# RISK MANAGEMENT – UNFUNDED IMPACTS

## Infrastructure & General Government Appropriations Subcommittee 10.20.16

***The State Risk Fund provides liability, property and auto insurance coverage for all State agencies, higher educational institutions, school districts and approximately half of the charter schools in Utah.***

**HOW RISK'S RATES DETERMINED**

- Independent actuary (Deloitte) annually determines liability premiums, recommends amounts to be put on reserve at State Treasurer's Office to pay existing and projected claims. Insufficient funding could cause the liability fund to become actuarially unsound – similar to a pension fund with unfunded liabilities.
- Property rates determined annually based on building values from a national valuation service (Marshall & Swift) or as reported and reviewed by our covered entities. Insureds add/delete properties each year, which can also impact their premiums. If property claims exceed revenues in any year, there is no reserve fund from which to draw.
- Auto rates are very low compared to the private insurance market (i.e. $150/yr. per vehicle; $200/yr. per bus).
- Risk purchases excess (catastrophic) property/liability insurance annually from the commercial market.
  - Prior to FY17, able to purchase at fairly flat rates
  - Past June, Risk could only afford lowest bid -$50,000 higher than previous years for significantly less coverage (based on significant losses the insurers experienced across the country unrelated to Utah's claims history).

**RISK'S RATES COMPARED TO PRIVATE MARKET**

- FlatIron Consulting recently compared Risk's rates to commercial market rates and concluded that "the rates are very competitive compared to the market, the coverage they represent provides broad – in some cases extraordinarily broad – protection, and they are backed by solid financial foundation … At the same time, pricing for this broad coverage is low to very low compared to the market." (p. 14)

**IF RATE IMPACTS NOT FUNDED BY LEGISLATURE**

- Statute requires Risk to maintain the Fund in accordance with economically/actuarially sound principles. (63A-4-101(1)(f))
- Last session, rate impacts were not funded/adjusted by the Legislature = almost $1.5M
- Federal regs prohibit Risk from giving a premium discount to some entities just because they were not funded. A discount to one must be available to the others.
- If Fund has negative retained earnings for too long or if Risk does not charge equitably, the federal government could disallow Risk from receiving funding from federal sources and require Risk to pay a penalty.
- With the legislative budget cycle, takes two fiscal years for any increased premiums to replenish the Fund.
- Consequence if Risk's rates are not fully funded or Risk has to borrow from funds on reserve at the Treasurer's Office - liability fund may become actuarially unsound and property fund may not have sufficient funds to pay claims. Additionally, Risk may not be able to afford excess insurance or pay all claims. ***Choices would then be for Legislature to direct Risk to 1) self-insure all risks; 2) buy less excess coverage; 3) choose to leave some buildings/autos/employees uninsured; or 4) some combination of the above.***

**CONCLUSION**

**Risk recommends that the Legislature fully fund Risk's premiums or direct Risk where to cut back on its coverage for buildings, autos, and personnel.**