

# **State of Alaska FY2008 Governor's Operating Budget**

## **Department of Administration Risk Management RDU/Component Budget Summary**

**RDU/Component: Risk Management**

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

**Contribution to Department's Mission**

Mitigate state's risk of financial loss (cost of risk) from accidental loss and injury.

**Core Services**

Claims processing, litigation management, contract review, insurance administration and consulting.

End Results	Strategies to Achieve Results
<p><b>A: Reduced property loss costs.</b></p> <p><u>Target #1:</u> Reduce property cost of risk (premium) by 2% annually.</p> <p><u>Measure #1:</u> Percentage of reduction of property premium to property value.</p> <p><u>Target #2:</u> Reduce property loss costs (claims expense) by 2% annually.</p> <p><u>Measure #2:</u> Percentage reduction of property losses to property value.</p>	<p><b>A1: Improve Property loss recovery.</b></p> <p><u>Target #1:</u> Increase recovery of state property damages from those responsible to 65% success rate.</p> <p><u>Measure #1:</u> % of successful subrogation recoveries.</p> <p><u>Target #2:</u> Reduce frequency of theft claims by 5% annually.</p> <p><u>Measure #2:</u> Deductible amounts paid as a percentage of total claim expense.</p>
End Results	Strategies to Achieve Results
<p><b>B: Reduced Workman's Compensation claims administration costs.</b></p> <p><u>Target #1:</u> Reduce by 2% annually late payment penalties as part of disability benefits paid.</p> <p><u>Measure #1:</u> Percentage of late payments penalties as part of indemnity benefits paid.</p>	<p><b>B1: Pursue payment if late submission of initial report of injury caused penalty obligation.</b></p> <p><u>Target #1:</u> Improve by 3% late penalty payments owed by each agency to all indemnity payments paid.</p> <p><u>Measure #1:</u> Percentage of late penalty payments owed as a percentage of indemnity benefits paid.</p>

FY2008 Resources Allocated to Achieve Results							
<p><b>FY2008 Component Budget: \$37,944,300</b></p>	<p><b>Personnel:</b></p> <table> <tr> <td>Full time</td> <td>5</td> </tr> <tr> <td>Part time</td> <td>0</td> </tr> <tr> <td><b>Total</b></td> <td><b>5</b></td> </tr> </table>	Full time	5	Part time	0	<b>Total</b>	<b>5</b>
Full time	5						
Part time	0						
<b>Total</b>	<b>5</b>						

**Performance Measure Detail**

**A: Result - Reduced property loss costs.**

**Target #1:** Reduce property cost of risk (premium) by 2% annually.

**Measure #1:** Percentage of reduction of property premium to property value.

TARGET #1				
PROPERTY PREMIUMS				
Date range	Property Value	Property premium	Property Prem/\$100	increase/decrease
01/01/2004-06/30/2004	3,517,845.4	1,924.20	5.5%	-10.33%
07/01/2004-12/31/2004	3,723,463.3	1,806.20	5.5%	-11.32%
01/01/2005-06/30/2005	3,723,463.3	1,806.20	5.5%	0.00%
07/01/2005-12/31/2005	4,058,763.0	1,692.50	5.5%	-14.03%
01/01/2006-06/30/2006	4,058,763.0	1,692.50	5.5%	0.00%
This measures premiums against total property values				

**Target #2:** Reduce property loss costs (claims expense) by 2% annually.

**Measure #2:** Percentage reduction of property losses to property value.

PROPERTY LOSSES					
Date range	Property Value	Avg monthly paid amount	Loss to Property Value	% increase/decrease	Reason
01/01/2004-06/30/2004	3,517,845.4	15,736.78	0.0004%		
07/01/2004-12/31/2004	3,723,463.3	54,923.48	0.0015%	349.0134%	Increase due to large loss from Lightning Strike
01/01/2005-06/30/2005	3,723,463.3	67,297.91	0.0018%	122.5303%	Increase
07/01/2005-12/31/2005	4,058,763.0	173,313.34	0.0043%	257.5315%	Increase due to claims paid on Dillingham Fire/Fairbanks Jail
01/01/2006-06/30/2006	4,058,763.0	48,206.64	0.0012%	359.5217%	Decrease due to returning to normal claim levels
This measures losses against the total property value					

**A1: Strategy - Improve Property loss recovery.**

**Target #1:** Increase recovery of state property damages from those responsible to 65% success rate.

**Measure #1:** % of successful subrogation recoveries.

**Analysis of results and challenges:**

- 07/01/03–06/30/04: No subrogation opportunities during period.
- 07/01/04–09/30/04: No subrogation opportunities during period.
- 01/01/05–03/31/05: +78%
- 04/01/05–06/30/05: No subrogation opportunities during period.
- 07/01/05–12/31/05: No subrogation opportunities during period.
- 01/01/06–06/30/06: No subrogation opportunities during period.

**Target #2:** Reduce frequency of theft claims by 5% annually.

**Measure #2:** Deductible amounts paid as a percentage of total claim expense.

**Deductible amounts paid as a % of total claim expense.**

Fiscal Year	Quarter 1	Quarter 2	Quarter 3	Quarter 4	YTD Total
FY 2004	*	*	*	*	283.0%
FY 2005	-60.0%	100.0%	-25.0%	-67.0%	
FY 2006		0%		-100%	

FY 2004: \* Data measured on an annual basis in FY 2004.

FY 2006: Data is provided on a semi annual basis.

**Analysis of results and challenges: .**

07/01/03–06/30/04: 283% increase based on an increase from 2 to 5 theft claims.

07/01/04-09/30/04: -60% decrease based on a decrease from 5 to 2 theft claims.

10/01/04-12/31/04: 100% increase based on an increase from 2 to 4 theft claims.

01/01/05-03/31/05: -25% decrease based on a decrease from 4 to 3 theft claims.

04/01/05-06/30/05: -67% decrease based on a decrease from 3 to 1 theft claims.

07/01/05-12/31/05: 0% decrease/increase based on 1 theft claim.

01/01/06-06/30/06: 100% increase based on an increase from 1 to 2 theft claims.

**B: Result - Reduced Workman's Compensation claims administration costs.**

**Target #1:** Reduce by 2% annually late payment penalties as part of disability benefits paid.

**Measure #1:** Percentage of late payments penalties as part of indemnity benefits paid.

PENALTY PAYMENTS				
Date range	Indemnity Payments	Avg monthly paid amount	Penalty to Indemnity	% Increase/Decrease
01/01/2004-06/30/2004	2,933,586.64	831.08	0.0283%	
07/01/2004-12/31/2004	2,573,189.12	743.56	0.0289%	-10.5301%
01/01/2005-06/30/2005	2,686,016.83	3,102.72	0.1155%	317.2769%
07/01/2005-12/31/2005	2,558,194.39	462.68	0.0181%	-85.0878%
01/01/2006-06/30-2006	2,366,821.62	1,976.23	0.0835%	327.1233%
This measures the penalties against the total indemnity paid				

**B1: Strategy - Pursue payment if late submission of initial report of injury caused penalty obligation.**

**Target #1:** Improve by 3% late penalty payments owed by each agency to all indemnity payments paid.

**Measure #1:** Percentage of late penalty payments owed as a percentage of indemnity benefits paid.

**Analysis of results and challenges: .**

07/01/03–06/30/04: 0% (based on 100% success from FY03 to FY04).

07/01/04-09/30/04: 0% (no late penalty payments attempted or recovered).

10/01/04-12/31/04: 0% (no late penalty payments attempted or recovered).

01/01/05-03/31/05: 0% (no late penalty payments attempted or recovered).

04/01/05-06/30/05: 0% (no late penalty payments attempted or recovered).

07/01/05-12/31/05: 0% (no late penalty payments attempted or recovered).

01/01/06-06/30/06: 0% (no late penalty payments attempted or recovered).

**Key Component Challenges**

True Cost of Risk (funding the actual program costs) has been recognized in recent increased appropriation authority for Risk Management (RM).

We endeavor to use Catastrophe Reserve Account (CRA) only when necessary to fund large self insured retentions on first party property claims or rare significant casualty claim settlement obligations.

Increased costs in world reinsurance and excess insurance markets continue to escalate with market revisions for catastrophe modeling for earthquake risks within Alaska as well as overall loss adjustments for recent world catastrophe loss costs. RM attempts to soften those impacts with adjustments to self insured retention amounts and special sub limit clauses in excess property policy forms, balanced against adequate protection for the expected or maximum probable loss projections.

Increased costs incurred in litigated cases defended by the special litigation section due to court rulings severely limiting summary judgment rulings – especially with pro se litigants continues to evidence value of “in house” defense team, but extra motion practice now required challenges even those program savings.

### Significant Changes in Results to be Delivered in FY2008

- Provide new workers' compensation loss reports to line management evidencing injury trends and increased loss costs.
- Enabled accurate and timely OSHA log reporting using RM's RiskMaster software application.

### Major Component Accomplishments in 2006

- Obtained increased appropriation authority to address true cost of risk – as well as refill of Catastrophe Reserve fund.
- Arranged Lloyd's and other London underwriter direct payment of large adverse judgment upheld by Supreme Court of Alaska first obtained from Bethel Superior Court jury.
- Obtained defense verdict by Special Litigation section before Kenai Superior court jury on excessive force claims against Public Safety trooper during arrest.
- Underwrite workplace violence, 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

#### Contact Information

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**Risk Management  
Component Financial Summary**

*All dollars shown in thousands*

	FY2006 Actuals	FY2007 Management Plan	FY2008 Governor
<b>Non-Formula Program:</b>			
<b>Component Expenditures:</b>			
71000 Personal Services	482.1	501.0	571.8
72000 Travel	5.9	17.4	17.4
73000 Services	24,366.6	37,335.4	37,341.6
74000 Commodities	17.1	10.0	10.0
75000 Capital Outlay	0.0	3.5	3.5
77000 Grants, Benefits	0.0	0.0	0.0
78000 Miscellaneous	0.0	0.0	0.0
<b>Expenditure Totals</b>	<b>24,871.7</b>	<b>37,867.3</b>	<b>37,944.3</b>
<b>Funding Sources:</b>			
1007 Inter-Agency Receipts	24,871.7	37,867.3	37,944.3
<b>Funding Totals</b>	<b>24,871.7</b>	<b>37,867.3</b>	<b>37,944.3</b>

**Estimated Revenue Collections**

Description	Master Revenue Account	FY2006 Actuals	FY2007 Managem ent Plan	FY2008 Governor
<b>Unrestricted Revenues</b>				
None.		0.0	0.0	0.0
<b>Unrestricted Total</b>		<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Restricted Revenues</b>				
Interagency Receipts	51015	24,871.7	37,867.3	37,944.3
<b>Restricted Total</b>		<b>24,871.7</b>	<b>37,867.3</b>	<b>37,944.3</b>
<b>Total Estimated Revenues</b>		<b>24,871.7</b>	<b>37,867.3</b>	<b>37,944.3</b>

**Summary of Component Budget Changes  
From FY2007 Management Plan to FY2008 Governor**

*All dollars shown in thousands*

	<u>General Funds</u>	<u>Federal Funds</u>	<u>Other Funds</u>	<u>Total Funds</u>
<b>FY2007 Management Plan</b>	<b>0.0</b>	<b>0.0</b>	<b>37,867.3</b>	<b>37,867.3</b>
<b>Adjustments which will continue current level of service:</b>				
-FY 08 Health Insurance Increases for Exempt Employees	0.0	0.0	0.2	0.2
<b>Proposed budget increases:</b>				
-FY 08 Internal Dept Cost Increase due to Retirement Systems Rate Increases	0.0	0.0	6.2	6.2
-FY 08 Retirement Systems Rate Increases	0.0	0.0	70.6	70.6
<b>FY2008 Governor</b>	<b>0.0</b>	<b>0.0</b>	<b>37,944.3</b>	<b>37,944.3</b>

**Risk Management  
Personal Services Information**

<b>Authorized Positions</b>		<b>Personal Services Costs</b>		
<u>FY2007</u>				
<u>Management</u>		<u>FY2008</u>		
<u>Plan</u>		<u>Governor</u>		
			Annual Salaries	347,131
Full-time	5	5	Premium Pay	0
Part-time	0	0	Annual Benefits	249,151
Nonpermanent	0	0	<i>Less 4.11% Vacancy Factor</i>	(24,482)
			Lump Sum Premium Pay	0
<b>Totals</b>	<b>5</b>	<b>5</b>	<b>Total Personal Services</b>	<b>571,800</b>

**Position Classification Summary**

<b>Job Class Title</b>	<b>Anchorage</b>	<b>Fairbanks</b>	<b>Juneau</b>	<b>Others</b>	<b>Total</b>
Accounting Tech I	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
<b>Totals</b>	<b>0</b>	<b>0</b>	<b>5</b>	<b>0</b>	<b>5</b>