Response to Questions on the FY 2012 Budget

Request By: Supervisor Foust

Question: The Carryover package includes an increase of $6 million to Fund 501 "for accrued liability adjustments." When did staff become aware of these increased accrued liabilities? Explain why "case reserves for reported claims have increased by only 7.60 percent while accrued liability for IBNR claims has increased by 21.22 percent."

Response: The level of funding required in the County's Accrued Liability Reserve is determined annually through an actuarial valuation performed by an outside actuary. Staff first became aware of the potential need for an increase in the reserve when the actuary released a draft report on May 6, 2011. The actuary released the final report on July 19, 2011, which confirmed the preliminary findings of the draft report.

Case reserves are established for claims that have been reported to the County, and are set at a level that will fund anticipated expenses for each claim based on an evaluation by the Risk Management and Third Party Administrator (TPA) claims staff of the information available and in accordance with standard industry practices. It is the County's policy to fully reserve for claims at 100 percent of their anticipated value. As claims progress, new information may develop which require reserves to increase or decrease. The 7.60 percent increase in case reserves for reported claims represents the aggregate change in case reserves based on new claims being reported, existing claims being paid out, and reserves being adjusted based on new information about existing claims. This increase includes the impact of such factors as the rising cost of medical care, reopening of older closed cases, or changes in medical conditions requiring more aggressive treatment.

While case reserving is done by professional claims staff based upon known factors, Incurred but Not Reported (IBNR) funding is accomplished through the application of mathematical algorithms by professional actuaries. The intent of this process is to predict the cost of losses which are unknown. Some of these unknown losses are claims which have already happened but have not yet been reported, but they are primarily claims that are known to exist but will have unanticipated expenses. For example, a workers' compensation claim involving a hip injury which has had minimal treatment over ten or fifteen years may suddenly require hip replacement surgery, or there may be a hypertension claim which now requires heart surgery. Situations such as these where large, unanticipated expenses arise years after the claims were created are possible because workers' compensation awards include lifetime medical care, and these situations have a significant impact on IBNR. Similarly, several large, recent auto liability losses resulted in an increase in IBNR because they demonstrate increasing cost trends, even though actual case reserves for auto liability decreased because those known cases were paid out. Large losses such as these impact IBNR even after the cases are resolved because they establish trends in the County's claims experience, indicating the potential for other large, unanticipated expenses in the future. Professional actuaries include these trends in their highly specialized analysis of County liabilities, and have determined that the accrued liability for IBNR has increased by 21.22 percent.