

RIVERSIDE TRANSIT AGENCY
1825 Third Street
Riverside, CA 92507

October 27, 2005

TO: BOARD OF DIRECTORS

THRU: Larry Rubio, Chief Executive Officer *L.R.*

FROM: Chris Gallanes, Chief Financial Officer *C.G.*

SUBJECT: Annual Report for Public Agencies Self-Insured for Workers' Compensation Benefits

Summary: The Agency has been self-insured for workers' compensation benefits since April 1991. Prior to that, it was insured with the State Compensation Insurance Fund. The change to a self-insured plan permitted the Agency greater flexibility to work with the designated claims administrator to address employee needs while ensuring control of workers' compensation costs.

On October 1st of each year, public agencies that are self-insured for workers' compensation benefits are required to file a report with the State of California covering activity for the previous fiscal year. The California Labor Code requires each public self-insurer to advise its governing Board within 90 days after submission of the Self-Insurer's Annual Report of the total liabilities reported and whether current funding of those liabilities is in compliance with the requirements of Government Accounting Standards Board Publication 10.

The Agency's annual report was filed with the State prior to the October 1st deadline. In conjunction with this filing, Advanced Risk Management Techniques, Inc. (ARMTECH) completed an actuarial study of the Agency's self-insured workers' compensation and vehicle liability programs as of June 30, 2005. The study shows Agency workers' compensation liabilities totaling \$1,577,656. Included within the \$1,577,656 figure is a factor for Incurred But Not Reported (IBNR) claims as well as the recommended margin for contingencies. The Agency is required to consider those factors as part of the assets set aside for workers' compensation liabilities.

A comparison of Projected Financial Position for total workers' compensation and vehicle liability is shown below:

	June 30, 2004	June 30, 2005	Change Incr.+/ (Decr.)
Assets Available (Reserves) (Approximate & Unaudited)	\$ 4,371,979	\$ 4,153,902	\$ (218,077)
Estimated Outstanding Losses	2,916,259	2,023,588	(892,671)
Gross Projected Financial Position (Reserves - Estimated Outstanding Losses)	<u>1,455,720</u>	<u>2,130,314</u>	<u>674,594</u>
Margin for Contingencies (20% of Estimated Outstanding Losses)	583,251	404,717	(178,534)
Net Projected Financial Position (Projected Financial Position (Gross) - Margin)	<u>872,469</u>	<u>1,725,597</u>	<u>853,128</u>

Assets Available (Reserves) consist of workers' compensation and vehicle liability reserves currently being recognized by the Agency. Estimated Outstanding Losses are derived by ARMTECH statistical formulae based on annual claims, cost per claim, and claim severity. Reserves minus Estimated Outstanding Losses equal Gross Projected Financial Position. This represents the amount of reserves remaining after payment of all losses and claims, excluding a margin for contingencies. ARMTECH includes 20 percent of the Estimated Outstanding Losses amount as contingency in its calculation. This Margin for Contingencies is subtracted from Gross Projected Financial Position to derive Net Projected Financial Position. Again, Projected Financial Position (both Gross and Net) is the amount of reserves remaining after payment of all losses and claims.

Agency reserves set aside to cover estimated losses and claims decreased by \$218,077 when comparing June 2005 to June 2004. Staff derives these reserve amounts based on an analysis of actual claims, claim amounts, and claim severity. Estimated Outstanding Losses have decreased by \$892,671. This is mainly attributed to a decrease in the number of liability and workers' compensation claim projections resulting from aggressive claim closeout and implementation of staff safety initiatives in the 2005 period. Because of the decrease in Estimated Outstanding Losses for 2005, the Margin for Contingencies that is applied to Gross Projected Financial Position has decreased by \$178,534. Net Projected Financial Position increased from \$872,469 to \$1,725,597. This reflects a growth of \$853,128 in remaining reserves.

When future investment income is considered, The Agency has a total confidence level at over 90 percent on its self-insured workers' compensation program and its vehicle liability pool participation. A confidence level is the degree of certainty an actuary holds that assets are sufficient to pay losses.

The current funding of our workers' compensation liabilities is in compliance with the requirements of Government Accounting Standards Board Publication 10 and other generally accepted accounting principles.

Committee Recommendation:

This item was discussed at the Board Budget and Finance Committee meeting of October 12, 2005. The Committee members unanimously approved recommending this item to the full Board of Directors for their consideration.

Recommendation:

Receive and file.