SUBMITTAL TO THE BOARD OF SUPERVISORS
COUNTY OF RIVERSIDE, STATE OF CALIFORNIA

ITEM: 3.26
(ID # 11341)
MEETING DATE:
Tuesday, December 17, 2019

FROM : HUMAN RESOURCES:

SUBJECT: HUMAN RESOURCES: Fiscal Year 2020/2021 Insurance Rates for Property, Workers Compensation, Medical Malpractice, General/Auto Liability, Unemployment and Short-Term Disability, All Districts. [$146,742,859-Departmental Budgets 100%]

RECOMMENDED MOTION: That the Board of Supervisors:

1. Approve the Assistant County Executive Officer/Human Resources Director's recommendation for fiscal year 2020/21 Insurance rates for Property Insurance, Workers' Compensation, Medical Malpractice, General/Auto Liability, Unemployment Insurance, and Short-Term Disability as attached; and
2. Approve a waiver of Board Policy B-28 for the use of unrestricted net assets to offset operating costs for the Medical Malpractice Insurance in the amount of $169,163.

ACTION:Policy

Michael Bowers
Michael Bowers, Assistant HR Director 12/10/2019

MINUTES OF THE BOARD OF SUPERVISORS

BACKGROUND:
Summary
The County is financially protected and defended through various insurance programs.

FINANCIAL DATA	Current Fiscal Year:	Next Fiscal Year:	Total Cost:	Ongoing Cost
COST	$ 0	$146,742,859	$146,742,859	$ 0
NET COUNTY COST	$ 0	$0	$0	$ 0
SOURCE OF FUNDS: Departmental Budgets 100%			Budget Adjustment:	No
			For Fiscal Year:	20/21

C.E.O. RECOMMENDATION: Approve

BACKGROUND:
Summary (continued)
These programs provide risk mitigation processes, early claims intervention, cost reduction actions as well as recovery for damaged County property. The costs of the insurance programs are allocated to departments based primarily upon department loss history and/or department payroll covered by the programs.

Insurance programs are separated into the following Internal Service Funds (ISFs) by type of protection: Property Insurance, Workers' Compensation, Medical Malpractice, General/Auto Liability, Short-Term Disability, and Unemployment Insurance.

Funding for self-insurance programs is determined by actuarial analysis of general risk factors, incurred claims, estimated reserves required to pay for expenses, and actuarial assumptions such as return on investments. Property Insurance and a few other small insurance coverages are provided by outside vendors who charge premiums based on their individual proprietary methodologies.

Due to the continuing modest return on investment for county invested funds, we are recommending a continuation of the interest rate assumption of 2% for the General/Auto Liability and Medical Malpractice ISFs and 2.5% for Workers' Compensation due to that program's extended claim payout period.

Prior to FY 2011/12, the programs were funded to achieve a 70% confidence level, meaning that the County's independent actuary estimated the fund would meet funding obligations 70% of the time and fall short 30% of the time. A 70% confidence level is considered to be marginally acceptable; the actuary's recommended range is 75% to 85%. We recommend a 70% confidence level for all programs and recommend achieving that level for all programs as soon as feasible.

Beginning in FY 2011/12 and continuing in FY 2012/13, as a result of the financial crisis, the County elected to fund the General/Auto Liability, Workers' Compensation, and Medical Malpractice Internal Service Funds at a 55% confidence level. In 2013/14, Medical Malpractice was returned to a 70% confidence level. In FY 2014/15, Medical Malpractice continued at a 70% confidence level, but the increase in funding needed was offset by the use of unrestricted net assets. For FY 2015/16, the same confidence levels were maintained. In FY 2016/17 and continuing through FY 2019/20, the Workers' Compensation and General/Auto Liability ISFs were funded at the 60% confidence level. For FY 2020/21, we recommend funding General/Auto Liability ISF at the 70% confidence level and the Workers' Compensation ISF at 65% with a gradual return to the 70% confidence level. The Medical Malpractice ISF will continue to be funded at the 70% confidence level.

	Total Charge FY 2018/19	Total Charge FY 2019/20	Recommended Total Charge FY 2020/21	% Difference to Department Rates
Property Insurance	$7,350,335	$8,722,408	$10,827,891	18%
Workers' Compensation	$44,920,428	$47,100,000	$48,363,000	3%
Medical Malpractice	$10,369,000	$8,335,000	$9,723,000	17%
General Liability/ Auto Liability	$69,017,996	$69,598,389	$67,582,996	(3%)
Unemployment Insurance	0.202%	0.202%	0.208%	(3%)
Short-Term Disability	1.09% (Class 1) 1.17% (Class 2)	1.07% (Class 1) 1.16% (Class 2)	1.25% (Class 1) 1.41% (Class 2)	(16.82%) (21.55%)

Property Insurance

The County's property insurance program is fully insured with various levels of deductibles based on coverage. Deductibles are paid by each department after a loss occurs. In addition to covering the County's real and personal property, the program provides earthquake coverage on contractually obligated leased buildings, and county owned buildings with a value of $1 million or more. Also covered are the following other lines of insurance: Faithful Performance/Crime Coverage and Travel Accident.

The property premium costs are determined by a combination of the County's total property replacement values, the property's proximity to earthquake faults and flood zones (exposure), and the County's history of claims (experience). The current Total Insured Values (TIV) of County-owned property is $3.541 billion. The replacement value for real property (county buildings) is updated each year by CSAC-EIA using Marshall & Swift replacement cost change factors for existing buildings. Marshall & Swift is a nationally recognized organization that provides regionally sensitive tables of replacement value change factors. The updated replacement values will be received in early 2020.

Property fund costs are allocated to each department based on each department's occupied square footage relative to the total square footage occupied by all County departments. In prior years, increases in replacement value of County-owned property contributed (among other factors like EIA pool results and general market fluctuations) to large increases in the property insurance bill, outstripping the estimates received for those years. This occurs because premium estimates can vary greatly from actual premium cost and actual premium costs are not available at the time rates are developed. The combination of the variances from fiscal years 2012/13 through 2014/15 created a substantial deficit in the fund. In fiscal years 2015/16 and 2016/17 the department allocations were increased to bring the fund into balance. Funding from departments was reduced for FY 2017/18 in anticipation of the deficit being repaid. Sufficient working capital was restored, which resulted in a drop in the funding needed from departments in FY 2018/19. In FY 2019/20, the charge to departments increased, reflecting an anticipated increase in premiums. The recommended FY 2020/21 charge to departments is $10.828 million, reflecting anticipated increases in premiums and increased square footage covered, namely for the John J. Benoit Detention Center. Charges by department can be found in Attachment A.

CSAC-EIA is expected to provide updated rates no later than March 2020. Human Resources will continue to monitor this cost and, as conditions warrant, may recommend a rate adjustment to the Board prior to the start of the 2020/21 fiscal year.

Workers' Compensation Insurance

Workers' Compensation Insurance is a legally mandated program that is administered by County staff and is self-funded for up to the first $2 million of each claim. Excess Insurance is provided through California State Association of Counties – Excess Insurance Authority (CSAC-EIA) for amounts above the self-insured level. For cost distribution to departments, losses are capped at $500,000 per claim and departments are held responsible up to the cap amount for each claim. Total claims up to the cap amount are used to determine the percentage of experience each of the departments are charged with. This is multiplied by the total amount to be collected based on the confidence rate. For FY 2020/21, Bickmore Risk Services (Bickmore), the County's actuary, calculated the required program funding to be $48.363 million at the 65% confidence level. Charges by department can be found in Attachment B.

Riverside County's loss rate is lower than the average of the other large counties in our actuary's database. This is partially due to a number of programs which the County has implemented to reduce workers' compensation claims costs. These programs include Utilization Review, an expanded Return To Work program which includes all departments, a Medical Provider Network, safety program, culture of health program, and employee assistance services program. The small increase in department charges is due to the increase in the confidence level.

Human Resources will continue to monitor Workers' Compensation claims activity as conditions warrant and will recommend additional rate adjustments as needed.

Medical Malpractice

Insurance coverage for the medical providers at the County of Riverside is provided by a program that combines self-insurance and excess insurance. This program and associated costs are allocated to County departments that employ medical providers including Riverside University Health System Medical Center (RUHS), RUHS Behavioral Health, RUHS Public Health, Emergency Management Department, and Human Resources Department (Exclusive Care and Occupational Health). Each occurrence under this program is self-insured for the first $1.1 million with the excess insurance provided by CSAC – EIA. For calculation of loss distribution, losses are capped at $1.1 million per claim. Claims are administered by the Human Resources Department, Risk Management Division.

For FY 2020/21, Bickmore calculated the required program funding of $9.723 million at a 70% confidence level. Bickmore considers funding assets at the 70% level to be marginally acceptable. Bickmore and CSAC-EIA recommend that the County does not fund below the 70% confidence level. Allocations per department can be found in Attachment C.

General Liability/Auto Liability Insurance

The General Liability/Auto Liability insurance program provides coverage for bodily injury, employment practices liability, personal injury, property damage, and public official errors and omissions liability for all operations of the County of Riverside. This program is self-funded for the first $1 million for each occurrence (for claims through June 2014) with excess insurance arranged through CSAC-EIA. For claims after July 1, 2014 and through June 30, 2016 the program is self-insured for the first $2 million for each occurrence. For claims after July 1, 2016 through July 1, 2018, the program is self-funded for the first $3.5 million for each occurrence with a $2 million corridor. For claims after July 1, 2018, the program is self-funded for $5 million with a corridor of $2 million. All program costs are allocated to County departments based 80% on claims history of each department and 20% on department exposure data. For cost distribution to departments, losses are capped at $1 million per claim and departments are held responsible up to the cap amount for each claim. Total claims up to the cap amount are used to determine the percentage of experience each of the departments are charged with. This is multiplied by the total amount to be collected based on the confidence rate.

For FY 2020/21, Bickmore calculated the required program funding to be $67.583 million at the 70% confidence level. Charges by department can be found in Attachment D. Funding required has decreased slightly from the prior year, even with the increase in the confidence level.

Human Resources, Bickmore, and CSAC-EIA all recommend funding at the 70% confidence level. Maintaining this fund at a 55% confidence level for five years put a drain on reserves as the rate was insufficient to pay claims in the current year. The General Fund is always at risk of having to make the claims payments when the fund does not have sufficient reserves.

It should be noted that charges for airports, aircraft, cyber liability, and watercraft insurance are added to and included in the General/Auto Liability program departmental allocations. These charges are allocated only to specific departments.

Unemployment Insurance

Unemployment insurance (UI) is a self-funded benefit program required by the State of California. UI has been trending favorably in recent years, resulting in lower than expected expenses due to claims.

At this time, the UI fund appears to be stable. The County's quarterly unemployment charges over the last 36 months ranged from $510 thousand to $814 thousand, with the most recent two quarters lower than charges incurred the year before.

Based on the County's unemployment experience, Aon Hewitt (Aon), the County's actuary for unemployment and short-term disability insurance, recommends increasing the rate from 0.202% to 0.208% for FY 2020/21. The County reduced excess funds above the state-required $1.3 million reserve and the prudent working capital level by issuing refunds to departments during FY 18/19. As such, the County will be implementing the rate Aon recommends for FY 2020/21. Actual UI rates will range from 0.148% to 1.137% of total pay, depending on the departments' claim experience. Estimated total charges will be $3.246 million. Charges by department can be found in Attachment E.

Short-Term Disability

Short-Term Disability (STD) Insurance is a self-funded benefit plan covering most employee groups that accrue sick leave. Plan benefits are based on a percentage of the employee's salary. The plan provides temporary income replacement for 7,103 eligible members of Laborers' International Union of North America (LIUNA), 5,359 eligible members of Service Employees International Union (SEIU), and 628 eligible members of Riverside Sheriff's Association Public Safety Unit (PSU) as of September 2018. The amount of eligible members fluctuates throughout the year.

The STD rate for employees covered by Class 1 (PSU) is set at 1.25% with an annual salary cap of $23,608. The Class 1 benefit provides 55% of an employee's monthly salary to a maximum weekly amount of $249.70. The STD rate for Class 2 (SEIU and LIUNA) is set at 1.41% of salary with an annual salary cap of $40,000. The Class 2 benefit provides 60% of an employee's monthly salary to a maximum weekly amount of $461.54. The STD benefit levels have been negotiated with each collective bargaining unit. Estimated total charges for FY 2020/21 will be $7 million.

The rate for both classes has been increased for FY 2020/21. During fiscal year 2018/19, the County reduced excess funds above the prudent working capital level by issuing refunds to departments. In prior years, excess reserves had been used to reduce increases to departments. Aon's recommended rates reflect the expected cost of the plan and includes a 5% reserve accumulation component for FY 2020/21.

Conclusion

The Human Resources Department has made every effort to reduce each of its Insurance fund costs. We have thoroughly reviewed the operational aspects and other funding requirements of each ISF. Where the Insurance expenses are primarily claims driven, we believe that the FY 2020/21 budget target should be based on actuarial analysis and reflect the suggested confidence levels. We will continue to seek efficiencies that produce savings in administrative expenses as well as loss prevention and mitigation.

Impact on Residents and Businesses

There is no impact on residents and businesses as these are rates to internal County departments.

SUPPLEMENTAL:

Additional Fiscal Information

The Unemployment Insurance and Short-Term Disability rates were increased. For General/Auto Liability, the rate decreased. However, for the Property Insurance rate an increase was necessary to ensure payment of insurance premiums. The Medical Malpractice rate also increased to ensure payment of claims projections. The Workers' Compensation rate has increased slightly to ensure payment of claims projections and to increase the confidence level.

Contract History and Price Reasonableness

Comparisons with prior year rates are presented in the attachments.

ATTACHMENTS:

ATTACHMENT A. PROPERTY INSURANCE RATES
ATTACHMENT B. WORKERS' COMPENSATION RATES
ATTACHMENT C. MEDICAL MALPRACTICE RATES
ATTACHMENT D. GENERAL LIABILITY/AUTO LIABILITY RATES
ATTACHMENT E. UNEMPLOYMENT INSURANCE RATES

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Paul A. Angulo, County Auditor-Controller 12/11/2019

Lisa D Brandl 12/12/2019