



# Overview of Insurance Fund and Financial Status

**Budget Oversight Committee**

August 9, 2022

# Presentation Overview

- Key Terms & Definitions
- Types of Purchased Insurance
- Insurance Market Trends & Challenges
- Other Challenges
- Accomplishments & Opportunities
- Fund Structure and Funding Status

# Key Terms and Definitions

- **Self-Insured:** A risk management approach where the City collects and sets aside funds to pay for periodic losses (as opposed to paying an insurance company a premium to do essentially the same thing. Usually combined with some type of limited insurance policy to cover large losses (limits large losses).
- **Self-Insured Retention (SIR)/Deductible:** The size of the first dollar responsibility that the insured has before an insurance policy will pay a claim. A policy with a large SIR is typically used to minimize large, infrequent cash payouts in a self-insured plan

# Key Terms and Definitions (continued)

- **Premiums:** The amount you pay for an insurance policy
- **Insurance broker:** An intermediary who sells, solicits, or negotiates insurance on behalf of a client for compensation
- **Errors & Omissions:** Also known as E&O insurance and professional liability insurance, helps protect from lawsuits claiming someone made a mistake in their professional services

# Types of Purchased Insurance

## Worker's Compensation:

- City annually purchases Excess Worker's Compensation insurance to protect the City from negative financial consequences of high exposure losses that may result from injuries or deaths to employees during work hours
- \$5 million SIR
- Exclusions



# Types of Purchased Insurance (continued)

## General Liability:

- The City annually purchases general liability coverage with a \$40 million limit excess of SIR
- Includes coverage for unfair employment practices and public official errors and omissions
- \$10 million self insured retention (SIR) for most police liability
- \$7.5 million SIR for all other liability (except exclusions)
- \$5 million SIR for first weapon discharge claim from Police Department
- Exclusions

# Types of Purchased Insurance (continued)

## All Risk Property Insurance:

- The City annually purchases All Risk property insurance to cover perils such as fire, vandalism, and wind damage to City buildings, contents, and vehicles
- Earthquake coverage is purchased separately for the Convention Center
- Excess Property coverage for the Queen Mary is also purchased
- Deductible \$1.5 million per claim/loss
- Exclusions

# Types of Purchased Insurance (continued)

## Miscellaneous Coverage:

- Storage Tank
- Crime
- Drone
- Marine
- Airport Liability
- Aircraft Liability
- Excess Pollution
- Cyber Security
- Volunteer Medical
- Boiler and Machinery



# Insurance Market Trends and Challenges

## Soft Insurance Market vs. Hard Insurance Market:

- In a soft market, there tends to be easier underwriting, increased capacity, lower premiums, and broader coverage
- In contrast, a hard market sees tougher underwriting, reduced capacity, higher premiums, and restricted coverage
- Currently the market is hard – the universe of carriers is shrinking
  - Less supply with increase demand, causing the market to have higher rates
  - Some carriers have pulled out of public entity coverage in California and most carriers are offering lower limits

## General Liability:

- Jury verdicts
- Social inflation
- Police liability and road design
- High loss history causes SIR and premiums to go up
- Hard market

# Other Challenges (continued)

## All Risk Property:

- The deductible is essentially requiring the City to “self-insure” its property losses up to \$1.5 million known as the “burn-layer” due to historical losses
- Insurance will cover losses above the burn layer or more catastrophic type losses
- Will continue to be a challenge if loss ratio is not reduced over next 3 to 5 years
- Hard market

# Accomplishments and Opportunities

- Despite increases in premiums, Long Beach is still able to purchase insurance to help finance risk
- Long Beach was able to maintain their police liability as well as be included in a special Officer Involved Shooting (OIS) SIR buy-down program. This will save the City money in a large lawsuit involving OIS.
- Risk Management is partnering with City Attorney's Office to better evaluate and monitor large loss claims more frequently. This will allow for greater transparency with the insurance carriers and keep premiums at a minimum.
- Will continue to collaborate with Departments to reduce risk exposures and reduce the overall risk exposure and liability of the City.

# Fund Structure – Insurance Fund Group

- Insurance Fund Group – finance and account for all risk management-related activities citywide
- Two primary funds in this fund group:
  - **General Liability Fund** – accounts for the City’s settlements, judgements, and defense costs for all liability related activities
  - **Workers’ Compensation Fund** – offers health and lost wage benefits to employees at no cost, if an employee is injured or becomes ill due to job related issues
- Auto/Property/Specialty Insurance costs (currently reflected in the General Liability Fund) are being tracked separately due to high deductibles so premiums can be better established to cover the costs

# Revenue Sources and Funding

- Main revenue source is charges to departments based on a combination of loss experience and risk exposure
- An actuary provides a projection of losses for the upcoming year, as well as various funding level options at different confidence levels. The different confidence levels project how likely we are to cover the potential losses/costs for a specific year.
  - Example: a 60% confidence level means a 60% chance that we will have funding to cover costs from claims that occur in that year, and 40% chance that funding will not be adequate
  - Currently at 60% confidence level for General Liability and 60% for Workers Comp
- The funding level chosen is the basis of charges to departments. Any overfunding or underfunding in a year will help inform any adjustments to charges in future years so that over time the charges and costs are intended to be balanced
- Workers Compensation Fund has a healthy funds available



# General Liability Fund Challenges

- Costs for insurance premiums, settlements, and judgements have been high in recent past resulting significant cash payouts, negatively impacting the fund's financial status

(in millions)	FY 18	FY 19	FY 20
<b>Budget</b>	\$ 6.0	\$ 6.0	\$ 9.5
<b>Actual Costs</b>	\$ 15.2	\$ 27.2	\$ 8.4

- Went from a positive \$7 million budgetary funds available at the end of FY 18 to a negative \$18 million at the end of FY 20

# Improving Fund Status

- Increased General Liability Fund collection rates in FY 21 and FY 22
  - Significant increases have been made to cost recovery and to rebuild the status of the fund over time
  - This had a steep impact on General Fund expenses as General Fund pays for approximately 58 percent of revenues for General Liability
    - \$6.8 million increase to the General Fund in FY 22
- While painful, this was a major step towards improving the financial standing of the Insurance Fund
- In FY 21, the ending funds available was negative \$13 million, an improvement of \$5 million
- FY 22 is projected to continue to improve
- FY 23 collection rates remained the same and is projected to improve

# Summary

- Premiums, claims and judgements have been high in recent years, along with property insurance costs that are rising significantly and increases in SIRs
- The insurance market is currently very challenging
- The large loss payouts in past years have caused a major cash drain and we are now working to build up funds available to a reasonable level
- Risk Management will continue to collaborate with departments and seek strategic opportunities to reduce risk exposure and liability
- Financial Management will continue to monitor and report on fund status





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Fiscal Year  
**2023**  
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**Questions?**