



AUTHORITY FOR CALIFORNIA CITIES EXCESS LIABILITY

TARGET EQUITY RATIOS

Presented by:

Conor Boughey, Alliant Insurance Services

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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

⁽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 \$(2,170,379)
- Last year this figure was \$12,693,460

Change in Equity Ratio

Target \geq -10%

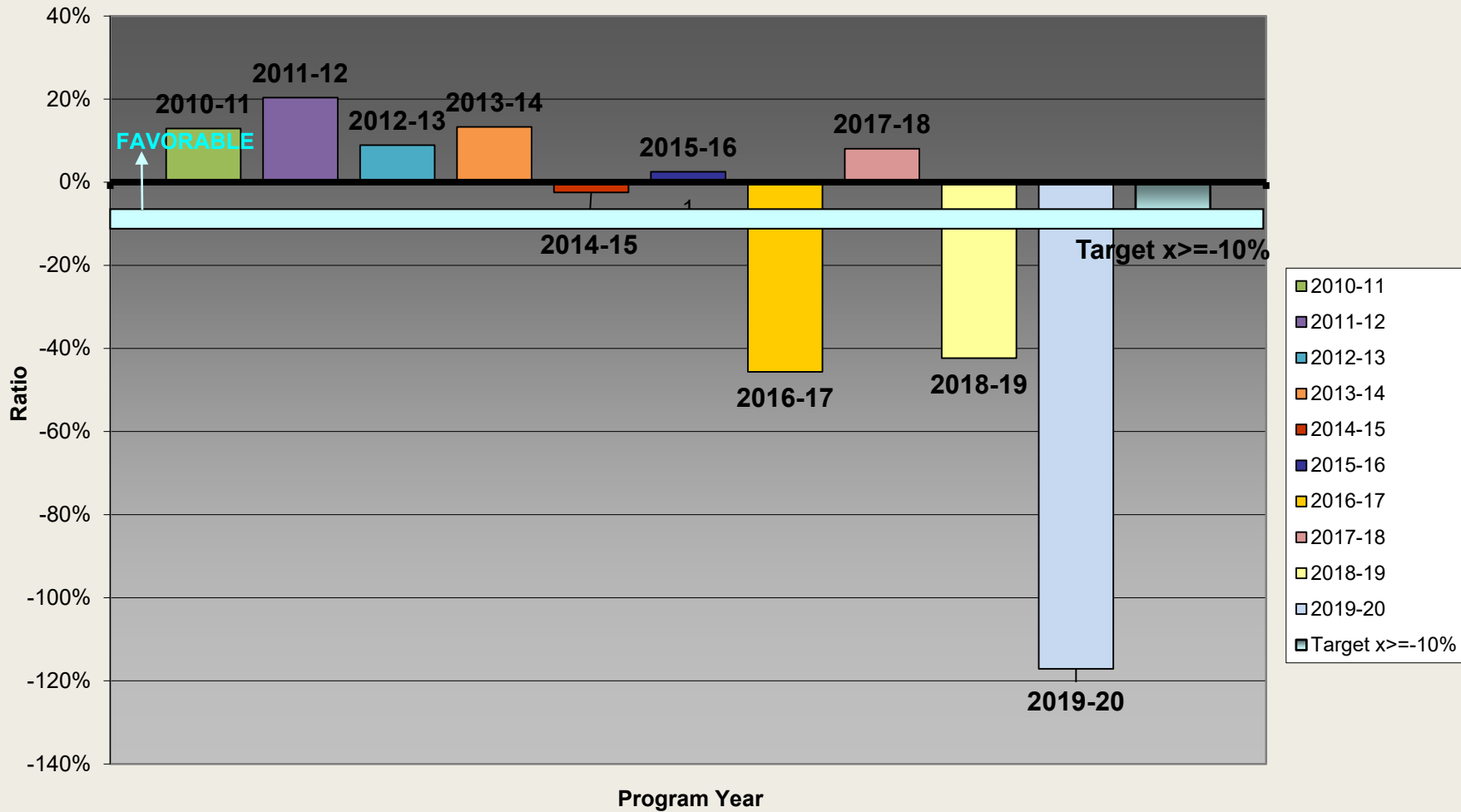
- This ratio measures if a decline in equity in excess of 10% warrants an increase in annual contribution or an assessment.
- Large fluctuations in equity indicate the program is experiencing change.

Takeaway: ACCEL's equity has decreased significantly due to continued large increases in claims reserves and payments. Because of this, the Board took action to restrict 100% of the retro available to withdraw and should continue to raise funding.

Example: 2019-20 $\frac{(2019-20 \text{ Equity}) - (2018-19 \text{ Equity})}{2018-19 \text{ Equity}} \geq -10\%$

$$\frac{\$(2,170,379) - \$12,693,460}{\$12,693,460} = -117\%$$

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 \$4,000,000).
- Protects against possibility of assessment.
- A high ratio is desirable.

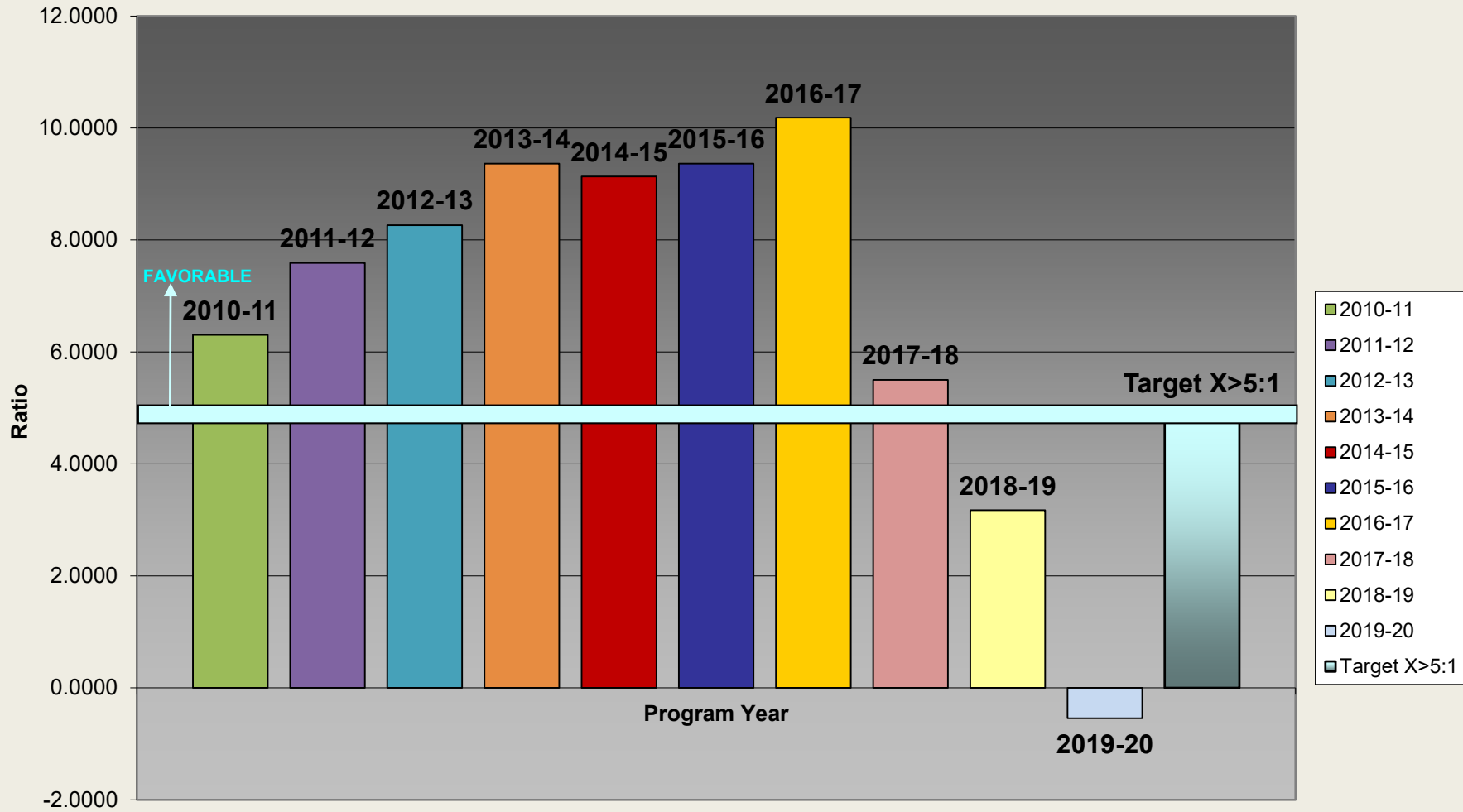
Takeaway: ACCEL's assets have decreased significantly due to several large claims payments. Members should consider recapitalizing ACCEL, and also increase rates to improve position. As we consider raising our self insured layer, we will need more funding to be financially secure.

Example: 2019-20

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

$$\frac{\$(2,170,379)}{\$4,000,000} = -0.54$$

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 valuation period.
- Generally, the one year and two year reserve development to equity threshold should be less than 20%.

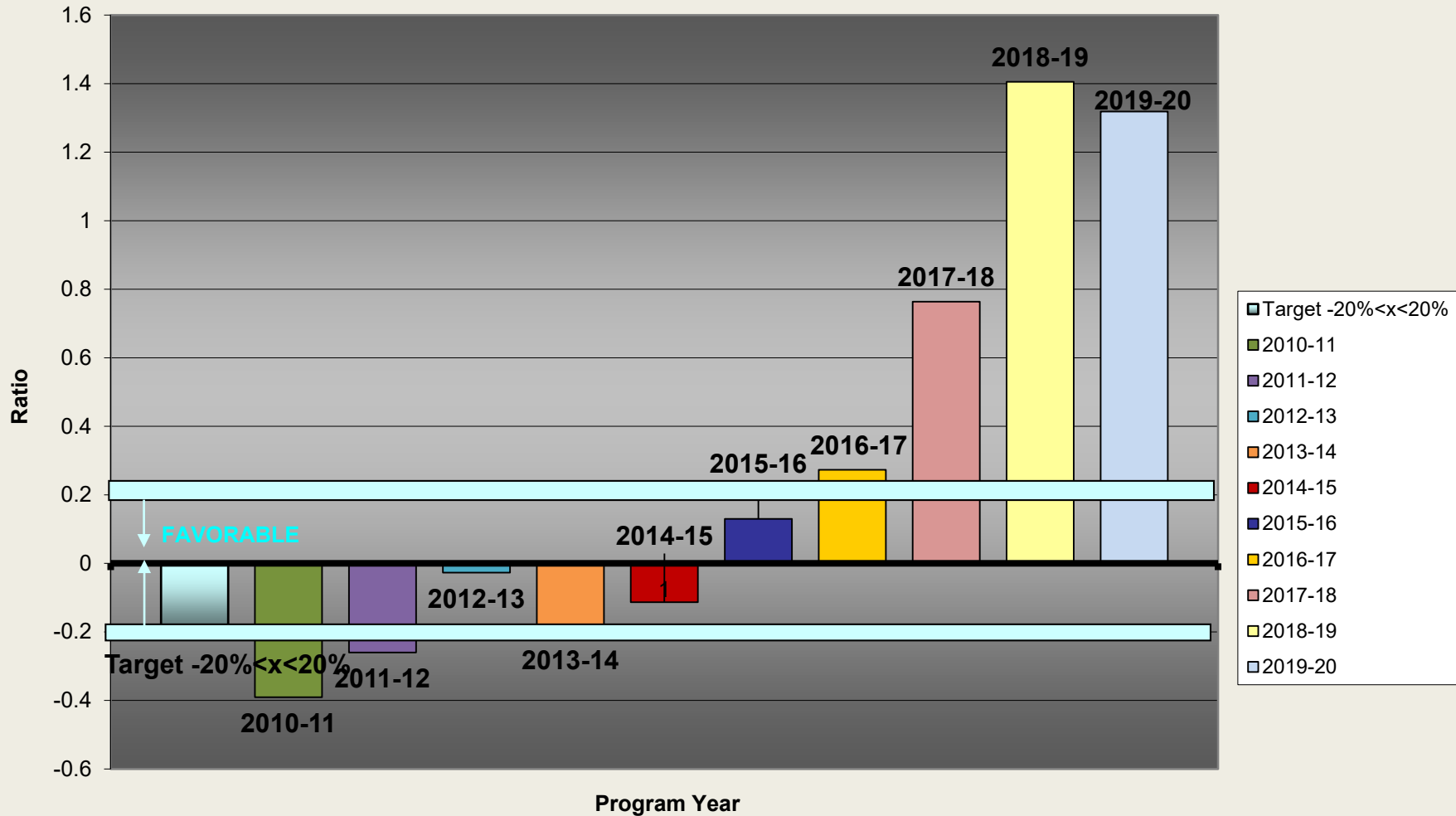
Takeaway: The ultimate incurred losses have increased outside of the desirable range. This is an indication of claims reserves increasing more than expected by the actuary. ACCEL has seen a considerable increase in excess claims activity, Mike Harrington has been increasing rates, and ACCEL is consistent with industry trends.

Example: 2019-20

$$-20\% < \frac{(\text{Ultimate Liabilities for Years more that 2 years old}) - (\text{FY2017} - 18 \text{ Ultimate Liabilities})}{\text{FY2017} - 18 \text{ Equity}} < 20\%$$

$$\frac{\$125,804,917 - \$96,789,611}{\$22,006,565} = 132\%$$

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.

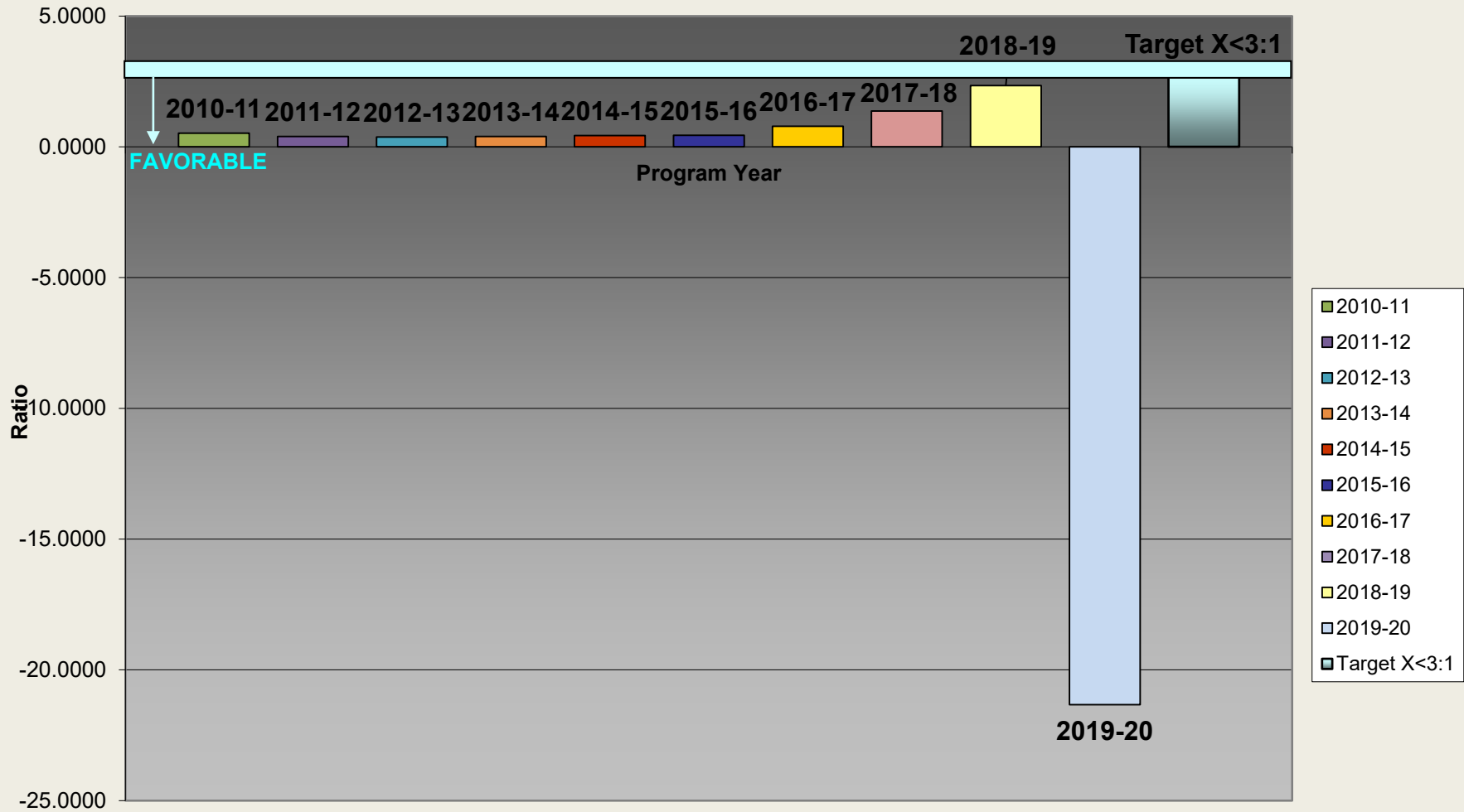
Takeaway: First, this ratio does not work properly if you find yourself in ACCEL's current position. Second, ACCEL's Outstanding Reserves are growing too rapidly to keep funding pace with. We are in need of significant rate increases when considering our claims development.

Example: 2019-20

$$\frac{\text{Outstanding Reserve}}{\text{Equity}} \leq 3:1$$

$$\frac{\$46,295,000}{\$(2,170,379)} = -21.33$$

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.

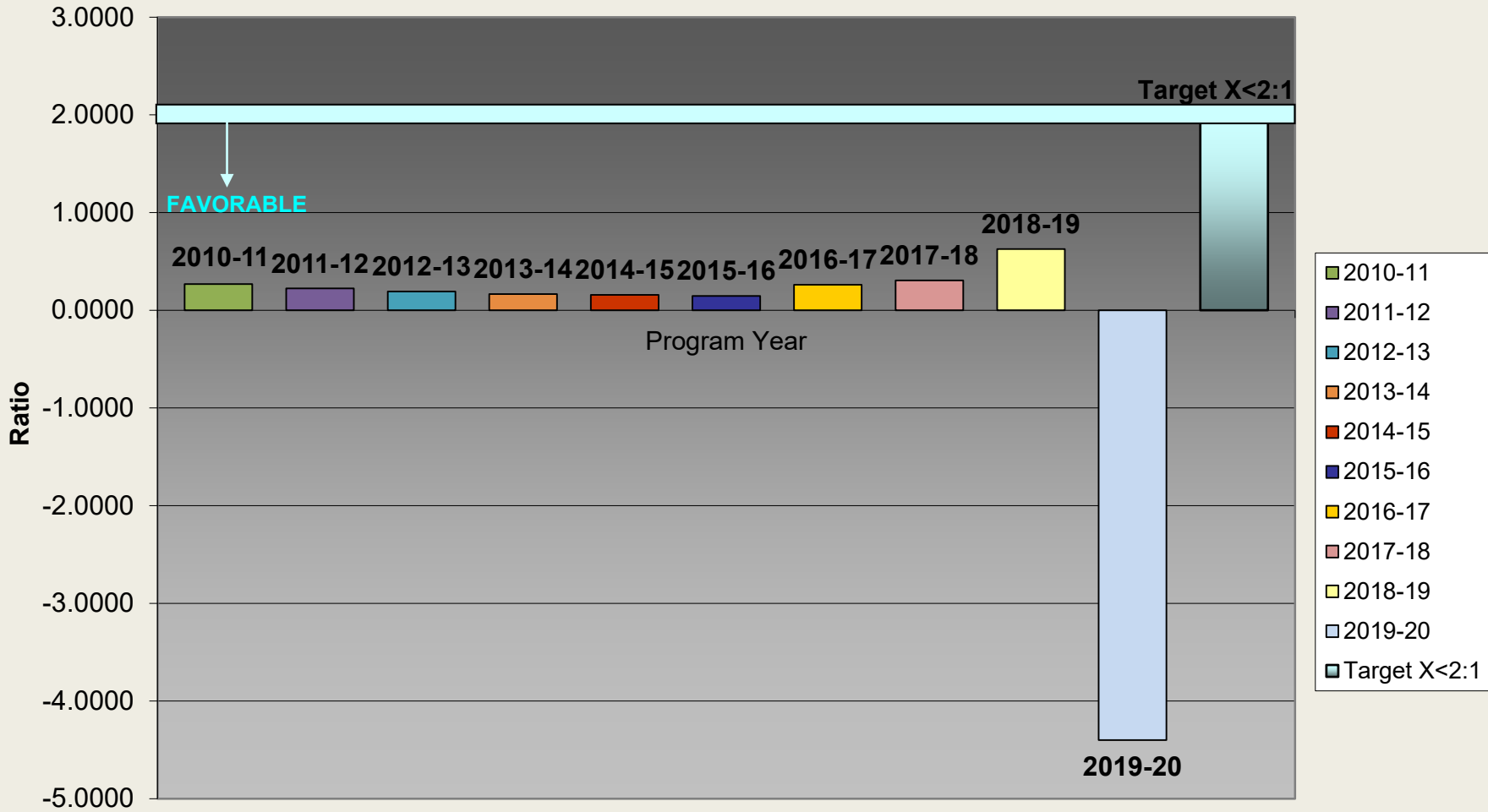
Takeaway: ACCEL has many years of prudent funding that lead to a strong overall financial position. Since then, ACCEL's claims activity erased those years of prudence, and show a need to rapidly increase funding. This ratio does not work properly when net assets are negative.

Example: 2019-20

$$\frac{\text{Net Contributions}}{\text{Equity}} \leq 2:1$$

$$\frac{\$9,549,326}{\$(2,170,379)} = -4.40$$

ACCEL Target Equity Ratio Net Contribution to Equity



2019-20 Program Year Trends

2017-18

- ACCEL retained \$4,000,000 for this year of the study. We saw the impacts of claims trends, and recommended Members maintain retro funds in ACCEL.
- ACCEL's financial standing took a considerable step back, and needed to monitor funding guidelines, retro payments and watch 'Test Year' (-8.6M) fall into the available retro funds, and monitor recent years loss trends (*years not in retro results*).
- Met all goals except increase in reserves greater than 20% (76%).

2018-19

- ACCEL's positions continue to deteriorate, and we recommend Members maintain their retro funds within ACCEL and continue to take action to further restrict available returns.
- Rates continue to increase in an effort to improve funding. 2013-2015 were ACCEL's highest claims values on record, and impacted our financials dramatically, those impacts are fully incorporated in this report, but other claim impacts are still outstanding.

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.**
- **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.**

- Any Questions?

