



Risk Management Funding and Reserve Policy

Scope: CITYWIDE

Policy Contact

Dennis Kauffman

Finance Operations Manager

Department of Finance

(916) 808-5843

dkauffman@cityofsacramento.org

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Risk Management Funding and Reserve Policy

I. PURPOSE

The City's Risk Management Funding Policy documents the City's approach to providing adequate financial resources to fund the City's General and Auto Liability and Workers Compensation Programs and establishing and maintaining adequate reserves in the Risk Management Internal Service Fund.

2. BACKGROUND

The City has been self-insured for workers' compensation and for general and auto liability since 1971 and 1976, respectively. The General and Auto Liability and Workers Compensation Programs charge City departments and funds for the costs of providing for claims, as well as for the cost of administering the claims.

3. POLICY

- (a) In order to methodically and consistently measure the City's projected claims, the City will contract with a professional outside actuary to prepare annual actuarial valuation reports for both categories of claims. Program funding will be based on the annual actuarial valuation reports.
- (b) The City's funding policy will provide program funding at the 80% confidence level, including recognition of anticipated investment income. Confidence level is used by actuaries to determine the realistic possibilities that a given funding rate will be sufficient to cover all claims that might be incurred in any one program year. An 80% confidence level indicates that the funding rate should be adequate eight out of 10 years.
- (c) The City shall maintain a Risk Management Reserve dedicated to mitigation of the risk of loss arising from potential claims and lawsuits against the City for general and auto liability as well as workers' compensation claims. The Risk Management Reserve shall be funded at the following levels:

General and Auto Liability – In addition to annual funding of projected claims at the 80% confidence level, the City shall maintain a reserve equal to two SIR allotments.

Workers' Compensation – In addition to annual funding of projected claims at the 80% confidence level, the City shall maintain a reserve equal to two SIR allotments.

If the SIR amount changes in future years, the two SIR allotments will continue to be the reserve requirement for both programs.

If either program maintains a balance above the minimum funding and reserve requirement, the excess reserves will be used to subsidize City contributions over a 1-5 year period depending upon the amount of the excess and the City's economic condition.

If either program has excess claims requiring additional contributions to the fund, the City will increase contributions over a 1-3 year period depending on the amount of the shortfall and the City's economic condition to get to the minimum funding and reserve requirement.

If one program has excess reserves and the other program has a shortfall, transfers between programs may be implemented to reduce or eliminate the program shortfall.