ALASKA LEGISLATURE COMMITTEE BILL FILES - 1987 - 1988 8879

SB 152, SB 152-H Leg. Finance 62

SENATE COMMITTEE REPORT

FURTHER:

3/31/87

DATE TURNED INTO OFFICE 4/23/87

Mr. President:

FINANCE Committee considered SB 152

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

and recommended:

[ ] replace with CS FOR ________) [] same title
[ ] or adopt ______ CS FOR ________) [] new title

[ ] attached amendment(s) and

[✓] do pass

[ ] do not pass

[ ] no recommendation

[ ] individual recommendations

[ ] further referral to ________

[ ] letter of intent adopted ________

Committee [✓] attached or [ ] adopted fiscal note(s)
[ ] new [ ] updated or [✓] previous
[ ] zero [ ] fiscal impact

MEMBERS SIGNING DO PASS

Paul Fischer

OTHER RECOMMENDATIONS

DO PASS

Chairman signature and recommendation

[ ] Committee Backup Attached

STATE OF ALASKA 1987 LEGISLATIVE SESSION
FISCAL NOTE

Law Log: 773-87-0019
Publish Date:

REQUEST

Revision Date: SB 152
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)

OPERATING	FY 87	FY 88	FY 89	FY 90	FY 91	FY 92
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: [illegible] /87

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

Rev. 9/16/86

Introduced: 3/2/87 wo0197s
Referred: State Affairs and Finance

IN THE SENATE

BY THE RULES COMMITTEE BY REQUEST OF THE GOVERNOR

SENATE BILL NO. 152

IN THE LEGISLATURE OF THE STATE OF ALASKA

FIFTEENTH LEGISLATURE - FIRST SESSION

A BILL

For an Act entitled: "An Act relating to the state's risk management; and creating a state insurance catastrophe reserve account; and providing for an effective date."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

* Section 1. AS 37.05 is amended by adding new sections to read:

ARTICLE 3B. RISK MANAGEMENT.

Sec. 37.05.287. INSURANCE FOR STATE ASSETS. (a) The Department of Administration shall obtain or provide, in an amount and in the form that the department determines to be appropriate, casualty, property, and other insurance for protection of state assets and for the operation of state government. The department may provide for insurance coverage, in whole or in part, through a self-insurance program.

(b) The department shall annually review the state insurance program to assure that, to the extent reasonable, adequate insurance coverage or reserves are maintained to satisfy all reasonably foreseeable claims or judgments for which payment may be due under the state insurance program during the next fiscal year. The department shall annually obtain an independent actuarial assessment of the state insurance program. No later than February 1 of each calendar year, the department shall submit to the presiding officers of each house of the legislature a review of the state insurance program, an independent actuarial assessment, and a certified audit of the state insurance catastrophe reserve account.

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 and assets allocated to the account by the Department of Administration as provided in (b) of 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 must 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.

* Sec. 2. This Act takes effect immediately under AS 01.10.070(c).

DIVISION OF RISK MANAGEMENT
Annual Report
Fiscal Year 1986

State of Alaska
Department of Administration

STATE OF ALASKA

STEVE COWPER, GOVERNOR

DEPARTMENT OF ADMINISTRATION

POUCH C (MS 0218)
JUNEAU, ALASKA 99811
PHONE: (907) 465-2180

DIVISION OF RISK MANAGEMENT

April 17, 1987

Honorable Garrey Peska
Commissioner of Administration
State of Alaska
State Office Building
Juneau, Alaska 99811

Dear Commissioner Peska:

I am pleased to submit the FY86 annual report for the Division of Risk Management.

As the availability of markets for State insurance needs have become limited and costs dramatically escalated over the past two years, it has become necessary to increase the State levels of self insurance in order to control costs. At the same time we have also retained the ability to continue to provide the State agencies with a very broad spectrum of insurance protection. However, as the State's levels of self insurance are increased we automatically assume responsibilities for higher levels of uninsured exposures to loss. It is for this reason we are proposing legislation which will allow the State to develop a reasonable Catastrophe Insurance Fund in the event large and unforeseen losses should occur.

With the exception of certain high risk liability exposures there are very definite signs of improvement in insurance market predictability and availability. Costs appear to have reached a plateau and should slowly recede to more acceptable levels as competition becomes more prevalent. Nonetheless we plan to continue with steps already taken to increase State self insurance retentions (deductibles) and move away from the unpredictability experienced in traditional insurance markets. We believe such a program to be in the best interests of the State both from a cost and coverage standpoint.

Service provided to injured State employees and their dependents as well as other claimants remains at the top of our priority list. As the insurance information resource for all State agencies we continue to solicit inquiry and comment to better serve their needs. I hope this report will be of assistance to readers in understanding the State's insurance programs as well as the special services Risk Management provides.

Respectfully submitted,

Donald J. Hitchcock
Director

FUNCTIONS
OF THE
DIVISION OF RISK MANAGEMENT

Primary goal of the Division of Risk Management is to protect the State's assets from major loss through a combination of self-funding and insurance agreements that are fiscally sound and cost effective.

This objective is accomplished through three basic approaches to responsible Risk Management.

1. Administration and control of self-insurance and insured risk designed to be responsive to the individual needs of each State agency and in the best interests of the State as a whole.

2. Positive and aggressive control of claims brought against the State as well as claims for repair or replacement of damaged State properties. Fair and reasonable settlement of claims in a timely and practical manner wherever possible. This function works in coordination with the Department of Law.

3. Provide State agencies with timely and accurate claims exhibits and analysis so that safety activities and accident prevention programs can be designed and implemented to create and maintain a safe place to work for our employees as well as protect the general public. These are for general use within the State system.

Introduction to Risk Management

Risk exists whenever the future is unknown. Since no one knows the future exactly, everyone is a risk manager, not by choice, but by sheer necessity.

The State of Alaska has physical, financial, and human resources that help it achieve its objectives. A substantial loss to any of these resources could cause financial loss and/or disruption of services or operations provided to the people of the state.

Risk management is the process of minimizing the adverse effects of loss through pre-planning and pre-funding of loss exposures. The Division of Risk Management acts much like an insurance company in paying injured workers' compensation claims, handling liability claims or lawsuits and providing funds for damage to State property ranging from the M/V COLUMBIA to an ivory artifact housed in the State Museum.

Risk management is more than just purchasing insurance for losses. It involves the long term commitment of the State to minimize the total cost of risk. Properly implemented, risk management avoids the unpleasant task of obtaining unbudgeted funds to finance restoration after a major loss.

During the past 15 years, risk management has become an essential part of corporate management as well as for cities and states. The State of Alaska has received the benefits of risk management since 1972 and State agencies have realized considerable savings and significant increased protection over the years.

The State at one time was sheltered from liability suits by the doctrine of "Sovereign Immunity", however, legislative and court actions have substantially eroded that concept. Many court decisions apply the "deep pocket" theory in awarding damages to an injured party. This places the State in line for payment in many cases where the State has little or no known liability. Workers' compensation statutory benefits in Alaska are the highest of all the states. These major exposures have to be controlled and properly funded.

In basic terms, Risk Management strives to give less money to insurance companies and provides services (claims adjusting etc.) through Alaska based professional service contractors. Cost effective protection, safety awareness and claims management are the "keys" to a successful risk management program.

RISK MANAGEMENT SERVICES

RISK MANAGEMENT ADMINISTRATION

Developing the State's total property and casualty insurance program; assessing new or special projects for insurance exposures or needs; providing evidence of insurance for state activities; preparing annual insurance costs for state agencies; monitoring loss funds; overseeing annual actuarial and audit services and general administration of Risk Management's response to State needs are some of the services provided by the administrative section.

Marketing of the State's insurance programs is done through contract Brokers. Presently our Brokers are Corroon & Black and Marsh & McLennan. The State's annual insurance actuarial reports are prepared by Coopers & Lybrand. Peat, Marwick, Mitchell & Co provide audit services and computer services are provided by Marsh & McLennan's CIS. All Risk Management contract services are bid every 3-5 years.

Risk Management also provides services to the Alaska Power Authority and coordinates with or assists the University of Alaska and the Alaska Railroad when requested.

CLAIMS SERVICES

Claims Management provides services to investigate and adjust a claim once an accident or occurrence is reported. The majority of workers' compensation and liability claims are handled through adjusting firms under contract. Most property claims are handled directly by Risk Management claims staff.

Northern Adjusters Inc., with offices in Anchorage, Fairbanks, Juneau and other Alaska cities handles auto and general liability claims; Pacific Marine Insurance, Ketchikan deals with claims on the Marine Highway System; Scott Wetzel Services, Anchorage adjusts workers' compensation claims and Surety of Alaska, Anchorage services aviation and professional liability cases. Each firm is subject to periodic claims review by Risk Management officers plus scheduled audits by independent claims professionals.

CONTRACT REVIEW

An important part of Risk Management's loss control services involves establishment or review of state contract insurance requirements. These are necessary to protect the state from claims caused by the acts of independent contractors.

Considering the present insurance market, State requirements have become difficult to obtain for many of the state's contractors. Risk Management is addressing this problem when necessary by revising contract requirements on an individual basis (or where applicable), on a specific program basis. During FY86 standard (boiler plate) insurance requirements for State contracts were reviewed and modified where necessary.

Due to the wide variety of State contracts, it is very difficult to adopt one program or even a series of programs to fit the needs of all contractual agreements. Boilerplate insurance requirements are considered guides and Risk Management will work with State agencies to consider revisions when requested.

It is in the best interest of the agencies to remain involved in contract insurance negotiations since they can better attest to the type of work involved, inherent exposures, possible statutory requirements, and the importance of the contract.

LOSS CONTROL AND CLAIMS INFORMATION SERVICES

The starting point of any effective loss control program is to identify an agency's loss exposures. (Loss exposures include the items or persons subject to a loss, the forces that may cause a loss, and the financial impact of the loss.)

To assist agencies in determining where losses occur, how they occur, and the costs incurred, Risk Management provides loss control reports (see page 5) to Administrative Directors, management level personnel and designated safety officers throughout the State.

Special reports may also be generated from Risk Management's claims database to provide specific listings of claims to a variety of questions. As an example, each vessel in the Marine Highway System and each State Pioneer Home received a listing of claims in fiscal year 1986. Risk Management has also provided claim reports by specific type when requested (i.e. all open workers compensation claims for fiscal years 1983, 1984, and 1985 over $25,000 which involved motor vehicles). Risk Management's claims analysis capabilities are extensive and available on request.

[illegible]
FOR THE PERIOD 07/01/86 - 12/31/86

DIVISION NUMBER & NAME / UNIT NUMBER & NAME / COVERAGE		OUTSTANDING RESERVES / PAID TO DATE / TOTAL: INDEMNITY	MEDICAL	EXPENSE	TOTAL INCURRED / RECOVERY / NET INCURRED
41 ALASKA COURTS					
0 ALASKA COURTS					
WORK COMP-MED ONLY		00	427.70	00	724 00
5 CLAIMS.	3 OPEN 2 CLOSED	00	296 30	00	00
	0 REOPEN 0 SUIT	00	724 00	00	724 00
TOTALS FOR UNIT: 0 ALASKA COURTS		00	427.70	00	724 00
5 CLAIMS:	3 OPEN 2 CLOSED	.00	296.30	.00	00
	0 REOPEN 0 SUIT	.00	724.00	00	724 00
TOTALS FOR DIV: 41 ALASKA COURTS		.00	427.70	.00	724 00
5 CLAIMS:	3 OPEN 2 CLOSED	.00	296.30	.00	.00
	0 REOPEN 0 SUIT	.00	724.00	00	724 00

PAGE: 36

STATISTICAL REPORT - CAUSE OF ACCIDENT
TERM: 07/01/86 - 06/30/87
FOR THE PERIOD ENDING: 12-31-86
VALUED AS OF: 01/19/87

STATE OF ALASKA
NATURAL RESOURCES
EMER FIRE FGHTRS

WORKERS' COMPENSATION

DIVISION 010 LOCATION 0001

ACCD CODE	ACCIDENT CODE DESCRIPTION	CLAIM COUNT	% OF CLAIMS	TOTAL PAID	% OF PAID	TOTAL INCUR.	% OF INCUR.	AVG. INCURRED PER CLAIM
0001	SLIP/FALL - OUTSIDE BUILDINGS	2	33.33	1,369.54	85.75	1,369.54	50.22	684.77
0009	BURN/HEAT-COLD EXPOSURE-EXTREME TMP	1	16.66	7.50	0.46	7.50	0.27	7.50
0064	PERSONAL INJURY - CREW	1	16.66	0.00	0.00	200.00	7.33	200.00
0099	MISCELLANEOUS	2	33.33	220.00	13.77	1,150.00	42.17	575.00
	TOTALS:	6	100.00	1,597.04	100.00	2,727.04	100.00	454.50

DIVISION: FISH AND GAME
UNIT: FRED

STATE OF ALASKA
NEW CLAIMS LISTING
VALUED AS OF: 12/31/86

89

ADJUSTOR / COVERAGE / STATUS FISCAL YR	CLAIM # / SUFFIX / LOCATION	CLAIMANT NAME / ACCIDENT DESCRIPTION	DATE OF: ACCIDENT / REPORT / CLAIM	ENTRY / ACTIVITY / CLOSE	OUTSTANDING RESERVES / PAID TO DATE / TOTAL: INDEMNITY	MEDICAL	EXPENSE	TOTAL INCURRED / RECOVERY / NET INCURRED
SCOTT WETZEL	0004693		07/26/86	10/06/86	.00	.00	.00	86.00
WORK COMP-MED ONLY	999	STARTING MOTOR - INJURED-	09/10/86	10/27/86	.00	86.00	.00	.00
CLOSED 1987	011-0009	LEFT WRIST	07/27/86	10/27/86	.00	86.00	.00	86.00
SCOTT WETZEL	0004599		07/29/86	10/08/86	.00	.00	.00	142.30
WORK COMP-MED ONLY	099	HIKING TO BOAT - TWISTED-	08/12/86	01/14/87	.00	142.30	.00	.00
CLOSED 1987	011-0009	RIGHT ANKLE	********	01/14/87	.00	142.30	.00	142.30
SCOTT WETZEL	0004698		08/14/86	10/08/86	.00	11.75	.00	100.00
WORK COMP-MED ONLY	999	PUNCTURED LEFT THIGH WIT-	09/09/86	10/09/86	.00	88.25	.00	.00
OPEN 1987	011-0009	H WELDING ROD	08/14/86	********	.00	100.00	.00	100.00
SCOTT WETZEL	0004719		09/02/86	10/06/86	00	00	.00	329 90
WORK COMP-MED ONLY	999	FELL ON ROCKS - CUT FING-	09/07/86	01/26/87	.00	329.90	.00	.00
CLOSED 1987	011-0009	ER ON RIGHT HAND	09/02/86	01/26/87	.00	329.90	.00	329.90
SCOTT WETZEL	0004786		09/25/86	10/29/86	.00	.00	.00	63.20
WORK COMP-MED ONLY	999	SPRAY PAINTING/DUST DEBI-	10/02/86	01/22/87	.00	63.20	.00	00
CLOSED 1987	011-0009	S IN L.EYE	09/26/86	01/22/87	.00	63.20	.00	63.20
SCOTT WETZEL	0004919		08/29/86	11/18/86	.00	4,925.00	.00	5,000.00
WORK COMP-MED ONLY	999	EXPOSED TO IODOPHOR	11/12/86	12/12/86	.00	75.00	.00	.00
OPEN 1987	011-0009		11/03/86	********	.00	5,000.00	.00	5,000.00
SCOTT WETZEL	0004928		11/08/86	12/02/86	.00	.00	.00	81.65
WORK COMP-MED ONLY	999	DURING DECENT IN PLANE --	11/13/86	12/22/86	.00	81.65	.00	.00
CLOSED 1987	011-0009	LEFT EAR DRUM	11/10/86	12/22/86	.00	81.65	.00	81.65
TOTALS FOR COVERAGE: WORK COMP-MED ONLY			# OPEN:	0	.00	7,727.20	.00	10,201.15
			# CLOSED:	1	.00	2,473.95	.00	.00
			# CLAIMS:	18	.00	10,201.15	.00	10,201.15
UNIT TOTALS			# OPEN:	0	5,443.24	13,512.20	3,000.00	25,101.15
			# CLOSED:	1	456.76	2 688.95	.00	.00
			# CLAIMS:	20	5,900 00	16,201.15	3,000.00	25,101.15

INSURANCE COST ALLOCATION SYSTEM

Risk Management's budget is funded through a premium allocation system. This is a system for distributing the State's insurance costs among the various departments. It is designed to achieve an equitable distribution of costs that reflect both exposure to loss (items subject to loss) as well as past loss experience for each department.

The Premium Allocation System depends on two sources of funding for insurance costs from state agencies. One is through Inter-Agency Reimbursable Services Agreements (RSA). All lines of insurance other than Workers' Compensation and General/Auto Liability are paid through RSA's. A second is Payroll Deduction, which pays an agency's workers' compensation, general liability and auto liability premiums.

Costs for each Agency are developed through a formula which includes units of exposure, claims history, special hazards such as medical malpractice and other measurable risk components.

For example, DOTPF with its large number of employees (2,399 for FY86) as well as responsibility for the State's road system, bridges, ferries, buildings and airports (exposure units) will experience more losses in terms of total claims and total costs than other agencies. This is reflected in DOTPF's premium charges.

To illustrate how an agency's insurance costs are developed the workers' compensation charge for Administration will be examined.

The State's workers' compensation FY87 cost is $4,747,000 Eighty per cent or $3,797,600 of that charge is based on the State's limited loss experience for a three year period and is known as the experience premium. Limited Loss Experience means for any claim, an agency will only be charged for an established maximum cost limit. As an example, if an Administration employee has a workers' compensation claim that incurred $120,000 of costs, only $100,000 (Administration's loss limit) is added to the department's and State's limited loss total.

Loss Limits are equal to approximately 10% of an agency's prior year Risk Management budget. As mentioned earlier Administration's limit is $100,000. By contrast, the Department of Law has a limit of $10,000 per claim.

The loss experience for FY87 is developed from FY83-FY85 inclusive. Three years experience is necessary in order to include a mixture of seasoned claims and relatively recent claims. It also minimizes the effect a catastrophe loss will have on an agency's insurance costs by spreading a claim over a three year period.

Administration's share of the State's three year limited losses is about 13.61%. This percentage multiplied by the State's experience premium ($3,797,600) determines the department's share of the State's FY87 experience premium ($517,150).

The final 20% of the workers' compensation insurance cost is based on the department's share of the State's anticipated FY87 payroll and is termed the exposure premium. For FY87 the exposure premium is $949,000. Administration's percentage of the State's anticipated FY87 payroll (about 7.115%) is multiplied by the exposure premium to determine the department's share ($67,548).

The most critical part of an agency's workers' compensation charge is loss experience. If costs are controlled (either through a reduction in the number or severity of claims) then both the worker and agency will benefit. An effective loss control program will pay off in insurance cost reductions as well as improved efficiency for the agency.

STATE OF ALASKA FY87 INSURANCE PROGRAM

The following is a brief recap of the present insurance program for the State. Self-insured retentions (SIR's) and the amount of excess insurance purchased depend to a large extent on cost and availability. Estimated savings are based on the actual costs of FY86 programs. Of course, as retentions (deductions) are increased the State self-insured obligations are also increased.

Risk Management also provides certain protections within our self-insured programs which are not presently available in the insurance marketplace. These can include discrimination, asbestosis or pollution claims which could involve considerable litigation expense regardless of the circumstances or merits of the claim.

This recap is intended only to provide the reader with a quick understanding of the present program. There are, of course, a number of sublimits and special provisions which are not outlined in this document. Incidently, the State insurances for FY87, are placed in over 65 insurance companies and Lloyds syndicates.

Property

The State Property Insurance Program is written on an all-risk form which includes the perils of earthquake and flood. The SIR is $500,000 per occurrence (5% of values for earthquake and flood) with $100,000,000 of excess insurance. Earthquake and flood are limited to $40,000,000 of insurance which was the maximum earthquake cover available in the marketplace. The University of Alaska also shares this policy which benefits both entities from a cost standpoint. For FY87, we were able to include Extra Expense insurance for State computer systems as well as State-owned museum artifacts in this policy. The SIR for the scheduled museum contents is $100,000. By combining the property policies we were able to save approiximately $175,000 in premiums. The policy also includes limited coverage on 20 of the State's major highway bridges. If the legislature permits us to establish a $5,000,000 insurance catastrophe fund for FY88, we should be able to increase the State property SIR to $5,000,000.

Casualty

The State Liability Program is also shared with the University and is written with a $100,000,000 limit of liability and a SIR of $5,000,000. In FY86 State retention was $1,500,000. Through long-term contacts in the London market, we have been able to retain professional malpractice, errors and ommissions, as well as directors and officers and police liability in the State's excess liability form. Presently, 90% of the State's liability coverage, i.e., $90,000,000, excess of $10,000,000, is placed through our London marine underwriters.

For FY88, we plan to reduce the percentage of non-marine coverage placed with marine underwriters so that we do not jeopardize our true marine insurance placements. For FY87 we were unable to find any domestic (American) companies willing to provide the necessary State excess liability coverages. Therefore, we have had to rely almost entirely on London underwriters. The only form available for the State's excess liability coverage is "claims made."

The State Workers' Compensation Program is also written with a $5,000,000 SIR. We purchase catastrophe statutory excess of the State retention.

By increasing the State's levels of self-insurance for Liability and Workers' Compensation from $1,500,000 to $5,000,000 in FY87, premium costs were reduced by approximately $2,000,000.

Marine

The State Marine Insurance Program provides protection for the Marine Highway System as well as a multitude of other Marine exposures. FY87 SIR's are $100,000 for P&I (liabilities and Federal Acts) and $50,000 for hull claims. Because of catastrophe ferry exposures we carry liability limits of $200,000,000. Marine hulls are covered for specified amounts.

Most of the State ferry terminals are also covered under this marine form with a special $250,000 SIR. The inclusion of the terminals in our Marine placements has saved the State considerable in premiums in addition to which we were able to include coverage required by contract for the Prince Rupert, BC terminal which had previously been placed seperately because it is a foreign port.

Aviation

In view of poor world wide aviation experience during calendar year 1986, we were fortunate to be able to retain our aviation covers for FY87 even at considerable cost increase. The State has a relatively small fleet of owned aircraft but operation and ownership of International terminals such as Anchorage (sixth in the nation) and Fairbanks plus almost 275 smaller airports and airstrips represents tremendous exposures. The State presently carries $200,000,000 limits with a $250,000 deductible on airport liabilities as well as owned and leased aircraft. This policy includes an annual aggregate deductible of $1,000,000.

All aircraft hulls are self-insured, unless specifically provided for.

Presently, aviation underwriters are unwilling to provide worthwhile savings for increased retentions but Risk Management will continue to test markets for savings.

The University is also included in the aviation coverage as well as nonowned (leased) aircraft cover for the Alaska Railroad. The Railroad has only occasional need for leased aircraft cover so it was provided by underwriters at no additional premium cost to the State.

Bonds

We provide statutory bonding for certain of the State's executives and a blanket employee fidelity bond with $10,000,000 limits and a $250,000 deductible. U.S. Customs and other miscellaneous bonds are also provided when necessary..

Aggregate

Through the State's Marine insurance markets we were able to obtain aggregate loss insurance excess of $3,500,000 of combined Property and Marine SIR losses for FY87. This provides a safety net of $5,000,000 of insured SIR loss for Marine and Property should they exceed $3,500,000 in losses during the fiscal year.

Boilers

The State has a Boiler and Machinery policy with limits of $10,000,000 and a $10,000 deductible.

Alaska Power Authority

Four Dam Pool Property Insurance is provided APA for Swan Lake, Tyee, Solomon Gulch and Terror Lake. This policy, which is an all-risk form including earthquake and flood, has a limit of $75,000,000 with a $1,000,000 (5% for earthquake and flood) deductible. Engineers estimate maximum probable loss (any one occurrence) on these dams of approximately $60,000,000. We continue to research possible self-insurance alternatives for these projects because of the unpredictability of earthquake markets and costs. Earthquake insurance capacity is limited throughout the Pacific Rim.

Boiler and Machinery coverage on the Four Dam Pool and Anchorage/Fairbanks Intertie substations is maintained with $15,000,000 limits of liability and a $25,000 SIR.

We also provide small policies for Eklutna marshalling yard and the geothermal wells. The balance of Alaska Power Authority insurance requirements are included in our regular State programs.

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 (all risk)	$500,000	$100,000,000
Data Processing Equipment	(included)	
Museum Fine Arts	$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, asbestosis, 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)	$3,500,000 SIR	$5,000,000
(Aviation)	$1,000,000	
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

BUDGET COMPONENTS AND EXPENDITURES

The "BUDGET COMPONENTS" charts provide an analysis of Risk Management expenditures over the past several years.

Please note that operating costs and contractual services remain quite stable while premiums and loss payments are much more volatile.

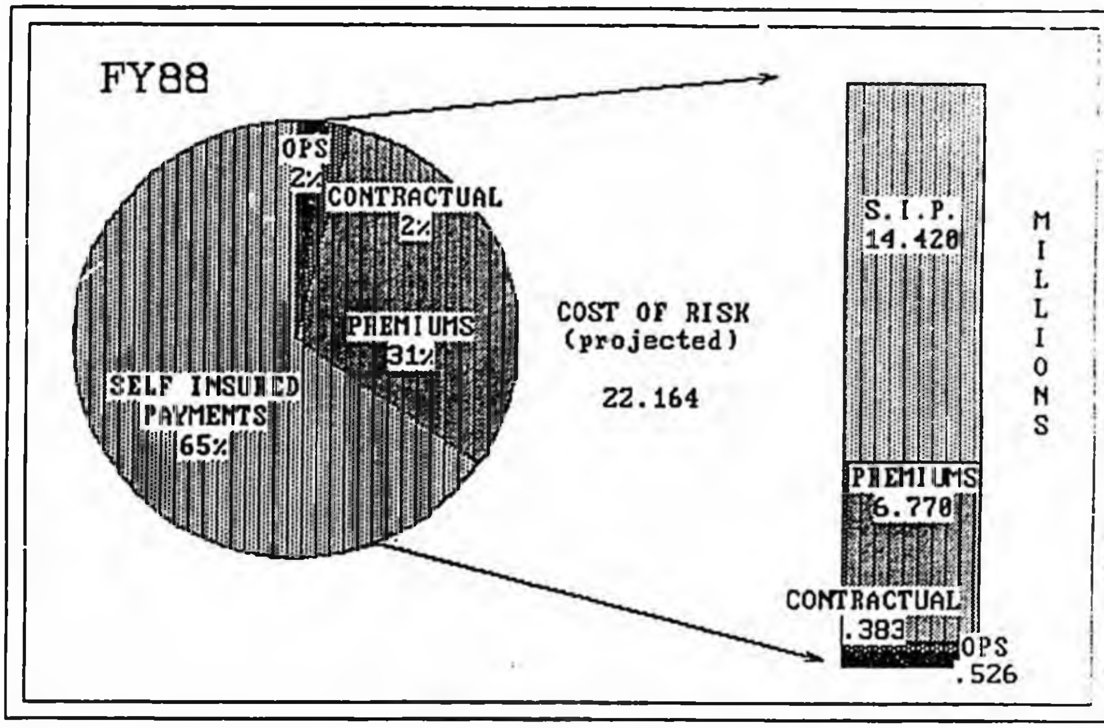
At the beginning of FY83 Risk Management had accumulated a loss reserve fund of almost $20 million. The legislature determined that a loss reserve fund in such a large amount was not necessary so Risk Management's fiscal year budgets for FY83 and FY84 were drastically reduced to force utilization of the loss reserve fund. This resulted in subsidizing risk management costs during these years and is shown in the charts as "shortfall".

The results for those two years were 1) agency allocations for insurance represented only about 50% of true costs. 2) Risk Management remained underfunded for FY85 and FY86 forcing complete exhaustion of the former reserve funds. The result was a sizeable increase in the FY87 budget for all agencies to meet "cash flow" loss payments during the year.

The insurance crisis of the past couple of years added to the costs--but one of the the major reasons for the increases was the step from a subsidized budget to a real budget based on estimated expenses for the year.

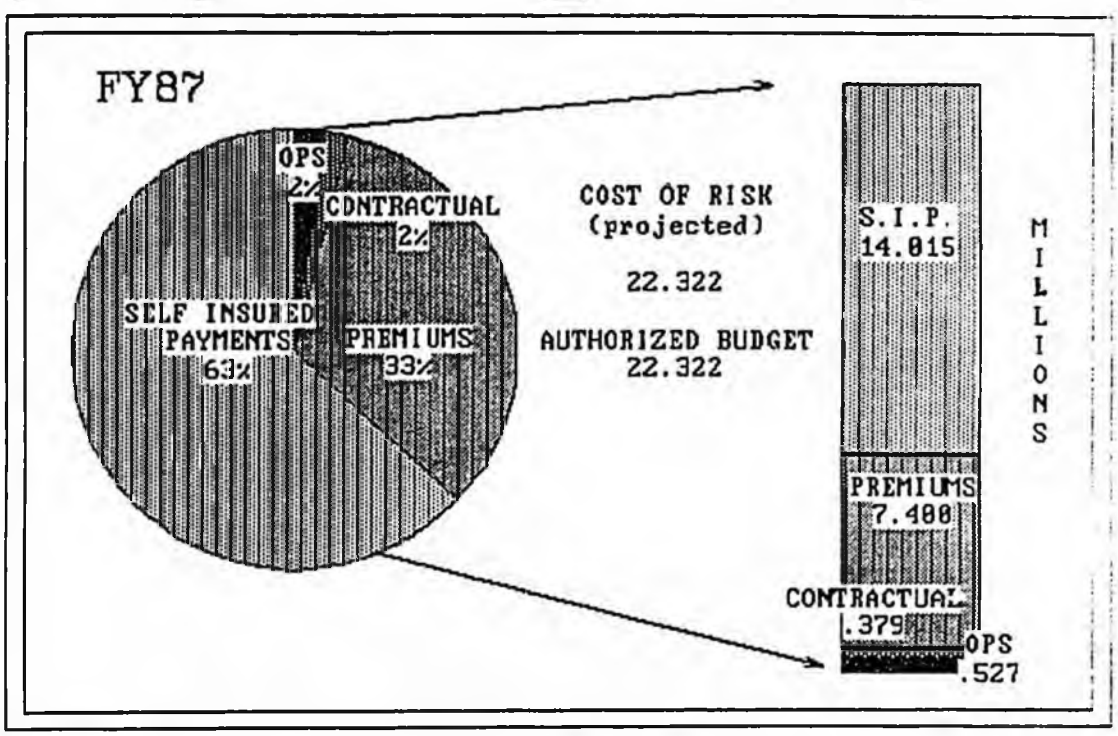
The return to normalcy while certainly traumatic to all agencies was entirely necessary to meet ongoing obligations.

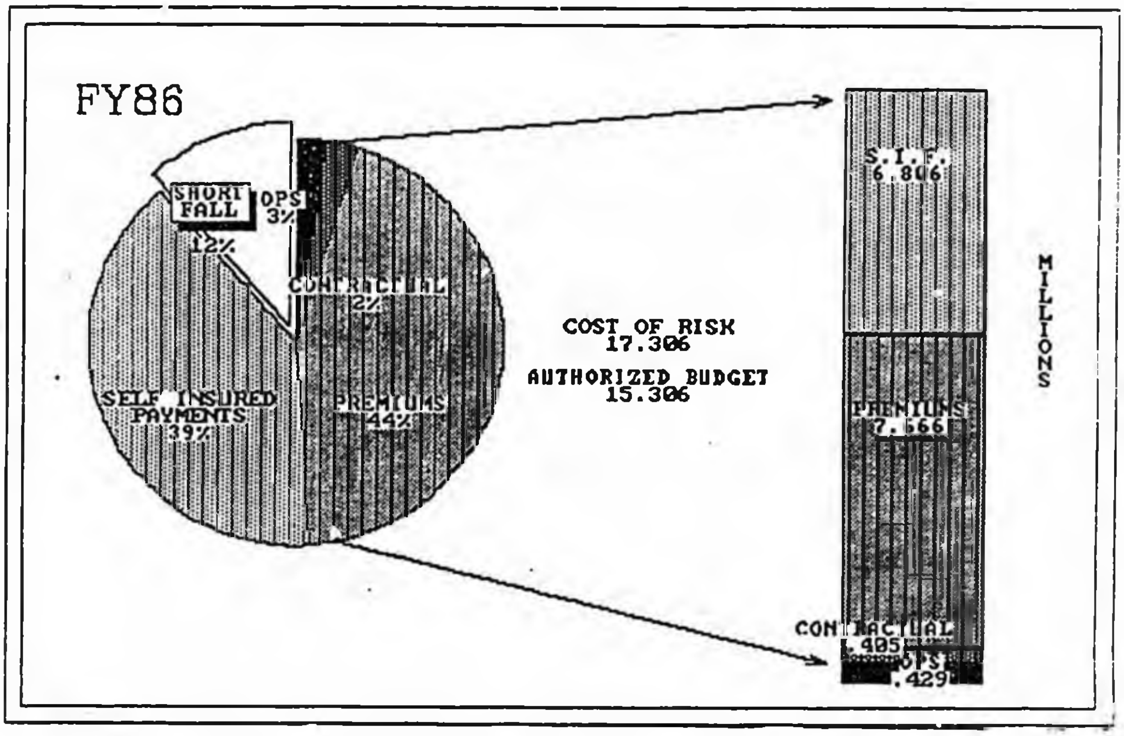
The unfortunate circumstance of the insurance crisis and the budget crunch occurring during the same years simply accentuated the problem.



The pie charts shown for each fiscal year provide the 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.

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

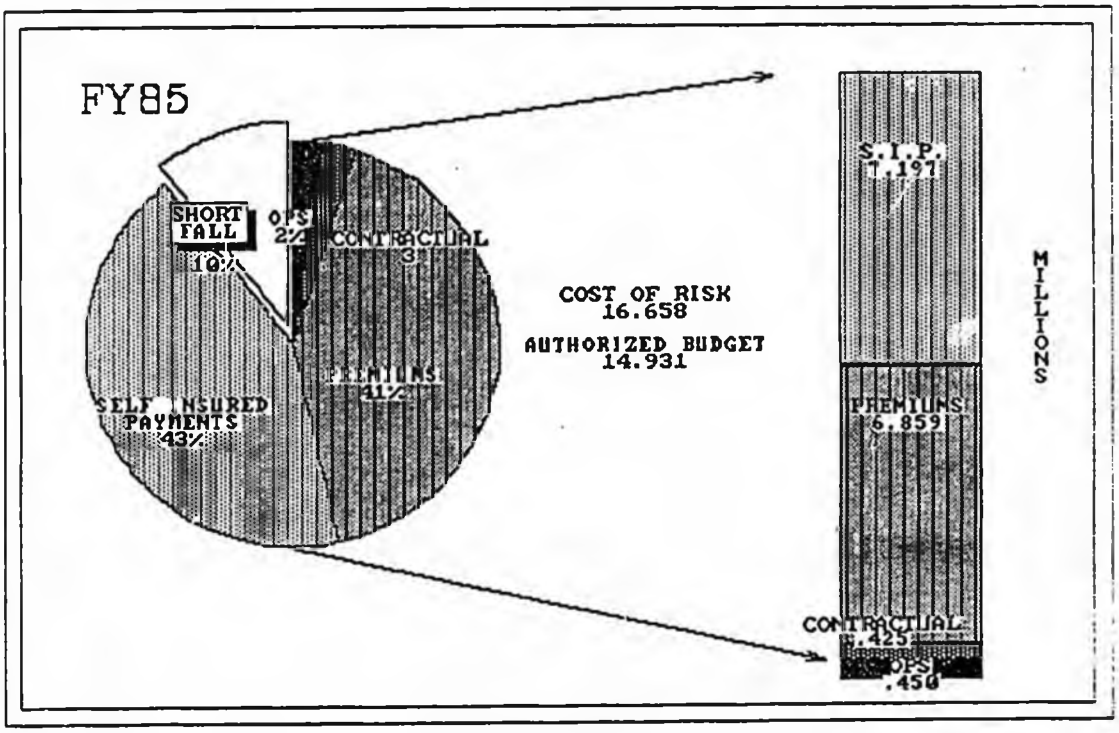


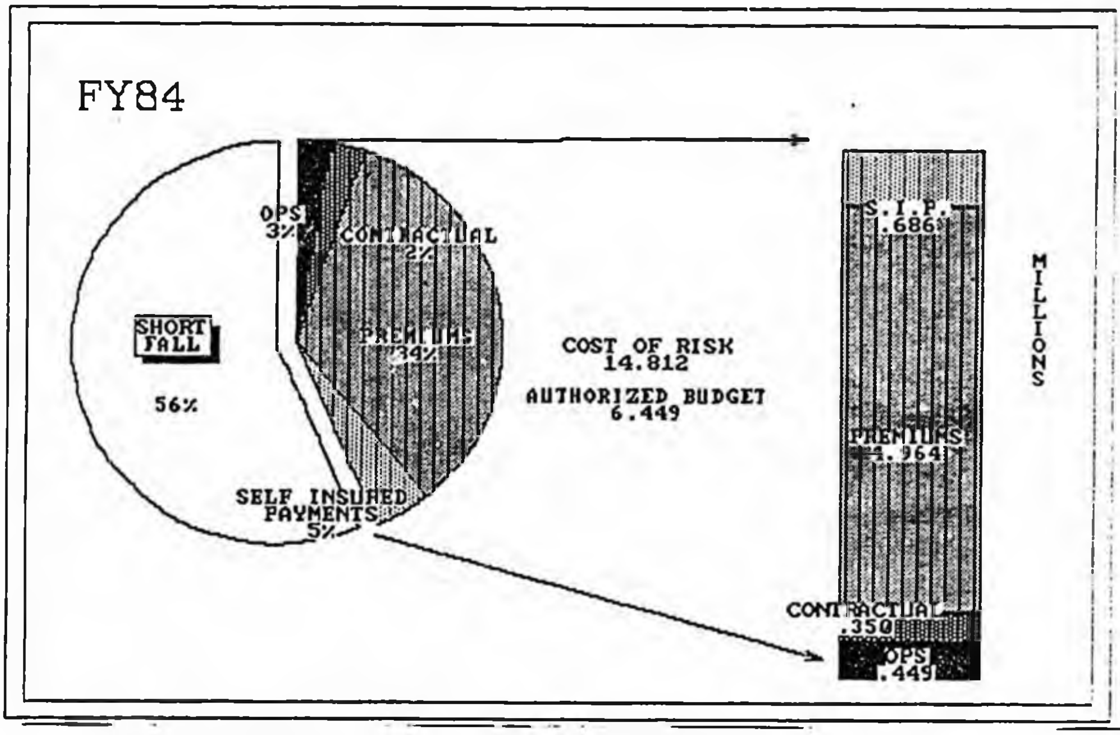


The pie charts shown for each fiscal year provide the percentage of funds expended for each major category of expense. The bar chart for the same year identifies actual amounts spent within the appropriation for that year.

The shortfall identified in the pie illustrates the extent of under funding for that year in comparison to total appropriation. Candidly, Risk Management under estimated needs for FY85 --- but then suffered a legislative reduction again in FY86

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





The pie charts shown for each fiscal year provide the 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. The shortfall obligation was met by utilization of a "then" available loss reserve fund.

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

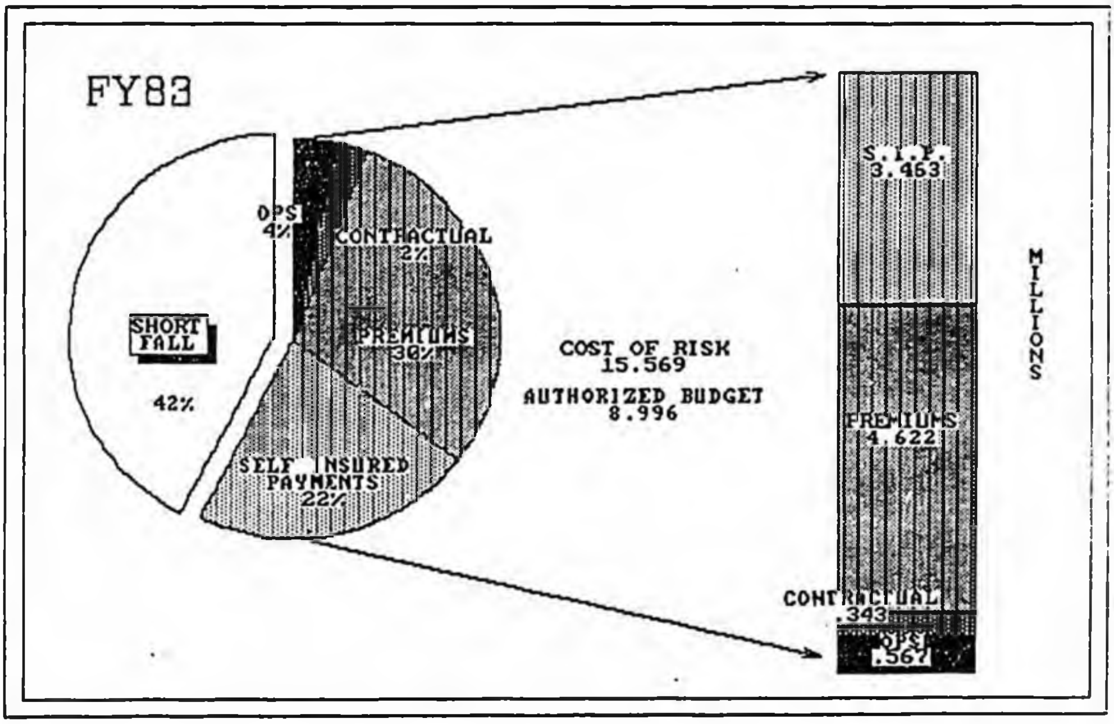


CHART I

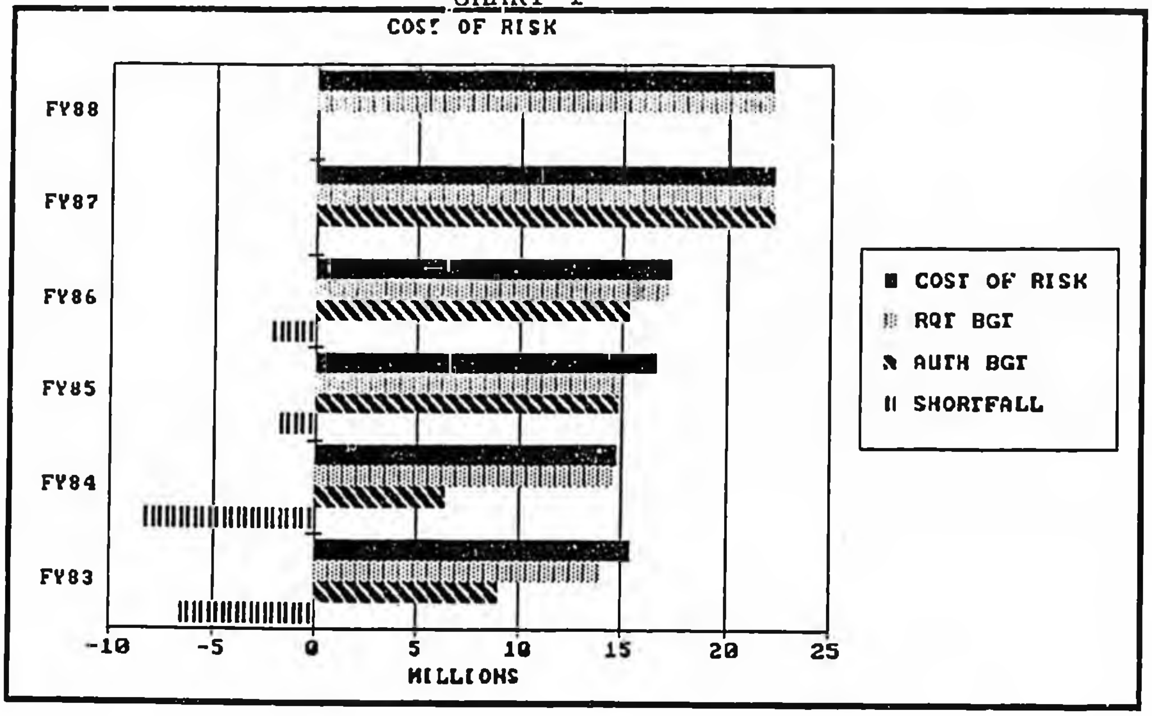
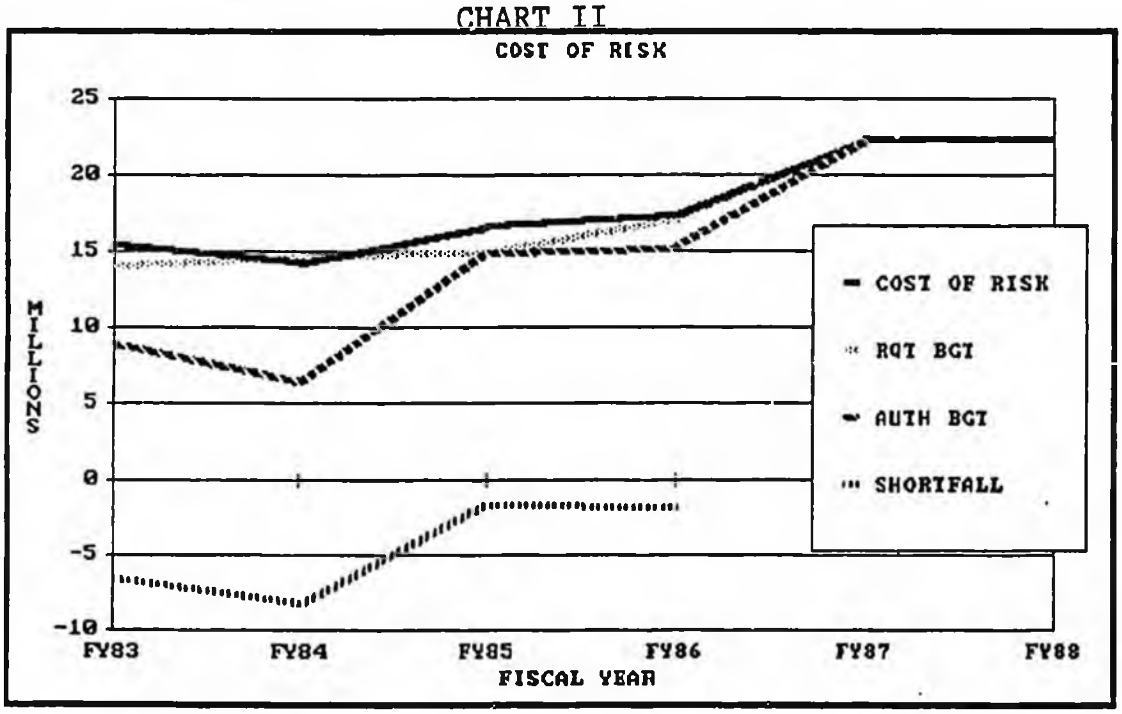
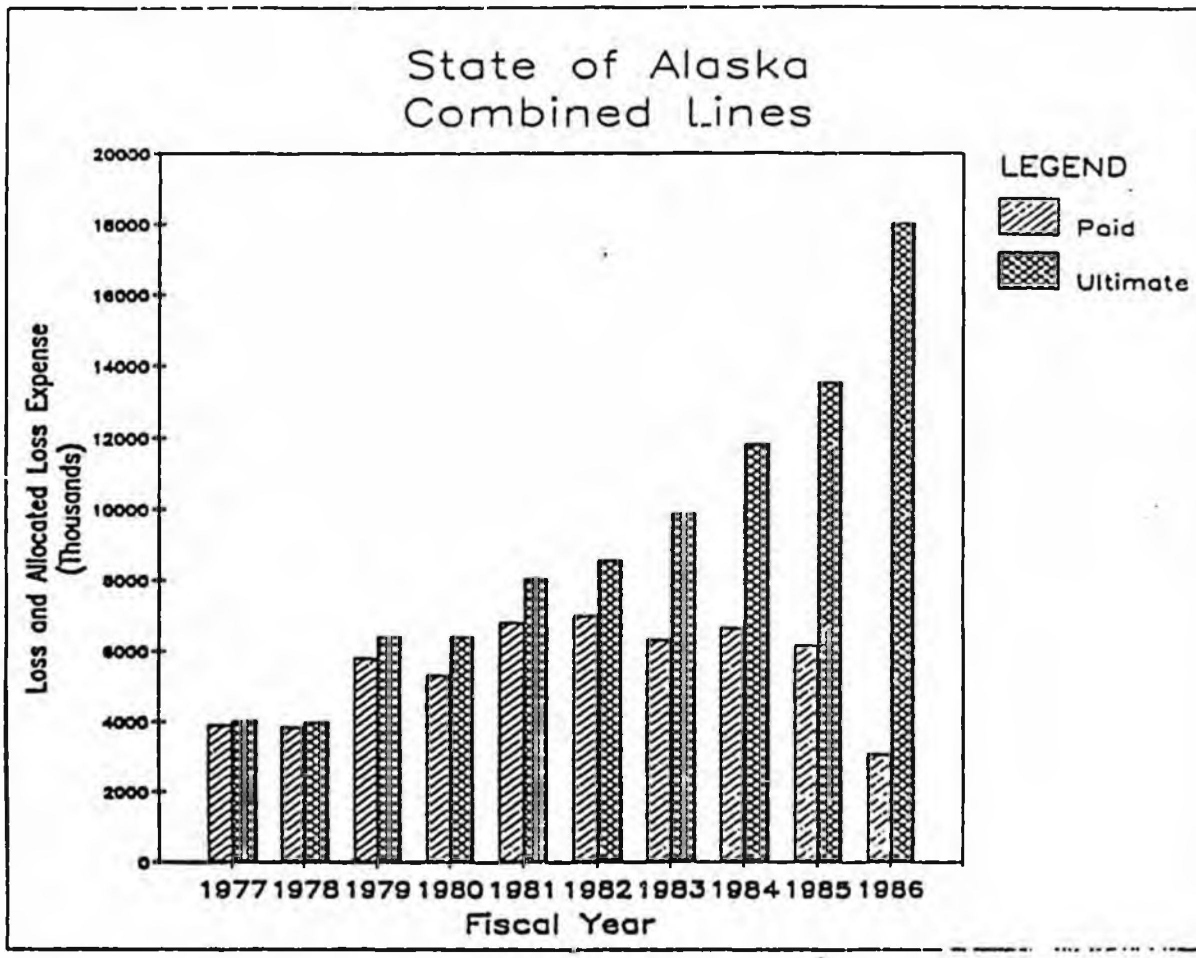


CHART II



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.



Coopers & Lybrand Report - Exhibit I-8
(above)

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 that have occurred in prior years that must be budgeted and paid during current years. Most of these are workers' compensation benefits involving totally disabled workers, widows, or other dependents and are paid out over a period of many years.

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.

STATE OF ALASKA CLAIMS ACTIVITY BY FISCAL YEAR

ESTIMATED ULTIMATE LOSS, ALLOCATED LOSS EXPENSE & RESERVES

$1.5 Million Self-Insured Retention for 1986
$5.0 Million Self-Insured Retention for 1987

FY	REPORTED CLAIMS	ESTIMATED ULTIMATE LOSS AND EXPENSE WORKERS COMPENSATION GENERAL LIABILITY AND AUTO LIABILITY (1)	OTHER LINES (2)	TOTAL (1+2) (3)	PAYMENTS TO DATE 9/25/85 (4)	ESTIMATED RESERVE (3)-(4) (5)
77	1,199	$3,056	$993	$4,049	$ 3,741	$ 437
78	1,357	2,924	1,080	4,004	3,855	247
79	1,623	4,910	1,514	6,424	7,155	851
80	1,862	4,202	2,218	6,420	4,646	1,599
81	1,982	5,740	2,307	8,047	6,279	1,719
82	2,311	6,259	2,310	8,569	6,417	2,979
83	2,527	7,594	2,299	9,893	4,732	5,237
84	2,292	9,294	2,509	11,803	4,735	8,392
85	2,501	10,677	2,898	13,575	2,657	13,092
86	2,395	15,526	2,534	18,060		

NOTES:

1. Actuarial Exhibit -Cooper & Lybrand - 12/11/86
2. Amounts are in thousands of dollars
3. "Other Lines" include only State Property, Marine Hull-Ferry Marine Property-Other, Marine P & I-Ferry Employees and Third Party Liability, Airport Liability, Air Workers' Compensation, General Liability-State Admin., Marine P & I -Other, Aircraft Liability, Auto Physical Damage, Museum Floater, Aircraft Hull, and Dock Damage.
4. Note this is based on $300,000 self insured retention. SIR's for Workers's Compensation and Third Party Liability were increased to $1,500,000 per occurrence in FY86 and to $5,000,000 in FY87.

This is an additional chart of State claims activity and again illustrates a gradual increase in frequency and severity.

Excerpt from the Alaska Financial Report year ended June 30, 1986 pages 36-37:

E. Insurable Loss Payment Obligation:

"The cost of premium and loss payments arising from Workers' Compensation and Third Party Liability Claims is charged against agency appropriations when payments are made rather than when the liability is determined. Total payments made for insurance premiums and self insured claims for FY86 amounted to $17,100,000. This amount compares as follows:

FY85	$14,200,000
FY86	$17,100,000
FY87	$20,900,000 (Projected)

The actuarial estimate of total outstanding loss liability arising from self insured claims made in prior years through June 30, 1986 is $54,700,000. Thid amount compares with the actuarial estimate for FY85 and FY87 as follows:

FY85	$38,500,000
FY86	$54,700,000
FY87	$64,310,000

The portion of the outstanding liability that is estimated to be required to meet payment obligations each year is funded through appropriations made to the Division of Risk Management, Department of Administration."

COMMENT:

The above note recognizes the State's unfunded self insured liabilities actuarially estimated at $64,310,000.

This figure represents the State's self insured losses that have already occurred and are either being paid over a period of time such as statutorial benefits for Workers' Compensation or are in varying stages of litigation.

Most of these outstanding claims have occurred during the past ten years (a few are much older) and in terms of dollars represent about 50% Workers' Compensation payments and 50% estimated liability costs.

Goals and Services Performed FY86 and Prior

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 Tyee 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 CURRENT INSURANCE CRISIS AND ITS EFFECTS

Beginning late in 1984 the property/casualty insurance industry began to face huge underwriting losses---which could no longer be offset by investment income. This also developed into a very serious financial crisis for many insurance companies.

The result has been a nationwide (and worldwide) curtailment in insurance markets, capacities and coverages plus sharply increased premium costs all of which have continued into FY87.

Municipalities and state governments have been seriously affected in this "crunch" because they represent "deep pocket" targets and because overall, public entity insurance experience has been deteriorating for many years.

Premiums being charged the State of Alaska for FY87 probably relate very well to State exposures but have very little relationship to actual loss experience---especially considering present levels of State self insurance. Also the number of companies offering public entities insurance remains severly reduced with very little competition to force prices down. Premiums remain at relatively high levels with coverages and limits of liability restricted.

Generally, liability policy forms presently available to municipalities are on a "claims made" basis and exclude medical malpractice, errors and omissions, Directors and Officers liability, police liability, pollution, discrimination, asbestosis, etc. A few of these excluded catastrophe exposures can then be purchased at additional cost. The State has been able to alleviate at least part of this coverage problem.

SUMMARY

Risk Management's answer to insurance industry problems is to seek alternative methods of programming and marketing of the State's insurance needs in order to stabilize fiscal impact and retain certain needed and necessary catastrophe coverages.

For FY87 our liability reinsurers agreed to accept the State of Alaska self insurance program as the primary insurance for the first five million of loss per occurrence. This agreement permitted us to negotiate retention of catastrophe liability exposures such as medical malpractice, errors and omissions, Directors and Officers, police liability, etc. within the program. Presently the only major excess insurance exclusions are discrimination, pollution and asbestosis and we provide limited coverage for these to the extent of our self insurance levels.

To a much lesser extent we also increased the levels of retention for property, marine, and aviation.

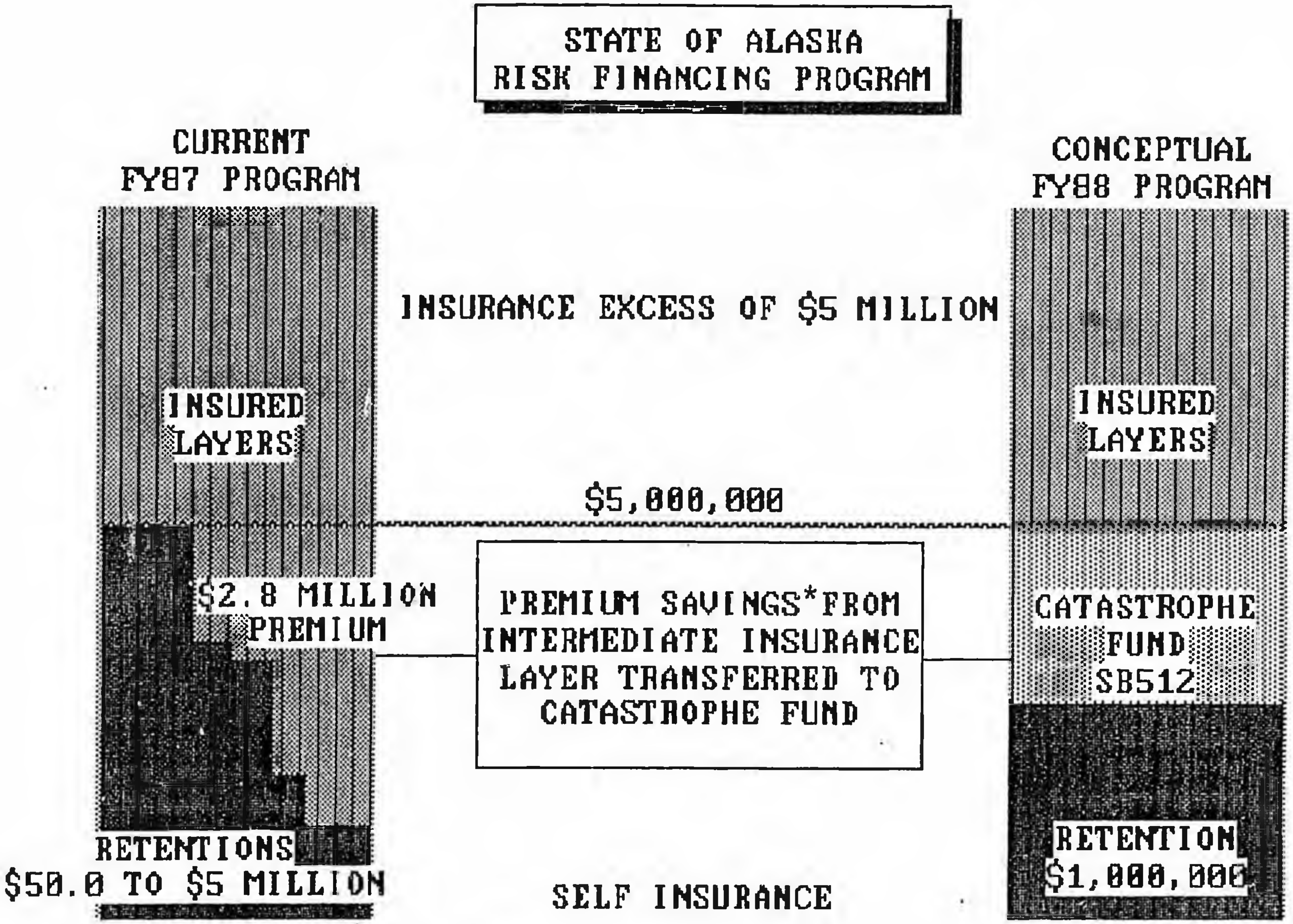
All of the negotiations for FY87 were to retain our insurance coverages at a reasonable level of protection, retain broad policy conditions and at the same time control costs to the extent possible.

Through this approach the State now has much improved control of policy conditions and coverages rather than being at the mercy of traditional primary insurance markets.

Having taken these steps we should now work toward the establishment of a reasonable Catastrophe Insurance Fund to meet unforseen self insured obligations should a catastrophe loss occur. Creation of such a fund will permit the State to continue to increase self insured levels---it will also entice additional excess insurance markets to our program and ultimately reduce costs.

The end result should be a flexible insurance program that will allow the State to take advantage of cost effective insurance when available or alternatively to increase retentions when costs become unreasonable and not reflective of State experience.

Page 24 represents a conceptual illustration of the FY88 insurance program.



*SAVINGS WILL VARY ANNUALLY, ESTIMATED AVERAGE $2.0 MILLION PER YEAR

RISK MANAGEMENT STAFF

Donald J. Hitchcock
Division Director

J. Brad Thompson, ARM
Division Deputy Director

William E. Chisham
Claims Manager

Martha J. Carson
Fiscal

Karen J. Holmberg
Claims

James E. Curtain
Contract Review
Loss Analysis

Coleen E. Hamrick
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
Phone: 465-2350
Division: Treasury
Date: March 26, 1987

Approved by Commissioner: H Malone
Date: 3/26/87
Agency: Department of Revenue

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

RECEIVED
MAR 27 1987
LEGISLATIVE FINANCE

page 1 of 1

4082

SB 152

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.

SB 152

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.

SB 152

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

Sincerely,

Steve Cowper
Governor

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 1 **
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 [] new title

[ ] attached amendment(s) and

~~[ ]~~ 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 previous [ ] fiscal impact

MEMBERS SIGNING DO PASS	OTHER RECOMMENDATIONS
[signature]	[signature] No Rec
	[signature] No Rec

[signature]
Chairman signature and recommendation

[ ] Committee Backup Attached

SB
152-H

HOUSE COMMITTEE REPORT

(11)

Date referred: 5/12/87

FURTHER REFERRALS:

DATE: 5-15-87

The Finance Committee has considered SB 152

"An Act relating to the state's risk management; and creating a state insurance catastrophe reserve account; and providing for an effective date."

RECOMMENDS:

[ ] replace with ______________ [ ] the same title

[ ] attached amendment(s) [ ] a new title

[X] do pass

[ ] do not pass

[ ] no recommendation

[ ] individual recommendations

[ ] additional referral to the ______________ Committee

ADOPTS: [ ] __________ letter of intent

ATTACHES NEW FISCAL NOTE(s):

[ ] fiscal impact

[ ] zero fiscal note

[ ] zero with analysis

[✓] same as previous fiscal note published ______________

[ ] same as previous zero fiscal note published ______________

SIGNING DO PASS:

SIGNING OTHER RECOMMENDATIONS:

NR

No Rec.

No Rec.

Chairman's signature

No. 82

STATE OF ALASKA 1987 LEGISLATIVE SESSION
FISCAL NOTE

Law Log: 773-87-0019
Publish Date:

REQUEST

Revision Date: SB 152
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)

OPERATING	FY 87	FY 88	FY 89	FY 90	FY 91	FY 92
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:

St[redacted] fund established ($5,000,000 maximum) to fund sel[redacted] of $1,000,000. Funding to come from insurance pre[redacted]ased self-insurance. [redacted] will take approximately thr[redacted] savings to build the fund. Budget reductions should begin in FY 91 assuming no losses.

Prepared By: Don Hitchcock
Phone: 465-2180
Division: Risk Management
Date: February 20, 1987

Approved by Commissioner: Garrey Peska
Date: 2/[illegible]/87
Agency: Department of Administration

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

Rev. 9/16/86

Introduced: 3/2/87
Referred: State Affairs and Finance

wo0197s

IN THE SENATE

BY THE RULES COMMITTEE BY REQUEST OF THE GOVERNOR

SENATE BILL NO. 152

IN THE LEGISLATURE OF THE STATE OF ALASKA

FIFTEENTH LEGISLATURE - FIRST SESSION

A BILL

For an Act entitled: "An Act relating to the state's risk management; and creating a state insurance catastrophe reserve account; and providing for an effective date."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

* Section 1. AS 37.05 is amended by adding new sections to read:

ARTICLE 3B. RISK MANAGEMENT.

Sec. 37.05.287. INSURANCE FOR STATE ASSETS. (a) The Department of Administration shall obtain or provide, in an amount and in the form that the department determines to be appropriate, casualty, property, and other insurance for protection of state assets and for the operation of state government. The department may provide for insurance coverage, in whole or in part, through a self-insurance program.

(b) The department shall annually review the state insurance program to assure that, to the extent reasonable, adequate insurance coverage or reserves are maintained to satisfy all reasonably foreseeable claims or judgments for which payment may be due under the state insurance program during the next fiscal year. The department shall annually obtain an independent actuarial assessment of the state insurance program. No later than February 1 of each calendar year, the department shall submit to the presiding officers of each house of the legislature a review of the state insurance program, an independent actuarial assessment, and a certified audit of the state insurance catastrophe reserve account.

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 and assets allocated to the account by the Department of Administration as provided in (b) of 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 must 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.

* Sec. 2. This Act takes effect immediately under AS 01.10.070(c).

DIVISION OF RISK MANAGEMENT
Annual Report
Fiscal Year 1986

State of Alaska
Department of Administration

STATE OF ALASKA

STEVE COWPER, GOVERNOR

DEPARTMENT OF ADMINISTRATION

POUCH C (MS 0218)
JUNEAU, ALASKA 99811
PHONE: (907) 465-2180

DIVISION OF RISK MANAGEMENT

April 17, 1987

Honorable Garrey Peska
Commissioner of Administration
State of Alaska
State Office Building
Juneau, Alaska 99811

Dear Commissioner Peska:

I am pleased to submit the FY86 annual report for the Division of Risk Management.

As the availability of markets for State insurance needs have become limited and costs dramatically escalated over the past two years, it has become necessary to increase the State levels of self insurance in order to control costs. At the same time we have also retained the ability to continue to provide the State agencies with a very broad spectrum of insurance protection. However, as the State's levels of self insurance are increased we automatically assume responsibilities for higher levels of uninsured exposures to loss. It is for this reason we are proposing legislation which will allow the State to develop a reasonable Catastrophe Insurance Fund in the event large and unforeseen losses should occur.

With the exception of certain high risk liability exposures there are very definite signs of improvement in insurance market predictability and availability. Costs appear to have reached a plateau and should slowly recede to more acceptable levels as competition becomes more prevalent. Nonetheless we plan to continue with steps already taken to increase State self insurance retentions (deductibles) and move away from the unpredictability experienced in traditional insurance markets. We believe such a program to be in the best interests of the State both from a cost and coverage standpoint.

Service provided to injured State employees and their dependents as well as other claimants remains at the top of our priority list. As the insurance information resource for all State agencies we continue to solicit inquiry and comment to better serve their needs. I hope this report will be of assistance to readers in understanding the State's insurance programs as well as the special services Risk Management provides.

Respectfully submitted,

Donald J. Hitchcock
Director

FUNCTIONS
OF THE
DIVISION OF RISK MANAGEMENT

Primary goal of the Division of Risk Management is to protect the State's assets from major loss through a combination of self-funding and insurance agreements that are fiscally sound and cost effective.

This objective is accomplished through three basic approaches to responsible Risk Management.

1. Administration and control of self-insurance and insured risk designed to be responsive to the individual needs of each State agency and in the best interests of the State as a whole.

2. Positive and aggressive control of claims brought against the State as well as claims for repair or replacement of damaged State properties. Fair and reasonable settlement of claims in a timely and practical manner wherever possible. This function works in coordination with the Department of Law.

3. Provide State agencies with timely and accurate claims exhibits and analysis so that safety activities and accident prevention programs can be designed and implemented to create and maintain a safe place to work for our employees as well as protect the general public. These are for general use within the State system.

Introduction to Risk Management

Risk exists whenever the future is unknown. Since no one knows the future exactly, everyone is a risk manager, not by choice, but by sheer necessity.

The State of Alaska has physical, financial, and human resources that help it achieve its objectives. A substantial loss to any of these resources could cause financial loss and/or disruption of services or operations provided to the people of the state.

Risk management is the process of minimizing the adverse effects of loss through pre-planning and pre-funding of loss exposures. The Division of Risk Management acts much like an insurance company in paying injured workers' compensation claims, handling liability claims or lawsuits and providing funds for damage to State property ranging from the M/V COLUMBIA to an ivory artifact housed in the State Museum.

Risk management is more than just purchasing insurance for losses. It involves the long term commitment of the State to minimize the total cost of risk. Properly implemented, risk management avoids the unpleasant task of obtaining unbudgeted funds to finance restoration after a major loss.

During the past 15 years, risk management has become an essential part of corporate management as well as for cities and states. The State of Alaska has received the benefits of risk management since 1972 and State agencies have realized considerable savings and significant increased protection over the years.

The State at one time was sheltered from liability suits by the doctrine of "Sovereign Immunity", however, legislative and court actions have substantially eroded that concept. Many court decisions apply the "deep pocket" theory in awarding damages to an injured party. This places the State in line for payment in many cases where the State has little or no known liability. Workers' compensation statutory benefits in Alaska are the highest of all the states. These major exposures have to be controlled and properly funded.

In basic terms, Risk Management strives to give less money to insurance companies and provides services (claims adjusting etc.) through Alaska based professional service contractors. Cost effective protection, safety awareness and claims management are the "keys" to a successful risk management program.

RISK MANAGEMENT SERVICES

RISK MANAGEMENT ADMINISTRATION

Developing the State's total property and casualty insurance program; assessing new or special projects for insurance exposures or needs; providing evidence of insurance for state activities; preparing annual insurance costs for state agencies; monitoring loss funds; overseeing annual actuarial and audit services and general administration of Risk Management's response to State needs are some of the services provided by the administrative section.

Marketing of the State's insurance programs is done through contract Brokers. Presently our Brokers are Corroon & Black and Marsh & McLennan. The State's annual insurance actuarial reports are prepared by Coopers & Lybrand. Peat, Marwick, Mitchell & Co provide audit services and computer services are provided by Marsh & McLennan's CIS. All Risk Management contract services are bid every 3-5 years.

Risk Management also provides services to the Alaska Power Authority and coordinates with or assists the University of Alaska and the Alaska Railroad when requested.

CLAIMS SERVICES

Claims Management provides services to investigate and adjust a claim once an accident or occurrence is reported. The majority of workers' compensation and liability claims are handled through adjusting firms under contract. Most property claims are handled directly by Risk Management claims staff.

Northern Adjusters Inc., with offices in Anchorage, Fairbanks, Juneau and other Alaska cities handles auto and general liability claims; Pacific Marine Insurance, Ketchikan deals with claims on the Marine Highway System; Scott Wetzel Services, Anchorage adjusts workers' compensation claims and Surety of Alaska, Anchorage services aviation and professional liability cases. Each firm is subject to periodic claims review by Risk Management officers plus scheduled audits by independent claims professionals.

CONTRACT REVIEW

An important part of Risk Management's loss control services involves establishment or review of state contract insurance requirements. These are necessary to protect the state from claims caused by the acts of independent contractors.

Considering the present insurance market, State requirements have become difficult to obtain for many of the state's contractors. Risk Management is addressing this problem when necessary by revising contract requirements on an individual basis (or where applicable), on a specific program basis. During FY86 standard (boiler plate) insurance requirements for State contracts were reviewed and modified where necessary.

Due to the wide variety of State contracts, it is very difficult to adopt one program or even a series of programs to fit the needs of all contractual agreements. Boilerplate insurance requirements are considered guides and Risk Management will work with State agencies to consider revisions when requested.

It is in the best interest of the agencies to remain involved in contract insurance negotiations since they can better attest to the type of work involved, inherent exposures, possible statutory requirements, and the importance of the contract.

LOSS CONTROL AND CLAIMS INFORMATION SERVICES

The starting point of any effective loss control program is to identify an agency's loss exposures. (Loss exposures include the items or persons subject to a loss, the forces that may cause a loss, and the financial impact of the loss.)

To assist agencies in determining where losses occur, how they occur, and the costs incurred, Risk Management provides loss control reports (see page 5) to Administrative Directors, management level personnel and designated safety officers throughout the State.

Special reports may also be generated from Risk Management's claims database to provide specific listings of claims to a variety of questions. As an example, each vessel in the Marine Highway System and each State Pioneer Home received a listing of claims in fiscal year 1986. Risk Management has also provided claim reports by specific type when requested (i.e. all open workers compensation claims for fiscal years 1983, 1984, and 1985 over $25,000 which involved motor vehicles). Risk Management's claims analysis capabilities are extensive and available on request.

CORPORATE SUMMARY
FOR THE PERIOD 07/01/86 - 12/31/86

DIVISION NUMBER & NAME / UNIT NUMBER & NAME / COVERAGE	OUTSTANDING RESERVES / PAID TO DATE / TOTAL: INDEMNITY	MEDICAL	EXPENSE	TOTAL INCURRED / RECOVERY / NET INCURRED
41 ALASKA COURTS				
0 ALASKA COURTS				
WORK COMP-MED ONLY	.00	427.70	.00	724.00
5 CLAIMS: 3 OPEN 2 CLOSED	.00	296.30	.00	.00
0 REOPEN 0 SUIT	.00	724.00	.00	724.00
TOTALS FOR UNIT: 0 ALASKA COURTS	.00	427.70	.00	724.00
5 CLAIMS: 3 OPEN 2 CLOSED	.00	296.30	.00	.00
0 REOPEN 0 SUIT	.00	724.00	.00	724.00
TOTALS FOR DIV: 41 ALASKA COURTS	.00	427.70	.00	724.00
5 CLAIMS: 3 OPEN 2 CLOSED	.00	296.30	.00	.00
0 REOPEN 0 SUIT	.00	724.00	.00	724.00

PAGE: 36

STATISTICAL REPORT: CAUSE OF ACCIDENT
TERM: 07/01/86 - 06/30/87
FOR THE PERIOD ENDING: 12-31-86
VALUED AS OF: 01/19/87

STATE OF ALASKA
NATURAL RESOURCES
EMER FIRE FGHTRS

WORKERS' COMPENSATION

DIVISION 010 LOCATION 0001

ACCD CODE	ACCIDENT CODE DESCRIPTION	CLAIM COUNT	% OF CLAIMS	TOTAL PAID	% OF PAID	TOTAL INCUR.	% OF INCUR.	AVG. INCURRED PER CLAIM
0001	SLIP/FALL - OUTSIDE BUILDINGS	2	33.33	1,369.54	85.75	1,369.54	50.22	684.77
0009	BURN/HEAT-COLD EXPOSURE-EXTREME TMP	1	16.66	7.50	0.46	7.50	0.27	7.50
0064	PERSONAL INJURY - CREW	1	16.66	0.00	0.00	200.00	7.33	200.00
0099	MISCELLANEOUS	2	33.33	220.00	13.77	1,150.00	42.17	575.00
	TOTALS:	6	100.00	1,597.04	100.00	2,727.04	100.00	454.50

DIVISION: FISH AND GAME
UNIT: FRED

STATE OF ALASKA
NEW CLAIMS LISTING
VALUED AS OF: 12/31/86

89

ADJUSTOR / COVERAGE / STATUS FISCAL YR	CLAIM # / SUFFIX / LOCATION	CLAIMANT NAME / ACCIDENT / DESCRIPTION	DATE OF: ACCIDENT / REPORT / CLAIM	ENTRY / ACTIVITY / CLOSE	OUTSTANDING RESERVES / PAID TO DATE / TOTAL: INDEMNITY	MEDICAL	EXPENSE	TOTAL INCURRED / RECOVERY / NET INCURRED
SCOTT WETZEL	0004693		07/26/86	10/06/86	.00	.00	.00	86.00
WORK COMP-MED ONLY	999	STARTING MOTOR - INJURED-	09/10/86	10/27/86	.00	86.00	.00	.00
CLOSED 1987	011-0009	LEFT WRIST	07/27/86	10/27/86	.00	86.00	.00	86.00
SCOTT WETZEL	0004599		07/29/86	10/08/86	.00	.00	.00	142.30
WORK COMP-MED ONLY	999	HIKING TO BOAT - TWISTED-	08/12/86	01/14/87	.00	142.30	.00	.00
CLOSED 1987	011-0009	RIGHT ANKLE	********	01/14/87	.00	142.30	.00	142.30
SCOTT WETZEL	0004698		08/14/86	10/08/86	.00	11.75	.00	100.00
WORK COMP-MED ONLY	999	PUNCTURED LEFT THIGH WIT-	09/09/86	10/09/86	.00	88.25	.00	.00
OPEN 1987	011-0009	H WELDING ROD	08/14/86	********	.00	100.00	.00	100.00
SCOTT WETZEL	0004719		09/02/86	10/06/86	.00	.00	.00	329.90
WORK COMP-MED ONLY	999	FELL ON ROCKS - CUT FING-	09/07/86	01/26/87	.00	329.90	.00	.00
CLOSED 1987	011-0009	ER ON RIGHT HAND	09/02/86	01/26/87	.00	329.90	.00	329.90
SCOTT WETZEL	0004786		09/25/86	10/29/86	.00	.00	.00	63.20
WORK COMP-MED ONLY	999	SPRAY PAINTING/DUST DEBI-	10/02/86	01/22/87	.00	63.20	.00	.00
CLOSED 1987	011-0009	S IN L.EYE	09/26/86	01/22/87	.00	63.20	.00	63.20
SCOTT WETZEL	0004919		08/29/86	11/18/86	.00	4,925.00	.00	5,000.00
WORK COMP-MED ONLY	999	EXPOSED TO IODOPHOR	11/12/86	12/12/86	.00	75.00	.00	.00
OPEN 1987	011-0009		11/03/86	********	.00	5,000.00	.00	5,000.00
SCOTT WETZEL	0004928		11/08/86	12/02/86	.00	.00	.00	81.65
WORK COMP-MED ONLY	999	DURING DECENT IN PLANE --	11/13/86	12/22/86	.00	81.65	.00	.00
CLOSED 1987	011-0009	LEFT EAR DRUM	11/10/86	12/22/86	.00	81.65	.00	81.65
TOTALS FOR COVERAGE: WORK COMP-MED ONLY			# OPEN:	0	.00	7,727.20	.00	10,201.15
			# CLOSED:	1	.00	2,473.95	.00	.00
			# CLAIMS:	18	.00	10,201.15	.00	10,201.15
UNIT TOTALS			# OPEN:	0	5,443.24	13,512.20	3,000.00	25,101.15
			# CLOSED:	1	456.76	2,688.95	.00	.00
			# CLAIMS:	20	5,900.00	16,201.15	3,000.00	25,101.15

INSURANCE COST ALLOCATION SYSTEM

Risk Management's budget is funded through a premium allocation system. This is a system for distributing the State's insurance costs among the various departments. It is designed to achieve an equitable distribution of costs that reflect both exposure to loss (items subject to loss) as well as past loss experience for each department.

The Premium Allocation System depends on two sources of funding for insurance costs from state agencies. One is through Inter-Agency Reimbursable Services Agreements (RSA). All lines of insurance other than Workers' Compensation and General/Auto Liability are paid through RSA's. A second is Payroll Deduction, which pays an agency's workers' compensation, general liability and auto liability premiums.

Costs for each Agency are developed through a formula which includes units of exposure, claims history, special hazards such as medical malpractice and other measurable risk components.

For example, DOTPF with its large number of employees (2,399 for FY86) as well as responsibility for the State's road system, bridges, ferries, buildings and airports (exposure units) will experience more losses in terms of total claims and total costs than other agencies. This is reflected in DOTPF's premium charges.

To illustrate how an agency's insurance costs are developed the workers' compensation charge for Administration will be examined.

The State's workers' compensation FY87 cost is $4,747,000 Eighty per cent or $3,797,600 of that charge is based on the State's limited loss experience for a three year period and is known as the experience premium. Limited Loss Experience means for any claim, an agency will only be charged for an established maximum cost limit. As an example, if an Administration employee has a workers' compensation claim that incurred $120,000 of costs, only $100,000 (Administration's loss limit) is added to the department's and State's limited loss total.

Loss Limits are equal to approximately 10% of an agency's prior year Risk Management budget. As mentioned earlier Administration's limit is $100,000. By contrast, the Department of Law has a limit of $10,000 per claim.

The loss experience for FY87 is developed from FY83-FY85 inclusive. Three years experience is necessary in order to include a mixture of seasoned claims and relatively recent claims. It also minimizes the effect a catastrophe loss will have on an agency's insurance costs by spreading a claim over a three year period.

Administration's share of the State's three year limited losses is about 13.61%. This percentage multiplied by the State's experience premium ($3,797,600) determines the department's share of the State's FY87 experience premium ($517,150).

The final 20% of the workers' compensation insurance cost is based on the department's share of the State's anticipated FY87 payroll and is termed the exposure premium. For FY87 the exposure premium is $949,000. Administration's percentage of the State's anticipated FY87 payroll (about 7.115%) is multiplied by the exposure premium to determine the department's share ($67,548).

The most critical part of an agency's workers' compensation charge is loss experience. If costs are controlled (either through a reduction in the number or severity of claims) then both the worker and agency will benefit. An effective loss control program will pay off in insurance cost reductions as well as improved efficiency for the agency.

STATE OF ALASKA FY87 INSURANCE PROGRAM

The following is a brief recap of the present insurance program for the State. Self-insured retentions (SIR's) and the amount of excess insurance purchased depend to a large extent on cost and availability. Estimated savings are based on the actual costs of FY86 programs. Of course, as retentions (deductions) are increased the State self-insured obligations are also increased.

Risk Management also provides certain protections within our self-insured programs which are not presently available in the insurance marketplace. These can include discrimination, asbestosis or pollution claims which could involve considerable litigation expense regardless of the circumstances or merits of the claim.

This recap is intended only to provide the reader with a quick understanding of the present program. There are, of course, a number of sublimits and special provisions which are not outlined in this document. Incidently, the State insurances for FY87, are placed in over 65 insurance companies and Lloyds syndicates.

Property

The State Property Insurance Program is written on an all-risk form which includes the perils of earthquake and flood. The SIR is $500,000 per occurrence (5% of values for earthquake and flood) with $100,000,000 of excess insurance. Earthquake and flood are limited to $40,000,000 of insurance which was the maximum earthquake cover available in the marketplace. The University of Alaska also shares this policy which benefits both entities from a cost standpoint. For FY87, we were able to include Extra Expense insurance for State computer systems as well as State-owned museum artifacts in this policy. The SIR for the scheduled museum contents is $100,000. By combining the property policies we were able to save approiximately $175,000 in premiums. The policy also includes limited coverage on 20 of the State's major highway bridges. If the legislature permits us to establish a $5,000,000 insurance catastrophe fund for FY88, we should be able to increase the State property SIR to $5,000,000.

Casualty

The State Liability Program is also shared with the University and is written with a $100,000,000 limit of liability and a SIR of $5,000,000. In FY86 State retention was $1,500,000. Through long-term contacts in the London market, we have been able to retain professional malpractice, errors and ommissions, as well as directors and officers and police liability in the State's excess liability form. Presently, 90% of the State's liability coverage, i.e., $90,000,000, excess of $10,000,000, is placed through our London marine underwriters.

For FY88, we plan to reduce the percentage of non-marine coverage placed with marine underwriters so that we do not jeopardize our true marine insurance placements. For FY87 we were unable to find any domestic (American) companies willing to provide the necessary State excess liability coverages. Therefore, we have had to rely almost entirely on London underwriters. The only form available for the State's excess liability coverage is "claims made."

The State Workers' Compensation Program is also written with a $5,000,000 SIR. We purchase catastrophe statutory excess of the State retention.

By increasing the State's levels of self-insurance for Liability and Workers' Compensation from $1,500,000 to $5,000,000 in FY87, premium costs were reduced by approximately $2,000,000.

Marine

The State Marine Insurance Program provides protection for the Marine Highway System as well as a multitude of other Marine exposures. FY87 SIR's are $100,000 for P&I (liabilities and Federal Acts) and $50,000 for hull claims. Because of catastrophe ferry exposures we carry liability limits of $200,000,000. Marine hulls are covered for specified amounts.

Most of the State ferry terminals are also covered under this marine form with a special $250,000 SIR. The inclusion of the terminals in our Marine placements has saved the State considerable in premiums in addition to which we were able to include coverage required by contract for the Prince Rupert, BC terminal which had previously been placed seperately because it is a foreign port.

Aviation

In view of poor world wide aviation experience during calendar year 1986, we were fortunate to be able to retain our aviation covers for FY87 even at considerable cost increase. The State has a relatively small fleet of owned aircraft but operation and ownership of International terminals such as Anchorage (sixth in the nation) and Fairbanks plus almost 275 smaller airports and airstrips represents tremendous exposures. The State presently carries $200,000,000 limits with a $250,000 deductible on airport liabilities as well as owned and leased aircraft. This policy includes an annual aggregate deductible of $1,000,000.

All aircraft hulls are self-insured, unless specifically provided for.

Presently, aviation underwriters are unwilling to provide worthwhile savings for increased retentions but Risk Management will continue to test markets for savings.

The University is also included in the aviation coverage as well as nonowned (leased) aircraft cover for the Alaska Railroad. The Railroad has only occasional need for leased aircraft cover so it was provided by underwriters at no additional premium cost to the State.

Bonds

We provide statutory bonding for certain of the State's executives and a blanket employee fidelity bond with $10,000,000 limits and a $250,000 deductible. U.S. Customs and other miscellaneous bonds are also provided when necessary..

Aggregate

Through the State's Marine insurance markets we were able to obtain aggregate loss insurance excess of $3,500,000 of combined Property and Marine SIR losses for FY87. This provides a safety net of $5,000,000 of insured SIR loss for Marine and Property should they exceed $3,500,000 in losses during the fiscal year.

Boilers

The State has a Boiler and Machinery policy with limits of $10,000,000 and a $10,000 deductible.

Alaska Power Authority

Four Dam Pool Property Insurance is provided APA for Swan Lake, Tyee, Solomon Gulch and Terror Lake. This policy, which is an all-risk form including earthquake and flood, has a limit of $75,000,000 with a $1,000,000 (5% for earthquake and flood) deductible. Engineers estimate maximum probable loss (any one occurrence) on these dams of approximately $60,000,000. We continue to research possible self-insurance alternatives for these projects because of the unpredictability of earthquake markets and costs. Earthquake insurance capacity is limited throughout the Pacific Rim.

Boiler and Machinery coverage on the Four Dam Pool and Anchorage/Fairbanks Intertie substations is maintained with $15,000,000 limits of liability and a $25,000 SIR.

We also provide small policies for Eklutna marshalling yard and the geothermal wells. The balance of Alaska Power Authority insurance requirements are included in our regular State programs.

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 (all risk)	$500,000	$100,000,000
Data Processing Equipment	(included)	
Museum Fine Arts	$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, asbestosis, 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)	$3,500,000 SIR	$5,000,000
(Aviation)	$1,000,000	
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

BUDGET COMPONENTS AND EXPENDITURES

The "BUDGET COMPONENTS" charts provide an analysis of Risk Management expenditures over the past several years.

Please note that operating costs and contractual services remain quite stable while premiums and loss payments are much more volatile.

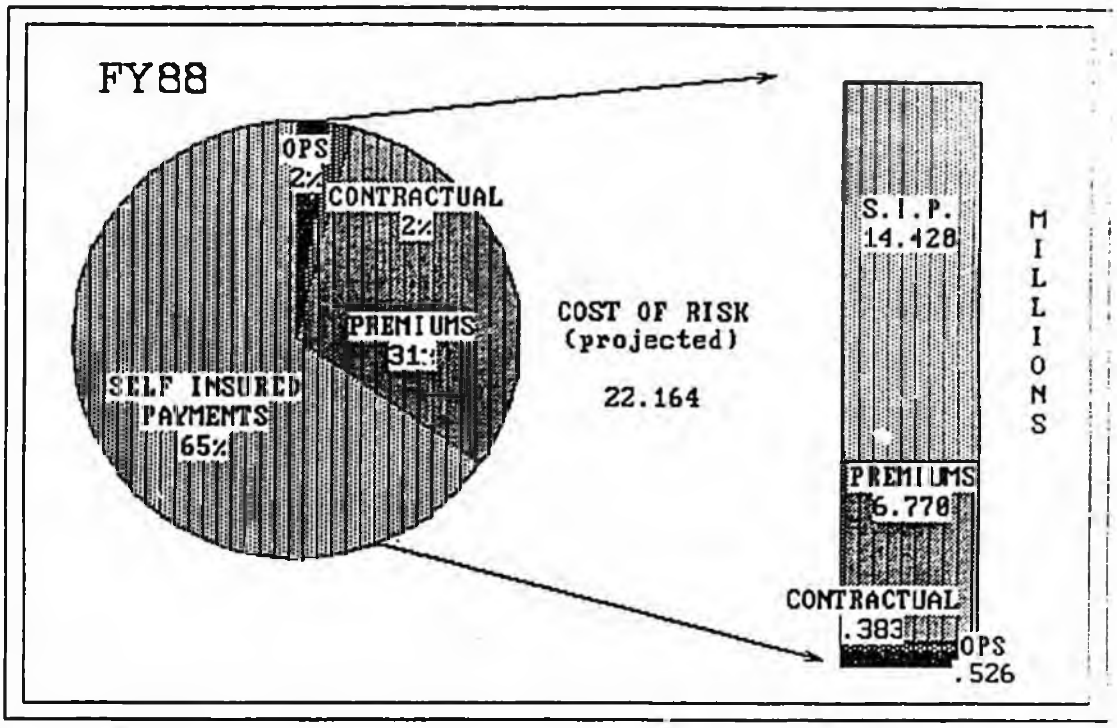
At the beginning of FY83 Risk Management had accumulated a loss reserve fund of almost $20 million. The legislature determined that a loss reserve fund in such a large amount was not necessary so Risk Management's fiscal year budgets for FY83 and FY84 were drastically reduced to force utilization of the loss reserve fund. This resulted in subsidizing risk management costs during these years and is shown in the charts as "shortfall".

The results for those two years were 1) agency allocations for insurance represented only about 50% of true costs. 2) Risk Management remained underfunded for FY85 and FY86 forcing complete exhaustion of the former reserve funds. The result was a sizeable increase in the FY87 budget for all agencies to meet "cash flow" loss payments during the year.

The insurance crisis of the past couple of years added to the costs--but one of the the major reasons for the increases was the step from a subsidized budget to a real budget based on estimated expenses for the year.

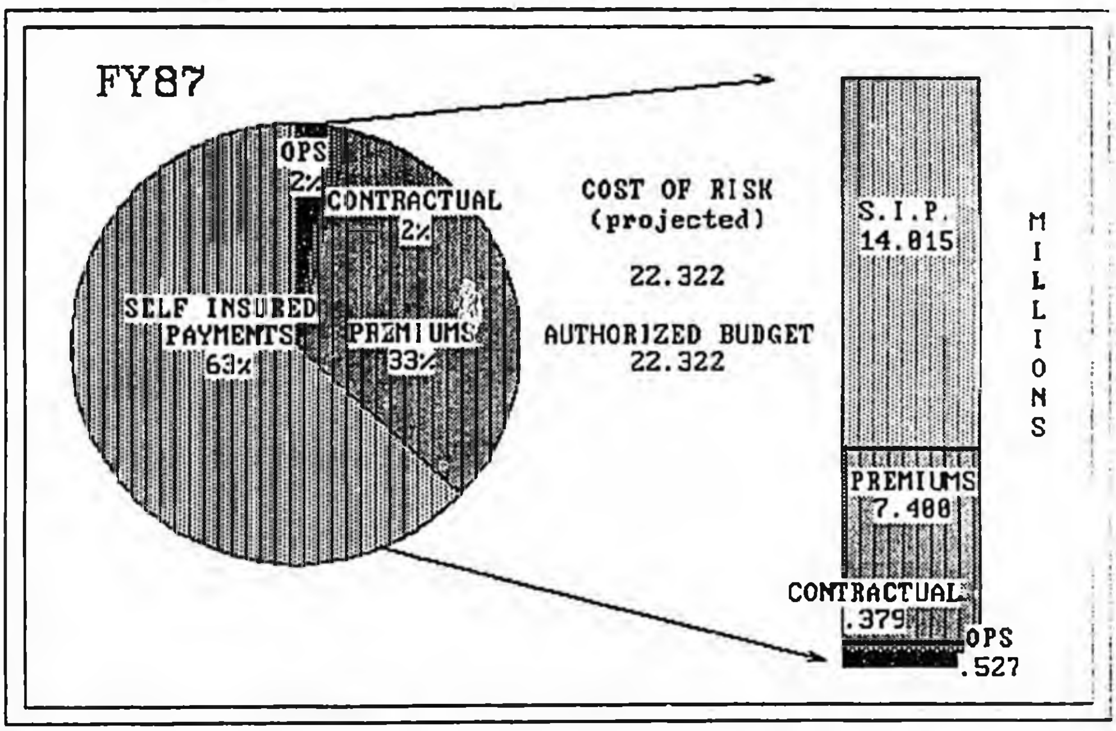
The return to normalcy while certainly traumatic to all agencies was entirely necessary to meet ongoing obligations.

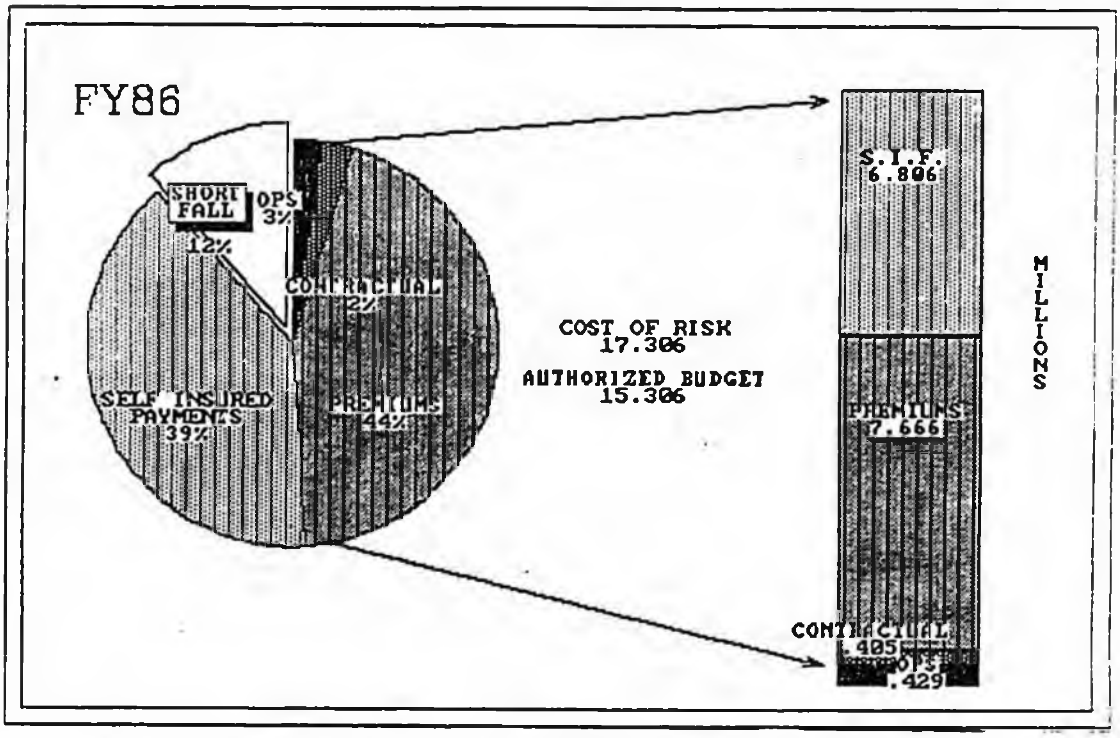
The unfortunate circumstance of the insurance crisis and the budget crunch occurring during the same years simply accentuated the problem.



The pie charts shown for each fiscal year provide the 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.

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

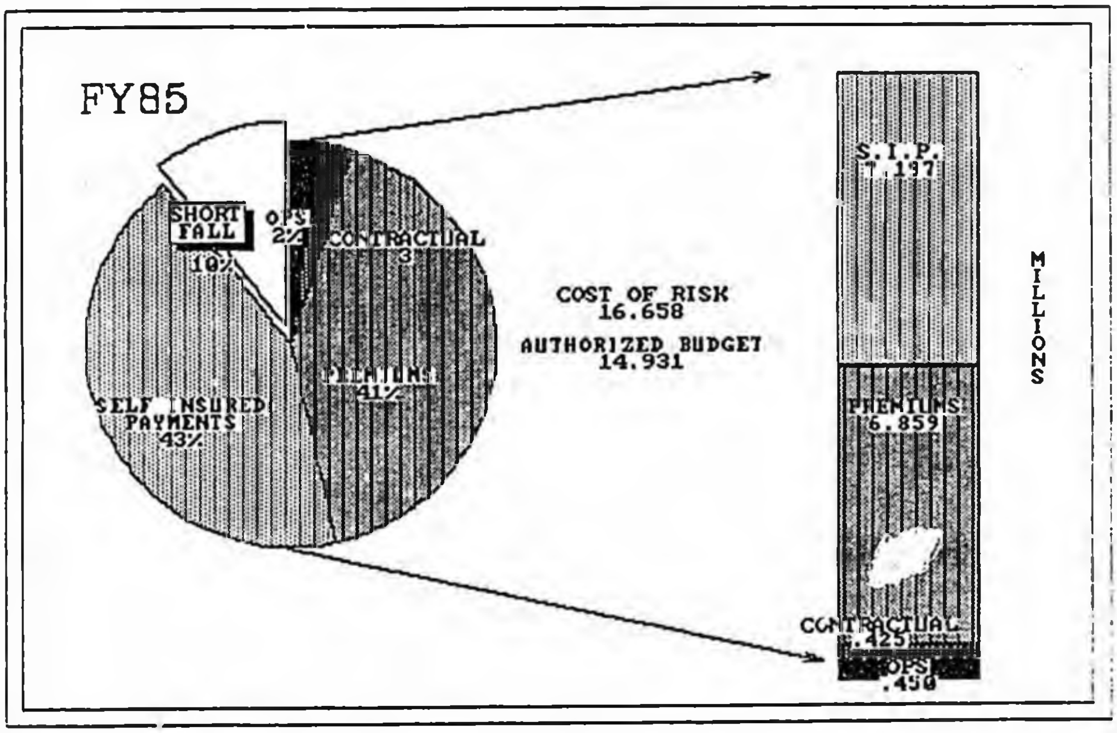


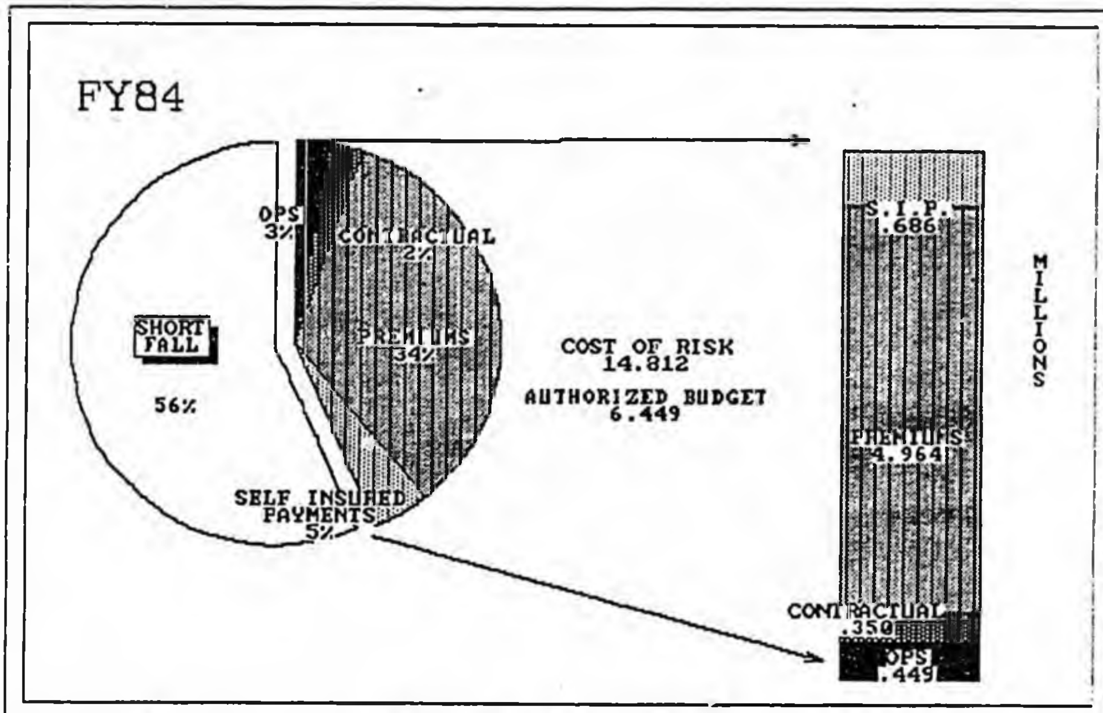


The pie charts shown for each fiscal year provide the percentage of funds expended for each major category of expense. The bar chart for the same year identifies actual amounts spent within the appropriation for that year.

The shortfall identified in the pie illustrates the extent of under funding for that year in comparison to total appropriation. Candidly, Risk Management under estimated needs for FY85 --- but then suffered a legislative reduction again in FY86

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





The pie charts shown for each fiscal year provide the 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. The shortfall obligation was met by utilization of a "then" available loss reserve fund.

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

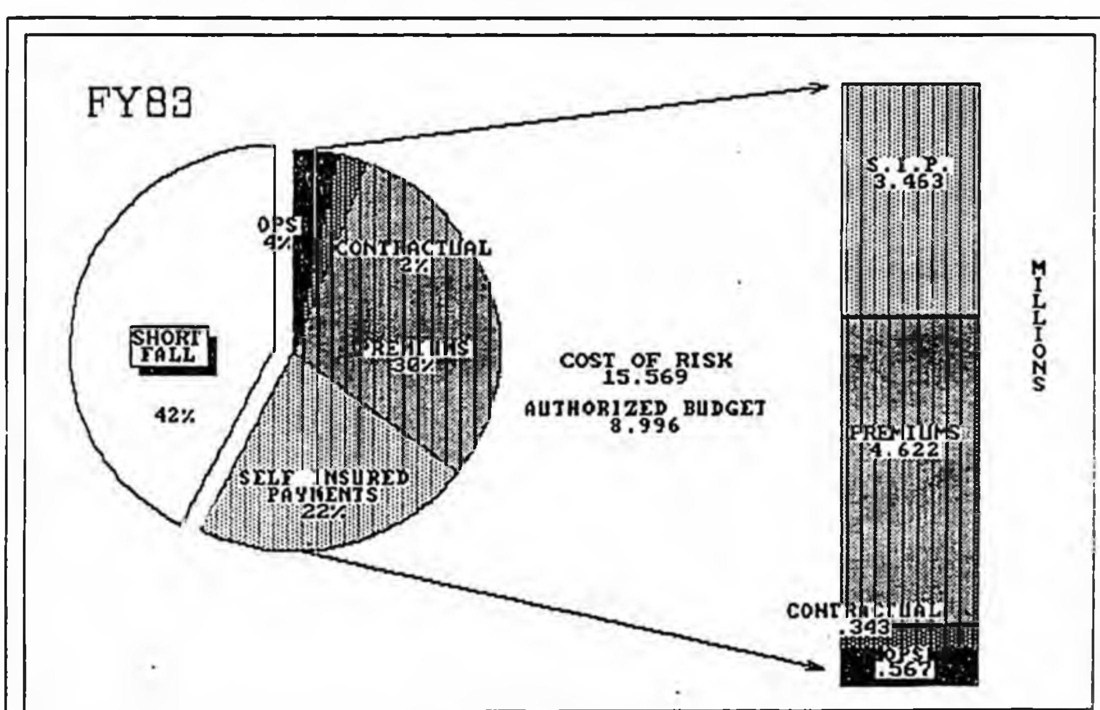


CHART I

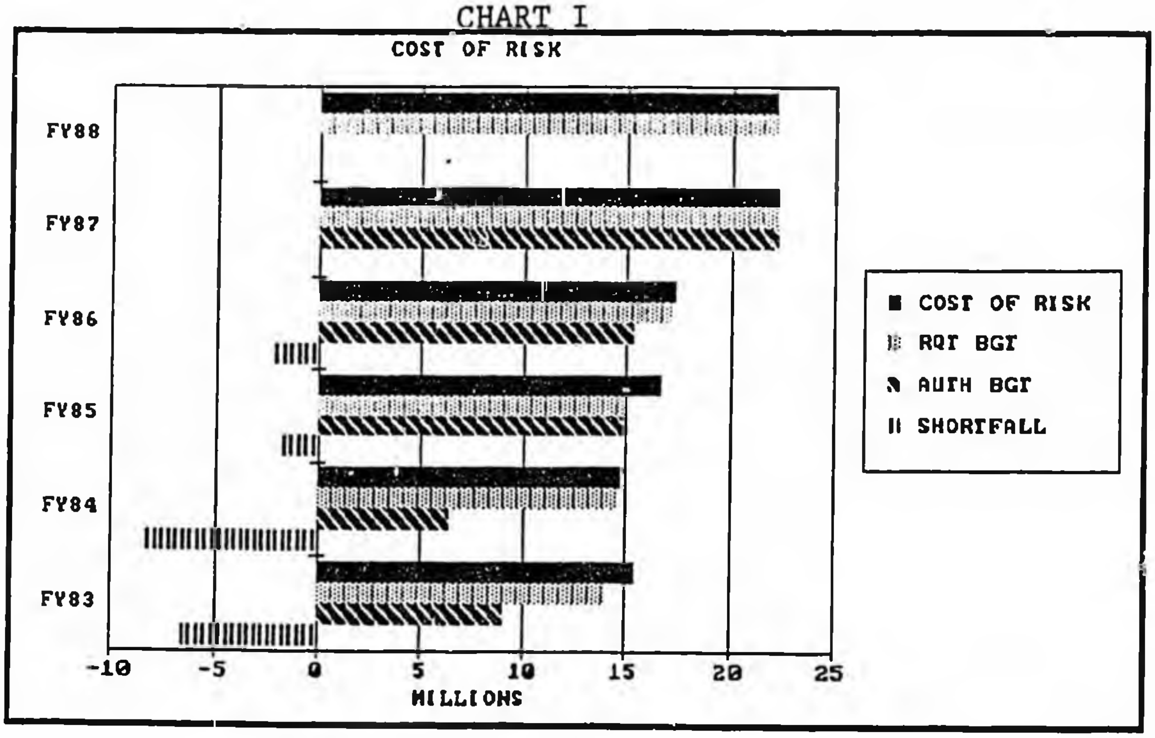
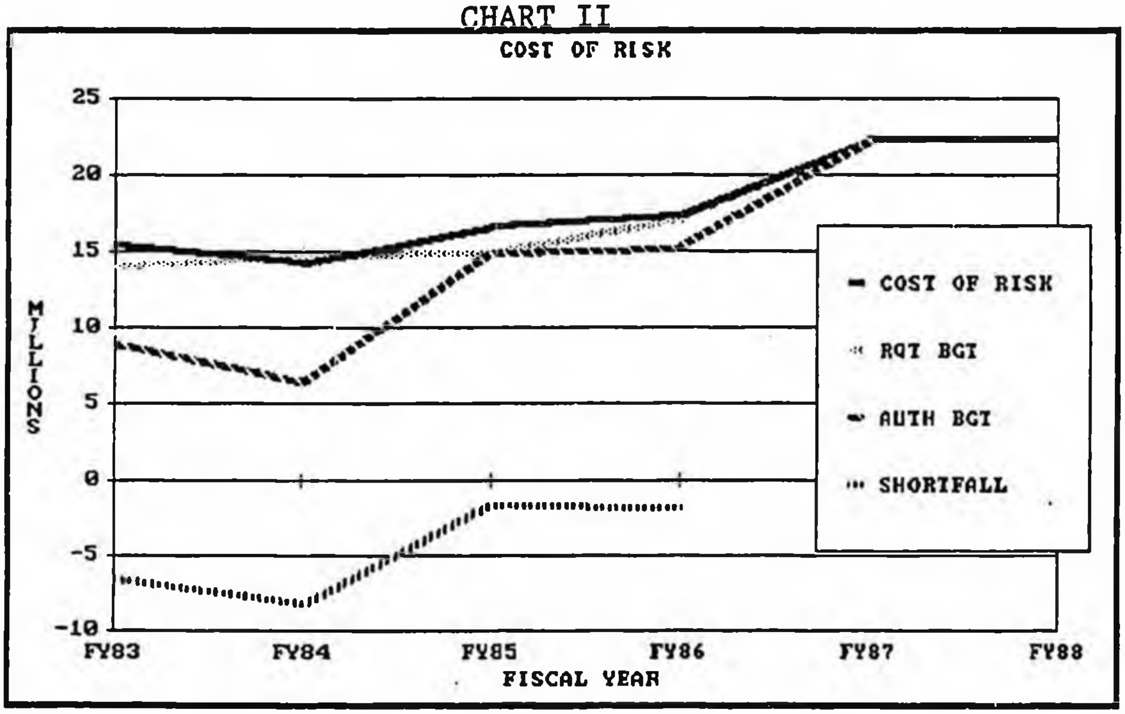
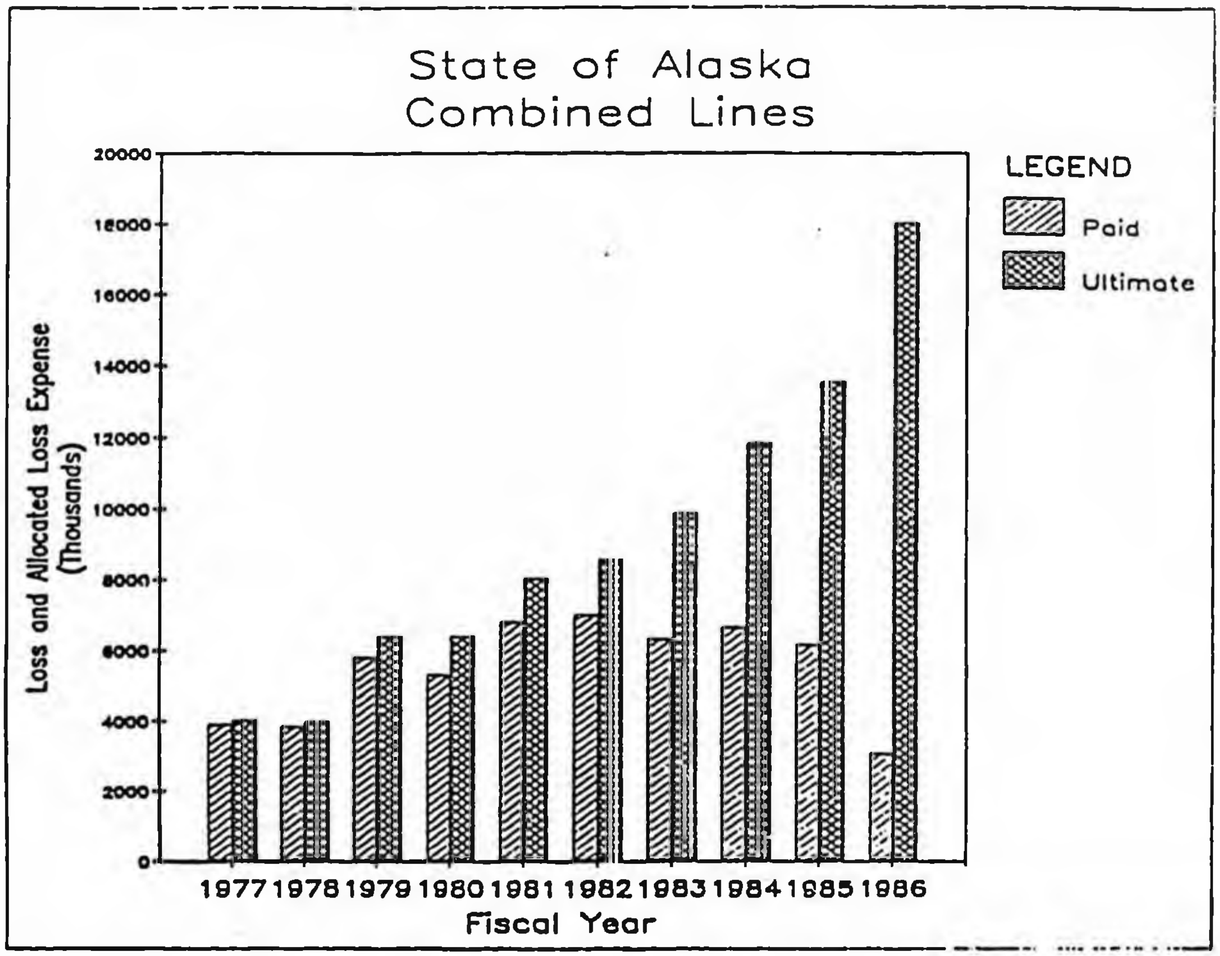


CHART II



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.



Coopers & Lybrand Report - Exhibit I-8
(above)

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 that have occurred in prior years that must be budgeted and paid during current years. Most of these are workers' compensation benefits involving totally disabled workers, widows, or other dependents and are paid out over a period of many years.

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.

STATE OF ALASKA CLAIMS ACTIVITY BY FISCAL YEAR

ESTIMATED ULTIMATE LOSS, ALLOCATED LOSS EXPENSE & RESERVES

$1.5 Million Self-Insured Retention for 1986
$5.0 Million Self-Insured Retention for 1987

FY	REPORTED CLAIMS	ESTIMATED ULTIMATE LOSS AND EXPENSE: WORKERS COMPENSATION GENERAL LIABILITY AND AUTO LIABILITY (1)	OTHER LINES (2)	TOTAL (1+2) (3)	PAYMENTS TO DATE 9/25/85 (4)	ESTIMATED RESERVE (3)-(4) (5)
77	1,199	$3,056	$993	$4,049	$ 3,741	$ 437
78	1,357	2,924	1,080	4,004	3,855	247
79	1,623	4,910	1,514	6,424	7,155	851
80	1,862	4,202	2,218	6,420	4,646	1,599
81	1,982	5,740	2,307	8,047	6,279	1,719
82	2,311	6,259	2,310	8,569	6,417	2,979
83	2,527	7,594	2,299	9,893	4,732	5,237
84	2,292	9,294	2,509	11,803	4,735	8,392
85	2,501	10,677	2,898	13,575	2,657	13,092
86	2,395	15,526	2,534	18,060		

NOTES:

1. Actuarial Exhibit -Cooper & Lybrand - 12/11/86

2. Amounts are in thousands of dollars

3. "Other Lines" include only State Property, Marine Hull-Ferry Marine Property-Other, Marine P & I-Ferry Employees and Third Party Liability, Airport Liability, Air Workers' Compensation, General Liability-State Admin., Marine P & I -Other, Aircraft Liability, Auto Physical Damage, Museum Floater, Aircraft Hull, and Dock Damage.

4. Note this is based on $300,000 self insured retention. SIR's for Workers's Compensation and Third Party Liability were increased to $1,500,000 per occurrence in FY86 and to $5,000,000 in FY87.

This is an additional chart of State claims activity and again illustrates a gradual increase in frequency and severity.

Excerpt from the Alaska Financial Report year ended June 30, 1986 pages 36-37:

E. Insurable Loss Payment Obligation:

"The cost of premium and loss payments arising from Workers' Compensation and Third Party Liability Claims is charged against agency appropriations when payments are made rather than when the liability is determined. Total payments made for insurance premiums and self insured claims for FY86 amounted to $17,100,000. This amount compares as follows:

FY85	$14,200,000
FY86	$17,100,000
FY87	$20,900,000 (Projected)

The actuarial estimate of total outstanding loss liability arising from self insured claims made in prior years through June 30, 1986 is $54,700,000. Thid amount compares with the actuarial estimate for FY85 and FY87 as follows:

FY85	$38,500,000
FY86	$54,700,000
FY87	$64,310,000

The portion of the outstanding liability that is estimated to be required to meet payment obligations each year is funded through appropriations made to the Division of Risk Management, Department of Administration."

COMMENT:

The above note recognizes the State's unfunded self insured liabilities actuarially estimated at $64,310,000.

This figure represents the State's self insured losses that have already occurred and are either being paid over a period of time such as statutorial benefits for Workers' Compensation or are in varying stages of litigation.

Most of these outstanding claims have occurred during the past ten years (a few are much older) and in terms of dollars represent about 50% Workers' Compensation payments and 50% estimated liability costs.

Goals and Services Performed FY86 and Prior___________

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 Tyee 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 CURRENT INSURANCE CRISIS AND ITS EFFECTS

Beginning late in 1984 the property/casualty insurance industry began to face huge underwriting losses---which could no longer be offset by investment income. This also developed into a very serious financial crisis for many insurance companies.

The result has been a nationwide (and worldwide) curtailment in insurance markets, capacities and coverages plus sharply increased premium costs all of which have continued into FY87.

Municipalities and state governments have been seriously affected in this "crunch" because they represent "deep pocket" targets and because overall, public entity insurance experience has been deteriorating for many years.

Premiums being charged the State of Alaska for FY87 probably relate very well to State exposures but have very little relationship to actual loss experience---especially considering present levels of State self insurance. Also the number of companies offering public entities insurance remains severly reduced with very little competition to force prices down. Premiums remain at relatively high levels with coverages and limits of liability restricted.

Generally, liability policy forms presently available to municipalities are on a "claims made" basis and exclude medical malpractice, errors and omissions, Directors and Officers liability, police liability, pollution, discrimination, asbestosis, etc. A few of these excluded catastrophe exposures can then be purchased at additional cost. The State has been able to alleviate at least part of this coverage problem.

SUMMARY

Risk Management's answer to insurance industry problems is to seek alternative methods of programming and marketing of the State's insurance needs in order to stabilize fiscal impact and retain certain needed and necessary catastrophe coverages.

For FY87 our liability reinsurers agreed to accept the State of Alaska self insurance program as the primary insurance for the first five million of loss per occurrence. This agreement permitted us to negotiate retention of catastrophe liability exposures such as medical malpractice, errors and omissions, Directors and Officers, police liability, etc. within the program. Presently the only major excess insurance exclusions are discrimination, pollution and asbestosis and we provide limited coverage for these to the extent of our self insurance levels.

To a much lesser extent we also increased the levels of retention for property, marine, and aviation.

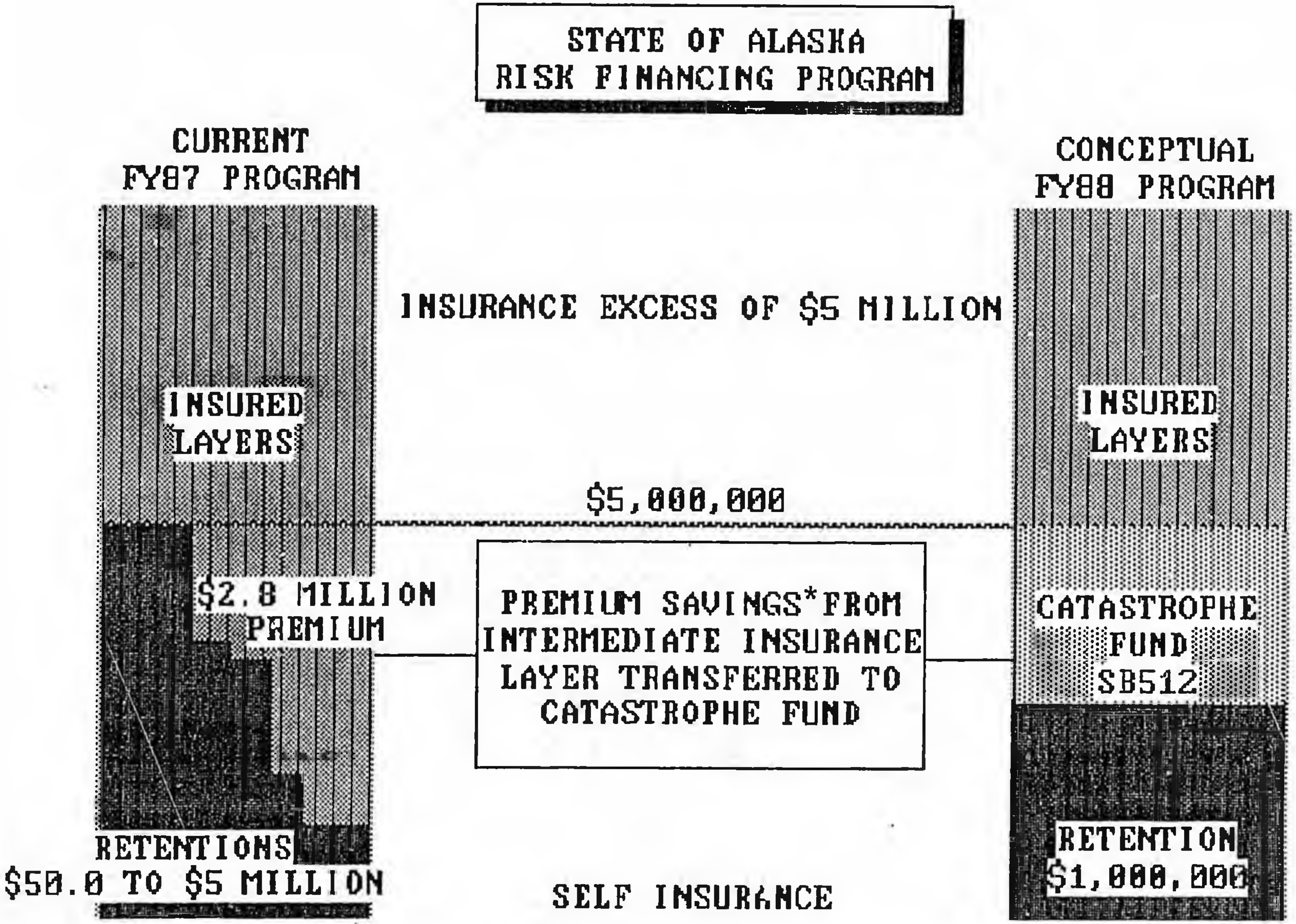
All of the negotiations for FY87 were to retain our insurance coverages at a reasonable level of protection, retain broad policy conditions and at the same time control costs to the extent possible.

Through this approach the State now has much improved control of policy conditions and coverages rather than being at the mercy of traditional primary insurance markets.

Having taken these steps we should now work toward the establishment of a reasonable Catastrophe Insurance Fund to meet unforseen self insured obligations should a catastrophe loss occur. Creation of such a fund will permit the State to continue to increase self insured levels---it will also entice additional excess insurance markets to our program and ultimately reduce costs.

The end result should be a flexible insurance program that will allow the State to take advantage of cost effective insurance when available or alternatively to increase retentions when costs become unreasonable and not reflective of State experience.

Page 24 represents a conceptual illustration of the FY88 insurance program.



*SAVINGS WILL VARY ANNUALLY, ESTIMATED AVERAGE $2.0 MILLION PER YEAR

RISK MANAGEMENT STAFF

Donald J. Hitchcock
Division Director

J. Brad Thompson, ARM
Division Deputy Director

William E. Chisham
Claims Manager

Martha J. Carson
Fiscal

Karen J. Holmberg
Claims

James E. Curtain
Contract Review
Loss Analysis

Coleen E. Hamrick
Secretary

April 9, 1987

The Honorable Rick Uehling
Alaska State Legislature
P.O. Box V
Juneau, AK 99811-3100

Dear Senator Uehling:

Re: Senate Bill 152
Catastrophe Insurance Fund
Senate Affairs Committee
Meeting: March 30, 1987

During the recent Senate Affairs Committee meeting, you requested additional information concerning areas of possible savings that might result due to creation of the Catastrophe Insurance Fund as outlined in SB 152.

As displayed in the fiscal note, Risk Management will build a $5,000,000 insurance catastrophe fund over the next three years, by using premium dollars that would otherwise be paid to insurance companies for purchase of insurance above our present retentions and under the $5,000,000 cap. If we do not experience large losses in that layer of coverage for the next three years, we should be able to materially reduce premium needs beginning in FY 91. The fiscal note calls for savings of $2,400,000 in FY 91 and $2,700,000 in FY 92.

Because of the establishment of an insurance catastrophe fund to respond to large and unforeseen losses within our retentions, the State will benefit as respects availability as well as the probability of reduced costs for excess layers of insurance above our deductibles. It is much more difficult, however, to put a dollar value on these savings because they tend to vary with each underwriter depending on market conditions at the time of placement.

In explanation, let me make some comments about deductibles or self-insurance from an underwriter's perspective. Most insurance underwriters do not like to write excess or catastrophe coverage over high self-insured retentions unless they feel the policyholder is able to respond (timely) to possible loss. From the standpoint of liability coverages this statement is absolute because U.S. courts in several instances have ruled that the excess underwriters must respond to primary losses if the primary insurer is unable to pay. Also, of course, in instances where the primary or self-insurer is unable to respond in a timely fashion, litigation and/or legal costs are almost a certainty. From a property standpoint funding is not quite so essential to the excess underwriter; however, even with a first party loss there may be mortgagees, lessors or other parties of interest, and inability of timely response to loss can complicate an adjustment as well as lead to legal costs or litigation.

These are the primary reasons markets for excess coverages may be limited, costly--or even unavailable unless the excess carrier (insurance company) is satisfied that the policyholder has taken reasonable steps to fund self-insured obligations.

As previously stated, actual excess insurance savings are dependent on the underwriter and conditions of the insurance markets--but a reasonable estimate of savings would probably be about 10% of normal excess premium costs--not to mention the availability factor which can become even more important than the savings.

The enclosed chart illustrates the method to be used to fund the catastrophe fund created by SB 152. Presently there are wide variances in the State levels of self-insurance below $5,000,000. They vary from $50,000 for marine hulls to $5,000,000 for workers' compensation and liability insurance. Presently the State is spending $2,800,000 for insurance below the $5,000,000 loss level. Through SB 152, we hope to retain these premiums formerly spent for intermediate levels of coverage and utilize them for our catastrophe self-insurance program.

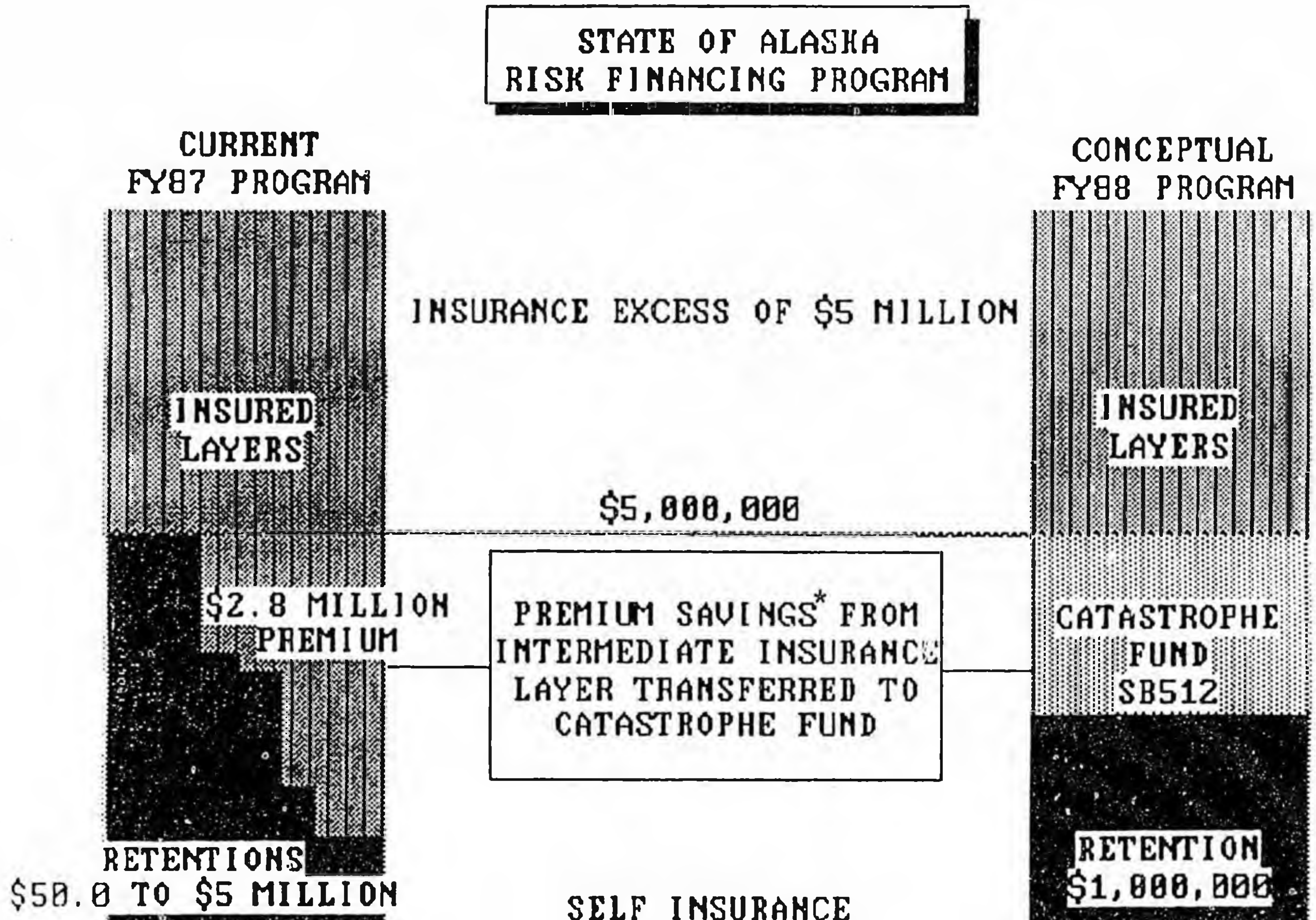
Not only will this program retain funds formerly expended, but once the $5,000,000 cap is reached for the catastrophe fund, any savings will be reflected in Risk Management's budget. (See fiscal note for SB 152.)

I hope these comments answer your inquiry. If you require additional information, please do not hesitate to call.

Sincerely,

Donald J. Hitchcock
Director

DJH/tz
19/9D1/0401-05
Enclosure
cc: Commissioner Garrey Peska
Department of Administration



*SAVINGS WILL VARY ANNUALLY, ESTIMATED AVERAGE $2.0 MILLION PER YEAR

STATE OF ALASKA 1987 LEGISLATIVE SESSION
FISCAL NOTE

Law Log: 773-87-0019

REQUEST

Publish Date:

Revision Date:

Agency Affected: Administration

Title: An act relating to State's risk management, et al.

BRU: Risk Management

Sponsor: By the Rules Committee

Components:

Requestor: Governor

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: Attach a separate page if necessary

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
Phone: 465-2180
Division: Risk Management
Date: February 20, 1987

Approved by Commissioner: Garrey Peska
Date:
Agency: Department of Administration

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

Rev. 5/16/86

8/9D1/0223-03

SB 152

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.

SB 152

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.

SB 152

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

Sincerely,

Steve Cowper
Governor

Introduced: 3/2/87
Referred: State Affairs and Finance

wo0197s

BY THE RULES COMMITTEE BY REQUEST OF THE GOVERNOR

IN THE SENATE

SENATE BILL NO. 152

IN THE LEGISLATURE OF THE STATE OF ALASKA

FIFTEENTH LEGISLATURE - FIRST SESSION

A BILL

For an Act entitled: "An Act relating to the state's risk management; and creating a state insurance catastrophe reserve account; and providing for an effective date."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

* Section 1. AS 37.05 is amended by adding new sections to read:

ARTICLE 3B. RISK MANAGEMENT.

Sec. 37.05.287. INSURANCE FOR STATE ASSETS. (a) The Department of Administration shall obtain or provide, in an amount and in the form that the department determines to be appropriate, casualty, property, and other insurance for protection of state assets and for the operation of state government. The department may provide for insurance coverage, in whole or in part, through a self-insurance program.

(b) The department shall annually review the state insurance program to assure that, to the extent reasonable, adequate insurance coverage or reserves are maintained to satisfy all reasonably foreseeable claims or judgments for which payment may be due under the state insurance program during the next fiscal year. The department shall annually obtain an independent actuarial assessment of the state insurance program. No later than February 1 of each calendar year, the department shall submit to the presiding officers of each house of the legislature a review of the state insurance program, an independent actuarial assessment, and a certified audit of the state insurance catastrophe reserve account.

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 and assets allocated to the account by the Department of Administration as provided in (b) of 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 must 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.

* Sec. 2. This Act takes effect immediately under AS 01.10.070(c).