



Authority for California Cities Excess Liability

Target Equity Ratios

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Target Equity Policy

Purpose:

- Provide guidance to the Board for development of annual funding, dividends and assessment decisions
- Develop set of benchmarks to measure the pools financial stability
- Assist in evaluation and implementation of prudent funding levels
- Expose deteriorating experience before it can have an adverse impact on the pool

Definitions

- “Confidence Level” is a statistical term used to express the degree to which an actuarial projection will be an accurate prediction of the dollar losses ultimately paid for a given program year or combination of years. The higher a “Confidence Level” the greater certainty the actuary had that losses will not exceed the dollar value used to attain “Confidence Level”
- “Equity” is the amount of funds remaining, after deducting all administrative and excess insurance costs, available to pay claims in excess of actuarial expected losses discounted for investment income at the actuarially determined “Expected” “Confidence Level” ⁽¹⁾
- “Net Contribution” includes the total contributions from members less the excess insurance costs
- “Self Insured Retention” is the maximum amount of exposure to a single loss retained by ACCEL (e.g. \$4M or \$9M)

⁽¹⁾ See Discussion on Page 4

CAJPA “Equity” vs. “Net Position”

- CAJPA’s definition of “Equity” is:
 - The amount of funds remaining, after deducting all administrative and excess insurance costs and the amount available to pay claims in excess of the actuarial expected losses discounted for investment income at the actuarially determined “Expected” “Confidence Level”

- Net Position is defined as your Assets subtract all Liabilities
 - For ACCEL the Retrospective Refunds Available are a Liability to the POOL

- Under CAJPA’s definition, ACCEL has been evaluated as an Equity pool and we hope this continues

Assets - Liabilities = Net Position

- ACCEL is a Non-Equity pool
- However, under the CAJPA definition of Equity, we can evaluate the pool as an Equity pool
- “Restriction” does not effect this definition of Equity
- ACCEL’s Equity according to the CAJPA definition is \$(1,336,797)
- Last year this figure was \$4,737,452

Change in Equity Ratio

Target $\geq -10\%$

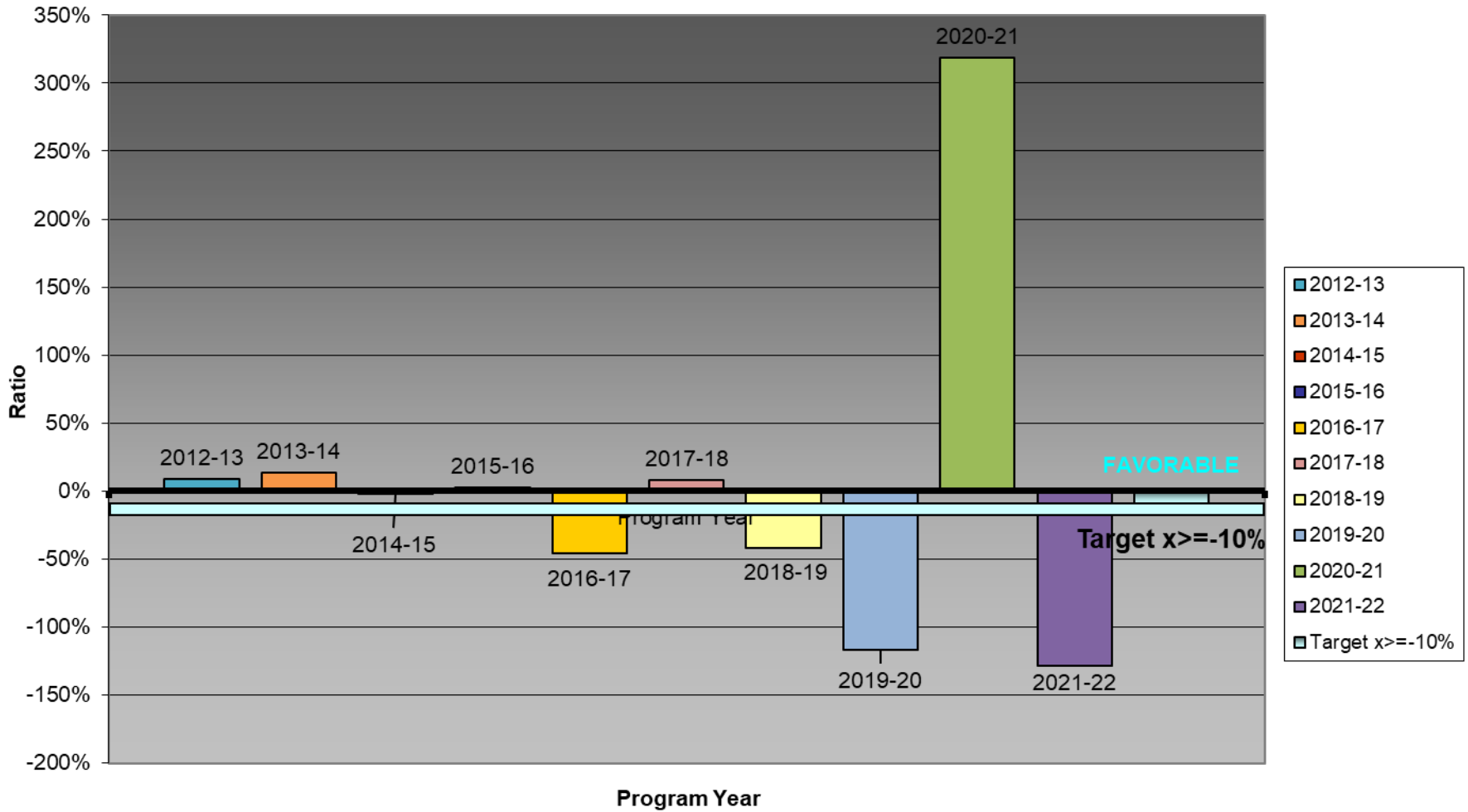
- This ratio measures for a decline in equity of more than 10%, which warrants an increase in annual contribution or potential assessments.
- Large fluctuations in equity indicate the program is experiencing change.

Takeaway: ACCEL's equity dipped negative again after a positive recovery over the prior year. This year's change in equity was due to rapid claims payments as the courts reopened after the COVID pandemic. While this occur, the ACCEL Board also increased its funding and continued suspending the retro funds.

Example: 2021-22 $\frac{(2021-22 \text{ Equity}) - (2020-21 \text{ Equity})}{2020-21 \text{ Equity}} \geq -10\%$

$$\frac{\$(1,336,797) - \$4,737,452}{\$4,737,452} = -128\%$$

ACCEL Target Equity Ratios Change In Equity



“Equity” to “Self Insured Retention” Ratio

Target $\geq 5:1$

- This ratio is a measure of the maximum amount that equity could decline due to a single loss.
- Assists in determining the feasibility of increasing the pool SIR (currently \$9,000,000).
- Protects against possibility of assessment.
- A high ratio is desirable.

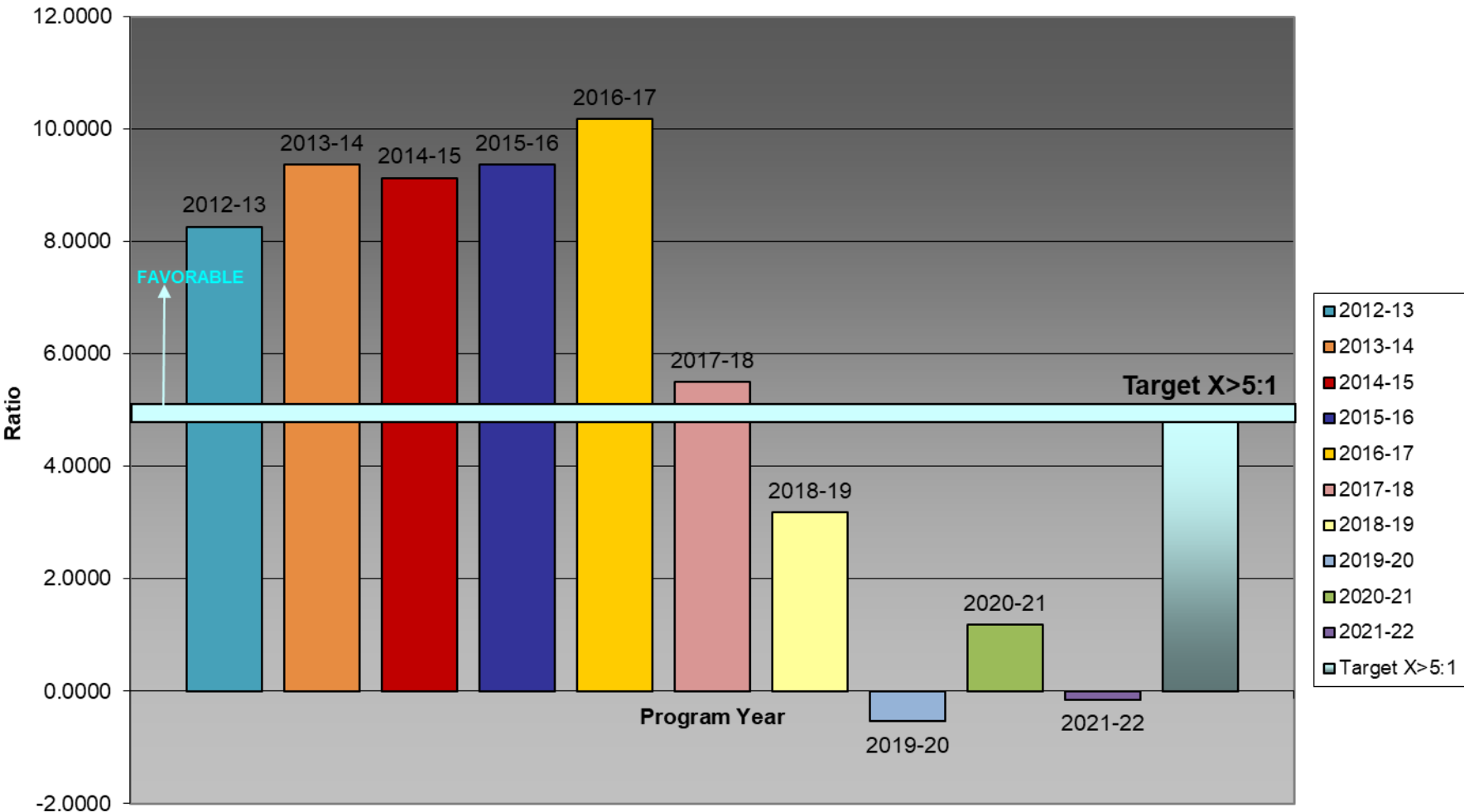
Takeaway: As claims activity rapidly increased in the past years, the Board took action to implement a corrective funding plan. ACCEL increased its SIR from \$4M to \$9M, and its confidence level to 90% on the \$4M excess \$1M layer and 75% on the \$5M excess \$5M layer to prudently fund that larger layer.

Example: 2021-22

$$\frac{\text{Equity}}{\text{Insured Retention}} \geq 5:1$$

$$\frac{\$(1,336,797)}{\$9,000,000} = -0.1485$$

ACCEL Target Equity Ratios Equity to Self Insured Retention



Ultimate Reserve Development Ratio

Target $\leq 20\%$

- This is a measure of the change in aggregate ultimate losses from one valuation period to the prior two valuation periods.
- Generally, the one year and two year reserve development to equity threshold should be less than 20%.

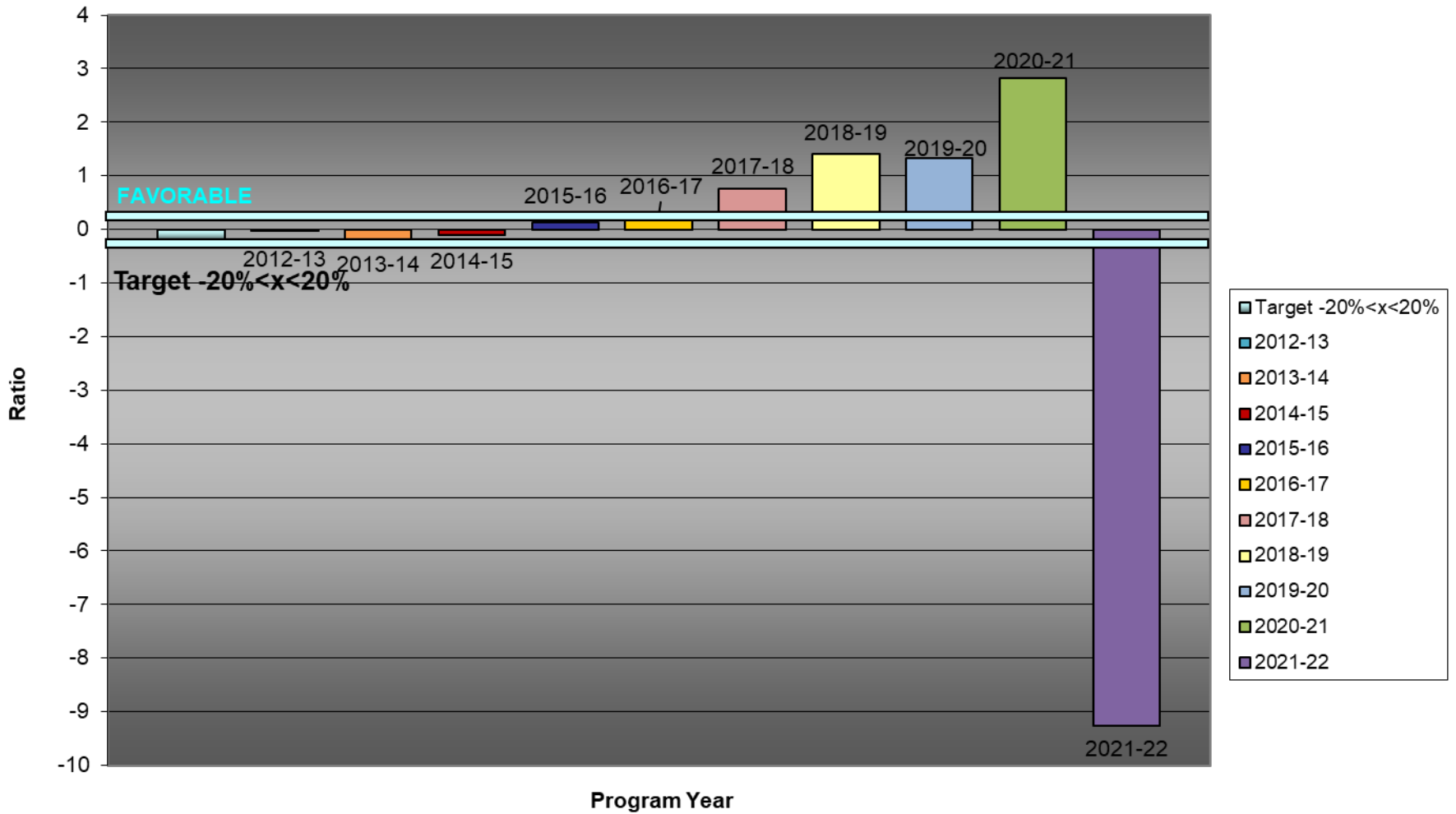
Takeaway: The ultimate incurred losses have increased outside the desirable range. This is an indication of claims activity increasing more than expected by the actuary.

Example: 2021-22

$$-20\% < \frac{(\text{Ultimate Liabilities for Years more that 2 years old}) - (\text{FY2019} - 20 \text{ Ultimate Liabilities})}{\text{FY2019} - 20 \text{ Equity}} < 20\%$$

$$\frac{\$155,159,545 - \$135,067,917}{\$(2,170,379)} = -926\%$$

ACCEL Target Equity Ratios Reserve Development Ratio



“Outstanding Reserves” to “Equity” Ratio

Target $\leq 3:1$

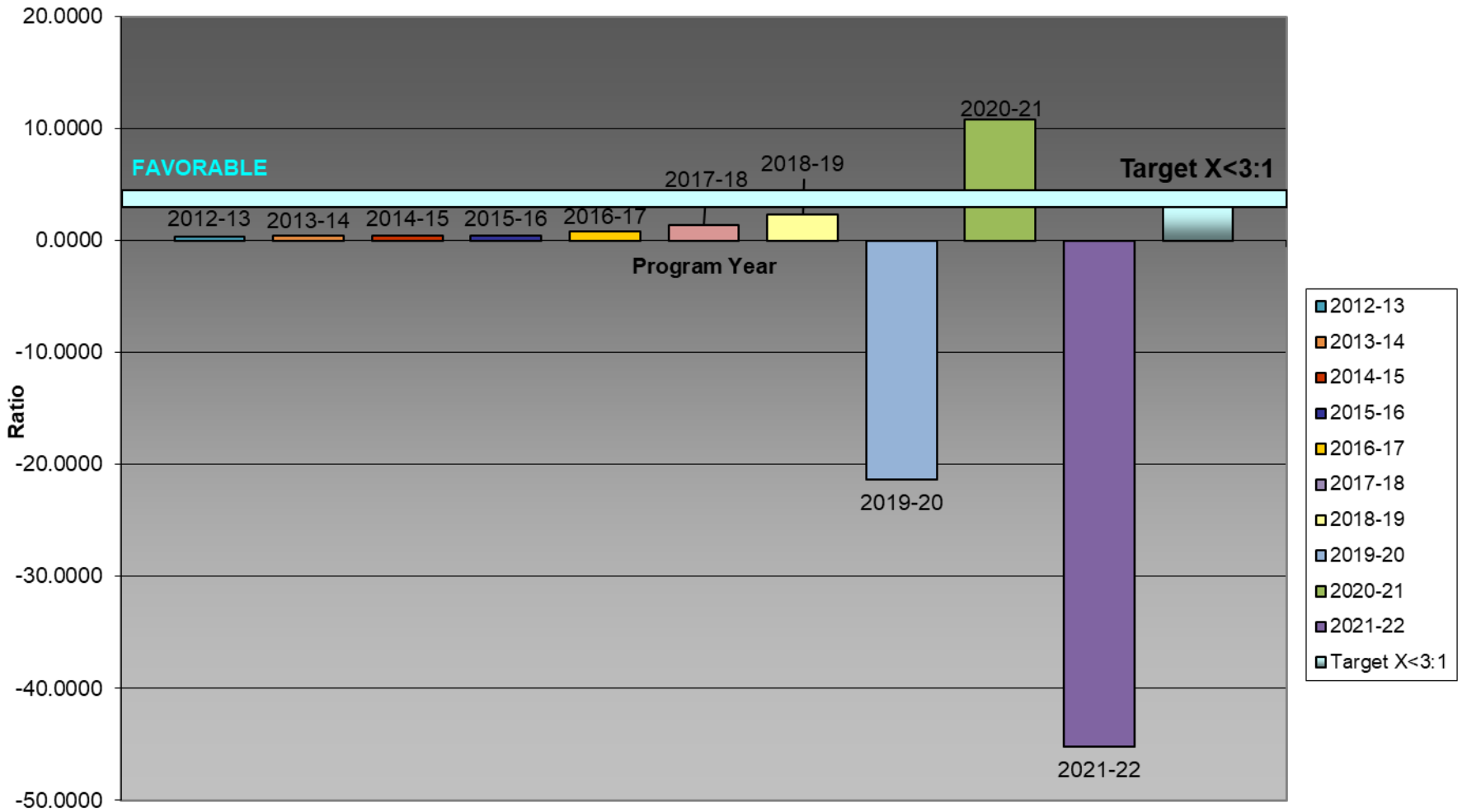
- Comparison of net equity to current potential losses, including IBNR.
- Over time this ratio could indicate changing loss exposures.
- A low ratio is desirable.

Takeaway: This ratio does not work properly if ACCEL is in a negative net position, similar to FY 19-20. The Outstanding Reserves are growing too fast, while there has been a significant amount of claims payments.

Example: 2021-22 $\frac{\text{Outstanding Reserve}}{\text{Equity}} \leq 3:1$

$$\frac{\$60,423,000}{\$(1,336,797)} = -45.20$$

ACCEL Target Equity Ratio Outstanding Reserves to Equity



“Net Contribution” to “Equity” Ratio

Target \leq 2:1

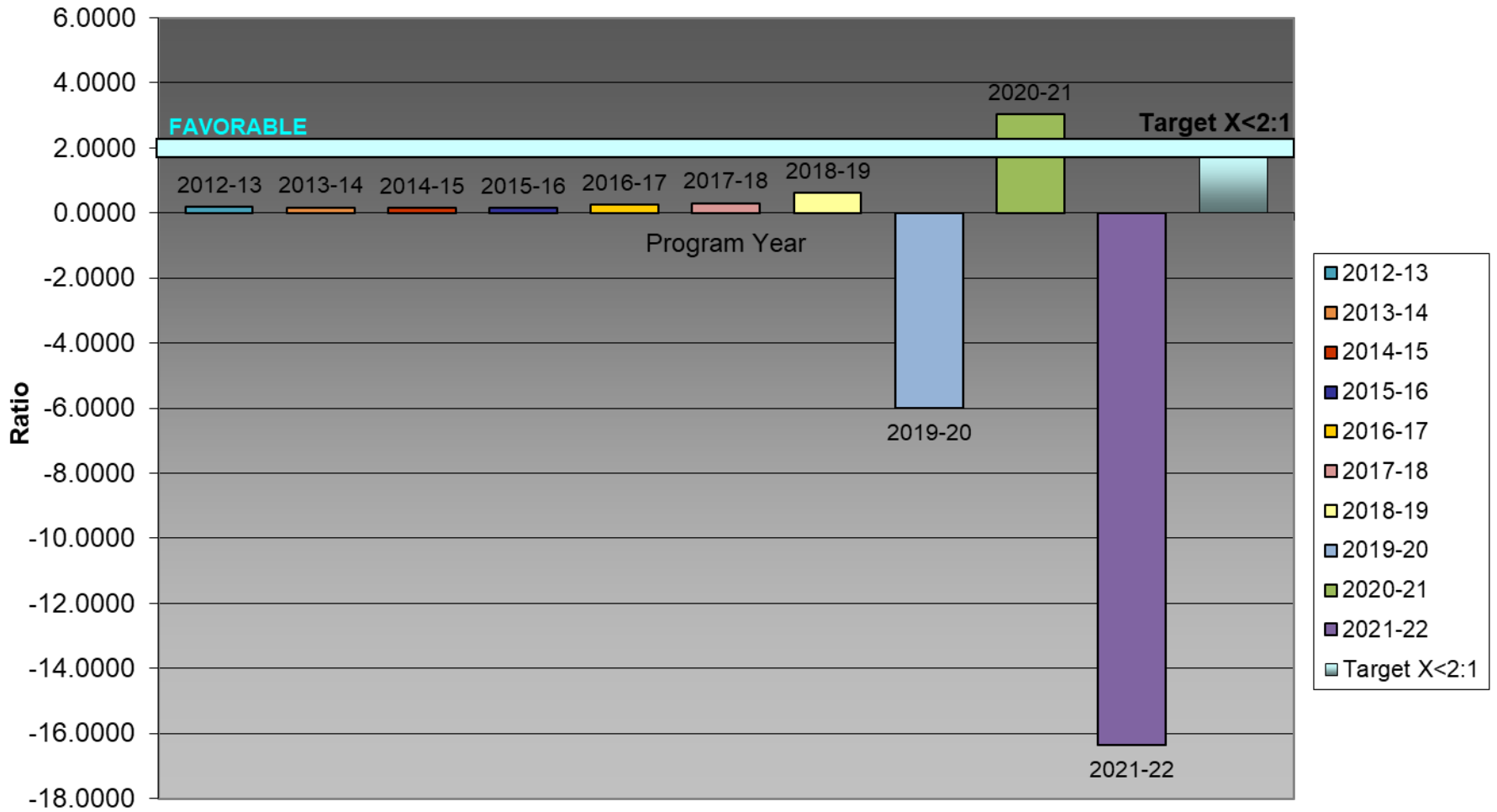
- This ratio is a measure of how equity is leveraged against possible pricing inaccuracies.
- Relationship between *annual deposits* and equity.
 - Note: Equity discussion on page 4.
- Illustrates exposure compared to current risk.
- The net contribution or annual deposit is the amount of funding members pays towards funding the pooled layer – this does not include investment income.
- A low ratio is desirable.

Takeaway: ACCEL has many years of prudent funding that lead to a strong overall financial position. Since then, claims values and payments skyrocketed depleting ACCEL's assets. ACCEL reacted and increased its self insured layer and confidence level. This ratio does not work properly when net assets are negative.

Example: 2021-22 $\frac{\text{Net Contributions}}{\text{Equity}} \leq 2:1$

$$\frac{\$21,885,060}{\$(1,336,797)} = 16.37$$

ACCEL Target Equity Ratio Net Contribution to Equity



2021-22 Program Year Trends

2019-20

- The results of this years report show a need to increase funding, and consider a reinvestment plan.
 - ACCEL's current claims have erased the years of good performance and prudent saving.
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- Based on this report, and the financial position of the pool, along with continued increases in reserves, Members will likely be assessed and the Board may want to consider implementing a substantial rate hike to start to collect funding.
 - ACCEL continued to maintain enough Assets to meet short term obligations.

2020-21

- ACCEL returns to a positive net position, and ratios indicate the beginning of a recovery.
- ACCEL's claims development hasn't stopped, but it is more stable.
- ACCEL continued to maintain enough Assets to meet short term obligations.
- ACCEL has increased funding to 90%, processed assessments and is now retaining more risk – many implications for the next several years.

2021-22

- ACCEL took a step back this year into a negative net position. This dramatically effects some ratios.
- ACCEL is following its recovery plan by increasing funding, and collecting retro assessments.
- Rapid and large claim payments occurred because the courts opened back up after the COVID-19 pandemic.
- ACCEL continued to maintain assets through investment income to prudently meet short term obligations.

Any Questions?

