ratio that has been declining and needs to move upward in coming years.**

Questions?

RISK CHARGE QUESTIONS?

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OTHER QUESTIONS (e.g., Risk or Loss Control Consulting)

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