

State of Alaska FY2004 Governor's Operating Budget

Department of Administration Risk Management BRU/Component Budget Summary

BRU/Component: Risk Management

(There is only one component in this BRU. To reduce duplicate information, we did not print a separate BRU section.)

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Component Mission

To manage the state's financial exposure due to loss.

Component Services Provided

Using contract independent claims adjusters and in-house defense counsel (Department of Law), Risk Management operates a comprehensive self-insurance program that promptly resolves the state's property and casualty claims more cost effectively than through conventional commercial insurance programs.

Component Goals and Strategies

- Act as the insurance carrier for each State agency, funding all sudden and accidental property and casualty claims
- Purchase high limit excess insurance protection for catastrophic loss exposure.
- Establish annual rates for agencies based on five year averages to allow agencies to plan for risk management cost.

Key Component Issues for FY2003 – 2004

Risk Management, exclusively funded by interagency receipts, attempts to pay all claim settlements and defense costs as they become due and payable, drawing from the Catastrophic Reserve Account (CRA) whenever there is insufficient appropriation to meet ongoing claim obligations.

Financing of the state's comprehensive self-insurance program continues to be dependent on the CRA to meet the actual cost of risk each year. Over the last six fiscal years, Risk Management has averaged claims expenditures greater than \$5.5 million beyond authorized appropriations. This account is annually refilled by a year-end "sweep" of unexpended general funds from other state operating budgets. As general fund budgets continue to be reduced, the available sweep has declined. The department is again requesting a new alternative and reliable funding mechanism to meet the state's ongoing cost of claims and avoid supplemental fund requests for individual judgments.

As projected last year, steep increases in premiums were experienced at FY2003 coverage renewals. Without increased funding the state was forced to make difficult decisions on which reinsurance programs to not renew - thereby exposing state agency activities and operations to comprehensive catastrophic exposures for the first time.

Major Component Accomplishments in 2002

- Finalized and presented all loss claims for the Court Plaza oil spill - recovered almost \$1.2 million from both boiler and machinery and excess property insurers
- Replaced Risk Management Information System (RMIS) with web based client server system
- Continue to manage owner provided insurance program for Ted Stevens Anchorage International Airport expansion project - providing comprehensive coverage for all contractors at significantly reduced project costs
- Underwrite workplace violence prevention, marine employee fire response, workplace safety and emergency medical training programs and limited security patrol services
- Advise agency safety committees focusing on workers' compensation loss trends to develop prevention strategies
- Address high risk agency supervisors explaining tort liability, review operating practices to mitigate future loss exposures

Statutory and Regulatory Authority

AS 23.30.045 Employer's liability for compensation
 AS 23.30.090 Self-insurance certificates
 AS 37.05.287 Insurance for State assets
 AS 37.05.289 State insurance catastrophe reserve account
 AS 09.50.250 Actionable claims against the State
 AS 44.21.040 Records or accounts of claims and warrants
 AS 09.50.270 Payment of judgment against the State

Key Performance Measures for FY2004

Measure:

The average cost of workers' compensation claims.

Sec 13 Ch 124 SLA 2002(HB 515)

Alaska's Target & Progress:

The average cost of a workers' compensation claim are summarized by time period below:

Workers Comp Last 1/2 of FY01

\$Claims	#Claims	\$/claim
\$3,652,134	808.0	\$4,520

Workers Comp.First Qtr FY02

\$Claims	#Claims	\$/claim
\$1,477,040	360.0	\$4,103

Workers Comp.Second Qtr FY02

\$Claims	#Claims	\$/claim
\$1,553,533	319.0	\$4,870

Workers Comp. Third Qtr FY02

\$Claims	#Claims	\$/claim
\$1,960,810	291.0	\$6,738

Workers Comp.Fourth Qtr FY02

\$Claims	#Claims	\$/claim
\$1,171,178	256.0	\$4,575

Workers Comp.First Qtr FY03

\$Claims	#Claims	\$/claim
\$933,235	253.0	\$3,689

Benchmark Comparisons:

We currently have no benchmark information for this performance measure.

Background and Strategies:

The Division of Risk Management currently has no control of the cost or incidence of workers' compensation claims.

Measure:

The number of recurring claims.

Sec 13 Ch 124 SLA 2002(HB 515)

Alaska's Target & Progress:

The number of recurring workers' compensation claims are summarized by time period below:

Last half of FY2001:	55
First quarter FY2002:	10
Second quarter FY2002:	13
Third quarter FY2002:	11
Fourth quarter FY2002:	14
First quarter FY2003:	11

Benchmark Comparisons:

We currently have no benchmark information for this performance measure.

Background and Strategies:

The Division of Risk Management currently has no control over the number of recurring workers' compensation claims.

Measure:

The amount paid for insurance compared to the value of property covered.

Sec 13 Ch 124 SLA 2002(HB 515)

Alaska's Target & Progress:

FY03 Property average cost rate per \$100 property value

Total property	Premium	Rate/\$100
3,318,937,837	1,568,338	0.0473

FY02 Property average cost rate per \$100 property value

Total property	Premium	Rate/\$100
3,127,049,559	1,508,333	0.0482

FY01 Property average cost rate per \$100 property value

Total property	Premium	Rate/\$100
2,926,489,255	965,000	0.0330

*Note: Our policy limits went from \$200million(FY02) to \$100million(FY03)

Benchmark Comparisons:

We currently have no benchmark information for this performance measure.

Background and Strategies:

Each year the Division of Risk Management works to secure the best available property premium rate.

Risk Management
Component Financial Summary

All dollars in thousands

	FY2002 Actuals	FY2003 Authorized	FY2004 Governor
Non-Formula Program:			
Component Expenditures:			
71000 Personal Services	457.7	466.1	475.2
72000 Travel	6.9	17.4	17.4
73000 Contractual	23,322.1	23,930.2	23,973.5
74000 Supplies	14.6	10.0	10.0
75000 Equipment	22.4	3.5	3.5
76000 Land/Buildings	0.0	0.0	0.0
77000 Grants, Claims	0.0	0.0	0.0
78000 Miscellaneous	0.0	0.0	0.0
Expenditure Totals	23,823.7	24,427.2	24,479.6
Funding Sources:			
1007 Inter-Agency Receipts	23,823.7	24,427.2	24,479.6
Funding Totals	23,823.7	24,427.2	24,479.6

Risk Management

Proposed Changes in Levels of Service for FY2004

No significant change in the level of service is expected.

Summary of Component Budget Changes From FY2003 Authorized to FY2004 Governor

All dollars in thousands

	<u>General Funds</u>	<u>Federal Funds</u>	<u>Other Funds</u>	<u>Total Funds</u>
FY2003 Authorized	0.0	0.0	24,427.2	24,427.2
Adjustments which will continue current level of service:				
-Annualize FY2003 COLA Increase for General Government and Supervisory Bargaining Units	0.0	0.0	5.6	5.6
-\$75 per Month Health Insurance Increase for Non-covered Staff	0.0	0.0	0.9	0.9
Proposed budget increases:				
-Workers' Compensation Administration Fiscal Note Increase, CH 89, SLA 2000	0.0	0.0	45.9	45.9
FY2004 Governor	0.0	0.0	24,479.6	24,479.6

Risk Management

Personal Services Information

	Authorized Positions		Personal Services Costs	
	<u>FY2003</u> <u>Authorized</u>	<u>FY2004</u> <u>Governor</u>		
Full-time	6	6	Annual Salaries	370,481
Part-time	0	0	Premium Pay	0
Nonpermanent	0	0	Annual Benefits	121,875
			<i>Less 3.48% Vacancy Factor</i>	(17,156)
			Lump Sum Premium Pay	0
Totals	6	6	Total Personal Services	475,200

Position Classification Summary

Job Class Title	Anchorage	Fairbanks	Juneau	Others	Total
Accountant III	0	0	1	0	1
Accounting Clerk II	0	0	1	0	1
Claims Administrator	0	0	2	0	2
Division Director	0	0	1	0	1
Risk Manager	0	0	1	0	1
Totals	0	0	6	0	6