

ALASKA DEPARTMENT OF ADMINISTRATION OVERVIEW OF DIVISION OF RISK MANAGEMENT



Presentation to
**House Finance
Sub Committee**
March 16, 2021

DRM Director Scott Jordan
CDO Russ Rappel Schmid

MISSION STATEMENT

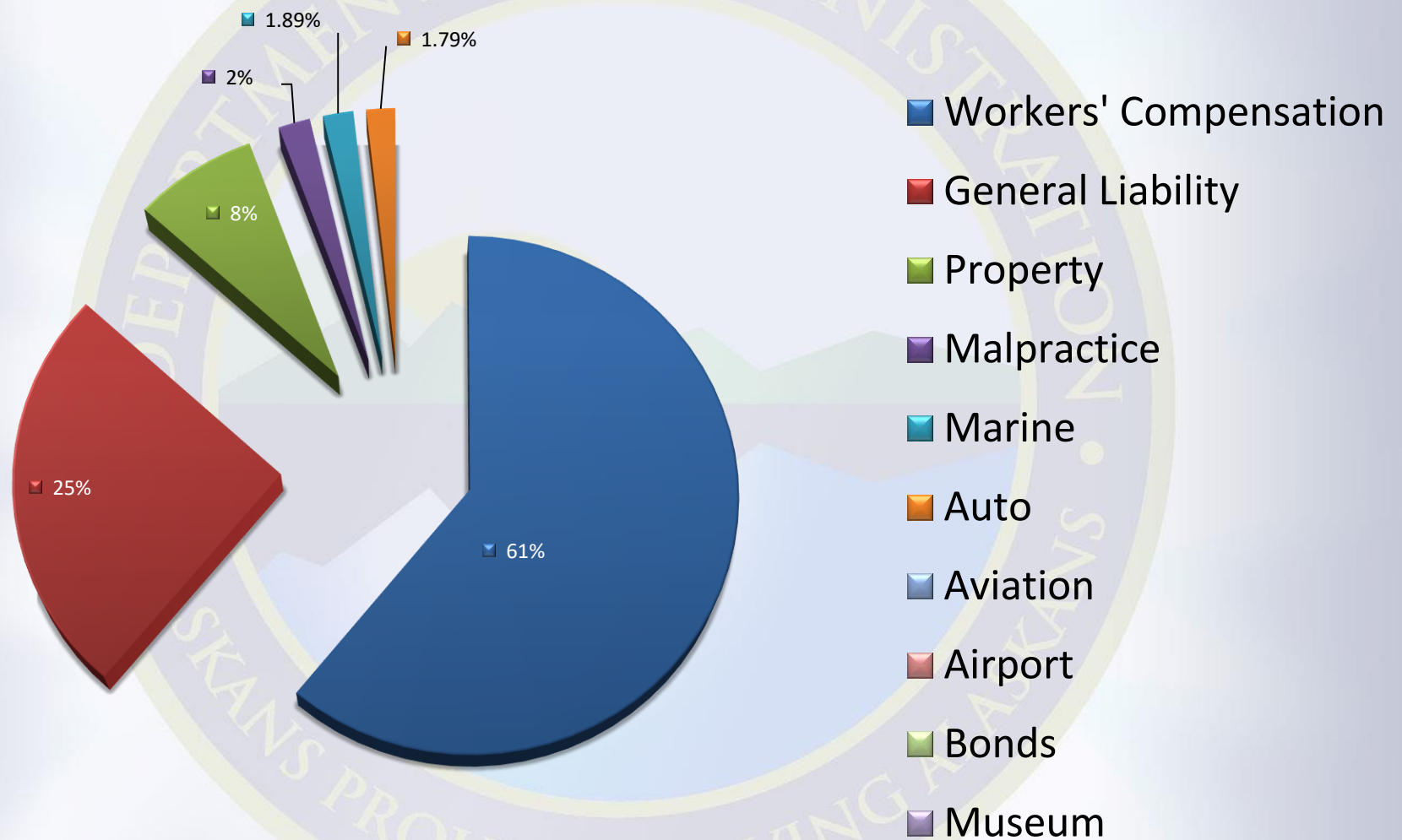
- **Mission statement**-- Mitigate state's risk of financial loss (cost of risk) from accidental loss and injury.
- **History**--The risk management program was first started in 1972, after an independent audit report focused on the state's need for a coordinated and professionally managed insurance program. The Division of Risk Management was established in 1979 as growth created additional and more complicated insurance demands. We operate under AS 37.05.287.

OPERATIONS

- Operations
- Staffing
 - Division of Risk Management-Staff of 13
 - Six with Risk Management
 - Five with Office of Enterprise Analytics
 - Two with Oversight & Review
 - Workers Compensation Third Party Administrator (TPA) Staff of 12
 - Department of Law-Tort and Workers' Comp Section-Staff of 28
- Function
 - Claims-- 1200 workers compensation claims each year. 300 property casualty claims which include property, aviation, marine, general liability, and auto liability
 - Daily advice is given on insurance requirements for state contracts
 - Special Projects-Insurance

CLAIMS BY LINE OF BUSINESS

FY2020 Losses by Line of Business



FUNDING

Funding

- Risk Management's budget is funded entirely through inter-agency receipts billed annually to each agency through a "Cost of Risk" premium allocation system (CORA)
- RSAs to all agencies for property, aviation, and marine coverage
- Payroll deduction for liability, auto liability, and workers compensation
- Current funding level for FY21 is \$40,784,900
- Each year the State obtains an independent actuarial assessment of the state insurance program required by AS 37.05.287(b)

FUNDING CONT'

- **State Catastrophe Insurance Reserve Account**

“Cat Fund” as we call it, is a fund authorized under AS 37.05.289, which was enacted in 1987 and is limited to a maximum of \$5 million unencumbered. This fund was intended to pay only the rare large losses incurred by the state. If part or all of the fund is used in any given year it is replenished first by any lapsing Risk Management funds, and then by other agency lapsing general fund appropriation.

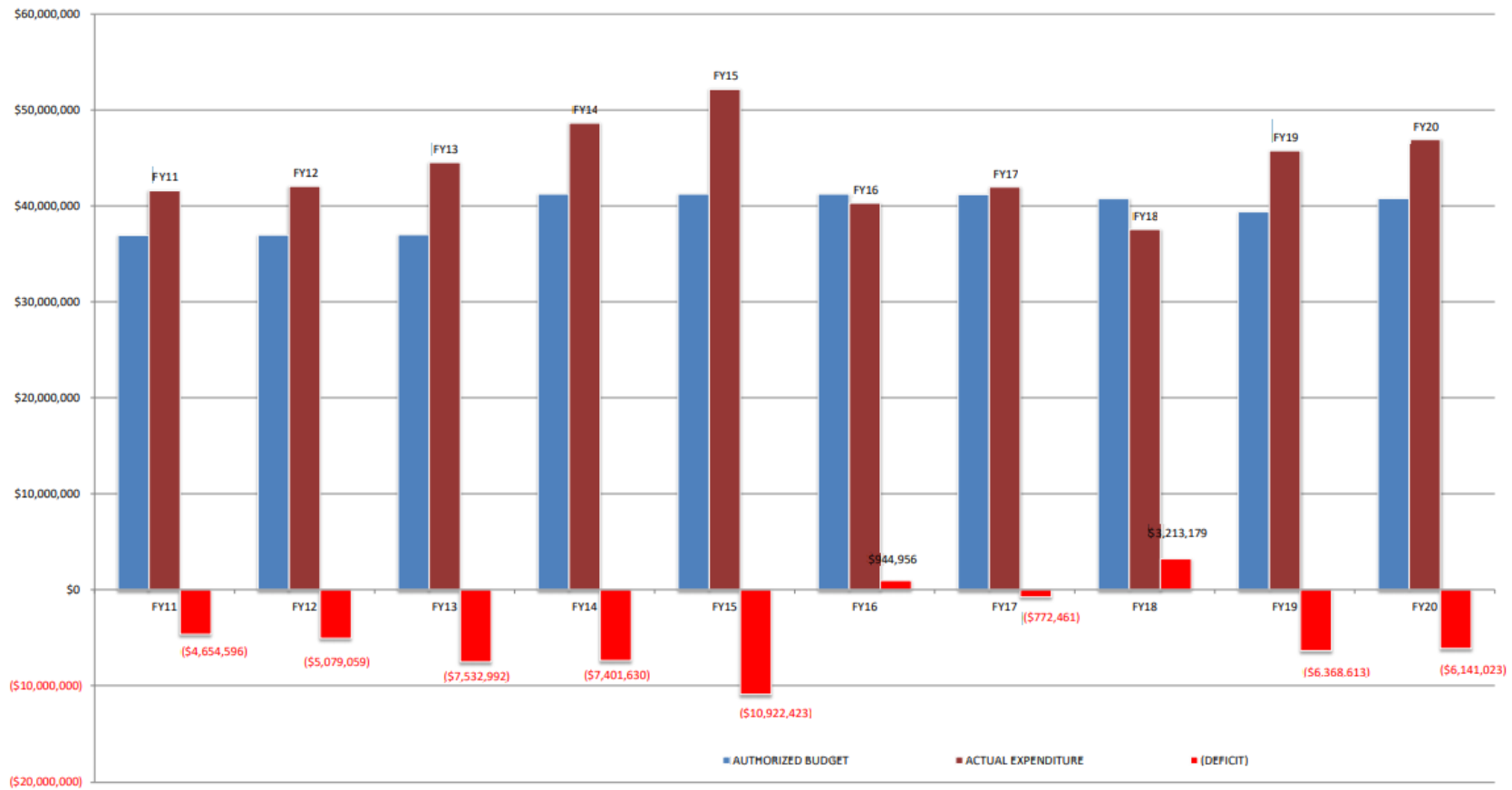
RETURN TO WORK PROGRAM

- **Return to Work Program**
- We have a potential to have most of our time loss claims (currently 424) return to work in a light duty capacity
- Savings to the agencies would be in the form of claims experience. A statistical fact in workers comp; there is only a 50% chance that an injured worker will return to the work place after 6 months absence this declines to 25% after one year and 1% after two years
- We work with Division of Personnel on permanent placement if an injured worker cannot return to the position they held at the time of injury

CATFUND USAGE FY11-FY20

	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	Total Deficits 10 yr	
AUTHORIZED BUDGET	\$36,942,200	\$36,974,100	\$37,000,600	\$41,239,100	\$41,239,600	\$41,242,011	\$41,200,099	\$40,760,600	\$39,380,703	\$40,779,500	\$594,473,914	
ACTUAL EXPENDITURE	\$41,596,796	\$42,053,159	\$44,533,592	\$48,640,730	\$52,162,023	\$40,297,055	\$41,972,560	\$37,547,421	\$45,749,317	\$46,920,523	\$691,896,244	
(DEFICIT)	(\$4,654,596)	(\$5,079,059)	(\$7,532,992)	(\$7,401,630)	(\$10,922,423)	\$944,956	(\$772,461)	\$3,213,179	(\$6,368,613)	(\$6,141,023)	(\$44,714,662)	

AUTHORIZED VS ACTUAL FY11-FY20



ACCOMPLISHMENTS

- * The division expanded and Office of Enterprise Analytics (OEA) became operational. OEA provides data analytics to all state agencies as requested. The office of Oversight and Review also became operational and in FY19 and FY20 they completed five investigative reports. Both sections operate under Administrative Order 314 signed in February 2020
- * All divisional employees were able to mobilize in less than a week to telework when the COVID-19 pandemic hit. Since the division operates in a paperless environment, the transition was seamless, and no services were reduced due to teleworking
- * The division had a successful Request for Proposal (RFP) for a claims management system in FY20. The new system will allow the division to have a Geographical Information System (GIS) for property tracking, Electronic Data Interchange (EDI) reporting for workers compensation, Incident Portal Collection for direct submission of Report of Injury forms by supervisors, automated claims reporting to International Organization for Standardization (ISO) for fraud detection, and it will interact with payroll for accurate information on injured employees for workers comp claims. This system will also allow agencies to directly view and make any necessary changes to their insured assets which should eliminate errors

HB102

- HB102 (and companion bill SB88) is a request to change the CATFund from \$5,000,000 to \$50,000,000 unencumbered.
- The purpose is to allow the State to self-insure for property coverage.
- We currently self-insure for Workers' Comp and General Liability
- Due to global property insurance markets hardening we had a 30% increase in insurance costs from FY20 to 21 and we're being told to expect another 15% to 20% for FY22
- Currently the limit on catastrophic coverage that we can purchase is \$50,000,000 for an annual premium. We can save that annual premium by self-insuring.

HISTORY OF THE CATASTROPHIC 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.

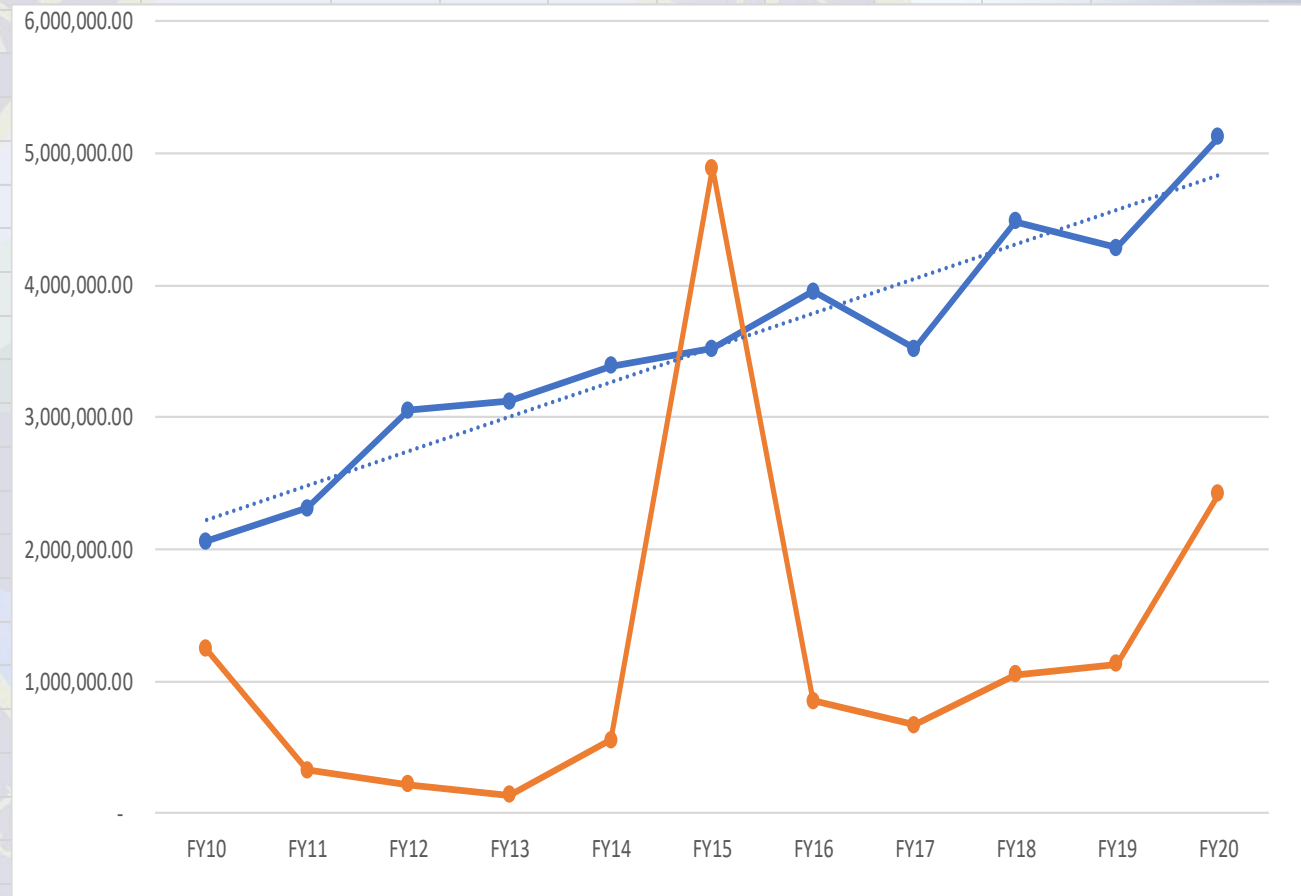
(c) The \$5,000,000 cap, set in (b) of this section, on money that may be retained in the state insurance catastrophe reserve account applies only to unobligated money in the account at the end of a fiscal year.

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

10-year history of property premiums/losses

11

FISCAL YEAR	PROP PREMIUMS	PROPERTY LOSSES
FY10	2,061,843.00	1,244,906.00
FY11	2,310,286.00	326,352.47
FY12	3,050,126.00	220,190.00
FY13	3,117,942.00	141,890.46
FY14	3,389,966.00	556,612.81
FY15	3,521,533.00	4,885,306.78
FY16	3,953,259.00	850,422.30
FY17	3,518,538.00	668,751.69
FY18	4,479,693.00	1,051,496.86
FY19	4,282,910.00	1,130,821.91
FY20	5,118,935.00	2,418,913.30
		13,495,664.58



Spike in losses

FY15 due to the Crystal Lake Hatchery fire in March 2014. Total paid just over \$4,000,000

FY20 due to the claims from the November 30, 2018 earthquake in Anchorage, Total paid to date, \$1,263,631

FY20 due to a \$1,000,000 retention paid for a DOT maintenance shop snow collapse in McGrath.

Expenditures from the CATFund since inception

[illegible]

Larger claims paid out of the CRA (CATFund)

12

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- AMHS LeConte Grounding May 2004 \$1,187,330
 - F&G Crystal Lake Hatchery fire March 2014 \$4,078,137
 - Alaska Aerospace Kodiak Launch Facility rocket explosion August 2014 \$1,513,667
 - PFAS claims starting in November 2017 \$5,877,555
 - Earthquake related claims November 2018 \$1,263,631

Lapse Appropriations Summary

12

- 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 \$110.7 million

UGF Lapse Appropriations Summary (in thousands)

March 8, 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
Total	\$ 2,125.4	\$ 3,845.5	\$ 241.0

OFFICE OF ENTERPRISE ANALYTICS

Russ Rappel Schmid
Chief Data Officer



OEA MISSION

❖ To

- Promote data sharing and transparency across government and the State of Alaska,
- Perform enterprise-wide data analytics services, and
- Use data analytics to identify improvement opportunities in government and potential fraud, waste and misuse of government resources.

OEA OBJECTIVES

- Managing the State Open Data Portal
- Participating in data governance initiatives
- Promoting data as a valuable State asset
- Promoting data literacy
- Promoting data sharing across state agencies
- Providing data analytics and visualization services
- Using data analytics to identify improvement opportunities in state government
- Using data analytics to assist agencies with fraud, waste, and misuse identification

CONTACTS



*Kelly Kay Hanke
Public Information Officer
Legislative Liaison
Office of Commissioner Tshibaka
Department of Administration
kelly.hanke@alaska.gov
907-500-8322*

*Scott Jordan
Director, Division of Risk Management
Department of Administration
scott.jordan@alaska.gov
907-465-5723*