

YCPARMIA Risk Management Analysis and Options

November 16, 2021

Background:

The County joined YCPARMIA at formation (1979) and YCPARMIA now includes approximately 32 public agencies in Yolo County. The County of Yolo is the largest and makes up between 48%-52% of payroll in a given year. YCPARMIA administers claims above member agencies deductible (typically \$5,000) up to their Self-Insured Retention (\$1 M on primary programs) and then contracts for excess coverage up to statutory limits or other appropriate thresholds, and administers claims on behalf of insurance pool members.

The County (along with other member agencies) have realized substantial increases in insurance rates (especially excess insurance rates). As part of the adoption of the rates for the fiscal year 2021-22, the County was facing a significant rate increase for the third consecutive year which was caused to both increases in market insurance rates, as well as change in rate apportionment methodology by YCPARMIA.

As part of YCPARMIA outreach to member agencies, it was noted that in both key insurance programs (General Liability and Workers Compensation), the County generally was lower risk than its relative size (i.e. claim percentage of the pool was lower than relative share of pooled payroll). This trend changed from year to year however was consistent over the ten year period represented. Yolo County made up 40% of the total loss for Workers compensation over the last 10 year period while it made up 34% of the total loss for the General Liability program.

This led the County to begin a process to perform a detailed analysis of its approach to self-insurance and participation in YCPARMIA and led to sending a notice of its intent to withdraw from YCPARMIA (Attachment A) to allow the County an opportunity to evaluate other insurance options which it would be precluded from exploring absent that notice. The County is required to decide and either affirm or rescind its notice of intent to withdraw by December 31, 2021.

The analysis below is intended to summarize County analysis performed in conjunction with YCPARMIA staff and staff from the Public Risk Innovation, Solutions, and Management (PRISM, formerly "CSAC-EIA") which is used as an excess carrier for numerous other comparable counties.

Approach:

The County recognizes that there are several permutations and approaches to risk management and insuring for public agency claims and that within staff resources, it would be unreasonable to attempt to explore all potential options. The three main approaches to insuring against risk of loss include either one of the following or a combination of the following depending on risk type (ex. Workers Compensation).

- 1) Commercial Insurance
- 2) Risk Pooling
- 3) Self-Insurance

As commercial insurance is typically not able to be obtained except for very low risk agencies, many municipalities have moved over the past decades toward either self-insurance or risk pooling (a form of self-insurance amongst several agencies). When risk pooling or self-insurance is used, it is typical that a certain amount of risk is retained called Self-Insured Retention "SIR" and excess coverage is obtained either through another pooled layer of coverage or through commercial insurance. The County's participation in YCPARMIA was a form of risk pooling

amongst the public agencies in Yolo County to share risk for a certain amount of SIR and buy excess coverage through various means.

Thus, in Yolo County considering alternatives to YCPARMIA to meet its insurance needs, the County has to look at how to design a comparable risk management program with determining whether to hold more self-insured risk, to do risk pooling, or attempt to procure commercial insurance. As the permutations that could be devised are endless, County staff arrived on a handful of options that would allow the County to determine whether the County would benefit from holding more self-insurance risk through keeping its own SIR at two standardized levels of \$100,000/\$125,000 per claim (slight variance in PRISM offerings per program) and \$250,000 per claim, as well to compare against joining another established pool PRISM that serves a significant number of Counties in the state. This yielded six different options with participation in two separate risk pools for evaluation. While, other options could have been explored, staff believed this would allow for a good range of options to consider the approach to self-insurance that might yield the greatest benefit to the County. The table of options is shown below:

| Workers Compensation | |
|-----------------------------|-------------------------|
| YCPARMIA | PRISM |
| \$1,000 deductible | First dollar coverage |
| \$125,000 per claim SIR | \$125,000 per claim SIR |
| \$250,000 per claim SIR | \$250,000 per claim SIR |

| General Liability | |
|--------------------------|-------------------------|
| YCPARMIA | PRISM |
| \$5,000 deductible | \$10,000 deductible |
| \$100,000 per claim SIR | \$100,000 per claim SIR |
| \$250,000 per claim SIR | \$250,000 per claim SIR |

It should be noted however that with maintenance of a County SIR that is more than incidental (lowest deductibles), the County would need to get an actuarial valuation at a minimum on a biennial (every other year) basis to ensure that sufficient reserves are maintained against claim losses.

Quantitative Factors:

The quantitative factors that the County looked at primarily focused on the key element of cost between the various programs. It should be noted that different costs should be factored in the different programs and coverage levels. The key differences that must be considered when reviewing the different levels include that under YCPARMIA, claims administration is included in the rates while under PRISM, the County would be responsible for hiring a Third-Party Administrator “TPA” to administer claims programs on its behalf, or would have to hire additional positions to do so. In addition, at higher insurance deductibles, the County would according to actuarial standards of practice select an appropriate level of funding of a claims reserve to ensure in instances of multiple claims that the organization can pay the deductible to access higher levels of coverage. Not only is this actuarially sound but would be reviewed for compliance in annual financial audits if sufficient reserves are maintained. This would only apply to the \$125k or \$250k SIR levels.

As insurance policies are procured on an annual basis and rates for FY2022-23 can only be estimated at this time, the County determined it would be appropriate to standardize rates based on what the cost would be for FY2021-22 where information is more readily known and can be more easily standardized. Numerous assumptions went into the information below to standardize the information:

General Liability:

| Pool | YCPARMIA (FY21-22 Rate Estimates) | | |
|--|-----------------------------------|-------------|-------------|
| Deductible/SIR Level | \$5,000 | \$100,000 | \$250,000 |
| Premium | \$3,951,455 | \$3,744,271 | \$3,334,165 |
| Deductibles Paid ¹ | \$58,045 | \$280,950 | \$479,547 |
| Claims Reserve (80% Confidence) ² | \$0 | \$181,130 | \$259,734 |
| Total Estimated First Year Cost | \$4,009,500 | \$4,206,351 | \$4,073,446 |

| Pool | PRISM (FY21-22 Rate Estimates) | | |
|---------------------------------|--------------------------------|-------------|-------------|
| Deductible/SIR Level | \$10,000 | \$100,000 | \$250,000 |
| Premium | \$4,572,409 | \$3,686,209 | \$2,989,365 |
| Deductibles Paid | \$96,196 | \$280,980 | \$479,547 |
| Claims Reserve (80% Confidence) | \$0 | \$181,130 | \$259,734 |
| Third Party Administrator | \$35,000 | \$35,000 | \$35,000 |
| Total Estimated First Year Cost | \$4,703,605 | \$4,183,319 | \$3,763,646 |
| Potential Savings (Cost) | \$(694,105) | \$23,032 | \$309,800 |

Worker's Compensation:

| Pool | YCPARMIA (FY21-22 Rate Estimates) | | |
|---------------------------------|-----------------------------------|-------------|-------------|
| Deductible/SIR Level | \$1,000 | \$125,000 | \$250,000 |
| Premium | \$3,109,141 | \$1,705,084 | \$1,394,109 |
| Deductibles Paid | \$165,281 | \$903,984 | \$1,143,508 |
| Claims Reserve (80% Confidence) | \$0 | \$664,357 | \$727,966 |
| Total Estimated First Year Cost | \$3,274,422 | \$3,273,425 | \$3,265,583 |

| Pool | PRISM (FY21-22 Rate Estimates) | | |
|---------------------------------|--------------------------------|-------------|-------------|
| Deductible/SIR Level | \$0 | \$125,000 | \$250,000 |
| Premium | \$2,877,996 | \$1,654,717 | \$1,017,347 |
| Deductibles Paid | \$0 | \$903,984 | \$1,143,508 |
| 4850 Claims | \$62,180 | \$62,180 | \$62,180 |
| Claims Reserve (80% Confidence) | \$0 | \$664,357 | \$727,966 |
| Third Party Administrator | \$35,000 | \$35,000 | \$35,000 |
| Total Estimated First Year Cost | \$2,975,176 | \$3,320,238 | \$2,986,001 |
| Potential Savings (Cost) | \$299,246 | \$(46,813) | \$279,582 |

¹ Reflects 10 year data averaged from FY2010-FY2020. Later years may not be fully developed and may understate deductibles under higher SIR.

² Assumes County would fund claims reserve at the appropriate actuarial confidence level over a 4 year period. County would during funding period retains the risk of inadequate funding to pay deductibles and would need to absorb in annual operating budget. County unable to take reserves built at YCPARMIA with it due to JPA agreement provisions.

Qualitative Factors:

In addition to the Quantitative Factors mentioned above, there are numerous qualitative factors that should be considered. While given more time, costs and benefits could be attempted to be assigned to each of these factors, at this time, they are listed due to their inability to easily cost. They are listed depending on whether the County remains with YPCARMIA or joins PRISM:

| YPCARMIA | PRISM |
|---|--|
| Local control | Statewide organization, limited control |
| County risk experience reduces rates of local agencies | County lower risk experience subsidizes other agencies throughout state |
| Claims administration included | County needs to procure claims administration or hire additional staff |
| Higher excess coverage (\$50m) | Lower excess coverage (\$25m) |
| Additional coverages included (4850, Strip Search, Cyber, etc.) | Need to explore additional policies or responsible for the cost |
| No switching cost | Would need to have County staff time for transition and to oversee new "TPA". Also would need to work with YPCARMIA and process for Tail claims till closeout. |
| Adequate reserves already maintained | Transition time leads to inadequate reserves for early fiscal years while rebuilding reserve requirement. |