

The background of the slide features a large, faint, circular seal of the State of Alaska. The seal contains a landscape with mountains, a sunburst at the top, a body of water with a ship, and a reindeer at the bottom. The words "THE SEAL OF THE STATE" are written around the top inner edge, and "OF ALASKA" is at the bottom.

# House Bill 102

**Alaska Department of Administration  
Division of Risk Management**

**Director Scott Jordan**

**May 10, 2021, House Finance**

# Purpose

The assets of the Catastrophe Reserve Account (CATFund) may be used to obtain insurance, to establish reserves for the self-insurance program, and to satisfy claims or judgments arising under the program.

- **HB102 will save the state \$3M in the first year and \$25M over the next 5 years (est.)**
- The purpose is to allow the State to self-insure for property coverage.
- We currently self-insure for Workers' Comp (since FY1992) and General Liability (since FY2002).
- Due to global property insurance markets hardening we had a 30% increase in insurance costs from FY20 (\$5.1M) to FY21 (\$6.6M) and we're being told to expect another 15% to 20% for FY22 (\$7.6M-\$7.9M).
- HB102 is a request to change the Catastrophe Reserve Account (CATFund) limit from \$5,000,000 to \$50,000,000 unencumbered.
- Currently the limit on catastrophe coverage that can be purchased is \$50,000,000 for an annual premium. We can save that annual premium by self-insuring.

# What other states are doing?

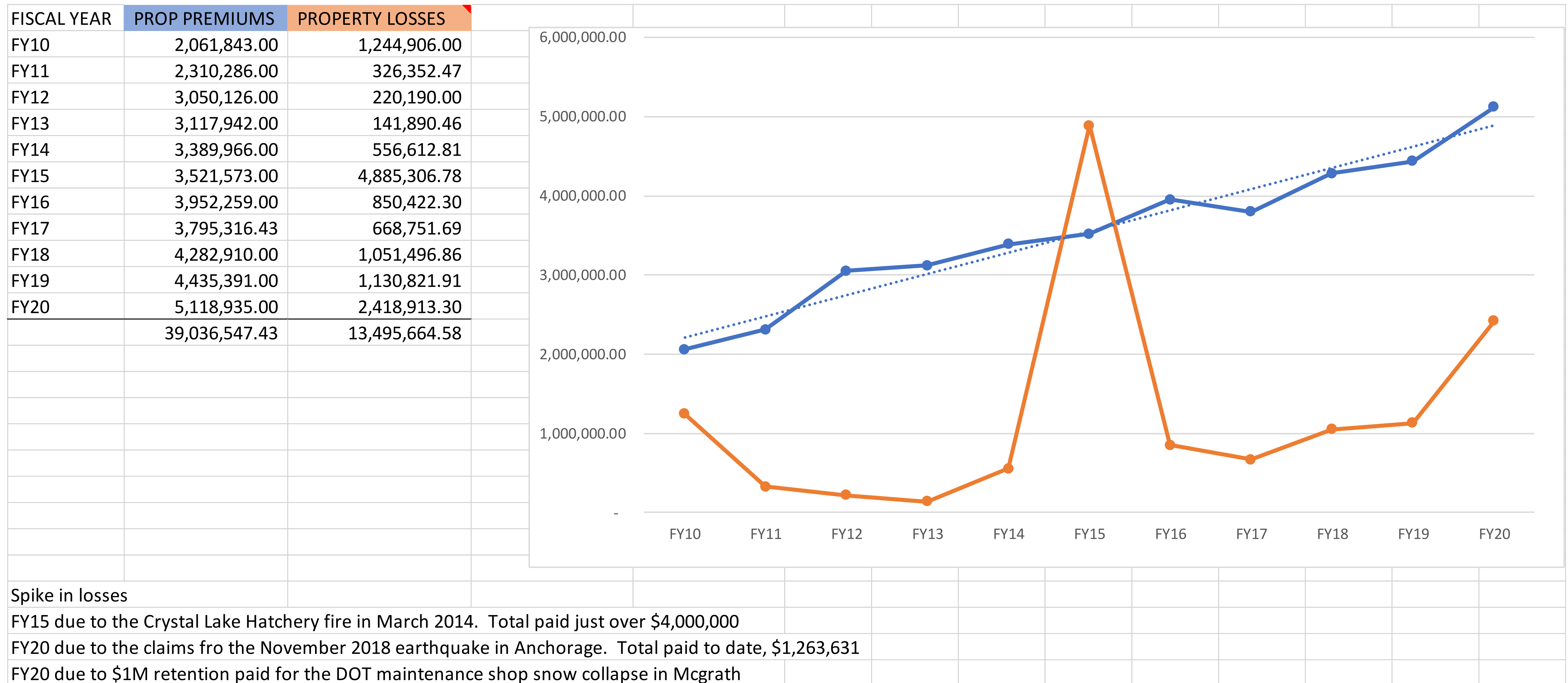
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Through the State Risk and Insurance Management Association (STRIMA) we asked other states what they were doing to combat the rising premiums in property coverages;

- Just pay the higher premiums. Some states are forced to maintain excess coverage due to benefits paid by FEMA which requires “Obtain and Maintain” agreements when FEMA pays for a catastrophic loss.
- Set up Captive Plans-similar to self-insured plan.
- Increase Self-Insured Retentions (SIR), in some states \$40M to \$50M retention.
- Some states are coming off multi-year premium price guarantees.

We received responses from 12 states

# 10-year history of property premiums/losses

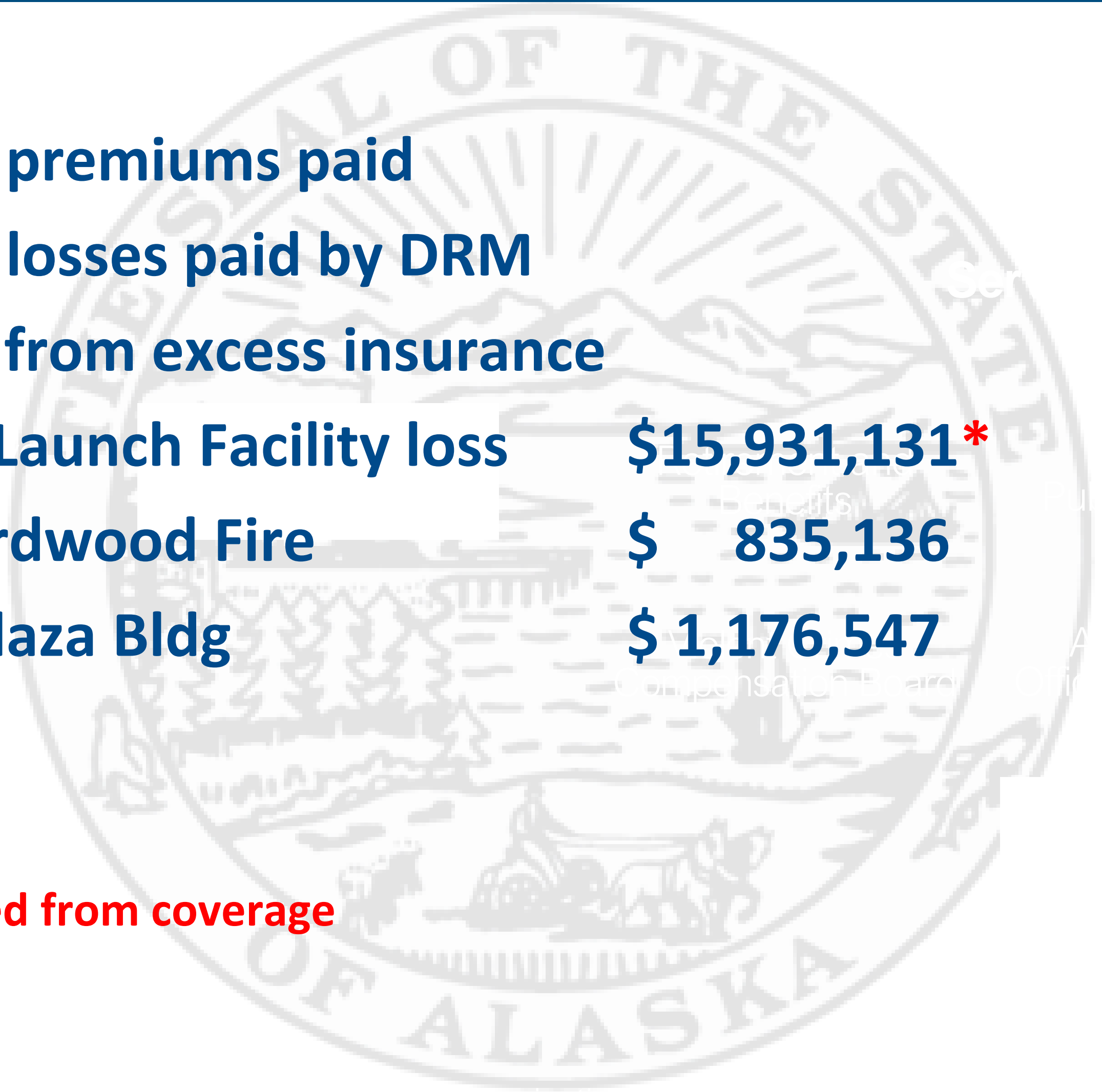




# 10 year history of property payments compared to all lines of business

ARDATA Reports FY10-Present; ONLY PROPERTY			
FISCAL YEAR	PROP PREMIUMS	LOSS PAYMENTS	TOTAL PROP
FY10	\$ 2,061,843.00	\$ 1,244,906.00	\$ 3,306,749.00
FY11	\$ 2,310,286.00	\$ 326,352.47	\$ 2,636,638.47
FY12	\$ 3,050,126.00	\$ 220,190.00	\$ 3,270,316.00
FY13	\$ 3,117,942.00	\$ 141,890.46	\$ 3,259,832.46
FY14	\$ 3,389,966.00	\$ 556,612.81	\$ 3,946,578.81
FY15	\$ 3,521,573.00	\$ 4,885,306.78	\$ 8,406,879.78
FY16	\$ 3,952,259.00	\$ 850,422.30	\$ 4,802,681.30
FY17	\$ 3,795,316.43	\$ 668,751.69	\$ 4,464,068.12
FY18	\$ 4,282,910.00	\$ 1,051,496.86	\$ 5,334,406.86
FY19	\$ 4,435,391.00	\$ 1,130,821.91	\$ 5,566,212.91
FY20	\$ 5,118,935.00	\$ 2,418,913.30	\$ 7,537,848.30
	39,036,547.43	\$ 13,495,664.58	\$ 52,532,212.01
ARDATA Reports FY10-Present; ALL TYPES OF INSURANCE			
FISCAL YEAR	ALL PREMIUMS	ALL CREDITS	LOSS PAYMENTS
FY10	\$ 5,625,503.00	\$ -	\$ 38,322,997.00
FY11	\$ 5,775,140.95	\$ -	\$ 40,835,395.68
FY12	\$ 6,448,982.00	\$ -	\$ 41,167,877.00
FY13	\$ 6,695,671.73	\$ -	\$ 43,706,502.48
FY14	\$ 7,261,291.50	\$ -	\$ 47,522,650.89
FY15	\$ 7,618,977.00	\$ -	\$ 51,236,139.47
FY16	\$ 8,114,115.00	\$ -	\$ 39,355,380.26
FY17	\$ 7,939,340.00	\$ (54,000.48)	\$ 41,035,789.90
FY18	\$ 7,997,497.55	\$ -	\$ 36,670,077.88
FY19	\$ 8,403,934.86	\$ -	\$ 44,880,951.21
FY20	\$ 8,302,650.56	\$ -	\$ 44,969,851.96
	80,183,104.15	(54,000.48)	\$ 469,703,613.73

# Comparison of premiums paid, property losses paid, recovery (excess insurance) FY95-2020



➤ FY95-FY2020 property premiums paid	\$59,017,386
➤ FY95-FY2020 property losses paid by DRM	\$26,145,207
➤ FY95-FY2020 recovery from excess insurance	\$17,942,815
FY2014 Kodiak Launch Facility loss	\$15,931,131*
FY2007 DOT-Girdwood Fire	\$ 835,136
FY2000 Court Plaza Bldg	\$ 1,176,547

\*this type of claim is now excluded from coverage

# History of the Catastrophe Reserve Account (CATFund)

## **Sec. 37.05.289. State insurance catastrophe reserve account.**

(a) There is established in the general fund a state insurance catastrophe reserve account consisting of assets appropriated to it by the legislature, assets allocated to the account by the Department of Administration as provided in this section, and amounts deposited into the account as provided in this section. Assets of the account may be used to obtain insurance, to establish reserves for the self-insurance program, and to satisfy claims or judgments arising under the program. Interest earned on money in the account shall be remitted to the Department of Revenue in accordance with AS 37.10.050.

(b) The Department of Administration may allocate to the state insurance catastrophe reserve account, from the appropriations to all state agencies for insurance-related purposes, an amount that the commissioner of administration determines to be necessary to provide an adequate insurance program for the operations of state government. Money remaining in the account at the end of a fiscal year is not a one-year appropriation under AS 37.25.010 and does not lapse, except for amounts determined by the commissioner of administration to be unnecessary to maintain this account at an appropriate level and not to exceed \$5,000,000. If the amount necessary to satisfy claims or judgments for which payment may be due under the state insurance program in a fiscal year exceeds the unexpended balance of the amounts allocated to the account, the department may charge an additional amount from the unencumbered balance of any appropriation that is determined by the commissioner of administration to be available for lapse at the end of the fiscal year.

(c) The \$5,000,000 cap, set in (b) of this section, on money that may be retained in the state insurance catastrophe reserve account applies only to unobligated money in the account at the end of a fiscal year.

(d) Amounts received in settlement of insurance claims or as recovery for losses shall be deposited into the state insurance catastrophe reserve account.



# Lapse Appropriations Summary

The State Insurance Catastrophic Reserve Fund, Fund # 3209, (Cat Fund) is part of the General Fund and Other Non-segregated Investments (GeFONSI). The GeFONSI are funds that have been pooled together for investment purposes. The Cat Fund is part of the Non-MOU group, which allows for the interest earned to be deposited back into the General Fund.

- The budget includes lapse appropriations to shore up certain state accounts up to statutory limits
- The Risk Management lapse appropriation is last to ensure sufficient lapse for the other accounts
- The total FY2021 projected UGF lapse is \$100.7 million

## UGF Lapse Appropriations Summary (in thousands)

May 7, 2021

	FY2018	FY2019	FY2020
Working Reserve Account Lapse Contributions	\$ 1,142.8	\$ 476.5	\$ -
Group Health and Life Benefits Fund Lapse Contributions	\$ -	\$ -	\$ -
State Insurance Catastrophe Reserve Account Lapse Contributions	\$ 982.6	\$ 3,368.9	\$ 241.0
<b>Total</b>	<b>\$ 2,125.4</b>	<b>\$ 3,845.5</b>	<b>\$ 241.0</b>



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