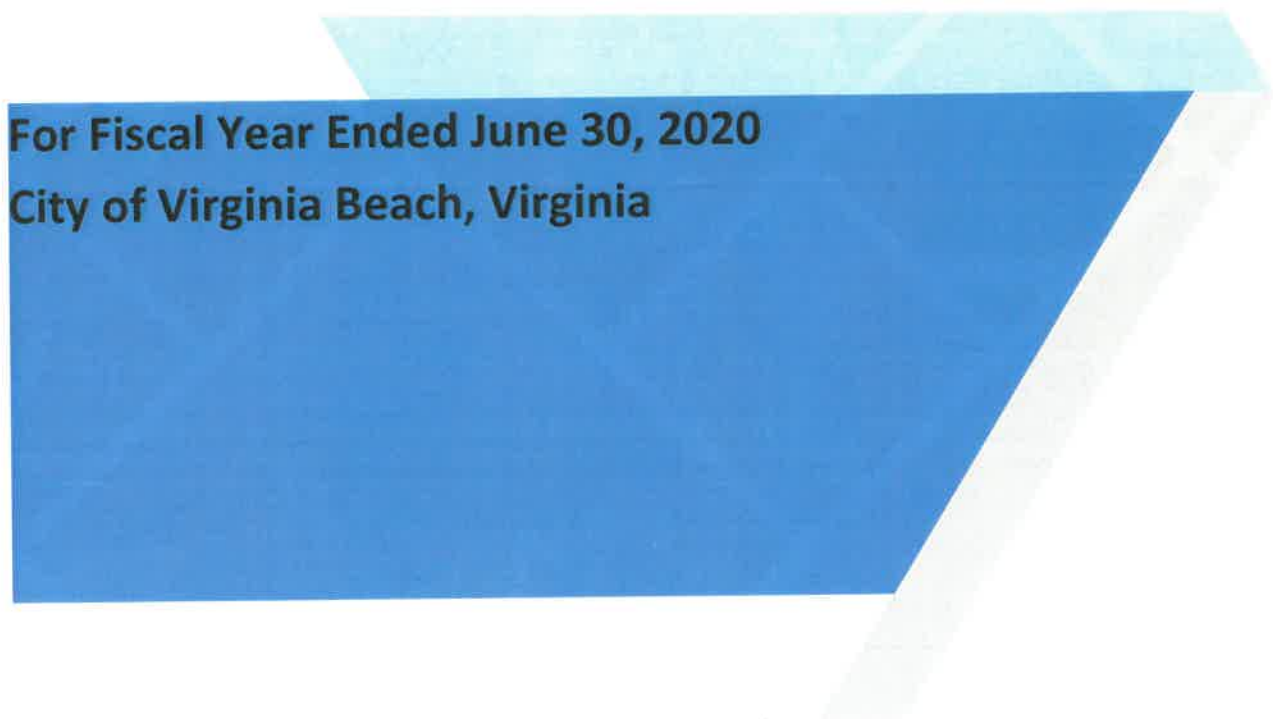




Annual Risk Management Financial Report

For Fiscal Year Ended June 30, 2020
Virginia Beach, Virginia

Annual Risk Management Financial Report



**For Fiscal Year Ended June 30, 2020
City of Virginia Beach, Virginia**

Presented by
Department of Finance
Jeff Rodarmel, Acting Co-Director
Wendy Hu, Acting Co-Director
Leah Hunger, Risk Management Administrator

Acknowledgements

The preparation of this report has been accomplished by the efficient and dedicated services of the Division of Risk Management staff. All contributions are sincerely appreciated and clearly reflect on the high standards that are set by the City of Virginia Beach.

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Emergency Management

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External Support

CorVel Corporation, Willis Towers Watson

It is also appropriate to thank the City Manager, Mayor and Members of City Council for making possible the excellent financial position of the City through their interest, support, planning and conducting the financial affairs of the City, including Risk Management.

Sincerely,

Jeff Rodarmel, Acting Co-Director
Department of Finance



Wendy Hu, Acting Co-Director
Department of Finance

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City of Virginia Beach

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VIRGINIA BEACH, VA 23456-8081

December 8, 2020

Mr. Patrick Duhaney, City Manager
Municipal Center
Virginia Beach, Virginia 23456

Dear Mr. Duhaney,

The Risk Management Financial Report of the City of Virginia Beach, Virginia for the fiscal year ended June 30, 2020 (FY20), is hereby submitted. The report is presented in five sections:

- Risk Management Division
- Total Cost of Risk
- Risk Management Division Activities
- Supporting Data
- Terms and Definitions

During the year, the Risk Management Division staff provides professional and knowledgeable services to the City with respect to managing risk. The City maintains an internal service fund to account for revenue and expenses associated with this function. The Risk Management Internal Service Fund accounts for the self-insured portion of workers' compensation, general liability, and automobile liability claims as well as the premiums associated with purchased insurance. This fund has five broad areas of cost:

- Workers' Compensation Claims
- Insurance Premiums
- General Liability Claims
- Automobile Liability Claims
- Administrative Costs

Cash Expenditures - Risk Management Function			
Department	FY19	FY20	YoY % Δ
Workers' Compensation Claims	7,055,122*	8,745,190*	24%
Insurance Premiums	2,677,926	3,097,885	16%
General and Auto Liability Claims	3,652,594	1,718,586	-53%
Administrative Costs	1,237,784	1,237,963	0%
Total	\$ 14,623,426	\$ 14,799,624	1%
*Net of recoveries			

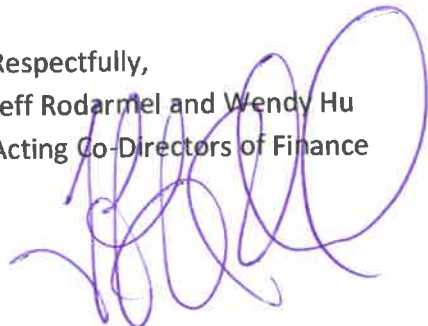
Total cash expenditures in FY20 were \$14.8 million, which includes the costs associated with paying and processing claims, defending those claims, and providing excess insurance coverage. The General liability and Automobile liability claims expense totaled \$1.7 million, which is down by 53% from last year. FY19 included two high-cost claims not recurring in FY20.

Workers' compensation continues to be the leading expense for the Division's activities, with FY20 cash expenditures of \$8.7 million, net of recoveries from subrogation and excess liability coverage primarily related to the 5/31 event from FY19. There are two main cost drivers for workers' compensation. The first is the cost of lost wages and medical expenses paid to retirees that were approved for job related disability retirement. The Virginia Retirement System (VRS) requires that all 500 weeks of workers' compensation lost wage payments be paid before VRS payments will begin. Approximately \$2.3 million was paid in FY20 in lost wages to retirees or others no longer employed by the City. The second cost driver is the overall increase of medical costs in general, as well as the increase in more serious medical issues that have contributed to the overall workers' compensation costs in FY20. Total FY20 expenses for medical services was \$6.5M.

The City of Virginia Beach conducts an annual actuarial study to estimate the obligation for future payments resulting from claims due to past events. All valid outstanding claims must be paid by the City and failure to maintain cash balances to cover the liabilities may impact the City's bond ratings and future interest costs to the City. The actuarial study estimated the total unpaid loss for our existing claims as of June 30, 2020 is \$44.6M. The Risk Management Fund currently has \$34.5M in cash to cover these existing claims, which puts us at a claims deficit of \$10.1 million, or 23% of the total future liability. It is recommended that a 70% funding level be maintained, and the City is currently at 77%.

Respectfully,

Jeff Rodarmel and Wendy Hu
Acting Co-Directors of Finance



Leah Hunger
Risk Management Administrator



Risk Management is a division of the Finance Department and serves as the insurance company for the City. The Risk Management Division was established to provide risk prevention and mitigation services aimed at reducing the City's overall losses, in a manner which supports the City's strategic mission and objectives. Additionally, the Risk Management Division works with Occupational Health and Safety in identifying areas for training or prevention.

Our Mission is to actively protect the present and future assets of the City of Virginia Beach government while providing the services to maintain a high quality of life for its citizens.

There are many services provided by Risk Management, including the processing of liability claims for property damage, bodily injury, and physical damage. In addition, Risk Management is responsible for "Employee Dishonesty" bonds covering all employees. Risk Management administered vehicle titles for 228 purchased/sold/seized/auctioned vehicles in FY20. Risk Management works in correlation with Occupational Safety and Health and the operating departments via the Risk Management and Safety Committee to assist in making the workplace safe for all employees. There are two claims adjusters to manage all liability claims and one claim adjuster that coordinates with a third-party administrator, CorVel, to handle workers' compensation claims for the City employees who are injured on the job. Risk Management also provides insurance coverage for all city owned buildings and vehicles, as well as all other city owned property.

The city is exposed to a variety of accidental losses and has established a risk management strategy that attempts to manage and minimize the cost of risk. Risk control techniques have been established to reasonably assure that city employees are aware of their responsibilities regarding loss exposure related to their duties. In addition, these techniques have been established to reduce possible losses to property owned or under the control of the city. The following programs provide specific details of each area.

- Self-Insured Claims Administration – Workers' Compensation, General Liability, and Auto Liability in accordance with legal requirements.
- Insurance Procurement
- Vehicle Titling
- Payment of Legal and other Costs in Defending Claims

The Risk Management Division accounts for all costs through the Risk Management Internal Service Fund (ISF). In the Supporting Data section Exhibits 8-10 are the FY20 financial statements for the Risk Management ISF. The Risk Management Division has \$44.6 million in outstanding accrued estimated liability for claims and judgements. The overall fund has a deficit of \$10.9 million as of June 30, 2020.

The total cost of the Risk Management function in FY20 was \$14.8M, a 1% increase when compared to last year's net expenses of \$14.6M (adjusted for recoveries). The components of the total cost are detailed below in (Figure 1).

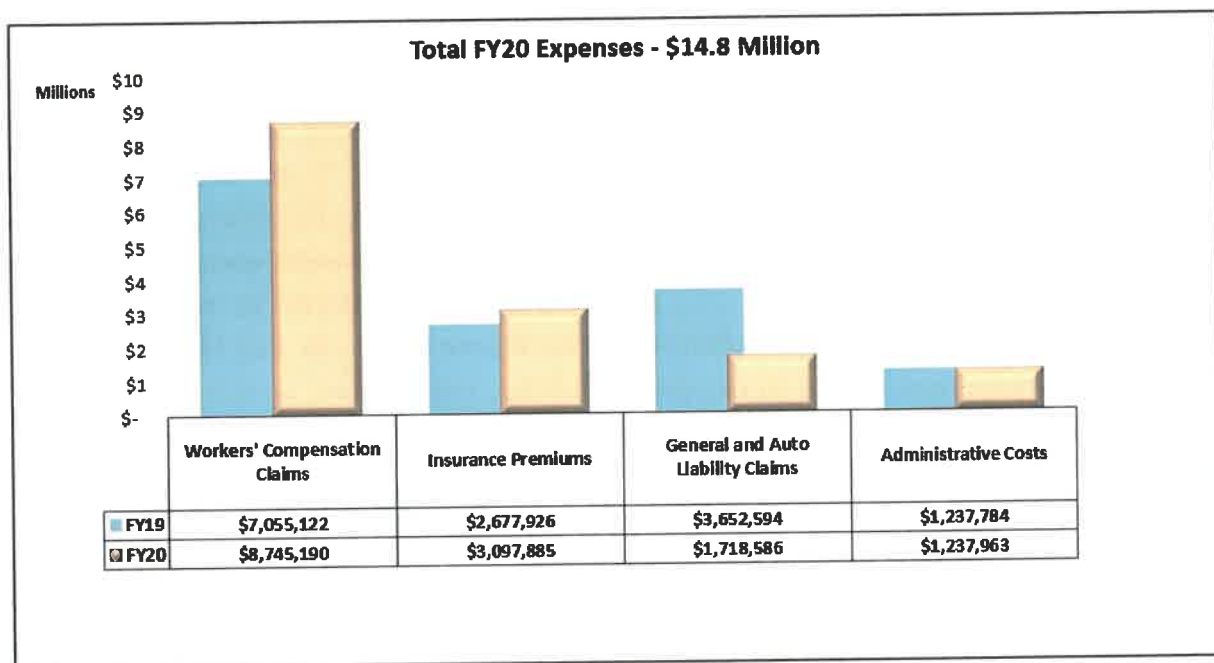


Figure 1

- *Workers' Compensation Claims (net of recoveries)* – Increased by 24%
- *Insurance Premiums* – Increased by 16%
- *General & Auto Liability Claims* – Decreased by 53%
- *Administrative costs* – Remained relatively the same

Full-Time Equivalents (FTEs) are used as an exposure basis to trend the Cost of Risk for the Risk Management function. As shown in the chart below (Figure 2), the total Cost of Risk per FTE fluctuated from FY16-FY20 with a slight decrease in the current year.

The Cost of Risk per FTE was further reviewed by category (Figure 3). A review of these categories shows that the FY19 to FY20 fluctuations are attributable to a slight rise in Workers' Compensation & Insurance Premiums while General & Automobile Liability decreased by roughly half of the costs of FY19, which included two high-cost claims not recurring in FY20. Administrative costs remained relatively the same.

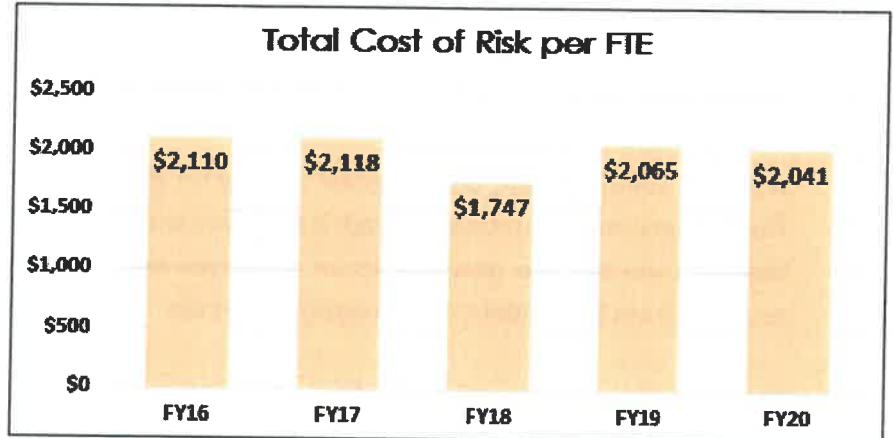


Figure 2

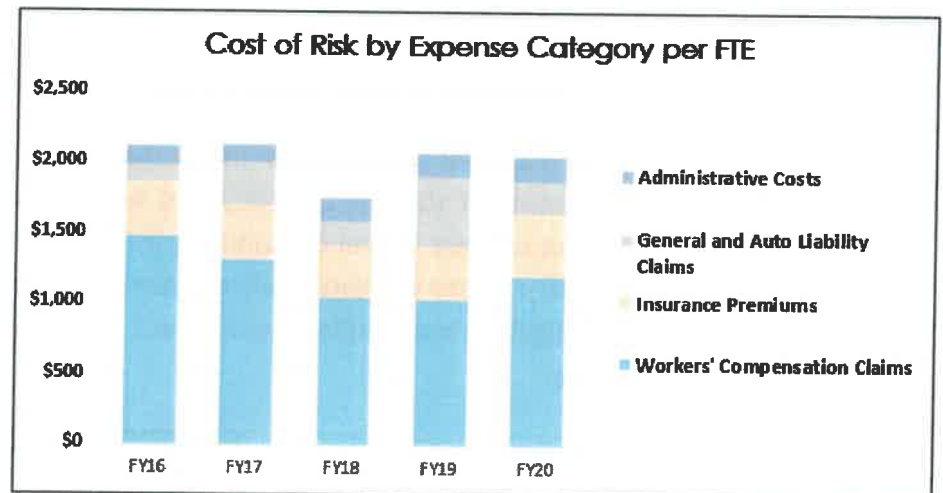


Figure 3

Workers' Compensation makes up a significant portion of the Division's activities. Medical costs and lost wages are the major drivers of the costs. The following sections provide more details on the total cost of risk for FY20.

Actuarial Analysis

Risk Management has incorporated a yearly actuarial report, which is conducted by an accredited actuarial firm. The claims liability of \$44.6 million is based on the cost of settling the claims. This includes incremental claim adjustment expenses (i.e., outside legal assistance) and estimated recoveries on unsettled claims as required by GASB Statement No. 30.

Risk Management Division Activities

Risk Management Division activities can be divided into five categories that make up the expenses of the Division. These categories discussed below include: Workers' Compensation, Insurance, General Liability, Auto Liability, and Administrative costs.

Workers' Compensation

Workers' compensation is the highest priority for Risk Management due to its financial impact. The workers' compensation program is the mechanism by which statutory benefits prescribed by Virginia state law are provided to an employee due to a job-related injury (including death) resulting from an accident or occupational disease.

There are two major types of benefits paid by the city for workers' compensation related injuries. The first type is *medical*, which involves payment for medical treatment. The treatment is provided by a physician chosen from a panel of at least three physicians provided by the city. The second benefit type is *indemnity*. When an employee is incapable of work, the city is legally responsible to pay 66 2/3% of the employee's average weekly wages for up to 500 weeks.

Claims management is a major component of the workers' compensation program. This function entails the management of the city's liability and workers' compensation claims. The Risk Management Division engages CorVel Corporation, a Third-Party Administrator (TPA), to assist with the administration of the Workers' Compensation program. Services provided by the TPA include claims investigation, establishing loss reserves, claims adjusting, bill review, and claims payments processing.

The total cost of the workers' compensation program was \$10 million in FY20. Included in this amount are claims payments net of recoveries, the annual TPA fee's, and our excess insurance premium.

Total FY20 Net Costs of WC Program	
Claims Paid	\$ 11,133,872
Subrogation, Excess Liability & Other Recoveries	(2,388,682)
Net Claims Paid	8,745,190
Other WC Costs:	
Basic WC Claim Admn	180,000
WC Bill Review Fee	312,180
Onsite Specialist Fee	103,320
Excess WC Premium	633,481
Total FY20 Net Costs	\$ 9,974,171

Table 1

Workers' Compensation Claims

FY20 payments on workers' compensation claims, net of recoveries, were \$8.7 million, representing 59% of Risk Management total expenses for the year. There are three types of claims under the Virginia Workers' Compensation Act.

- *Report Only* – a claim where an employee reports a minor accident or close call that does not require medical attention, and generally does not have any associated costs.
- *Medical Only* – a claim where an employee reports an accident that does not result in lost time or permanent disability but does require medical treatment.
- *Indemnity* – a claim where an employee is injured to the extent that they are unable to work, incurs lost time (temporary or permanent disability), and generally will require medical treatment.

The following (Figure 4) shows the number of retirements by type since FY16. Retirements in FY20 totaled 203, a decrease of 42 individuals (-22%) from FY19.

Type of Retirement	FY-16	FY-17	FY-18	FY-19	FY-20
Disability, Job	19	9	14	18	9
Disability, Non- Job	13	9	11	2	3
Service	194	173	198	225	191
Total	226	191	223	245	203
% Job-Related	8.4%	4.7%	6.3%	7.3%	4.4%

Figure 4

The City continues to pay workers' compensation claim benefits after the employee is no longer an active employee (whether service retired, disability retired, or terminated).

Below (Figure 5) represents an analysis of FY20 Workers' compensation gross amounts paid (before recoveries) by claim type, employee status, and cost distribution. This data refers to payments made in FY20 for workers' compensation claims incurred in FY20 as well as previous fiscal years.

Claim Type	Employee Status	Claims Paid in FY20				Total
		Claims	Indemnity	Medical	Expense	
Indemnity	Active	225	1,588,567	4,533,076	28,784	6,150,427
	Inactive	57	2,275,763	1,114,195	30,499	3,420,457
Medical Only	Active	404	-	407,508	1,439	408,947
	Inactive	81	-	55,152	2,297	57,449
Subtotal Claims		767	\$ 3,864,330	\$ 6,109,931	\$ 63,019	\$ 10,037,279
Prescriptions	Active					203,882
	Inactive					651,340
Subtotal Prescriptions						\$ 855,221
Nurse Case Management	Active					208,129
	Inactive					33,242
Subtotal Nurse Case Management						\$ 241,371
Total Paid on Workers' Compensation Claims						\$ 11,133,872

Figure 5

The three claims cost elements are:

- *Indemnity* – lost time payments for disability as well as settlement contributions for partial and total disability.
- *Medical* – payments for medical care including prescriptions and nurse case management. Treatments like physical therapy are also included in the medical category.
- *Expense* – payments associated with bill review, investigations, legal costs and other administrative costs associated with the management and resolution of the case.

The Figure 5 table above refers to payments made in FY20 for workers' compensation claims/benefits, which include payments made for claims incurred in FY20 as well as previous fiscal years.

The following details refer to new claims incurred in FY20. Dollar amounts below include payments made on claims incurred in FY20 plus associated loss reserves.

Data provided by our TPA (shown in Figure 6) shows that the City's Workers' compensation claim count in FY20 was 1,080 claims, compared to a claims count in FY19 of 1,589, a year over year decrease of 509 claims. The current year decrease is primarily due to the FY19 increase from the 5/31 event.

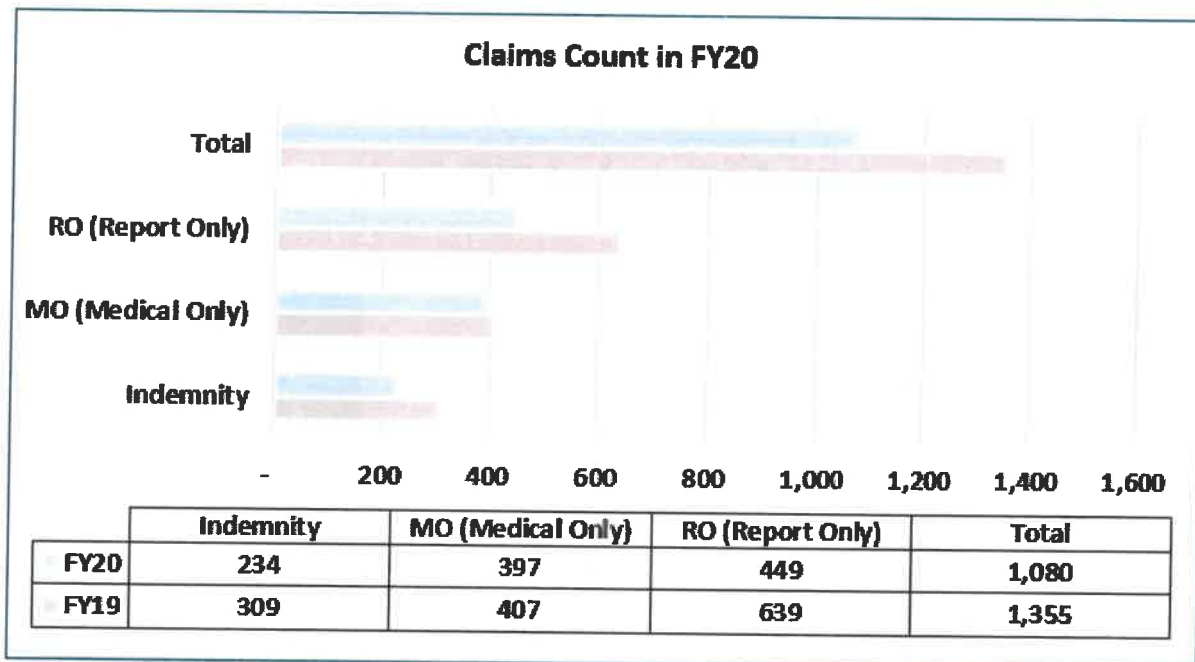


Figure 6

With respect to new claims for injuries incurred in FY20, there were 631 Medical Only and Indemnity claims filed in FY20 totaling \$3.8 million in incurred workers' compensation losses. Incurred losses are the total amount of paid claims and loss reserves associated within a certain duration of time.

Of the 631 medical and indemnity claims, six claims were valued at >\$100,000 at 6/30/20, which totaled \$709K. It is expected that the costs of these claims will increase as the claims develop and mature.

Loss development is the difference between the original loss as initially reserved and its evaluation at subsequent dates. Adjustments in loss reserves occur because information needed to establish precise reserves might not be available at the time the claim is filed and the medical information necessary to establish the reserve will not be forthcoming until weeks or even months into the claim. The chart below (Figure 7) shows the development of claims between FY16 and FY20, which demonstrates the increase in incurred losses as the claims age. In particular, the 5/31 event which occurred in FY19 was not only a significant event, but it also occurred late in the fiscal year. The result is an unusually large increase in FY19 loss development during the subsequent year.

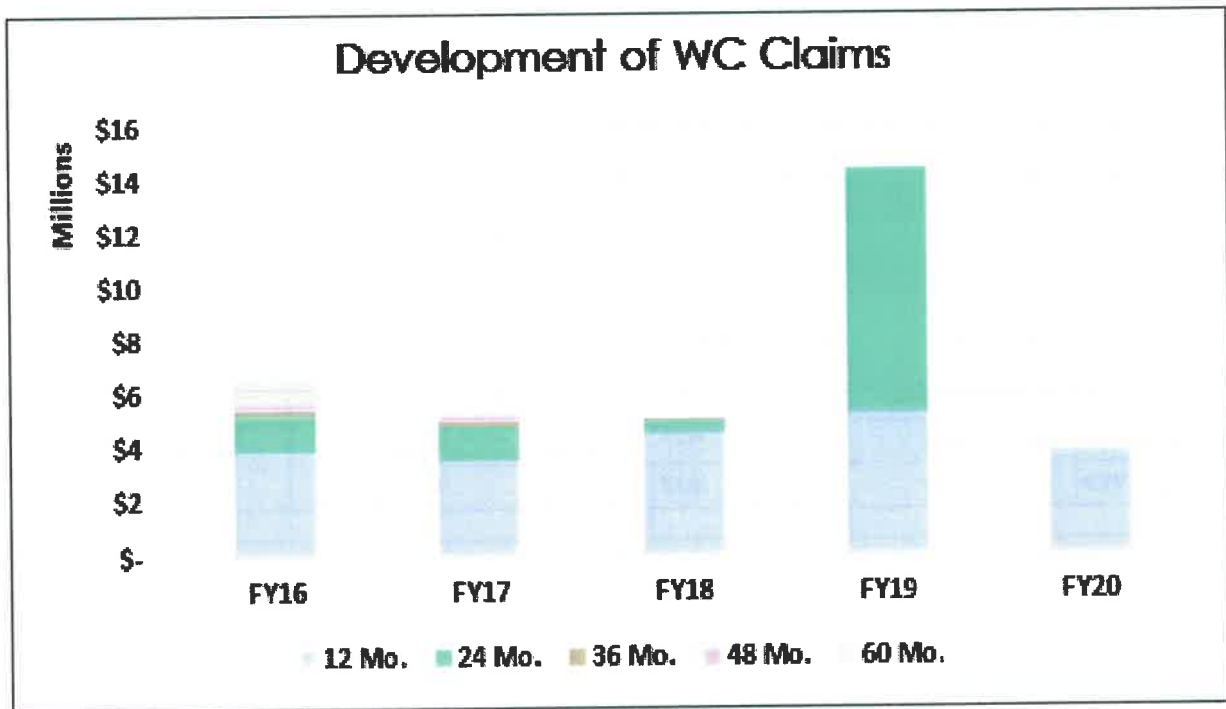


Figure 7

Frequency and severity are key elements to consider in measuring the costs of the workers' compensation program. Frequency of losses is a measure of the number of occurrences of a loss for a specific period. Severity of losses is a characteristic that indicates the size of losses in terms of dollar amount expected to be paid over the life of the claim. The following (Figure 8) shows from FY16-FY20 the frequency and severity of developed claims over time. For the purpose of this year-by-year comparison, the graph below (Figure 8) includes only Indemnity claims and excludes the 5/31 event.

The frequency of claims per 100 FTE has fluctuated since FY16 with FY20 increasing from FY19. The average cost per claim decreased 23% in FY20 from FY19

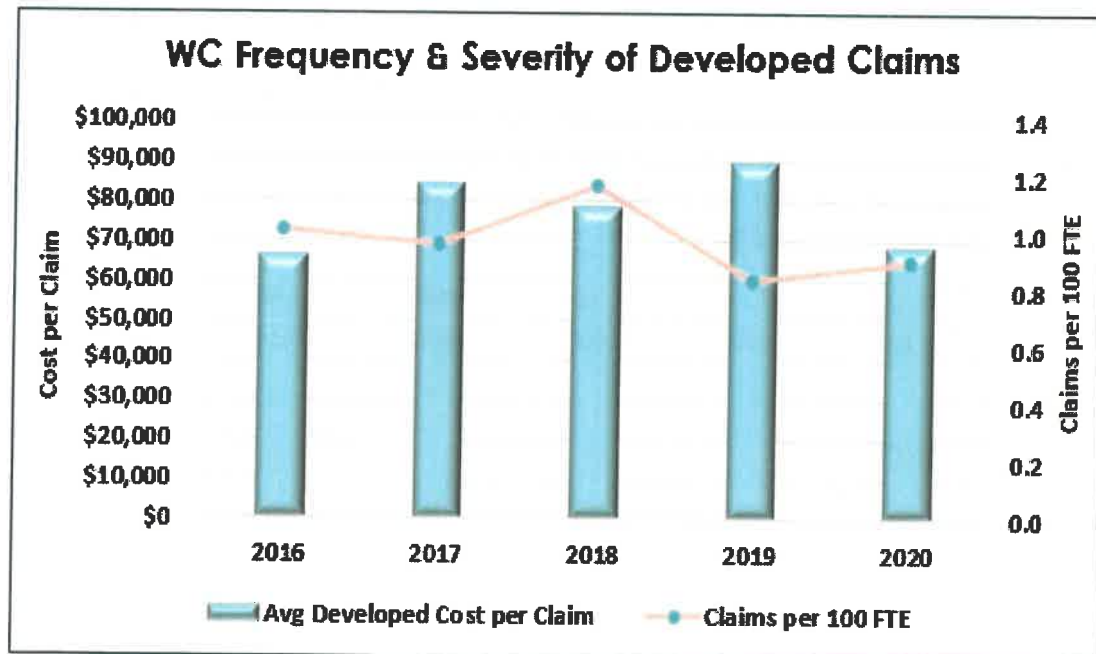


Figure 8

The cost distribution of claims filed in FY20 was reviewed (Figure 9) by evaluating three cost elements: *Indemnity, Medical, Expense*. Cost distribution for FY20 is consistent compared to prior years.

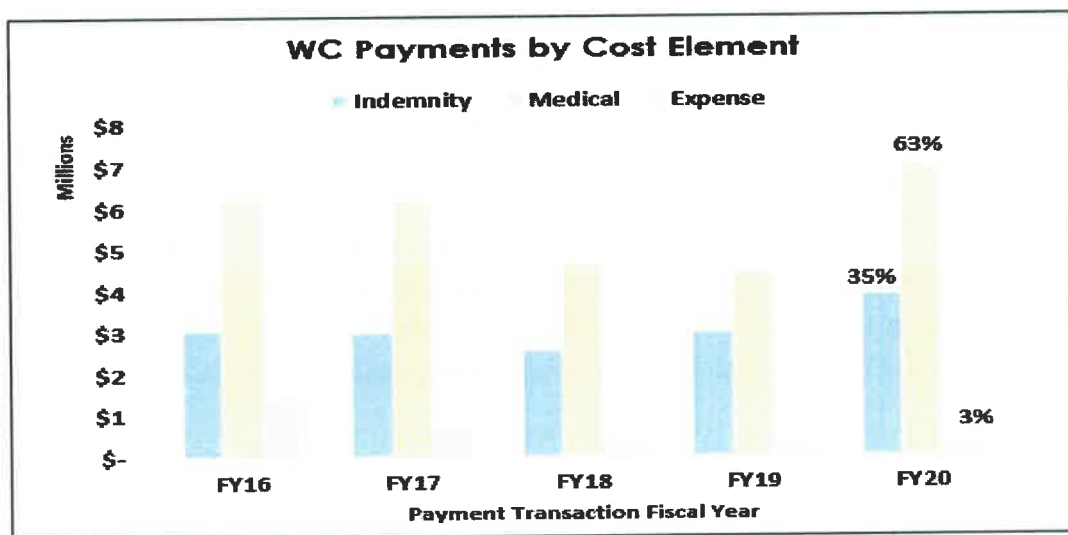


Figure 9

Indemnity- loss wage payments for disability as well as settlement contributions for partial and total disability and accounted for 35%.

Medical- payments for medical for medical care including prescriptions and nurse case management and accounted for 63%

Expense- payments associated with bill review, investigations, legal costs and other administrative costs associated with management and resolution of the case and accounted for 3%

Insurance Procurement

Insurance procurement is another key function within the Risk Management Division. This function consists of the procurement of the city's property insurance policies, insurance verification for vendors contractors, and contractual review of insurance and indemnification provisions for the various contracts and agreements entered in by the city. It includes first party insurance that indemnifies the owner or user of the property for its loss when the damage is caused by a covered peril such as fire or explosion. Insurance also covers financial loss due to business interruption.

Property Limits – The Risk Management Fund will pay property losses such as wind, fire, flood, earthquake, explosion, etc. The total amount of any loss payable from the Risk Management Fund shall not exceed the actual cost to repair, restore, or replace property in like kind and quality.

The city purchases several lines of excess insurance to protect its assets and operations. These include general liability, automobile liability, property, and workers' compensation. The city procures these lines of coverage to supplement its self-insurance program. See Exhibit 7 in the Supporting Data section for additional information on policies. The self-insurance Internal Service Fund finances the city's liability losses up to \$2 million and purchases excess coverage up to \$10 million per occurrence and \$20 million in aggregate. Once the Self-Insured Retention (SIR) has been exceeded, the additional loss expenses are reimbursed to the city by the excess insurer.

Insurance Premiums

Total paid on insurance premiums was \$3 million representing 21% of Risk Management total payments for the year (Table 2). Risk Management purchases the following types of insurance coverage:

- *Fire and Property* – indemnifies the owner or user of property for its loss when the damage is caused by a covered peril such as a fire or explosion. Also covers the financial loss due to business interruption.
- *Excess coverage for Workers' Compensation, Motor Vehicle and General Liability* – supplements the City's self-insurance program and provides coverage once (SIR) limits have been reached. SIR for workers' compensation is \$1.25M, for motor vehicle liability is \$2M, and for general liability is \$2M.

FY20 Insurance Premium Costs (in millions)	
Fire and Property	\$ 1,603,708
Excess Motor Vehicle	\$ 1,247,055
Other Miscellaneous Liability	\$ 247,122
	<u>\$ 3,097,885</u>

- *Other Miscellaneous Liability* – several policies are purchased to provide liability coverage for: aviation, medical professionals, crime, (TULIP) Tenant User Liability Insurance Policy, Equine, Marina, Volunteers, Cyber, etc.

Table 2

Liability Claims Program

Total paid from the City of Virginia Beach on Liability claims was \$1.7 million representing 12% of the Risk Management total payments for the year.

Liability claims consist of the following:

General Liability – claims other than automobile and professional liability.

Auto Liability – claims involving motor vehicles.

Liability Claims Paid	
General Liability	\$ 1,420,474
Auto Liability	298,112
Total	\$ 1,718,586

Table 3

The costs in (Table 3) do not include payments made directly by individual departments, or the costs to repair city vehicles, which are absorbed by the city garage and then charged back to individual departments. The table also does not include accrued losses not yet paid.

General Liability Claims

General liability (GL) Insurance protects the city from most liability exposures other than automobile and professional liability. The city self-insures for claims of \$2 million or less. Approximately 90% of all general liability claims manifest themselves soon after an incident. All claims are thoroughly investigated with a prompt response in the way of either payment or denial. In the last four years, the city has been promptly investigating, paying or denying claims within 30 to 60 days. Statistics support the facts that the longer a claim is open, the more expensive it will become. Additionally, the city has aggressively applied depreciation to property damage claim settlements, when applicable, further reducing payment amounts. All general liability claims have been adjusted in house with no TPA's other than appraisal services. Finally, we do not solicit claims and rarely open a claim file until the written notice of claim is received.

Frequency and severity are key elements to consider in measuring the costs of general liability claims. There was a total of 212 new general liability claims filed in FY20. 196 of those claims related to claims that were <\$5K and the severity of cost totaled \$71K or 4%. One important thing to note is that in the <\$5K totals, denied claims were also included. The more severe claims that were >\$5K totaled 16 and the severity of cost was \$1.9M or 84%, which does include loss reserves not yet paid.

The chart below (Figure 10) shows the incurred layers of claims (paid or reserved) between FY16 and FY20, and clearly demonstrates that high severity claims account for most of the costs.

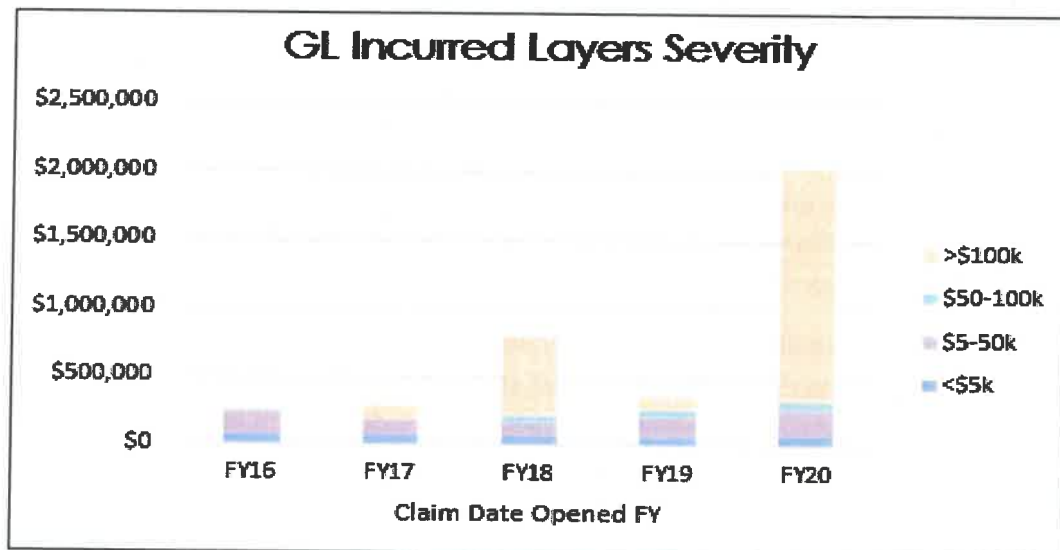


Figure 10

While frequency and severity are key elements to consider in measuring costs of the general liability claims, another factor to consider is the frequency of GL severe claims (Figure 11).

To minimize the distortion in the average cost per claim, the following information excludes denied claims, and loss data was capped at \$25,000 per claim.

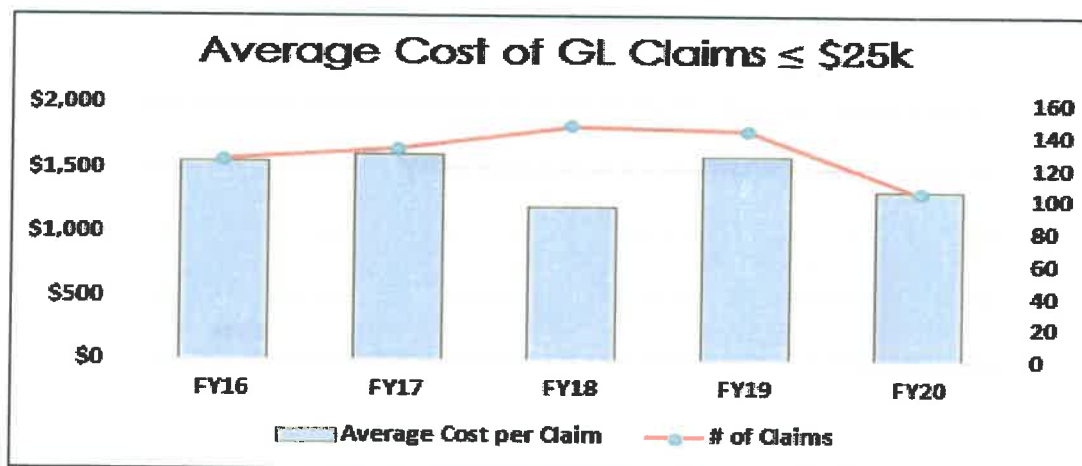


Figure 11

General Liability and Public Officials Liability Limits – General Liability and public official's liability losses are paid from the Risk Management Fund, either wholly or to the extent of the self-insured retention amount of any general liability or public official's liability insurance maintained by the

city. The city's excess liability policy with States Self-Insured Risk Retention Group (STATES) also covers general liability and public official's liability claims.

Auto Liability Claims

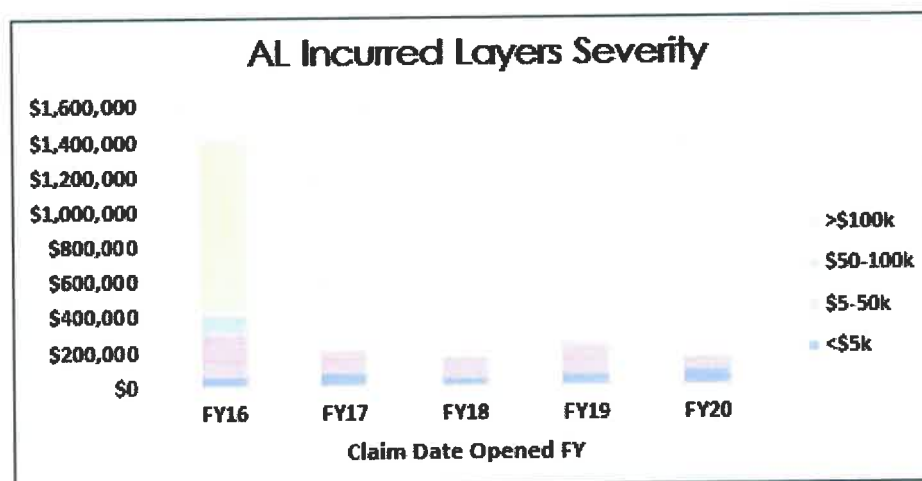
There are many factors that affect the adjustment of automobile liability claims. There are often issues of contributory negligence, sovereign immunity, and personal injuries. Claims can sometimes settle quickly when liability can be clearly established, although some claims can take years to litigate when there are multiple parties involved and issues that can only be resolved through the court system. Many small claims are easy to assess and settle. A small number of claims can result in high payouts for severe injuries.

Typically, an automobile liability claim file is opened, except those with bodily injury, when a written notice of claims is received. All automobile claims have been investigated and handled within the Risk Management Division versus being sent to an independent adjustment company. Bodily injury claims are negotiated either directly with the claimant or with their attorneys. Outside appraisers are used to inspect and provide written repair estimates assuring that we pay for only accident related damages, use aftermarket parts when available, and pay prevailing labor rates.

There was a total of 71 new automobile liability claims filed in FY20 totaling \$161K in incurred losses. Incurred losses are the total amount of paid claims plus loss reserves associated for the duration of the period. Denied claims are included in the <\$5K incurred layer.

While frequency and severity are key elements to consider in measuring costs of the automobile liability claims. Another factor to consider is the frequency of AL severe claims (Figure 12).

Figure 12



Due to this disparity and to minimize distortion in the average cost per claim, the following chart excludes denied claims and loss data was capped at \$25K per claim (Figure 13).

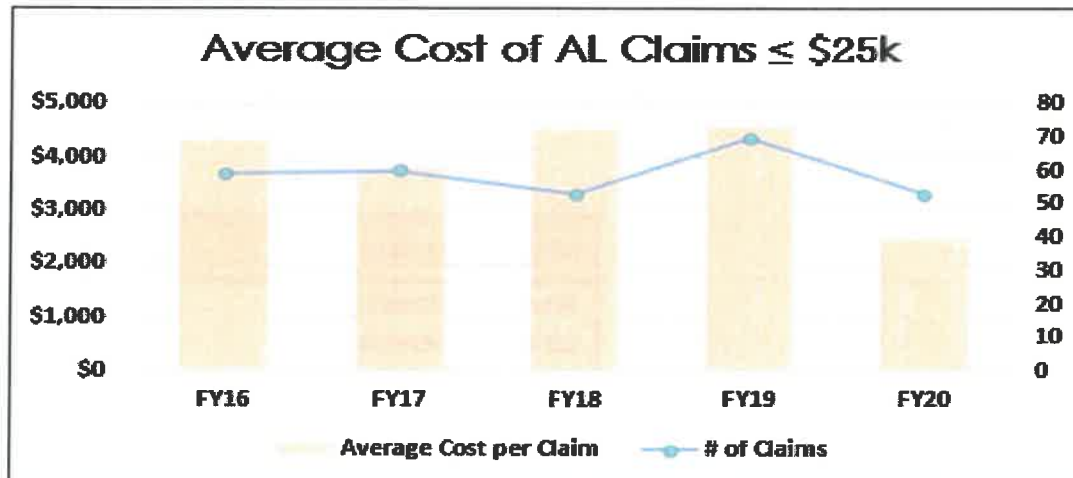


Figure 13

Automobile Liability Limits – The Virginia Department of Motor Vehicles certifies the City of Virginia Beach as a self-insurer for automobile liability. Automobile liability losses are paid from the Risk Management Fund either wholly or to the extent of the self-insured retention amount (currently \$2M) of any automobile liability insurance program maintained by the city. The city's excess liability policy with STATES RRG provides up to \$10M for any one occurrence and \$20M in aggregate claims in a one-year period.

Administrative Function

Administrative costs (Table 4) are the day-to-day operations of the division that are not directly associated with workers' compensation claims, liability claims or insurance premiums. The division serves as the internal insurance company for the City to protect present and future assets. Total paid in FY20 was \$1.2M or 8% of the total Risk Management payments.

Administrative Costs Paid	
Salaries and Benefits	\$ 461,020
Contractual Services	756,063
Other Administrative Costs	20,881
	\$1,237,963

Table 4

Disaster Recovery/Public Assistance Services

An important function of the Risk Management Division is the recovery of city assets after a disaster. The Stafford Act authorizes financial assistance to State and local governments following presidentially declared major disasters and emergencies. The Stafford Act describes the declaration process, the types and extent of assistance that may be provided, and fundamental eligibility requirements. Risk Management staff continues to stay up to date through training, working with other finance divisions on grant regulations, and by coordinating city wide reimbursement requests.

Subrogation and Recovery Services

Subrogation is the process of seeking reimbursement from the responsible party and/or an insurance company when damages are caused by the negligence of others. Risk Management subrogates against the responsible parties or their insurance company and works with the Office of the City Attorney when legal action becomes necessary. Administratively, the department also pursues recoveries from the city's excess liability policies. In FY20, general and automobile liability claims recovered \$265K through subrogation and workers' compensation recovered \$2.4M through subrogation and excess liability insurance recoveries. (Figure 14) below shows claim recoveries since FY16.

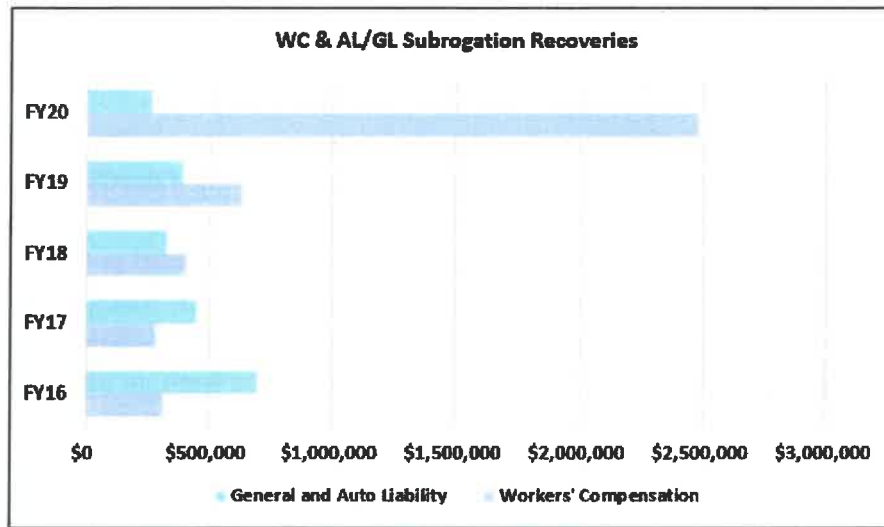


Figure 14

On occasion, it can take several months to get payment for damages from either the insurance company or the responsible individual. Other times, we make payment plans with the responsible party and have them sign stipulation agreements agreeing to regular monthly payments. Risk Management attempts to collect money owed to city departments from responsible parties for damages to city vehicles.

Return to Work Program

The Return-to-Work (RTW) Program is a team approach to managing disability within our City departments. It is a collaborative program that is managed by Occupational Safety and Health and the Risk Management Division and involves an entire team of stakeholders and advisors who are committed to ensuring the success of the program. There is a full-time registered nurse assigned to the program as the RTW Coordinator to assist with cost reduction and serve as a benefit to our injured/ill members. This is a best practice that ensures our injured/ill members are provided the best medical services possible. The program demonstrates to members that they are valued and involves them in the recovery process. The RTW Program assists all members with both job related and personal illness/disability concerns.

There are several goals of the RTW Program. The primary goal is to retain our valued, experienced members. Our second goal is to work with providers to provide enhanced benefits and exceptional medical treatment to injured/ill members. The third goal is to ensure safe, timely return of our injured/ill members to the workforce. The last goal is to reduce the costs related to disability both directly and indirectly.

Key components of the RTW Program include promoting change in how we perceive individuals who have a temporary or permanent impairment and can continue to be productive members of the workforce. It also includes training for supervisors and members about the program and

how to proactively respond to injuries and/or illness. The training is provided by Risk Management who plays an integral role in the program.

The RTW Coordinator conducts in-person visits with employees to assess medical recovery, RTW barriers, physical job requirements and modified duty opportunities. The Coordinator maintains communication between the injured/ill member, the physician, field nurse case manager, and the supervisor to preserve a good working relationship and attempt to avoid potential negative implications. The RTW Coordinator also assists in finding transitional employment that is appropriate for the member's abilities. Medical research has shown that people recover more quickly if they remain active and return to their normal routine as soon as possible, thereby limiting isolation and allowing continuous employer and employee connectivity. As participants in the RTW Program, members become an active part of the recovery process.

Occupational Health averages 150-160 verified duty visits per month. The RTW Coordinator participates in department claim reviews, Disabilities Committee meetings and provides updated information. The program has been successful in assisting departments in finding reasonable accommodations for employees with permanent impairments from on-the-job injuries, as well as finding permanent alternate jobs for those individuals who are unable to continue in their original position. The program has also successfully placed employees with temporary restrictions in alternate locations within the City when their employing department was unable to provide light duty. The facilities a reduction in the number of lost time days for workers' compensation claims, reducing indemnity costs.

It is the policy of the City to provide compensation and leave to employees who have sustained a job-related injury or illness. These employees are unable to perform essential job functions. Employees covered under this policy are placed in a "Lost Time" status. The employee continues to be paid while unable to work.

This section of the Risk Management Annual Report presents information as a context for understanding the information presented in earlier sections of this report.

Exhibits

Workers' Compensation Payments per Department	1
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Exhibit 1 – Workers' Compensation Payments per Department

The following table shows payments made on workers' compensation claims/benefits per department for the past five fiscal years. The departments are sorted by total amount paid in FY20 from largest to smallest. Only departments that has a payment are listed.

Workers' Compensation \$ Paid by Transaction Date					
	FY16	FY17	FY18	FY19	FY20
Public Works	\$ 1,578,010	\$ 1,305,410	\$ 1,325,739	\$ 1,108,050	\$ 3,976,335
Police	3,719,395	3,782,284	3,071,449	2,613,177	2,745,943
Sheriff	909,318	978,718	570,360	688,012	1,053,610
Public Utilities	629,921	510,306	295,343	612,471	960,548
Fire	1,488,519	1,324,482	887,816	1,025,555	948,893
Parks and Recreation	1,132,819	673,983	541,415	469,725	609,959
Human Services	571,652	629,436	447,531	540,087	321,282
Emergency Medical Services	311,107	325,898	212,391	162,522	144,950
Communications & Information Technology	22,007	60,753	21,279	27,813	85,645
Housing and Neighborhood Preservation	8,852	-	68,807	76,381	68,099
Planning and Community Development	21,518	18,457	16,653	49,486	57,589
Human Resources	44,095	127,185	111,434	14,182	41,446
Finance	64,783	21,375	-	1,629	31,670
Library	20,311	15,666	14,788	32,008	21,301
Convention and Visitor Bureau	15,623	6,242	39,817	40,654	19,679
Executive	842	-	-	796	16,529
Museums & Aquariums	29,793	55,985	8,419	126,159	12,861
Health	413	-	2,131	41,201	11,288
Emergency Communications	5,691	2,390	8,490	4,907	4,670
Judicial	8,030	2,598	1,130	1,426	637
Media and Communications Group	-	-	-	-	362
Commissioner of the Revenue	505	725	332	49,355	333
Treasurer	-	-	195	1,644	245
City Attorney	115	2,299	-	-	-
City Real Estate Assessor	72,780	4,657	473	-	-
Housing and Neighborhood Development	93,370	9,373	-	-	-
Legislative	-	1,620	2,709	-	-
Total	\$ 10,749,469	\$ 9,859,842	\$ 7,648,700	\$ 7,687,241	\$ 11,133,872

The top 8 departments accounted for 97% of the workers’ compensation payments made in FY20. Payments made in FY20 include payments for claims incurred in previous fiscal years. The following chart shows the distribution of payments for claims paid in FY20 for those incurred in FY20 and prior fiscal years for the top eight departments. The city continues to pay significant amounts on claims incurred in prior fiscal years.

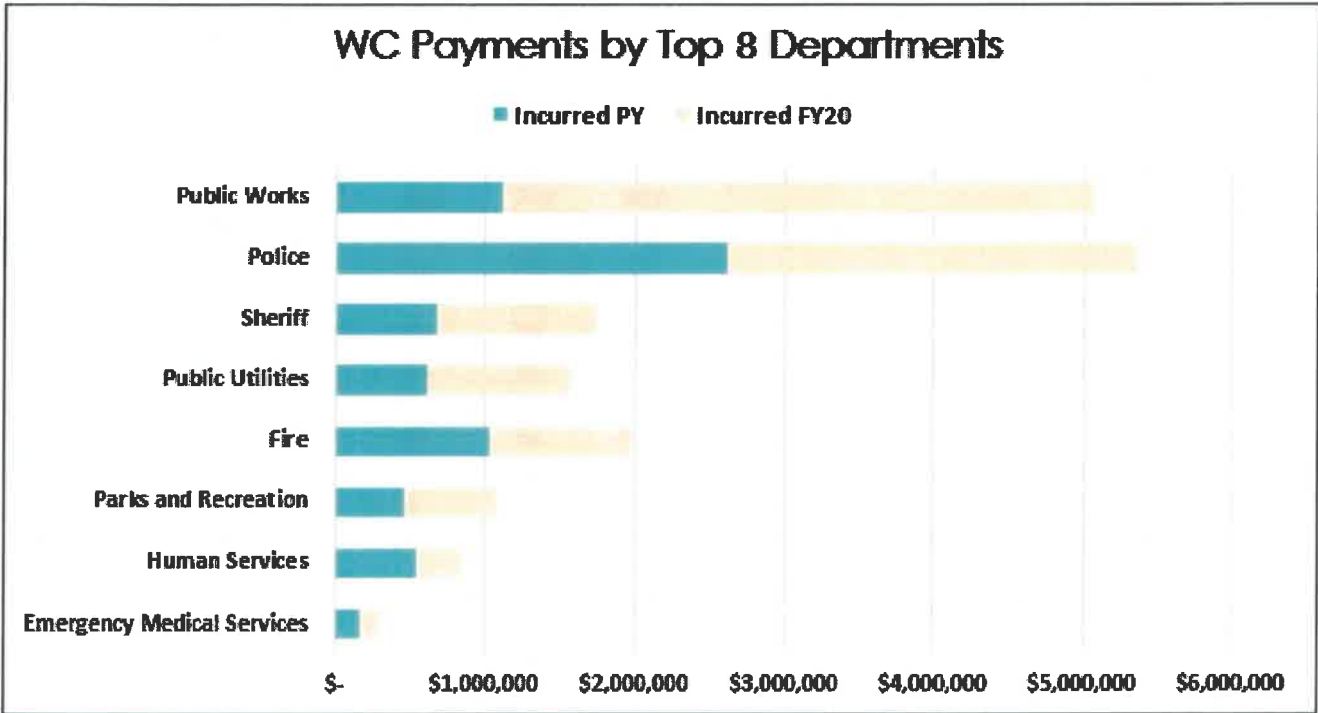


Exhibit 2 – Workers’ Compensation Claims Filed per Department

The following table shows the number of workers’ compensation claims filed per department for the past five fiscal years. The departments listed may not match the departments listed in the workers’ compensation payments table (Exhibit 1) since the payments made in a fiscal year may be on a claim incurred in a prior fiscal year.

Workers' Compensation # Claims by Open Date					
Department	FY16	FY17	FY18	FY19	FY20
Police	229	296	266	397	287
Parks and Recreation	237	195	173	186	158
Fire	95	118	135	128	149
Sheriff	118	155	180	204	140
Public Works	131	157	164	205	117
EMS	50	60	67	104	66
Human Services	109	93	79	91	63
Public Utilities	38	48	40	154	49
Museums and Aquariums	10	18	21	25	21
Human Resources	4	3	6	9	8
Library	12	16	10	23	7
Conv and Visitor Bureau	10	12	8	5	3
Comm of the Revenue	1	3	2	0	3
Planning and Comm Dev	4	4	4	11	2
Treasurer	0	0	1	3	2
Housing and Neigh Pres	4	3	4	6	1
City Attorney	0	1	0	0	1
Judicial	2	0	3	4	1
ComIT	2	0	2	10	1
Executive	2	0	0	9	1
Emergency Comm	4	2	2	3	0
Finance	3	1	3	9	0
Legislative	0	1	0	0	0
City Real Estate Assessor	1	0	3	1	0
Health	1	0	1	1	0
Boards and Commissions	0	0	0	0	0
Management Services	0	0	0	0	0
Agriculture	0	0	1	0	0
Total	1,067	1,186	1,175	1,588	1,080

Exhibit 3 – General Liability Payments per Department

The following table shows payments made on general liability claims per department for the past five fiscal years. Only departments that had a payment are listed.

General Liability \$ Paid by Transaction Date					
Department	FY2016	FY2017	FY2018	FY2019	FY2020
Police	19,270	115,875	38,153	932,860	248,214
Public Utilities	199,880	106,522	124,089	137,747	157,493
Judicial	2,654	3,575	1,202	14,994	136,764
Economic Development	-	-	-	1,689,696	119,868
Public Works	196,390	968,894	451,930	76,843	97,142
Parks and Recreation	23,760	23,807	40,285	21,704	90,564
Convention and Visitor Development	150	290	80,933	-	1,068
Voter	-	-	-	-	625
Emergency Medical Services	81	452	179	1,614	450
Fire	-	-	3,832	718	92
Municipal Council	-	-	-	-	88
Finance	-	-	7,949	60,000	-
Housing and Neighborhood Preservation	6,605	601	30	-	-
Human Resources	-	-	-	5,000	-
Human Services	50,379	-	-	1,445	-
Library	-	650	-	-	-
Planning and Community Development	-	1,301	-	-	-
Total	\$ 499,169	\$ 1,221,967	\$ 748,582	\$ 2,942,621	\$ 852,368

Exhibit 4 – General Liability Claims Filed per Department

The following table shows the number of claims filed per department for the past five fiscal years. The departments listed may not match the departments listed in the general liability payments table (Exhibit 3) since the payments made in a fiscal year may be on a claim incurred in a prior fiscal year.

General Liability # Claims by Open Date					
Department	FY2016	FY2017	FY2018	FY2019	FY2020
Public Utilities	71	77	59	57	29
Public Works	99	92	92	83	27
Parks and Recreation	64	58	44	41	24
Police	35	41	47	41	13
Judicial	15	14	7	7	5
Convention and Visitor Development	1	3	2	1	1
Emergency Medical Services	5	2	2	1	1
Fire	1	1	6	2	1
Municipal Council	0	0	0	0	1
Voter Registration & Elections	0	0	0	0	1
City Attorney	0	0	0	1	0
Finance	0	0	1	1	0
Housing and Neighborhood Preservation	1	1	0	0	0
Human Resources	0	0	0	1	0
Human Services	0	0	1	1	0
Library	0	2	0	0	0
Planning and Community Development	0	1	0	0	0
Virginia Aquarium	1	1	1	0	0
Total	293	293	262	237	103

Exhibit 5 – Auto Liability Claims Filed per Department

The following table shows payments made on automobile liability claims per department for the past five fiscal years. Only departments that had a payment are listed.

Auto Liability \$ Paid by Transaction Date					
Department	FY2016	FY2017	FY2018	FY2019	FY2020
Police	\$ 43,145	\$ 59,815	\$ 152,982	\$ 159,813	\$ 83,747
Public Works	88,168	64,934	82,471	128,001	77,607
Public Utilities	32,469	16,435	19,411	99,184	29,230
Emergency Medical Services	18,548	402,855	207,041	46,905	22,818
Fire	63,836	3,165	581	5,217	12,262
Human Services	43,561	490,977	41,490	38,217	10,730
Information Technology	3,687	-	-	-	4,842
Judicial	8,500	18,000	2,883	25,000	4,543
Convention and Visitor Development	-	-	-	-	3,041
Parks and Recreation	24,225	18,517	21,809	30,969	1,263
Economic Development	205	-	-	-	-
Voter Registration & Elections	-	-	-	-	-
Finance	-	-	-	-	-
Housing and Neighborhood Preservation	1,019	-	-	2,247	-
Virginia Aquarium	-	3,620	-	66	-
Library	-	-	-	8,898	-
Planning and Community Development	-	6,306	22,000	-	-
Total	\$ 327,363	\$ 1,084,623	\$ 550,668	\$ 544,518	\$ 250,081

Exhibit 6 – Auto Liability Payments per Department

The following table shows the number of automobile liability claims filed per department for the past five fiscal years. The departments listed may not match the departments listed in the auto liability payments table (Exhibit 5) since the payments made in a fiscal year may be on a claim incurred in a prior fiscal year.

Auto Liability # Claims by Open Date					
Department	FY16	FY17	FY18	FY19	FY20
Public Works	22	19	18	24	21
Police	21	15	23	22	14
Fire	2	2	1	2	6
Emergency Medical Services	11	10	5	5	5
Human Services	10	7	1	4	2
Judicial	1	0	3	2	2
Parks and Recreation	7	4	5	4	2
Public Utilities	6	8	4	5	2
Convention and Visitors Development	0	0	0	0	1
Information Technology	2	0	0	1	1
Health	1	0	0	0	0
Housing and Neighborhood Preservation	0	0	0	1	0
Library	0	0	0	1	0
Planning and Community Development	0	1	0	0	0
Virginia Aquarium	0	1	0	0	0
Total	83	67	60	71	56

Exhibit 7 – Insurance Policies Summary

Coverage	Policy Term	Policy Number	Carrier	Limits	Deductible / SIR	Premium
Public Entity Excess Liability	3/1/2020-3/1/2021	3000004-3	States Self Insured Retention Group, Inc.	\$10,000,000 Per Occurrence \$20,000,000 Aggregate	\$2,000,000 SIR	\$590,741
Excess Workers Compensation	3/1/2020-3/1/2021	SP4062748	Safety National Casualty Corporation	\$25,000,000 Max Limit of Indemnity Per Occurrence \$1,000,000 Empl Liability Max Limit of Indemnity Per Occurrence \$1,000,000 Empl Liability Max Limit of Indemnity Aggregate	\$1,250,000 Maritime Cov SIR \$1,000,000 P&I SIR	\$633,481
Property	3/1/2020-3/1/2021	VA-CI-134-21	VACORP	\$500,000,000 Blanket \$50,000,000 Earthquake \$50,000,000 Flood \$10,000,000 Special Flood Areas \$500,000,000 Named Windstorm \$10,000,000 Accounts Receivable \$25,000,000 Debris Removal Automatic Coverage on Newly Acquired Property (not to exceed 120 Days) \$3,000,000 Misc. Unshed Contractors Equipment \$500,000 Newly Acq Vehicles and Contr. Equipment \$2,500,000 Contingent Time Element \$500,000 Any One Single Vehicle	\$50,000 AOP Deductible	\$1,104,234
Excess Property	3/1/2020-3/1/2021	24242281	AIG Specialty Insurance Company	\$250,000,000 Excess \$500,000,000	\$0 Deductible	\$375,523
Aviation Liability - Drones	4/28/2020-4/28/2021	9008144	American Alternative Insurance Corporation	\$1,000,000 Per Occurrence	\$0 Deductible	\$3,264
Marine Operators Legal Liability	3/1/2020-3/1/2021	B5JH27334	Atlantic Specialty Insurance Company	\$1,000,000 Legal Liability \$1,000,000 Protection and Indemnity	\$2,500 Deductible	\$5,750
Marine Hull and P&I	3/1/2020-3/1/2021	B5JH27335	Atlantic Specialty Insurance Company	\$1,000,000 Combined Single Limit	Scheduled	\$53,506
General Liability - Farmers Market	3/1/2020-3/1/2021	VA-CI-134A-21	VACORP	\$1,000,000 Each Occurrence \$2,000,000 Aggregate	\$0 Deductible	\$1,500
General Liability - Tenant Users Liability (TULIP)	3/1/2020-3/1/2021	GL0433904	Atlantic Specialty Insurance Company	\$1,000,000 Each Common Cause \$1,000,000 Aggregate	\$0 Deductible	\$0 See form for vendor charges
General Liability - Circuit City Building	8/1/2019-8/1/2020	3EV6709	Evanston Insurance Company	\$1,000,000 Each Occurrence \$2,000,000 Aggregate	\$0 Deductible	\$1,000
General Liability - Virginia Beach Development Authority Block9	10/15/2019-10/15/2020	BDG-3033089-02	Maxum Indemnity Company	\$1,000,000 Each Occurrence \$2,000,000 Aggregate	\$1,000 Per Claim Deductible	\$2,500
General Liability - Library/Parking Garage	12/31/2019-12/31/2020	14UENBH0167	Hartford Fire Insurance Company	\$1,000,000 Each Occurrence \$2,000,000 Aggregate	\$0 Deductible	\$859
Umbrella - Library/Parking Garage	12/31/2019-12/31/2020	14RHUNL9117	Hartford Fire Insurance Company	\$1,000,000 Each Occurrence \$2,000,000 Aggregate	\$10,000 SIR	\$622
Accidental Death and Dismemberment - Volunteer Policy	3/1/2020-3/1/2021	14-SR-129030	Hartford Accident and Indemnity Company	\$10,000 Principal Sum \$10,000 Maximum Benefit \$250 Dental Benefit \$10,000 Life \$10,000 Both Hands, Feet or Eyes \$10,000 One Hand and Foot \$10,000 Either Hand and Sight of One Eye \$10,000 Speech and Hearing in Both Ears \$5,000 Either Hand or Foot \$5,000 Sight of One Eye \$5,000 Speech or Hearing in Both	\$0 Deductible	\$3,745

				Ears \$2,500 Thumb and Index Finger on the Same Hand		
Crime	3/1/2020-3/1/2021	106253403	Travelers Casualty and Surety Company of America	\$1,000,000 Employee Theft \$1,000,000 Forgery or Alteration \$1,000,000 Inside - Theft of Money and Securities \$1,000,000 On Premises \$1,000,000 In Transit \$1,000,000 Computer Fraud \$1,000,000 Funds Transfer Fraud \$1,000,000 Money Orders & Counterfeit Money \$25,000 Claim Expense	\$25,000 Employee Theft \$25,000 Forgery or Alteration \$1,000,000 Inside - Theft of Money and Securities \$25,000 On Premises \$25,000 In Transit \$25,000 Computer Fraud \$25,000 Funds Transfer Fraud \$1,000,000 Money Orders & Counterfeit Money \$0 Claim Expense	\$20,866
Cyber	3/1/2020-3/1/2021	MTP9040574	Indian Harbor Insurance Company	\$5,000,000 Each Claim \$5,000,000 Aggregate	\$250,000 Retention Each Claim Including Claims Expense	\$105,000
Economic Development Authority Crime	3/1/2020-3/1/2021	105902754	Travelers Casualty and Surety Company of America	\$2,000,000 Employee Theft \$500,000 Forgery or Alteration \$100,000 On Premises \$100,000 In Transit \$2,000,000 Computer Fraud \$100,000 Funds Transfer Fraud \$5,000 Claim Expense	\$20,000 Employee Theft \$5,000 Forgery or Alteration \$2,500 On Premises \$2,500 In Transit \$20,000 Computer Fraud \$20,000 Funds Transfer Fraud \$0 Claim Expense	\$1,967
Fiduciary Runoff	3/1/2020-3/1/2022	106075490	Travelers Casualty and Surety Company of America	\$5,000,000 All Claims \$250,000 Settlement Program Limit of Liability \$1,500,000 HIPAA Limit of Liability \$250,000 502(c) Penalties Limit of Liability	\$0 Retention	\$39,384
Medical Malpractice - Dr. Ubha Rayamajhi	7/22/2019-7/22/2020	VAD-0087704-05	Professional Advocates Insurance Company	\$1,000,000 - Primary Per Incident \$3,000,000 - Primary Aggregate \$1,450,000 - Excess Per Incident \$4,350,000 - Excess Aggregate	\$0 Deductible	\$8,045
Medical Malpractice - Dr. Louis Leone	9/23/2019-9/23/2020	VAD-0084020-09	Professional Advocates Insurance Company	\$1,000,000 - Primary Per Incident \$3,000,000 - Primary Aggregate \$1,400,000 - Excess Per Incident \$4,200,000 - Excess Aggregate	\$0 Deductible	\$6,667
Medical Malpractice - Nurses	3/1/2020-3/1/2021	255847734	American Casualty Company of Reading PA	\$2,500,000 Each Claim \$5,000,000 Aggregate	\$0 Deductible	\$32,868
Business Travel Accident	11/1/2019-11/1/2022	BTAI003592	Starr Indemnity & Liability Company	\$2,500,000 Aggregate \$250,000 AD&D Benefits Principal Sum \$100,000 Medical Expense Benefit Maximum	\$0 Deductible	\$22,838

NOTE: This is intended as a synopsis of coverage. Reference must be made to the actual policy/policies to determine precise terms.7/8/2020

Exhibit 8 – Statement of Net Position*

CITY OF VIRGINIA BEACH, VIRGINIA INTERNAL SERVICE FUNDS COMBINING STATEMENT OF NET POSITION JUNE 30, 2020	
	Risk Management
ASSETS	
Current Assets:	
Cash and Investments	\$ 34,482,002
Accounts Receivable	-
Inventory	-
Total Current Assets	<u>34,482,002</u>
Noncurrent Assets:	
Capital Assets:	
Site Improvements	-
Machinery and Equipment	-
Less: Accumulated Depreciation	-
Net Property, Plant and Equipment	<u>-</u>
Total Assets	<u>34,482,002</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred Outflows for Pensions	102,032
Deferred Outflows for OPEB	16,294
Total Deferred Outflows of Resources	<u>118,326</u>
LIABILITIES	
Current Liabilities:	
Vouchers and Accounts Payable	442,484
Current Portion of Long-term Liabilities	9,875,181
Total Current Liabilities	<u>10,317,665</u>
Noncurrent Liabilities:	
Compensated Absences	-
Claims and Contingencies	34,735,047
Net Pension Liability	417,692
Net OPEB Liability	40,831
Total Noncurrent Liabilities	<u>35,193,570</u>
Total Liabilities	<u>45,511,235</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred Inflows for Pensions	14,456
Deferred Inflows for OPEB	22,045
Total Deferred Inflows of Resources	<u>36,501</u>
NET POSITION	
Net Investment in Capital Assets	-
Unrestricted (deficit)	(10,947,408)
Total Net Position	<u>\$ (10,947,408)</u>

*Unaudited

Exhibit 9 – Statement of Revenues, Expenses and Change in Net Position*

CITY OF VIRGINIA BEACH, VIRGINIA INTERNAL SERVICE FUNDS COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION FOR THE YEAR ENDED JUNE 30, 2020	
	Risk Management
<u>OPERATING REVENUES</u>	
Billings to Departments	\$ 18,381,253
Insurance Recovery	822,606
Total Operating Revenues	19,203,861
<u>OPERATING EXPENSES</u>	
Cost of Goods Sold	-
Personal Services	459,934
Contractual Services	756,064
Internal Services	10,807
Other Charges	16,698,795
Depreciation	-
Total Operating Expenses	17,925,600
<u>OPERATING INCOME (LOSS)</u>	1,278,261
<u>NONOPERATING REVENUES (EXPENSES) AND TRANSFERS</u>	
Interest Income	875,982
Gain (Loss) on Disposition of Assets	-
Transfers Out	(350,000)
Total Nonoperating Revenues (Expenses)	525,982
<u>CHANGE IN NET POSITION</u>	1,804,243
<u>TOTAL NET POSITION - BEGINNING</u>	(12,751,651)
<u>TOTAL NET POSITION - ENDING</u>	\$ (10,947,408)

*Unaudited

Exhibit 10 – Statement of Cash Flows*

CITY OF VIRGINIA BEACH, VIRGINIA
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2020

	Risk Management
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>	
Receipts from Customers and Users	\$ 19,203,861
Cash Payments to Suppliers of Goods and Services	(17,950,291)
Cash Payments to Employees for Services	2,691,373
Net Cash Provided (Used) By Operating Activities	3,944,943
<u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</u>	
Receipts from Other Funds	(350,000)
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</u>	
Acquisition and Construction of Capital Assets	-
Proceeds from Sale of Salvage	-
Net Cash Provided (Used) By Capital and Related Financing Activities	-
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>	
Interest and Dividends Received	875,962
Net Increase (Decrease) in Cash and Temporary Investment:	4,470,925
Cash and Temporary Investments, July 1	30,011,077
Cash and Temporary Investments, June 30	34,482,002
<u>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:</u>	
Operating Income	1,278,261
Adjustments to Reconcile Operating Income to Net Cash Provided By Operating Activities:	
Depreciation Expense	-
Net Changes in assets and liabilities:	
Accounts Receivable	-
Inventory	-
Deferred Outflow of Resources	(47,584)
Vouchers and Accounts Payable	(484,625)
Net Pension Liability	70,144
Net OPFB Liability	(19,509)
Deferred Inflow of Resources	17,034
Estimated Claims and Judgments	3,145,557
Accrued Compensated Leave	(14,335)
Net Cash Provided (Used) By Operating Activities	\$ 3,944,943

*Unaudited

Exhibit 11 – Ten Year History of Actuarial Accrued Liability and Available Cash

Risk Management Fund History					
Fiscal Year	Accrued Actuarial Liability	Available Cash	Ending Net Position	Increase (Decrease) in Net Position	Cash to Liability %
1998	\$ 10,765,450	\$ 7,424,121	\$ (3,469,793)	\$ 2,693,398	69%
1999	12,473,217	5,299,401	(7,120,253)	(3,650,460)	42%
2000	10,713,663	3,036,492	(7,620,618)	(500,365)	28%
2001	14,673,252	3,815,340	(10,665,283)	(3,044,665)	26%
2002	14,318,689	2,383,296	(12,190,836)	(1,525,553)	17%
2003	12,024,440	1,364,954	(10,797,216)	1,393,620	11%
2004	12,021,005	3,626,102	(8,715,152)	2,082,064	30%
2005	14,074,535	4,952,766	(9,499,861)	(784,709)	35%
2006	16,628,582	5,062,102	(11,994,365)	(2,494,504)	30%
2007	17,812,729	6,173,808	(13,433,030)	(1,438,665)	35%
2008	17,642,752	5,507,393	(12,732,220)	700,810	31%
2009	19,338,015	6,232,378	(13,511,281)	(779,061)	32%
2010	24,672,106	6,704,262	(18,327,228)	(4,815,947)	27%
2011	24,217,251	13,653,705	(10,807,857)	7,519,371	56%
2012	23,584,444	12,060,174	(12,505,425)	(1,697,568)	51%
2013	25,462,274	10,494,027	(15,610,324)	(3,104,899)	41%
2014	25,462,274	6,905,910	(19,216,625)	(3,606,301)	27%
2015	30,857,594	8,390,709	(23,292,837)	(4,076,212)	27%
2016	31,100,210	9,717,902	(22,374,235)	918,602	31%
2017	37,732,500	15,996,234	(22,232,614)	141,621	42%
2018	40,902,030	23,143,944	(18,624,412)	3,608,202	57%
2019	41,453,521	30,011,077	(12,751,651)	5,532,665	72%
2020	44,599,078	34,482,002	(10,947,408)	2,134,662	77%

Actuarial Report

The total amount of paid claims and loss reserves associated with a period, usually a policy year. Incurred losses are customarily computed in accordance with the following formula: loss occurring and paid during the period, plus outstanding losses reserved at the end of the period. This does not ordinarily include incurred but not reported (IBNR) losses.

Incurred but not reported (IBNR) losses

An estimate of the amount of an insurer's (or self-insurer's) liability for claim-generating events that have taken place but have not yet been reported to the insurer or self-insurer. The sum of IBNR losses plus incurred losses provides an estimate of the insurer's eventual liabilities for losses during a given period.

Indemnity payments

The losses paid or expected to be paid directly to an insured by an insurer for first party (e.g., property) coverage or on behalf of an insured for third-party (e.g., liability) coverage. The losses paid or expected to be paid directly to an insured by an insurer for coverage. Restoration to the victim of a loss up to the amount of the loss.

Insurance

A contractual relationship that exists when one party (the insurer) for a consideration (the premium) agrees to reimburse another party (the insured) for a loss to a specific subject (the risk) caused by designated contingencies (hazards or perils) up to predetermined limits.

Insurance policy

In broad terms, the entire printed insurance contract. Generally, an insurance policy is assembled with a combination of various standard forms, including a declarations page, coverage form, and endorsements. Sometimes a cause of loss form is also required. Together these forms delineate the coverage term, the insurance policy limits, the grant of coverage, exclusions and other limitations of coverage, and the duties and responsibilities of the insured in the event of loss.

Insurance requirements

The part of a commercial contract in which the types and minimum amounts of insurance the parties agree to provide in connection with their performance of the contract are specified.

Liability

Any legally enforceable obligation. Within the context of insurance, the obligation to pay a monetary award for injury or damage caused by one's negligent or statutorily prohibited action.

Liability limits

The stipulated sum or sums beyond which an insurance company is not liable for payments due to a third party. The insured remains legally liable above the limits.

Loss control

A risk management technique that seeks to reduce the possibility that a loss will occur and/or reduce the severity of those that do occur. Also known as risk control or safety. Driver training programs that seek to reduce the likelihood of accidents occurring. Sprinkler systems are loss control devices that reduce the severity of loss by fire.

Loss reserve

An estimate of the value of a claim or group of claims not yet paid. A case reserve is an estimate of the amount for which a claim will ultimately be settled or adjudicated. Insurers will also set reserves for their entire books of business to estimate their future liabilities. Expenses of adjusting claims, e.g., allocated claim expenses; court costs, fees, and expenses of independent adjusters, lawyers, witnesses, and other expenses that can be charged to specific claims; and unallocated claim expenses which represent salaries and other overhead expenses that are incurred in adjusting and recording claims, but which cannot be charged against specific claims.

Occupational disease

Any abnormal condition or disorder, other than one resulting from an occupational injury, that is caused by, or alleged to be caused by, exposure to environmental factors associated with employment, including acute and chronic illnesses or diseases that may be caused by inhalation, absorption, ingestion, or direct contact. State workers' compensation laws vary as to whether coverage is afforded for occupational disease.

Occupational injury

An injury arising in the course and scope of employment that is caused by factors associated with the work undertaken.

Occurrence year

The time period defined by a body of losses composed of all claims occurring during a 12-month period.

Paid losses

That portion of incurred losses actually paid out by an insurer or self-insured entity.

Permanent partial disability

A workers' compensation disability level in which the injured employee is still able to work but not with the skill and efficiency demonstrated prior to the injury. As a result, the earning capability of the worker is affected. Workers' compensation statute provides for scheduled benefits based on the percentage of disability.

Permanent total disability

A class of workers' compensation disability in which the injured employee is incapable of ever working again at any employment. It becomes a lifetime award without the 500-week limitation.

Premium

The amount of money an insurer charges to provide the coverage described in the policy or bond.

Property damage

Is defined in the general liability policy, physical injury to tangible property including resulting loss of use and loss of use of tangible property that has not been physically injured.

Reserves

The amount of funds necessary to meet all future costs related to an insurance claim. Reserves are the "best" estimate of the additional amount that will need to be paid out against a claim. Reserves are an unfunded liability that must be paid as costs are incurred.

Return-to-work program

A post-injury program that returns injured employees to some type of work as soon as medically possible. Even if the injured workers are impaired, temporary or modified duties can be assigned that take into consideration the impairments. The result is the reduction of indemnity costs associated with the claims and a greater chance for recovery.

Risk management

The practice of identifying and analyzing loss exposures and taking steps to minimize the financial impact of the risks they impose.

Risk management techniques

Methods for treating risks. Traditional risk management techniques for handling event risks include risk retention, contractual or noninsurance risk transfer, risk control, risk avoidance, and insurance transfer.

Risk retention

Planned acceptance of losses by deductibles, deliberate non-insurance and loss-sensitive plans where some, but not all, risk is consciously retained rather than transferred.

Risk retention group (RRG)

A group self-insurance plan or group captive insurer operating under the auspices of the Federal Liability Risk Retention Act (RRA) of 1986 that can cover all the liability exposures, other than workers' compensation exposures, of its owners. Risk retention groups are not subject to the individual state laws that would otherwise prohibit the formation of group captives or make it difficult to form or operate them.

Self-Insurance

A system whereby a firm sets aside an amount of its monies to provide for any losses that occur—losses that could ordinarily be covered under an insurance program. The monies that would normally be used for premium payments are added to this special fund for payment of losses incurred. Self-insurance is a means of capturing the cash flow benefits of unpaid loss reserves and offers the possibility of reducing expenses typically incorporated within a traditional insurance program. It involves a formal decision to retain risk rather than insure it and is distinguished from noninsurance or retention of risks through deductibles, by a formalized plan or system to pay losses as they occur.

Self-Insured retention (SIR)

A dollar amount specified in a liability insurance policy that must be paid by the insured before the insurance policy will respond to a loss. Under a policy written with an SIR provision, the insured (rather than the insurer) would pay defense and/or indemnity costs associated with a claim until the SIR limit was reached. After that point, the insurer would make any additional payments for defense and indemnity that were covered by the policy.

Severity

The amount of damage that is (or that may be) inflicted by a loss or catastrophe. Sometimes quantified as a severity rate, which is a ratio relating the amount of loss to values exposed to loss during a specified period.

Soft market

One side of the insurance market cycle that is characterized by low rates, high limits, flexible contracts, and high availability of coverage.

Temporary partial disability

A workers' compensation disability level in which the injured worker is temporarily precluded from performing a certain set of job skills, but who can still work at a reduced level. Since the condition is temporary, compensation is based on the difference between the two earning levels, AWW before the injury and the amount after the injury. This is subject to the 500-week limitation.

Temporary total disability

One of the four divisions of disability compensable under workers' compensation. This level of disability reflects an injury that has rendered the employee completely unable to perform any job functions on a temporary basis. The employee is expected to make a full recovery and return to work. In the interim, compensation paid is 66 2/3% of weekly wages until the worker returns to the job.

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Third-party administrator (TPA)

A firm that handles various types of administrative responsibilities, on a fee-for-services basis, for organizations involved in self-insured programs. These responsibilities typically include claims administration, loss control, risk management information systems, and risk management consulting.

Total cost of risk

Total cost of risk is the sum of all aspects of an organization's operations that relate to risk, including retained (uninsured) losses and related loss adjustment expenses, risk control costs, insurance premiums, and administrative costs.

Workers' compensation

The system by which no-fault statutory benefits prescribed in state law are provided by an employer to an employee (or the employee's family) due to a job-related injury (including death) resulting from an accident or occupational disease.



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