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CITY OF SACRAMENTO

DEPARTMENT OF GENERAL SERVICES
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William Redmond
RISK MANAGER
February 14, 1984

City Council
Sacramento, California

FEB 28 1984

Honorable Members in Session:

SUBJECT: ANNUAL SELF-INSURED RETENTION (SIR) COMPREHENSIVE AUTOMOBILE AND GENERAL LIABILITY PROGRAM STATUS REPORT

SUMMARY

Presented herewith is the eighth Annual Report to the City Council providing an overview of the subject program, together with comparative financial and loss experience data. The City's experience under the SIR Program vs a fully insured program has resulted in a savings of approximately \$4.3 million (Exhibit I).

BACKGROUND

Over the years public entities have typically protected themselves by purchasing first dollar coverage insurance. However, their ability to do this changed drastically during the 1970's. This was due to legal, social, and economic developments which affected the availability and cost of public entity insurance. The most dramatic impact was the elimination by the courts of the common law "Doctrine of Sovereign Immunity", which meant that citizens who considered themselves wronged by the actions of the Government could now sue the Government for damages.

During the Mid 1970's, insurance for public entities became scarce, the premiums for those policies which were still available skyrocketed and many kinds of coverage disappeared. These events forced public entities to focus on alternatives to combat the problem of increasing premiums.

In January 1976, the City of Sacramento began its SIR Program for Automobile and General Liability Coverage assuming a SIR of \$250,000 per occurrence, with a maximum liability limit of \$20 million. Thereafter, increasing the City's retention and coverage limits as follows:

<u>Effective Date</u>	<u>Level of Retention Per Occurrence</u>	<u>Limits of Coverage</u>	<u>Premium Cost</u>
1/20/77	\$300,000	\$20 Million	\$226,900
9/07/77	\$500,000	\$20 Million	\$377,450
9/07/78	\$1 Million	\$20 Million	\$205,200
9/07/81	\$1 Million	\$50 Million	\$ 59,500

This increase from \$20 million to \$50 million was the first since 1971 and costs the City \$13,500 per annum added coverage. The increase of retention and coverage was recommended by the insurance consultant due to increased amounts of claim settlements settled in recent years, as well as the impact from continuing inflation.

HOW SIR PROGRAM OPERATES

The City's SIR Comprehensive Automobile and General Liability Program is a fully funded program, as opposed to a "pay-as-you-go" system. Premiums are received from the General Fund, Enterprise Funds, and Internal Service Funds. The first program year's premium was the amount budgeted for FY 1975-76, thereafter annual premiums are determined by the "averaging method", a running average of incurred losses and other associated costs for the past three years. This is a somewhat indirect way to charge losses and other costs; however, it is more predictable than direct cost method, helps smooth the fluctuations which may occur from year to year, avoids retroactive reimbursement fee paid claims and facilitates allocation of costs back to the various operating funds.

The majority of claims filed against the City are handled by Adjustco Adjusters, an independent company not affiliated with an insurance company. Minor property damage claims are handled by in-house staff.

Claims reserves and paid losses are reviewed annually and a re-evaluation is made of the SIR programs cost effectiveness.

In addition to the reserves for open cases, the City maintains a Contingency Reserve of \$1 million, which was established to cover excessive losses resulting from a catastrophic claim or occurrence. Initially, this reserve was \$250,000, thereafter, as the level of retention was increased, the Contingency Reserve was increased (i.e. \$300,000, \$500,000, to \$1 million).

Reserves serve two significant purposes: 1) reserves held by the City are invested by the City, reducing the overall program costs borne by all City activities; and 2) enhance the financial stability of the program.

By using the above method of operation, the City has been maintaining a fully funded program which is fiscally sound program that has resulted in a substantial savings to the City.

SIR PROGRAM OVERVIEW

Program year 1983 - (1/20/83-84) reflected a 41% decrease of costs with a 24% increase in number of claims compared to 1982, as summarized below -

Program Year	Auto		General		Total Incurred		Average Cost/Claim
	# of Claims	\$	# of Claims	\$	# of Claims	\$	
1982	115	\$309,171	171	\$1,095,767	286	\$1,404,938	\$4,912
1983	117	192,035	238	637,657	355	829,692	2,337
Change:	+2	<\$117,136>	+67	<\$ 458,110>	+69	<\$ 575,266>	<\$2,575>

"Incurred Losses" - Losses that have happened. Includes amounts paid and amounts reserved for future payment (See Exhibit II).

As indicated in the previous paragraph, the City continues to maintain a pattern of high frequency with low severity (i.e. low dollar cost/claim, as opposed to high dollar value per claim).

Over the past 8 years the City's SIR Program has resulted in a savings of approximately \$4.3 million, as compared to a fully insured program (see Exhibit I). These are dollars which would have been paid to insurance companies (permanently lost) if the City had not elected to assume some of its exposure, besides reducing available budget resources.

Besides the savings, we have set aside and retained the following funds for open cases and the grey area of contingent liabilities -

Contingent Liability Reserves (as of 1/31/84)		\$1,000,000
Reserve for Open Cases (as of 1/31/84)		
First Year Claims	\$ 17,500	
Second Year Claims	15,000	
Third Year Claims	184,001	
Fourth Year Claims	40,000	
Fifth Year Claims	151,500	
Sixth Year Claims	350,210	
Seventh Year Claims	891,336	
Eighth Year Claims	<u>682,285</u>	<u>\$2,331,831</u>
Total SIR Auto & Gen. Liab. Program		\$3,331,831
Cash Reserves		=====

Over the past 7 years claims for Vehicular and General Liability with the greatest frequency are summarized as follows -

<u>Auto</u>		<u>General</u>	
<u>Description</u>	<u># of Claims</u>	<u>Description</u>	<u># of Claims</u>
Hit parked car	335	Slip & fall	335
Backing up	250	False arrest	269
Rear end claimant	137	Falling tree	204
Hit object	102	Hazardous road cond.	201
Intersection	82	Hazardous cond. other	146
Property Damage	74	Water damage	109
		Hit object other	75
(Represents 71%		(Represents 53%	
of claims filed)		of claims filed)	

Since the SIR Program inception, 54 or 2.5% (claims in excess of \$10K/claim) of the 2166 settled claims represent \$2,130,490 or 42% of settlement costs (See Exhibit III).

Exhibits VI, VII, and VIII provide a 12 year overview of the City's experience with its Auto and General Liability exposure.

FINANCIAL

Exhibit IV "Statement of Revenues and Expenditures" comparing Total Program Revenues and Incurred Costs change from the prior period to the current period indicates a reduction of the deficit as of 1/19/84. The deficit reflected is attributable to a large increase in reserves for several claims that are now four to six years old, which were substantially under reserved.

The changes of incurred costs compared to the last years annual report are as follows:

	<u>Reported Incurred Costs</u>		<u>Change</u>
	<u>As of 1/31/83</u>	<u>As of 1/31/84</u>	
1st Yr 1976	\$ 496,082	\$ 496,082	\$ -0-
2nd Yr 1977	678,526	674,867	<3,659>
3rd Yr 1978	1,156,056	1,300,428	+144,372
4th Yr 1979	1,062,037	1,042,158	<19,879>
5th Yr 1980	878,676	710,282	<168,394>
6th Yr 1981	879,876	990,148	+110,272
7th Yr 1982	<u>1,115,752</u>	<u>1,404,938</u>	<u>+289,186</u>
Total	\$6,267,005 =====	\$6,618,903 =====	+\$351,898 =====

It should be noted the incurred cost increase of \$351,898 is mainly attributable to several large claims whose reserves were increased in claim years 1981 and 1982. The incurred cost reserve increases this year are much less than in the previous year and reflects a definite improvement in our overall program.

Since the inception of the City's SIR Program in 1976, 75% of the incurred costs are attributable to General Fund supported activities (See Exhibit V).

CONCLUSION

The City's experience with the subject program has certainly proven that: 1) the decision to self-insure the first million per occurrence to be correct; and 2) we can do it for less cost than a Fully Insured Program. In addition, the savings derived from this program has enabled the City to utilize the \$4.3 million towards other beneficial programs for the Citizens of Sacramento.

RECOMMENDATION

This is an informational item for City Council review and no further action is required.

Respectfully submitted,

William Redmond
William Redmond
Risk Manager

FOR CITY COUNCIL INFORMATION:

For *Walter J. Slupe, Jr.*
Walter J. Slupe
City Manager

RM:84004:WR/eb

- Attachments: Exhibit I - 8 Yr SIR Auto & Gen. Liab. Program Costs vs Fully-Insured Program
- Exhibit II - SIR Auto & Gen. Liab. Program - Incurred Claim Cost Detail
- Exhibit III - Settled/Closed Claims in Excess of \$10,000 Inception to Date
- Exhibit IV - SIR Auto & Gen. Liab. Program - Statement of Rev. & Exp.
- Exhibit V - SIR Auto & Gen. Liab. Program - 8 Yr Summary of Claims by Activity
- Exhibit VI - Auto & Gen. Liab. Program - 12 Yr Claim Frequency
- Exhibit VII - Auto & Gen. Liab. Program - 12 Yr Average Cost/Claim
- Exhibit VIII - Auto & Gen. Liab. Program - 12 Yr Insured Premium vs SIR Program Cost Comparison

cc: Risk Management & Insurance Committee
 Department Heads
 Corroon & Black/James Burpo Insurance
 Adjustco Adjusters
 Warren, McVeigh & Griffin

CITY OF SACRAMENTO

SIR AUTOMOBILE AND GENERAL LIABILITY PROGRAM

8-YEAR SIR PROGRAM COSTS VS. FULLY-INSURED PROGRAM COSTS

SIR PROGRAM	1st Year 1/20/76-77	2nd Year 1/20/77-78	3rd Year 1/20/78-79	4th Year 1/20/79-80	5th Year 1/20/80-81	6th Year 1/20/81-82	7th Year 1/20/82-83	8th Year 1/20/83-84	TOTAL
Fixed Costs -									
Excess Insurance Premium	\$ 266,900	\$ 377,450	\$ 372,845	\$ 205,200	\$ 114,900	\$ 59,500	\$ 51,500	\$ 51,500	\$1,499,795
Brokerage Fee	8,640	6,480	6,480	12,333	13,222	14,025	15,000	15,000	91,180
Claims Administration	40,000	38,500	42,302	39,200	42,026	44,575	56,457	65,118	368,178
Miscellaneous	240	-0-	-0-	-0-	-0-	-0-	-0-	-0-	240
Total Fixed Costs	\$ 315,780	\$ 422,430	\$ 421,627	\$ 256,733	\$ 170,148	\$ 118,100	\$ 122,957	\$ 131,618	\$1,959,393
Incurred Claim Cost ¹	496,082	674,865	1,300,428	1,042,158	710,282	990,148	1,404,938	829,692	7,448,593
Gross Total SIR Program	\$ 811,862	\$1,097,295	\$1,722,055	\$1,298,891	\$ 880,430	\$1,108,248	\$1,527,895	\$ 961,310	\$9,407,986
Less Interest Income	<70,938>	<144,694>	<386,045>	<269,719>	<282,596>	<298,085>	<290,423>	<126,495>	<1,868,995>
Net Total SIR Program Costs	\$ 740,924	\$ 952,601	\$1,336,010	\$1,029,172	\$ 597,834	\$ 810,163	\$1,237,472	\$ 834,815	\$7,538,991
FULLY-INSURED PROGRAM (FIP)									
Estimated Premium Cost	\$1,066,900	\$1,577,450	\$1,572,845	\$1,405,200	\$1,548,250	\$1,504,250	\$1,512,636	\$1,650,000	\$11,837,531
Savings to City (FIP vs SIR)	\$ 325,976	\$ 624,849	\$ 236,835	\$ 376,028	\$ 950,416	\$ 694,087	\$ 275,164	\$ 815,185	\$4,298,540

Note: ¹Incurred costs include paid claims <\$5,116,761> and reserves for open cases <\$2,331,832>
(Ref Exhibit III for details)

CITY OF SACRAMENTO
Incurred Claim Cost Detail

	<u>Reserves for Open Claims</u>		<u>Closed Claims</u>		<u>Total Incurred</u>		<u>Average</u>
	<u># of Claims</u>	<u>\$</u>	<u># of Claims</u>	<u>\$</u>	<u># of Claims</u>	<u>\$</u>	<u>Incurred</u> <u>Cost/Claim</u>
1976 - 1/20/76-77	1	17,500	317	478,582	318	496,082	1,560
1977 - 1/20/77-78	1	15,000	434	659,867	435	674,867	1,551
1978 - 1/20/78-79	8	184,001	363	1,116,427	371	1,300,428	3,505
1979 - 1/20/79-80	11	40,000	288	1,002,158	299	1,042,158	3,485
1980 - 1/20/80-81	24	151,500	196	558,782	220	710,282	3,229
1981 - 1/20/81-82	30	350,210	196	639,938	226	990,148	4,381
1982 - 1/20/82-83	66	891,336	219	513,602	285	1,404,938	4,912
1983 - 1/20/83-84	<u>203</u>	<u>682,285</u>	<u>153</u>	<u>147,407</u>	<u>356</u>	<u>829,692</u>	<u>2,337</u>
Totals	<u>344</u>	<u>\$3,331,822</u>	<u>2,166</u>	<u>\$5,116,763</u>	<u>2,510</u>	<u>\$7,448,595</u>	<u>\$2,968</u>

CITY OF SACRAMENTO
SETTLED/CLOSED CLAIMS IN EXCESS OF \$10,000
INCEPTION THRU JANUARY, 1984

<u>Program Year</u>	<u>Description</u>	<u>Auto</u>	<u>General</u>
1976	Alleged poor lighting		\$ 28,669
	Cross walk maintenance		47,927
	Intersection collision	\$ 54,815	
1977	Falling tree		10,965
	False arrest		13,665*
	False arrest		14,685
	False arrest		15,555*
	Hazardous cond. road		16,432
	Non auto equipment		19,889
	Rear end	24,109	
	Intersection collision	29,671	
	Falling Tree		29,674
	False arrest		31,539*
	Slip and fall		47,275
	Right hand turn	71,787	
1978	Rear end	10,146	
	Hazardous cond. road		10,758
	Water damage		11,440
	Hazardous cond. road		12,742
	Excessive force		17,093
	Hit pedestrian		20,414
	Slip and fall		27,616
	Hazardous cond. other		34,789
	Rear end	36,830	
	Slip and fall		51,700
	Error and omission		77,703
	Hazardous cond. road		342,805
1979	Pull from curb	10,000	
	Street design		12,785
	Assault		14,383
	Slip and fall		27,616
	False arrest		29,058
	Ran lite/sign	31,588*	
	False arrest		43,862
	Bike/cycle	48,096	
	Intersection		59,300
	Hazardous cond. road		358,248
1980	Excessive force		12,161*
	Intersection		13,275
	Slip and fall		26,897*
	Hit pedestrian	35,009	
1981	Falling tree		12,314*
	Fall in hole		13,204
	Hazardous cond. road		20,644
	Hazardous cond. other		25,152
	Rear end claimant		26,430
	Claimant turn left		28,724
	Rear end claimant		32,404
Hazardous cond. road		46,046	
1982	Turning left	13,013	15,769
	Traffic signal malfunction		13,204
	Slip and fall		13,674
	Water damage		15,769
	Swimming		36,500
Sub - Totals		\$365,064	\$1,764,985
Grand Total		\$2,130,049	
Average Cost/Claim		\$39,445	

*Cases won by City - \$143,719 for attorney fees, plaintiffs received nothing. WR 2/84

CITY OF SACRAMENTO
SIR AUTOMOBILE AND GENERAL LIABILITY PROGRAM
STATEMENT OF REVENUES AND EXPENDITURES

	<u>Prior Period</u> <u>Jan. 20, 1976 thru Jan. 19, 1983</u>	<u>Current Period</u> <u>Jan. 20, 1976 thru Jan. 19, 1984</u>
Revenues --		
Premium Income	\$5,959,909	\$6,909,009
Interest Income from Revenues & Reserves to Date	<u>1,436,676</u>	<u>1,868,995</u>
Total Revenues	\$7,396,585	\$8,778,004
Expenditures & Potential Liability (Open Cases)		
Excess Insurance Premium	\$1,448,295	\$1,499,795
Brokerage Fee	76,180	91,180
Claims Administration	303,060	368,178
Miscellaneous	240	240
Paid Claims	<u>3,569,879</u>	<u>5,116,761</u>
Reserve for Open Cases	<u>2,697,126*</u>	<u>2,331,832</u>
Total Expenditures and Potential Liability	\$8,094,780	\$9,407,986
Excess (Deficit) of Revenues Over Expenditures	\$ <698,195>* =====	\$ <629,982>* =====

*The reserves for several claims, that are three to five years old, have been increased to cover potential settlement costs.

**The overall program showed a net performance gain for 1983/84 FY of \$68,213.

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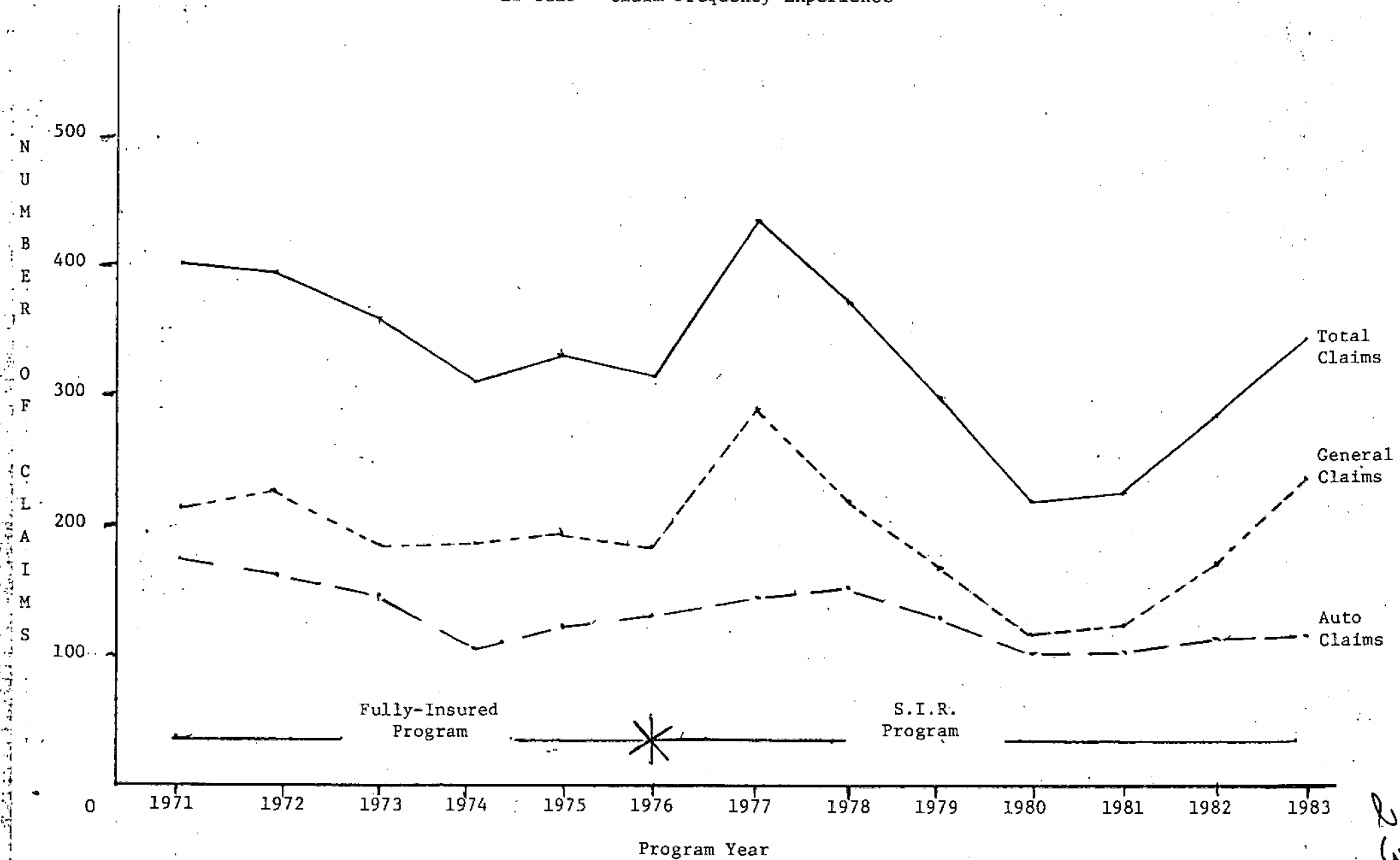
CITY OF SACRAMENTO
 8 Years SIR Program
 Summary of Loss Experience by Activity
 January 20, 1976 thru January 20, 1984

Auto & General Liability Losses

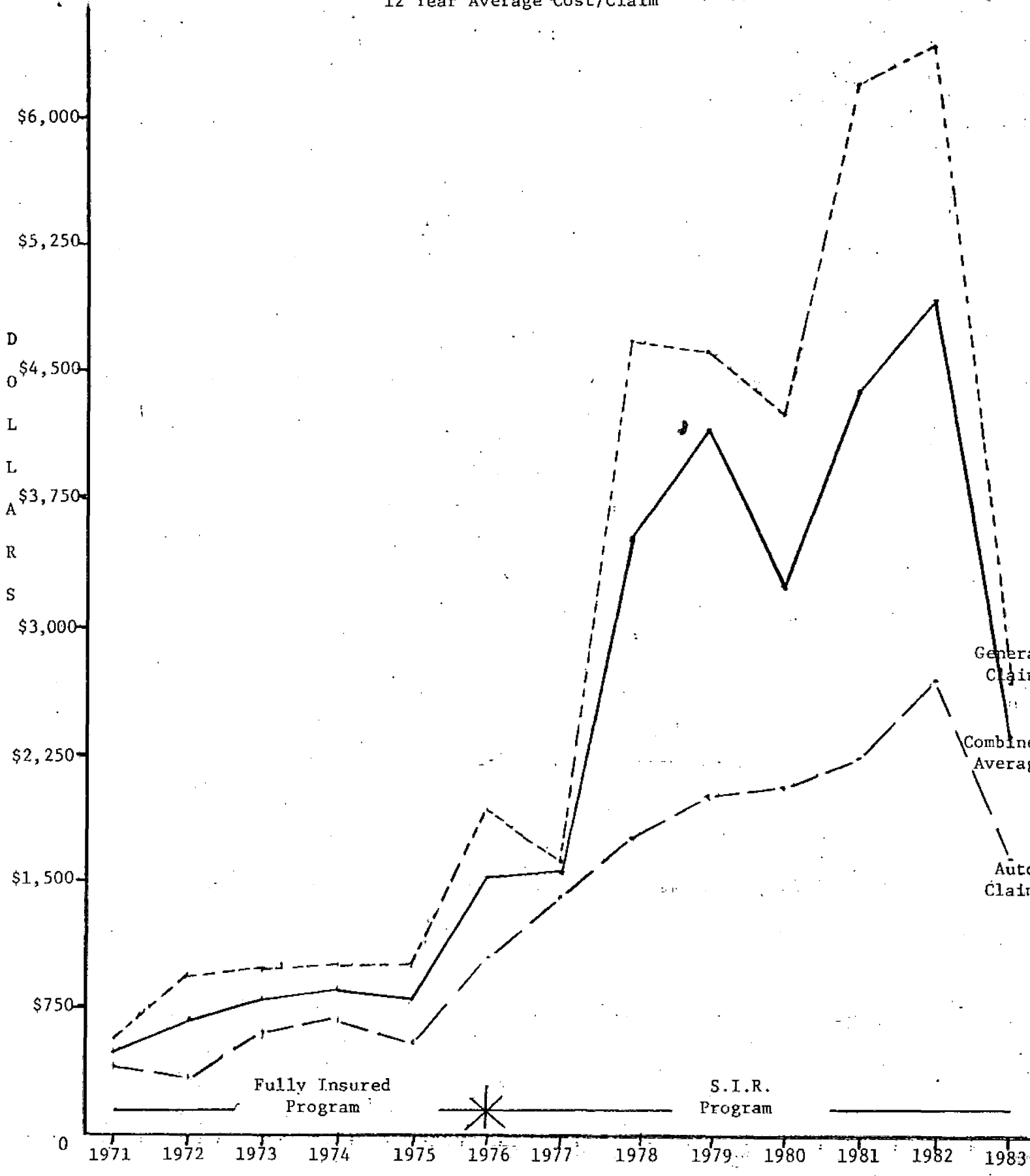
Activity	# of Claims	Incurred Costs	Average Cost/Claim	% of Total	
				Claims	Costs
1100 *Finance	5	\$ 1,551	\$ 310	.2	-
1500 *Personnel	1	1,659	1,659	-	-
1900 *General Services	32	139,434	4,357	1.3	1.9
1940 Fleet Management	11	12,248	1,113	.4	.2
2111 *Police	582	2,133,042	3,665	23.2	28.6
2500 *Fire	93	212,572	2,286	3.7	2.9
3110 *Engineering	44	1,022,034	23,228	1.8	13.7
3122 *Traffic Engineer	115	703,243	6,115	4.6	9.4
3123 Parking	154	102,541	666	6.1	1.4
3125 *Traffic Signals	3	14,767	4,922	.1	.2
3126 *Street Maintenance	272	846,876	3,114	10.8	11.4
3141 Waste Removal	346	405,853	1,173	13.8	5.4
3143 Street Cleaning	23	77,135	3,354	.9	1.0
3144 Garden Refuse	115	112,556	979	4.6	1.5
3151 Water/Sewer Admin.	2	11,389	5,695	.1	.2
3152 Water	85	157,552	1,854	3.4	2.1
3154 Sewer	131	203,635	1,554	5.2	2.7
3170 *Animal Control	28	81,675	2,917	1.1	1.1
3531 *Inspections	15	82,630	5,509	.6	1.1
4110 *Library	3	8,026	2,675	.1	.1
4310 Community Center	19	26,494	1,394	.8	.4
4500 *Community Services	292	763,975	2,616	11.6	10.3
4560 Camp Sacramento	2	1,262	613	.1	-
4590 *Tree Services	50	61,214	1,224	2.0	.8
4610 Golf	16	43,301	2,706	.6	.6
5000 *Unknown	69	221,317	3,207	2.8	3.0
8100 Mt. Valley Lib.	2	614	307	.1	-
TOTALS	2,510	\$7,448,595	\$ 2,968	100.0%	100.0%

* General Fund Supported Activity

CITY OF SACRAMENTO
Automobile and General Liability Program
12 Year - Claim Frequency Experience



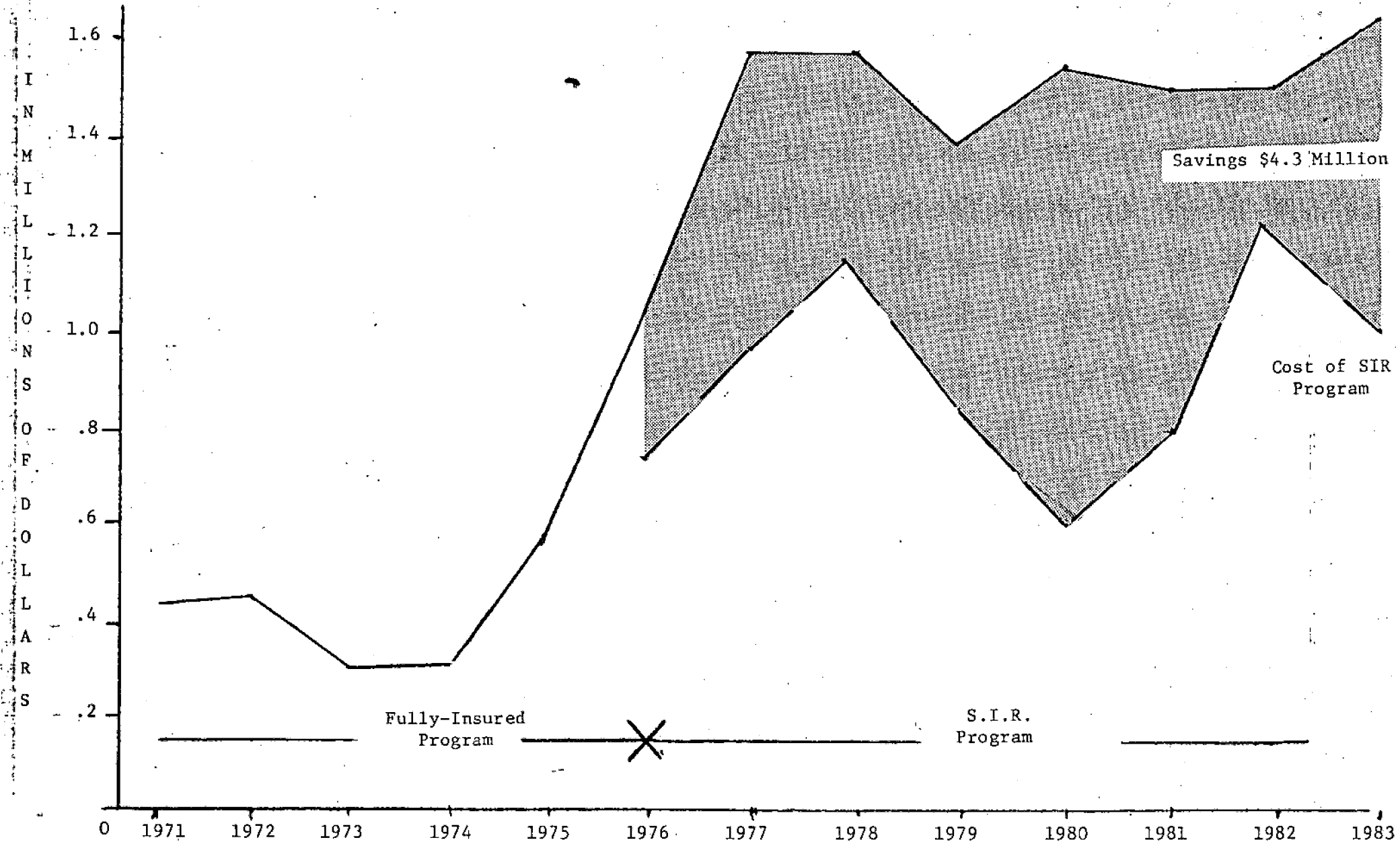
CITY OF SACRAMENTO
Auto and General Liability Program
12 Year Average Cost/Claim



CITY OF SACRAMENTO

Comprehensive Automobile and General Liability
Insured Premium vs. SIR Program Cost Comparison

Premium Cost
Fully Insured
Program



Cost of SIR
Program

Fully-Insured
Program

S.I.R.
Program

WR