

# Risk Management Advisory Council Issue Paper

Topic: Risk Charges and payment of risk charges

## Issue

**Risk charges are not readily predictable and transparent in their calculation and the total risk charges are assessed once a year.**

## Background Information

For a number of years, state agencies have been concerned because:

1. Calculation of risk charges was not transparent and agencies could not look at their losses and “predict” what future premiums were likely to be;
2. Agencies could not completely understand their total cost of risk by identifying what extent of the charges were attributable to DAS administration operating expenses, commercial and excess insurance policy premiums, and capped losses spread across all state agencies;
3. Agencies could not identify risk control and mitigation strategies likely to result in lower charges (given the extent of allocation of commercial policy premiums and spreading of capped losses across agencies;)
4. Deductibles have been one size fits all, not allowing agencies able to afford to do so, to benefit in future risk charges by paying a more sizable cost of losses up-front, and
5. Risk charges in some of the coverage areas have been very volatile.

An emerging issue, related to risk charges, has to do with the manner in which risk charges are assessed.

Risk charges are only assessed once a year at present. In these difficult economic times for those agencies that have had fund balances swept, or rely on a number of funding sources other than the General Fund, once a year risk charge assessment becomes increasingly difficult to sustain.

## Recommendations

Review and analyze current calculation of risk charges and alternative methods for calculation. Review and analyze current once a year risk charges; explore more frequent charging across a calendar year.

Explore the possibility of higher deductibles for property and the possibility of allowing agencies to pay some amount of their third party liability losses or consider a “service recovery fund.”

Document any recommended changes which are adopted to be able to demonstrate savings to the Legislature so it is not viewed as cost shifting.

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