Oregon University System

Section: Finance & Administration
Title: Risk Fund Policy
Number: XXX.XXX
Effective Date: February 15, 2013

Policy/Purpose
In order to maintain a self-insurance program and provide cost benefits from a pooled insurance program, a financially sustainable fund must be in place. This Fund must be sufficient enough for insurer confidence when providing excess insurance over a large self-insured retention (SIR), knowing that the underlying SIR will be adequately managed without unnecessary impact to the insurer. In addition, this Fund provides flexibility to the OUS Risk Program regarding types of potential hazards or perils that the System wishes to self-insure as well as the terms and conditions for managing claims within the SIR. The Fund shall be maintained exclusively for the purpose of programs that incentivize a culture of risk for the participants, and for the purpose of providing property, casualty, specialty, allied health, financial surety bonds, ORM program operations' needs, and other related expenses as outlined in this document, otherwise known as “Insurance Purposes.”

The Fund shall be located within the OUS Treasury with transactions conducted by OUS Risk Management and OUS Business Services in a transparent and segregated manner. The Risk Oversight Committee may designate a regular reporting schedule for review as needed.

Policy Rationale
This policy is provided as the guiding framework for the OUS Risk Fund (Fund), subject to the Risk Charter as approved by the Oregon University System Chancellor and the Oregon State Board of Higher Education.

Responsible risk financing requires adequate funding of all program incentives and costs through campus financial assessments. The Fund may also provide a risk rate stabilization buffer as appropriate and determined by the Risk Oversight Committee (ROC). The ROC shall provide guidance for fair and transparent financial assessments for the campuses in order to allocate sufficient resources for a sustainable Fund and continued advantages of the risk pool. These financial assessments are calculated through insurance and actuarial best practices and standards including the time value of money and GASB (General Accounting Standards Board) regulatory requirements. The OUS Risk Fund is evaluated using a combination of unique exposures by campus, experience modifications based on loss history, and credits provided for improvements in risk mitigation or other metrics as designated by the ROC.
The Risk Fund Pool may consist of the following Sub-Funds:

1. Casualty Fund
   a. This is defined as the fund that will address incentives for risk mitigation, and costs associated with premiums and claims for general liability, excess liability, automobile property damage and automobile liability, educator’s legal liability, and specialty lines of coverage including crime and fiduciary coverage or others as needed.

2. Property Fund
   a. This fund will pay incentives for risk mitigation, and costs associated with premiums and claims regarding the OUS and campus general property or real property as defined in our property insurance policy, or other costs as needed.

3. Workers’ Compensation Fund
   a. The workers’ compensation fund will pay costs associated with workers’ compensation premiums and claims as well as any incentives associated with this policy, or other needs as required.

AUTHORITY
- Senate Bill 242
- Oregon State Board of Higher Education
- Risk Oversight Committee (ROC), led by the OUS Vice Chancellor for Finance & Administration

DEFINITIONS
- **Expected Claims** – Through actuarial analysis and considerations of historical claims frequency and severity, an entity’s future expected claims costs and frequency can be estimated based on those considerations.
- **Indemnification** – The costs or effort associated with making one “whole” after a claim.
- **Incurred But Not Reported (IBNR)** – Those claims that have been incurred, but not yet reported to an entity. There is generally a lag time for certain types of claims to be reported such as employment claims. From a long-term loss history, actuaries can provide an estimate of how many claims may be incurred but not yet reported at a certain valuation date and these considerations are included as part of the total incurred or expected claims. (See definitions).
- **Loss Ratio** – The total cost of claims (total incurred) divided by the premiums paid. This percentage is considered favorable if less than 1, and unfavorable if greater than 1.
- **Loss Reserves** – The best estimate of the total costs of a claim including the indemnification, legal, or other expenses associated with the loss.
- **Risk Fund** – The financial instrument used to manage the Risk Pool. The OUS strategy is to have a risk fund that is at a minimum amount to pay for actuarially expected claims with a goal to have a buffer amount above expected claims over time in a manner that provides contingent financial resources in the event of catastrophic losses as determined by the Risk Oversight Committee (ROC).
• **Risk Pool** – a group of entities that provide financial assets to a fund in proportion to their size of loss exposures and loss experience with a goal of lowering costs for premiums and operating costs on balance for each.

• **Total Incurred** – Claims reserves plus amounts paid or the “total” incurred amount of a claim. The reserves and paid counter-balance throughout the duration of a claim and ultimately the reserves zero out when closed.

**KNOWLEDGE AND OVERSIGHT**

All persons involved in the financial applications of this policy shall be notified and made aware of this policy, including the Risk Oversight Committee (ROC), the Finance & Administration Committee of the Board, OUS Treasury, the vice chancellor for finance & administration, all vice presidents of finance & administration, risk managers, Risk Council, and the OUS Office of Risk Management.

**RESPONSIBILITIES**

- Through the recommendation of the ROC, each participating campus vice president for finance and administration shall provide adequate budgets for funding the necessary assessments and loss deductibles as required on an annual or regular basis as determined by the ROC.
- The ROC shall provide approval for the final assessment each year. The assessment shall be conducted and approved in the first quarter of the calendar year to allow sufficient time for budget planning by the campuses for the following fiscal year.
- Assessments will be made by the OUS Business Services Office on a quarterly basis or as needed and recommended by the ROC.
- An annual reporting of the Fund shall be provided to the Finance and Administration Committee of the Board, or as requested.
- Regular reporting shall be provided to the member campuses as designated by the ROC.
- The ROC shall establish a constitution and by-laws for the Fund and maintain and update these as necessary on a regular basis.

**RISK FUND STRATEGY**

- The ROC determines the formula for determination for the campus financial assessments for the fund annually, using the exposures, losses and incentive considerations or other considerations as noted earlier.
- The ROC shall assess the campuses in a manner that adequately funds the Fund. Consideration should be based on actuarial recommendations and judgment of the ROC.
- The Risk Fund Adequacy shall be at a confidence level to pay all claims that have been incurred or incurred but not reported (IBNR) and premiums. The recommended fund adequacy considerations may reflect an appropriate interest rate that is comparable to the consumer price index, or CPI, and at a confidence level that the expected losses will actually occur.
CONTACT
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DOCUMENT HISTORY
• Summarization and addition of this policy to the Fiscal Policy Manual was approved by the vice chancellor for finance and administration on February 14, 2013
• Oregon State Board of Higher Education Committee on Finance & Administration on February 15, 2013