

APR 12 1994



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METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

EXECUTIVE SECRETARY

March 28, 1994

To: Board of Directors (Finance and Insurance Committee--Information)
Board of Directors (Legal and Claims Committee--Information)

From: General Manager

Subject: Cost/Benefit Self-Insured Workers' Compensation

Report

The District has been self-insured for workers' compensation since 1979. At the present time, it is self-insured for \$400,000 per incident and maintains excess insurance coverage of \$10 million. During its self-insured history, the District has had just over 2,000 claims, none of which has exceeded the self-insured retention (SIR).

With nearly fifteen years of experience as a self-insured; not paying actual premiums to an insurance company over that period of time, and by self-managing the decision process in regard to claims administration and settlement, it is not possible to generate precise experience modification factors and loss ratios.

For the period 1981 to 1986, we examined our experience and found that the five years had generated approximately \$2.6 million dollars in savings, including interest. The Risk Manager examined the fiscal year 1992-93 experience, and applying the same criteria that the outside actuary used for the 1981-86 analysis, came up with an estimated first year savings of \$692,783 (Exhibit 1). Ultimately, all claims for this year will be paid over an average of 6-8 years and the final net savings should amount to approximately \$200,000 plus interest on the decreasing reserve as claims are paid.

If we are to examine the efficacy of fully insuring, we start with the State Manual Rates, apply a 75 percent experience modification factor (based upon District history), apply the incurred losses reported to the State as of September 30, 1993, assume a 15 percent loss conversion factor and a dividend payable up to a 72 percent loss ratio. This results in a net premium after dividend. From this, the self-insured total expenses were deducted in order to arrive at the premium

savings. The amount owed on claims, but not due, was added and then an interest calculation was factored in, in order to arrive at an estimated savings as of September 30, 1993.

I am adding some definitions for the terms used in the previous paragraph in order to aid in understanding the exhibit.

State Manual Rates - dollar charge per \$100 of payroll, by workers' category.

Experience Modification Factor - method used to adjust premium for risk based upon past losses compared to the loss experience of the average risk (the report assumes the District is 25 percent better than average).

Incurred Losses - The dollar value of the total claim (will be paid out over years).

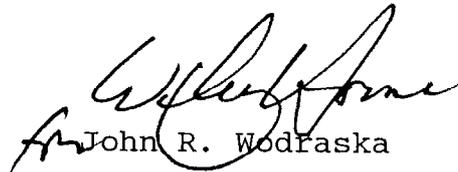
Loss Conversion Factor - Factor applied to losses to provide insurance company with funds to administer and investigate claims. 15 percent is typical.

Dividend - Return of a portion of the premium based upon favorable claims experience.

Loss Ratio - Dollar losses divided by the premium paid.

Recommendation

For information only.


John R. Wodfaska

LPG:lg
Cost-Ben

Attachment

METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

WORKERS' COMPENSATION PROGRAM

Insured vs. Self-Insured Comparison

July 1, 1992 - June 30, 1993

As of September 30, 1993

1	Standard (Manual) Premium	\$3,321,000	(Payroll \$120,839,000)
2	Estimated Experience Modifier	.75	
3	Estimated Premium w/Modifier	2,490,750	(Line 1 X 2)
4	Incurred Losses	988,676	(Paid \$354,100)
5	Loss Development Factor	1.50	
6	Incurred & Developed Losses	1,483,000	(Line 4 X 5)
7	Loss Conversion Factor	1.15	
8	Converted Losses	1,705,450	(Line 6 X 7)
9	Loss Ratio	.68	(Line 8 % 3)
10	Estimated Dividend (72% Maximum)	.04	
11	Dividend	99,630	(Line 3 X 10)
12	Premium After Dividend	2,391,120	(Line 3 - 11)

Self-Insured Adjustments

EXPENSES

13	Excess Premium	102,713	
14	Outside Administrator	158,000	
15	Inside Staff (Claims/Legal, Benefits/O.H.)	500,000	
16	Incurred Losses (92-93 only)	<u>988,676</u>	
17	Total Expenses	1,749,389	
18	Self-Insured Savings	641,731	(Line 12 - 17)
19	Incurred Loss Minus Losses Paid (Cash Reserve)	<u>634,576</u>	(Line 4 difference)
20	Total Savings & Cash Reserves	1,276,307	(Line 18 + 19)
21	Invest. Rate (.04) 1st Year	<u>51,052</u>	
22	Savings/Cash Reserve w/Int.	1,327,359	
23	Net Savings Retained (1 year)	692,783	(Line 18 + 21)