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PROVISION FOR SELF-INSURED TRANSIT CLAIMS

(Regional Council at it's meeting on January 25, 2007, referred the following Report back to the Committee for consideration in conjunction with the 2007 Business Plan and Budget.)

The Finance and Administration Committee recommends the adoption of the recommendations contained in the following report, December 14, 2006, from the Commissioner of Finance:

1. RECOMMENDATIONS

It is recommended that:

1. Effective January 1, 2007, the self-insured component of transit liability claims be raised from $10,000 to $100,000 per occurrence;
2. Premium savings as a result of the change in deductible level be reallocated to the Insurance Reserve to fund the additional cost of claims; and
3. Staff is authorized to take all necessary action to implement these recommendations.

2. PURPOSE

This report recommends the current level of self-insured retention for transit coverage (including Rapid Transit) be increased from $10,000 to $100,000 per occurrence.

3. BACKGROUND

The Region of York currently obtains insurance coverages for claims against commercial general liability, errors and omissions, non-owned auto, auto, transit and rapid transit, property, crime and boiler & machinery, as well as councillor and senior employee accident and disability. In 2006, the total premium for these coverages was approximately $5.1 million.

The cost for insurance is determined by the level of perceived "risk" that claims will occur but is mitigated by how much of that risk an organization is willing to manage and fund itself. Since the Region has skilled risk management personnel and funds a reserve for insurance claims, it is able to maintain a self-insured deductible of $100,000 per occurrence for most lines of coverage with the exception of property which is $50,000. In addition, it maintains a deductible of $10,000 per occurrence for transit since it is currently funded by our transit contractors.

The Region periodically reviews the level of self-insurance in order to ensure that it represents the optimum balance of risk versus cost. The last review was conducted in 2000.

In 2006, the actuarial firm of J.S. Chang and Partners Inc. was retained to study our current self-insured deductible levels and to recommend any changes that might be warranted. While their review included the deductible levels for all insurance coverages, they found that the net premium savings for most were not material and therefore would not support a change. The one exception was for the transit auto liability.

4. ANALYSIS AND OPTIONS

The analysis prepared by J.S. Chang and Partners indicates that an increase in the transit self-insured deductible could provide a substantial premium savings even after projecting the additional claim payments that would now have to be funded by the Region.

Table 1:
Transit Deductible Analysis For 2007

Deductible Level		$10,000	$25,000	$50,000	$100,000
Expected Additional Claims Incurred By Deductible	Low (mean)	n/a	$230,432	$300,202	$441,974
	High (95^{th} percentile)	n/a	$312,089	$435,119	$669,335

Table 1 show the ‘anticipated’ additional claims costs that would be incurred at the various deductible levels. These estimates are based mainly on the Region’s last five years of transit claims history. While statistically accurate, they do no include any change in the pattern of claims that could result from a change in operations or levels of fraud found in some other jurisdictions. It should also be noted that these numbers do not reflect the possibility of a higher number of very large claims (shock losses) that might occur from time to time.

Table 2:
Projected Transit Premium for 2007

Deductible Level	$10,000	$25,000	$50,000	$100,000
Premium	$5,031,045*	$4,123,055	$3,212,930	$2,190,785
Premium Savings	0	($907,190)	($1,818,115)	($2,840,260)
% Savings	n/a	18%	44%	88%

*Note: 2007 budget was prepared using transit premium of $4,512,000

Table 2 shows the premium savings as a result of taking on a higher self-insured deductible.

Therefore, by moving to a $100,000 deductible level for transit, the review indicates that the Region could achieve net budgeting savings of between $1.7 - $1.9 million per year. Notwithstanding, until such time as the Region has a history of funding the additional claim costs at the higher deductible level, it is recommended that any premium savings be reallocated to the Insurance Reserve. This would also provide a source of funds should there be increased staffing costs to handle and examine the increased number of claims.

While the Region is responsible for the insurance premium, transit contractors are responsible for the cost of any self-insured deductible. This financial responsibility was placed on the contractors in order to provide an incentive for loss control and is in keeping with industry best practices.

While the report recommends the Region increase the deductible to $100,000 per occurrence for transit, it recognizes that the bus operators' current deductible of $10,000 per occurrence is fixed until such time as their contracts are renegotiated in approximately three years. Therefore this analysis has assumed that the Region would fund a secondary layer of self-insurance from $10,001 to $100,000 through the Insurance Reserve.

5. FINANCIAL IMPLICATIONS

The report identifies that the move from $10,000 to $100,000 per occurrence for the self-insured component of transit claims will result in approximately $2.8 million of annual premium savings. It is recommended that any savings from lower premiums be reallocated to the Insurance Reserve to fund the additional cost of claims as well as any other costs resulting from the higher deductible. The amount allocated to the reserve will be reviewed for the 2008 budget after a further year's experience at the higher deductible.

6. LOCAL MUNICIPAL IMPACT

There is no local municipal impact.

7. CONCLUSION

This report concludes that the optimal self-insured component for transit claims should be raised from $10,000 to $100,000 per occurrence.

The Senior Management Group has reviewed this report.