

SB

152

SENATE COMMITTEE REPORT

FIRST COMMITTEE OF REFERRAL

Date of 3/25/87 5-DAY NOTICE
IN ACCORDANCE WITH UNIFORM RULE 23

FURTHER: FINANCE

**FISCAL NOTE(S) ATTACHED / **
IN ACCORDANCE WITH AS 24.08.035
(see below)

DATE TURNED INTO OFFICE 3/31/87

Mr. President:

STATE AFFAIRS Committee considered SB 152

relating to the state's risk management; and creating a state insurance catastrophe reserve account; efd.

and recommended:

- replace with CS _____ same title
- attached amendment(s) and new title

~~do~~ do pass

do not pass

no recommendation

individual recommendations

further referral to _____

letter of intent adopted and attached

** Committee attached or adopted fiscal note(s)
 zero fiscal impact

MEMBERS SIGNING DO PASS

OTHER RECOMMENDATIONS

[Signature]

Car. Fee No Rec

Food Inspection No Rec

[Signature]

Chairman signature and recommendation

Committee Backup Attached

THE FOLLOWING PAGES WERE TREATED AS
A UNIT IN THE ORIGINAL FILE.

STATE OF ALASKA
SELF INSURANCE PROGRAM
CATASTROPHE FUND FINANCING

CURRENT
FY87 PROGRAM

PROPOSED
FY88 PROGRAM

EXCESS INSURANCE
LAYERS

INTERMEDIATE LEVEL
COST FY87
APPROX
\$2.8 MILLION

SELF INSURED

INSURED
EXCESS OF
\$5 MILLION

INTERMEDIATE LAYER
UP TO
\$5 MILLION
EXCESS OF
\$1 MILLION

PRIMARY LAYER
UP TO
\$1 MILLION

EXCESS INSURANCE
(purchased)

CATASTROPHE
INSURANCE FUND
SENATE BILL 152

SELF INSURED

DIVISION OF RISK MANAGEMENT



State of Alaska
Department of Administration

Department of Administration
Division of Risk Management

Introduction

The Division of Risk Management administers the State insurance programs, adjusts claims, retains and analyzes insured loss data base information for all State agencies and audits State contracts for insurance requirements. The State property/casualty program consists of a high level of self insurance combined with purchase of excess insurance for funding catastrophe loss. The Division also acts as an insurance consulting resource for all State agencies including the Alaska Power Authority, Alaska Railroad and University of Alaska when called upon.

During FY 86 standard insurance requirements for State contracts were reviewed and revised in response to cost availability problems caused by the recent insurance market crisis.

The Division objectives include cost effective insurance protection, the handling of all claims in a fair and timely manner, development of effective agency loss exhibits and thorough contract review.

Risk Management claims caseload during FY 86 was 2214 new cases plus 1186 active claims from previous years. At the end of FY 86 there were 916 active and continuing cases primarily involving third party liability and statutory workers' compensation; the remainder of FY 86 claims were properly settled through adjustment or adjudication.

Risk Management has a staff of seven full-time positions and is funded totally through interagency assessments. No general funds were appropriated for FY 87.

The Division's insurance program consists of a combination of Self-Insured Retentions (SIR's) and excess insurance policies. We actually act in the capacity of an insurance company for all the State Agencies. The level of self-insurance is dependent upon the availability and affordability of markets for each type of insurance required, i.e., Property, Marine, Aviation, Liability, etc. The recent insurance crisis has dictated a number of changes in our programs during the last two years. Insurance markets are only recently beginning to stabilize as respects predictability and availability, however, the market remains very restrictive for certain types of insurance such as malpractice, errors and omissions, police liability, etc. Insurance for discrimination, pollution, asbestosis, etc. is virtually unavailable, however, the State risk management program will provide limited response to certain of these exposures depending on self-insured limitations.

STATE OF ALASKA

FY87 PROPERTY/CASUALTY PROGRAM
(Includes retention levels (deductibles) and limits)

This list is not detailed and does not include a few small policies for special exposures -- there are policy extensions and limitations not included in this statement -- additional information concerning specific areas of coverage are available from Risk Management by request.

The State's policies extend to cover all State Agencies and Entities except those specifically excluded such as the Alaska Railroad who administer their own insurance program.

The coverages are, of course, subject to change. There are approximately seventy insurance companies and various Lloyd's syndicates presently represented in the State program.

Coverage	Self Insured Retention	Liability & Property Limits
PROPERTY	\$500,000	\$100,000,000
Data Processing Equipment	(included)	
Museum Fine Arts Floater	\$100,000	Specified Value
(EARTHQUAKE & FLOOD)	5% - minimum \$750,000	\$40,000,000
BOILER & MACHINERY	\$10,000	\$10,000,000
CASUALTY (Liability)	\$5,000,000	\$100,000,000 (claims made form, excludes discrim., pollution, asbestos, punitive, etc.)
FOREIGN LIABILITY	-	\$1,000,000
WORKERS' COMPENSATION	\$5,000,000	Statutory
MARINE LIABILITY	\$100,000	\$200,000,000
MARINE HULL	\$50,000	Stated values approx \$250,000,000 limit
FERRY DOCKS	\$250,000	Stated values \$5,000,000 Limit
AVIATION LIABILITY		
airports	\$250,000	\$200,000,000
aircraft	\$250,000	\$200,000,000
National Guard	\$100,000	\$200,000,000
MULTI-LINE AGGREGATE (Property & Marine) (Aviation)	\$3,500,000 SIR \$1,000,000	\$5,000,000
EMPLOYEE FIDELITY BOND (We also maintain other statutory and Public Official Bonds)	\$250,000	\$10,000,000
FOUR DAM POOL PROPERTY	\$1,000,000 except quake & flood 5% - values at locations	\$75,000,000
APA BOILER & MACHINERY	\$25,000	\$15,000,000

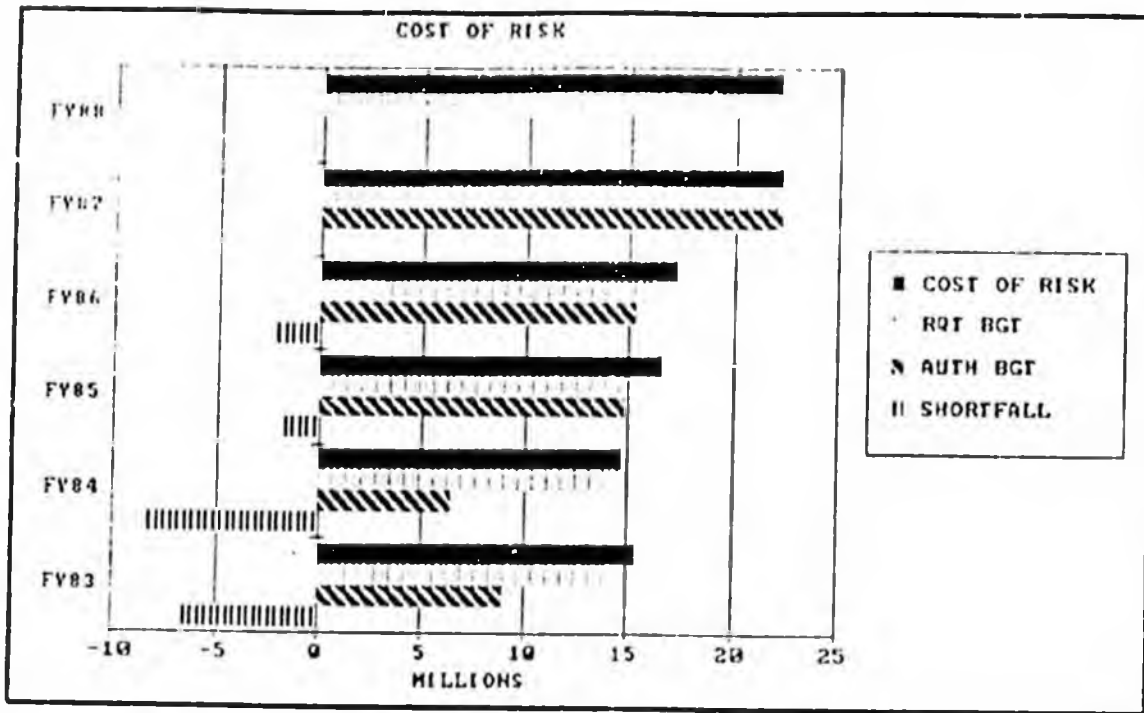


Chart I

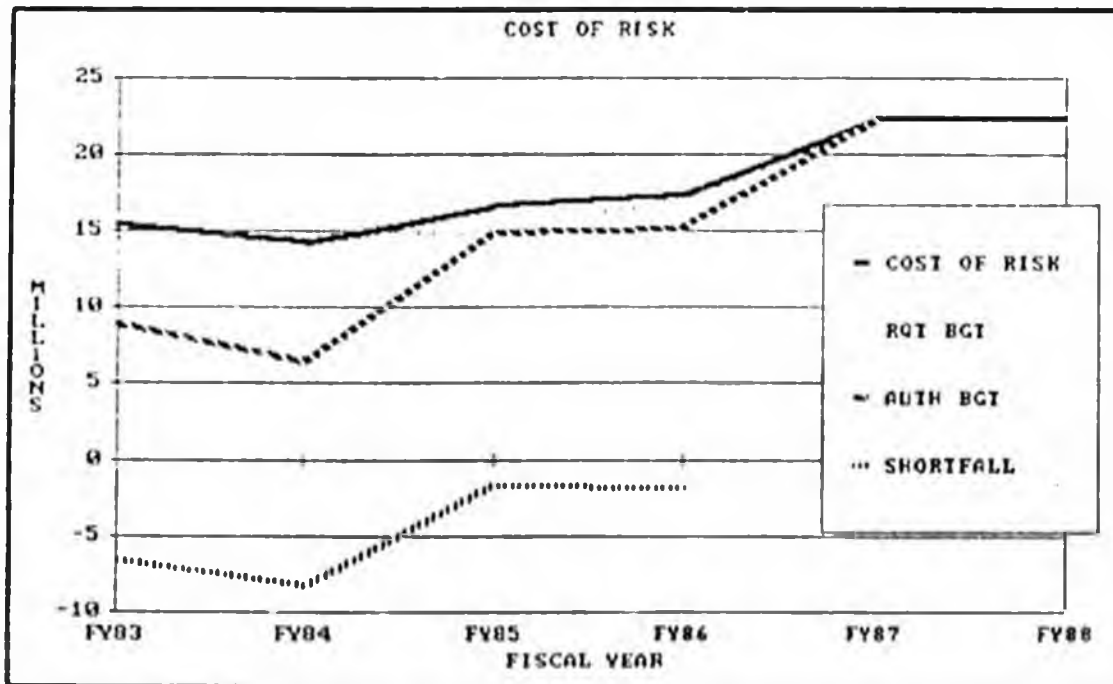
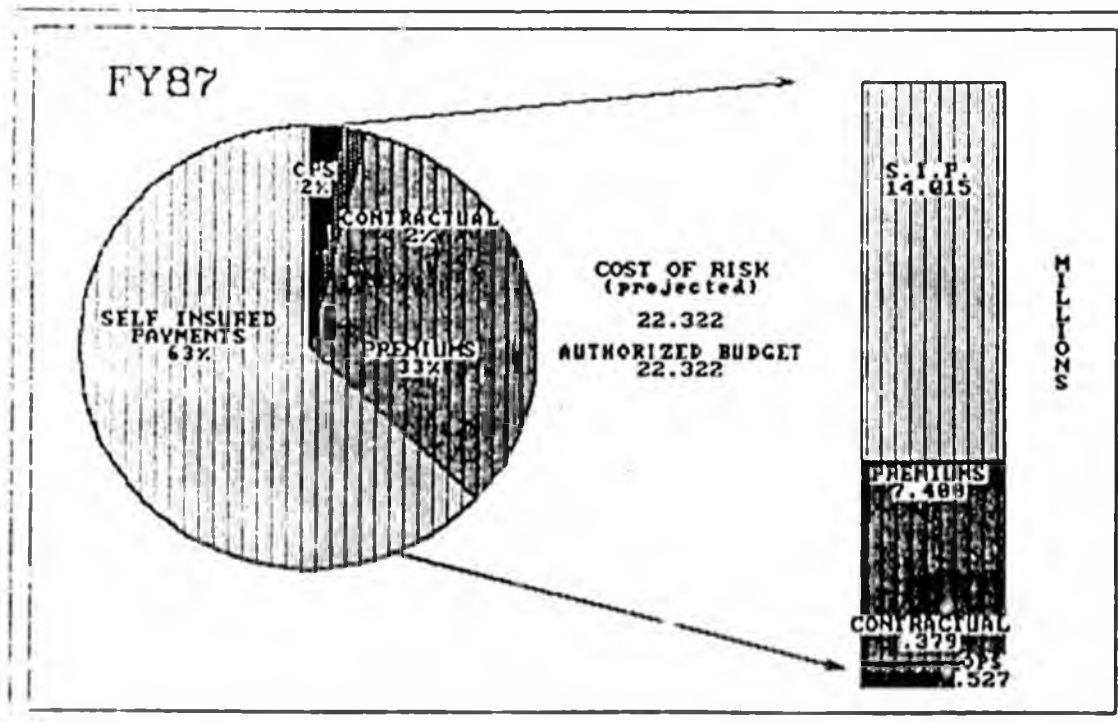
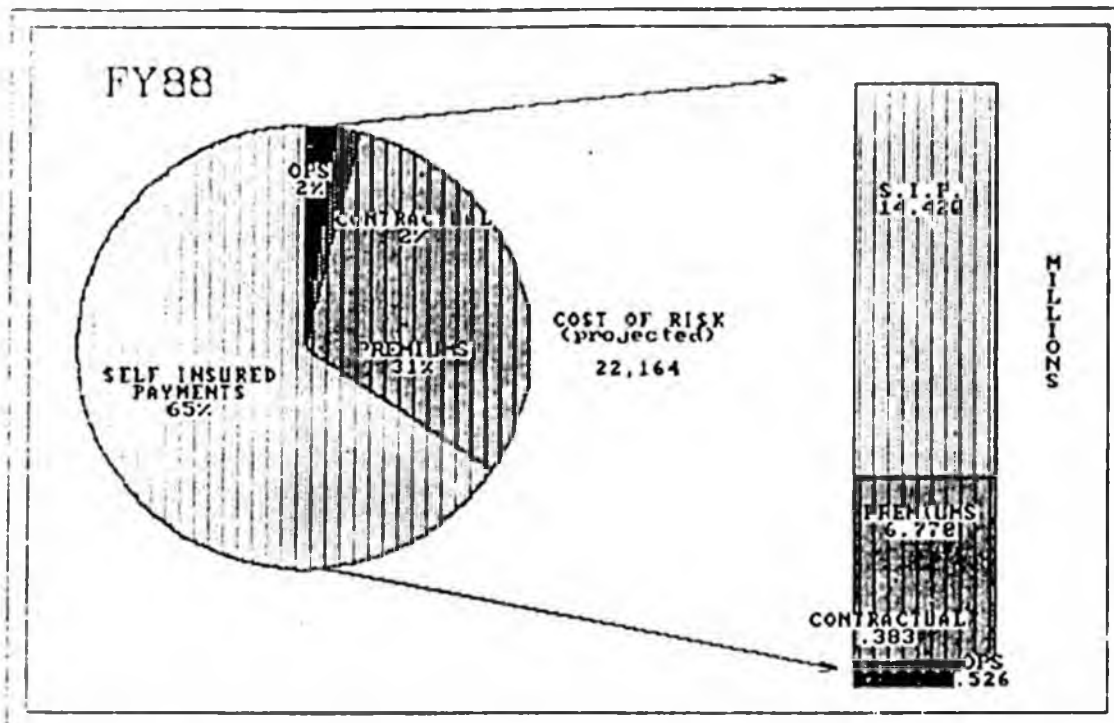


Chart II

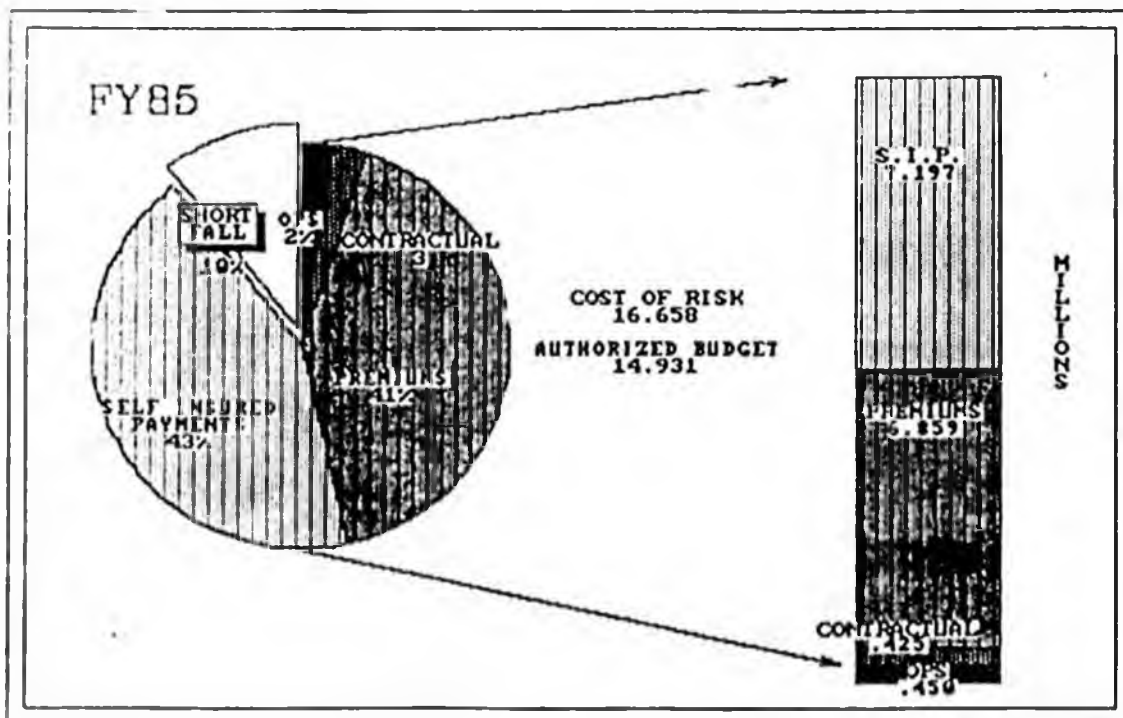
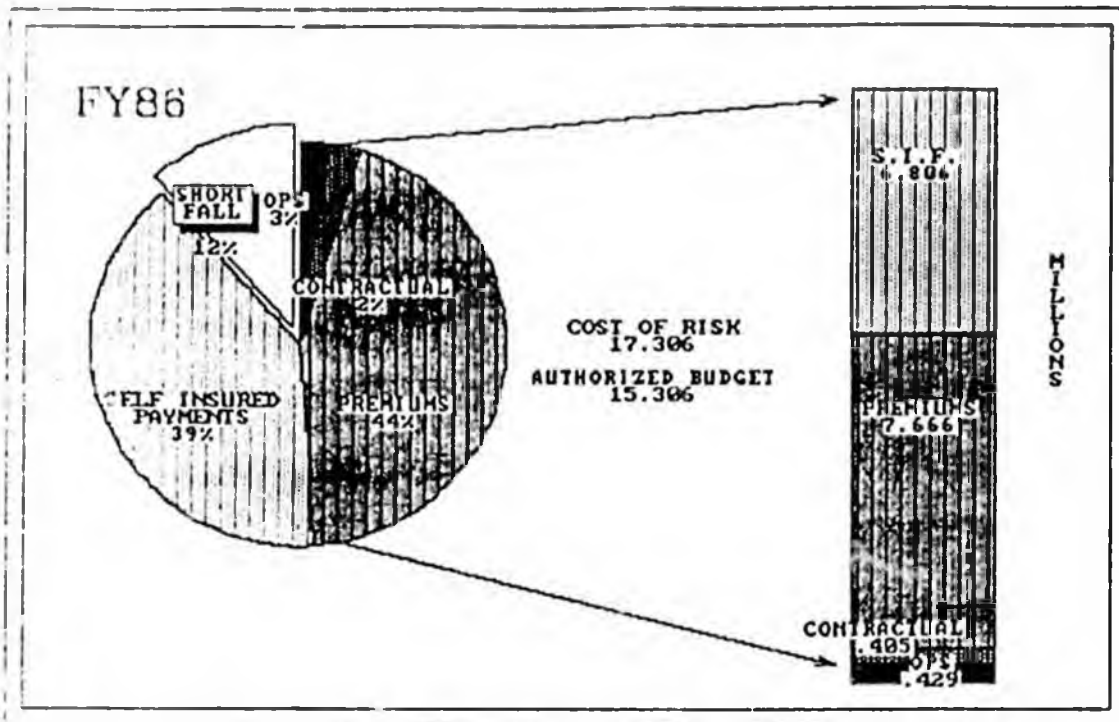
Charts I and II show actual cost of risk vs. requested and authorized budgets -- and graphically illustrates the shortfall each year due to underfunding. All available reserve funds are now exhausted and therefore the "cost of risk" must be funded by current year appropriations in order to keep claims payments current. Both liability awards and workers' compensation payments carry significant penalties if not paid timely or within state statutes.

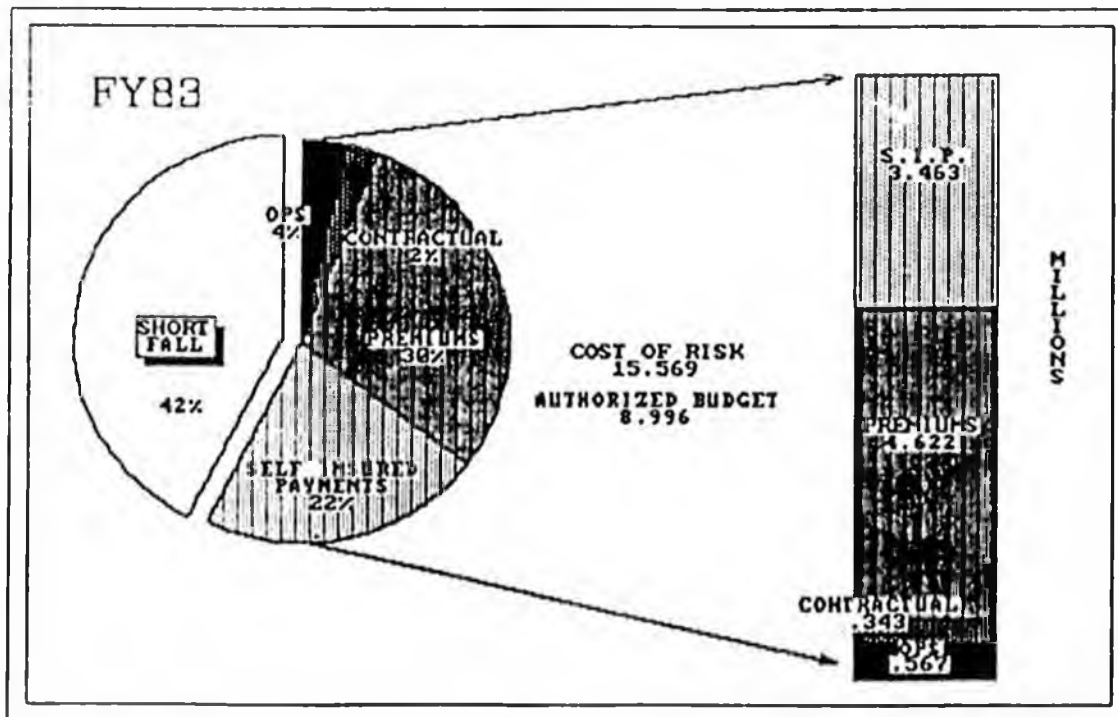
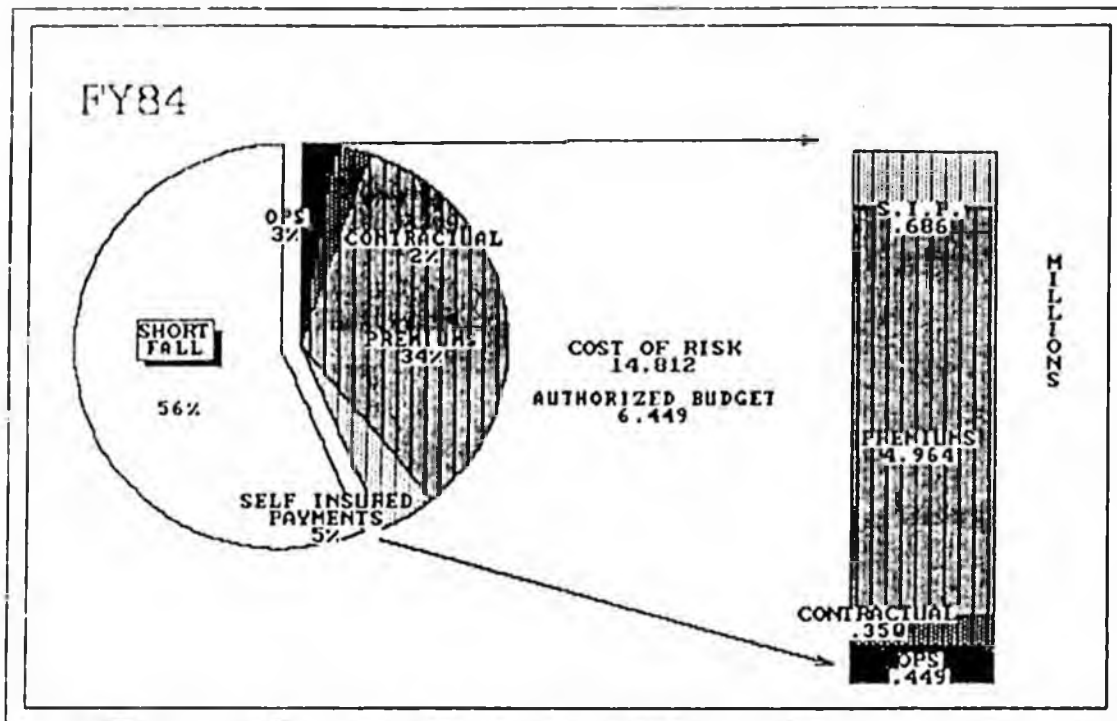


The pie charts shown for each fiscal year provide percentage of funds expended for each major category of expense. The bar chart for the same year identifies actual amounts spent within the appropriation for that year.

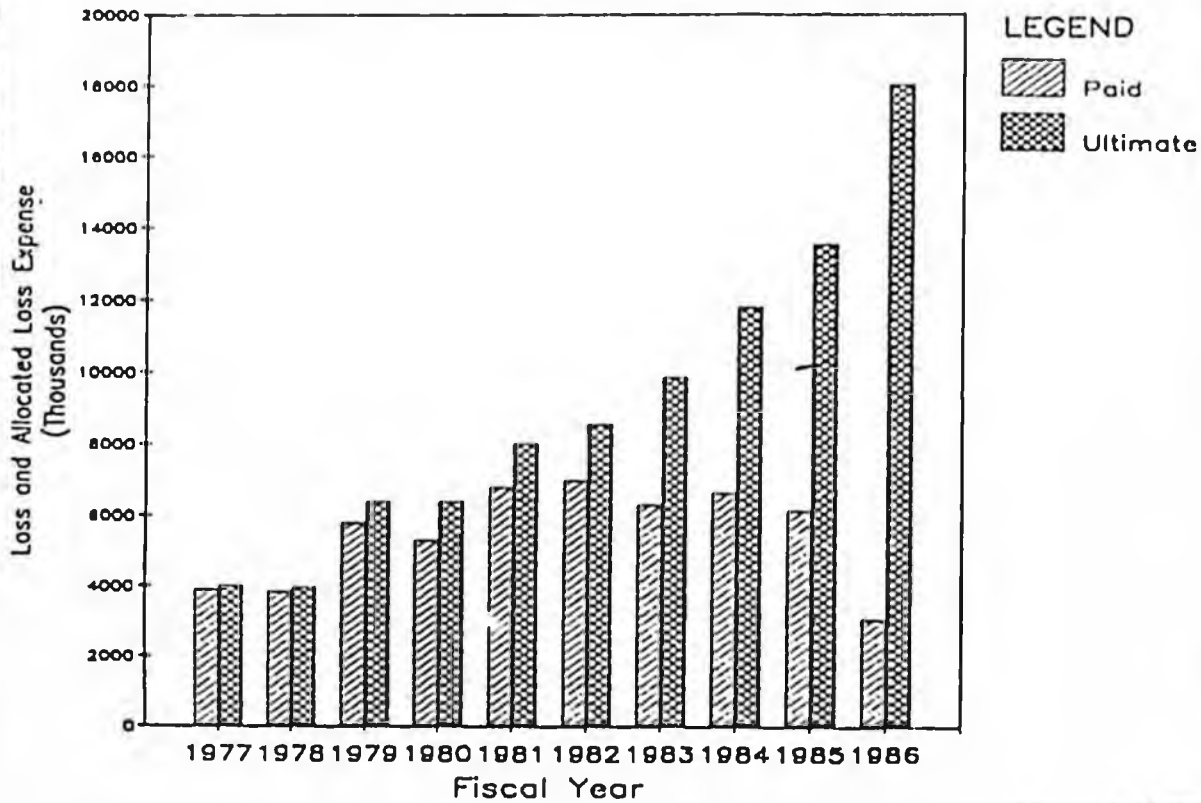
The shortfall identified in the pie illustrates the extent of under funding for that year in comparison to total appropriation.

You will note that the administrative (OPS) and contractual costs remain stable. The premium and loss costs are much more volatile.





State of Alaska Combined Lines



The Combined Lines chart illustrates the delayed effect of workers' compensation and liability losses on our cash flow budget estimates. Note the graph indicates very little paid out in FY86 losses in relation to ultimate losses --- but there are also outstanding claims occurring in prior years that must be budgeted and paid during the current fiscal year. Most of these are workers' compensation benefits involving disabled workers, widows, or other dependents and are paid out over a period of many years or serious liability cases not yet settled or in litigation.

This delay in final claims settlement or (in the case of statutory workers' compensation) payout over a long period of time --- or delay in loss discovery is referred to in the insurance business as the "claims tail". Most insurance companies use statutory reserving methods to protect their ultimate estimated liabilities and include them in their financial statements.

Since the chart graphically illustrates ultimate payout under our self insured retentions it also illustrates the need for long term planning to fund these continuing liabilities and as our self insured retentions are increased the need for such funding becomes even more critical.

Examples of Risk Management Services

Revised Appendix B insurance requirements for Professional Services Contracts to minimum levels to ease qualifications primarily for Alaska based contractors.

Changed Risk Management operational style to establish better communications with all agencies. We are here to serve the agencies in answer to their insurance needs -- this approach has been very effective and our rapport with most agencies is excellent.

Converted the primary State insurance program to one of primary and increasing "self-insurance" in order to stabilize and control escalating insurance costs.

Claims services to employees and claimants continue paramount and on a timely basis.

Claims reporting procedures have been revised and distributed to agencies.

Assisted St. Paul Island to retain federal funds for a docking facility by timely guarantee of a loan for repair of their new breakwater. The loan has now been completely repaid through insurance funds and adjudication is in progress with construction contractors for reimbursement of our self-insured retention (\$600,000).

Partial completion of Tye wrap-up contract and return of approximately \$600,000 to Alaska Power Authority.

Bradley Lake Hydro Project insurance requirements completed and agreement reached with contractors.

Red Dog Project insurance agreement with contractors for both construction and operational phase.

Spring Creek Correctional Facility Project Insurance Program established with contractors.

Equitable distribution to agencies of State property/casualty insurance costs based on agency exposures and loss experience.

Provide improved accident experience exhibits to agencies along with safety consulting services.

Assisted in revision of Anchorage International Airport use agreements with airlines and other tenants.

Assisted the Department of Transportation and Public Facilities in revision of their contractual insurance requirements.

Increased Risk Management visibility as an insurance consulting resource to all agencies.

Assisted APA in revision of operator contract insurance requirements to reduce the effect of increased insurance costs in electrical rates.

Helped negotiate a simplified insurance program for protection of State loans involving fishing and other vessels used as collateral.

THE PRECEDING PAGES WERE TREATED AS
A UNIT IN THE ORIGINAL FILE.

STEVE COWPER
GOVERNOR



STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

February 27, 1987

The Honorable Jan Faiks
President of the Senate
Alaska State Legislature
P.O. Box V
Juneau, AK 99811

Dear Senator Faiks:

Under the authority of art. III, sec. 18, of the Alaska Constitution, I am transmitting a bill that provides a statutory foundation for the state's risk management functions and the insurance program that the Department of Administration administers.

The Department of Administration has provided for the state's internal insurance needs through a division of risk management for many years. This bill does not change that. The bill formalizes the department's responsibilities in this regard, and, more importantly, provides statutory standards for the state insurance program. While the form of insurance is committed to the expertise of the department, the standard established by this bill for the state insurance program is to assure adequate coverage to meet, on a cash-flow basis, all insurable and reasonably foreseeable claims or judgments that are due and payable within a fiscal year. The bill provides for an annual independent actuarial assessment of the program, and for an annual report to the legislature.

The bill also establishes a state insurance catastrophe reserve account within the general fund which consists of direct appropriations and of amounts allocated to the account from the appropriations to the various state agencies. These allocations would come both from appropriations for risk management or insurance-related purposes (e.g., see sec. 6 of this session's HB 75) and from appropriations that would otherwise lapse. Again, this funding mechanism has been used for several years. Once funded to a reasonable level, not to exceed \$5,000,000, the catastrophe reserve account will enable the state to realize substantial saving in the cost of obtaining insurance coverage.

One of the most important functions of the division of risk management is to provide a cost-effective property/casualty insurance program for the protection of state assets, state employees, and other operating aspects of state government.

This bill is designed to allow the state a flexible program of self-insured retentions (somewhat similar to the deductible amounts provided for in personal insurance policies) and catastrophe insurance coverage that can be adjusted to insurance market conditions and remain cost-effective. Costs and availability of insurance coverage may vary widely from year to year. Therefore, flexibility is necessary to take advantage of variances and effectually control costs and coverage.

The reason for having an insurance catastrophe reserve account above a normal cash flow loss payment budget is not complicated, but deserves explanation. Increasing the state's self-insured retentions also automatically increases the state's exposure to considerable uninsured direct loss. It is this increase in exposure to direct and immediate unforeseen financial demands that is provided for by the account established in this bill.

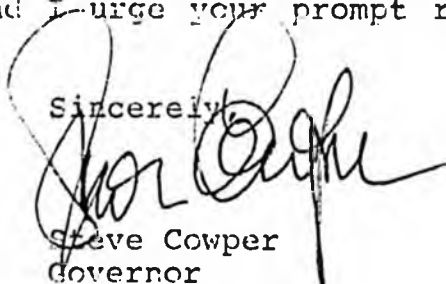
State self-insured retentions presently vary widely by type of coverage (i.e., property \$500,000; aviation \$250,000; liability \$5,000,000; marine \$100,000), depending on costs and experience. The state has experienced very few losses in excess of \$1,000,000, losses under the \$1,000,000 level are much more routine and, therefore, more predictable from an actuarial standpoint. Given the state's experience in frequency and severity of losses over the \$1,000,000 level per occurrence versus the costs of insurance at the \$1,000,000 to \$5,000,000 level, it makes fiscal sense to establish a \$5,000,000 retention per occurrence for all types of loss. If risk management could base a cash-flow budget on a limit of \$5,000,000 of loss per occurrence, a premium savings of almost \$3,000,000 could be realized in the present insurance market. The establishment of a reasonable catastrophe reserve would provide a method of funding and paying self-insured losses in excess of the \$1,000,000 actuarially predictable figure. State claims history would indicate that a \$5,000,000 catastrophe reserve would be adequate. Exhaustion of the \$5,000,000 catastrophe account during any fiscal year would necessitate legislative attention for additional funding.

Hon. Ben Grussendorf

Page 3

This bill provides a solid statutory foundation for the state insurance program, and I urge your prompt review and passage of this measure.

Sincerely,

A handwritten signature in black ink, appearing to read "Steve Cowper", written over the word "Sincerely,".

Steve Cowper
Governor

STATE OF ALASKA 1987 LEGISLATIVE SESSION
FISCAL NOTE

Law Log: 773-87-0019
Publish Date: _____

REQUEST

Revision Date: 5/8/87
Title: An act relating to State's risk management, et al.
Sponsor: By the Rules Committee
Requestor: Governor

Agency Affected: Administration
BRU: Risk Management
Components: _____

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 87	FY 88	FY 89	FY 90	FY 91	FY 92
OPERATING						
PERSONAL SERVICES	-0-	-0-	-0-	-0-	-0-	-0-
TRAVEL	-0-	-0-	-0-	-0-	-0-	-0-
CONTRACTUAL	-0-	-0-	-0-	-0-	(2,400.0)	(2,700.0)
SUPPLIES	-0-	-0-	-0-	-0-	-0-	-0-
EQUIPMENT	-0-	-0-	-0-	-0-	-0-	-0-
LAND & STRUCTURES	-0-	-0-	-0-	-0-	-0-	-0-
GRANTS, CLAIMS	-0-	-0-	-0-	-0-	-0-	-0-
MISCELLANEOUS	-0-	-0-	-0-	-0-	-0-	-0-
TOTAL OPERATING	-0-	-0-	-0-	-0-	(2,400.0)	(2,700.0)
CAPITAL	-0-	-0-	-0-	-0-	-0-	-0-
REVENUE	-0-	-0-	-0-	-0-	-0-	-0-

FUNDING: (Thousands of Dollars)

GENERAL FUND	-0-	-0-	-0-	-0-	-0-	-0-
FEDERAL FUNDS	-0-	-0-	-0-	-0-	-0-	-0-
OTHER	-0-	-0-	-0-	-0-	(2,400.0)	(2,700.0)
TOTAL	-0-	-0-	-0-	-0-	(2,400.0)	(2,700.0)

POSITIONS:

FULL-TIME	-0-	-0-	-0-	-0-	-0-	-0-
PART-TIME	-0-	-0-	-0-	-0-	-0-	-0-
TEMPORARY	-0-	-0-	-0-	-0-	-0-	-0-

ANALYSIS: :

State insurance catastrophe fund established (\$5,000,000 maximum) to fund self-insured losses in excess of \$1,000,000. Funding to come from insurance premium savings due to increased self-insurance. It will take approximately three year's accumulation of savings to build the fund. Budget reductions should begin in FY 91 assuming no losses.

Prepared By: Don Hitchcock
Division: Risk Management

Phone: 465-2180
Date: February 20, 1987

Approved by Commissioner: Garrey Peska
Agency: Department of Administration

Date: 1. 1. 87

Distribution (by preparer):
Legislative Finance
Legislative Sponsor
Requestor
Office of Management and Budget
Impacted Agency(ies)
Senate Secretary

STATE OF ALASKA 1987 LEGISLATIVE SESSION
FISCAL NOTE

Bill Version: SB 152

Publish Date: _____

REQUEST: _____

Revision Date: _____

Title: Risk Management and Insurance

Catastrophe Reserve Account

Sponsor: Rules by Request of Governor

Requestor: Senate State Affairs

Agency Affected: Department of Revenue

BRU: Treasury

Components: _____

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 87	FY 88	FY 89	FY 90	FY 91	FY 92
OPERATING						
PERSONAL SERVICES	-	-	-	-	-	-
TRAVEL	-	-	-	-	-	-
CONTRACTUAL	-	-	-	-	-	-
SUPPLIES	-	-	-	-	-	-
EQUIPMENT	-	-	-	-	-	-
LANDS & STRUCTURES	-	-	-	-	-	-
GRANTS, CLAIMS	-	-	-	-	-	-
MISCELLANEOUS	-	-	-	-	-	-
TOTAL OPERATING	-	-	-	-	-	-
CAPITAL	-	-	-	-	-	-
REVENUE	-	-	-	-	-	-

FUNDING: (Thousands of Dollars)

GENERAL FUND	-	-	-	-	-	-
FEDERAL FUNDS	-	-	-	-	-	-
OTHER	-	-	-	-	-	-
TOTAL	-	-	-	-	-	-

POSITIONS:

FULL-TIME	-	-	-	-	-	-
PART-TIME	-	-	-	-	-	-
TEMPORARY	-	-	-	-	-	-

ANALYSIS: Attach a separate page for analysis.

Prepared By: Milt Barker *MB*

Division: Treasury

Phone: 465-2350

Date: March 26, 1987

Approved by Commissioner: *A. Malone*

Agency: Department of Revenue

Date: 3/26/87

Distribution (by preparer):

Legislative Finance

Legislative Sponsor

Requestor

Office of Management and Budget

Impacted Agency(ies)

Senate Secretary