

**NOTE 10 – RISK MANAGEMENT**

As a municipal organization, the County has a wide range of loss exposures.

The County uses three internal service funds to account for and finance property/casualty, workers' compensation, and employee medical and dental benefits self-insurance programs. Unemployment liability is accounted for in the funds with loss experience and as governmental long-term liability. The County contracts with a plan administrator to process medical and dental claims. County fund/claims managers, together with the Civil Division of the King County Prosecuting Attorney's Office, are responsible for processing all tort and workers' compensation claims.

Claims settlements and loss expenses are accrued in the three internal service funds for the estimated settlement value of both reported and unreported claims. These funds are responsible for collecting interfund premiums from insured funds and departments for paying claim settlements and for purchasing certain policies. Interfund premiums are assessed on the basis of claims experience and are reported as revenues and expenses or expenditures.

**Insurance Fund**

The Insurance Fund, an internal service fund, accounts for the County's property/casualty program. The Fund, established in 1977, accounts for the County's exposures to loss due to the tortious conduct of the County, including those commonly covered by general liability, automobile liability, police professional, public officials, errors and omissions, and professional malpractice insurance policies. The estimated liability for probable self-insurance losses (reported and unreported) recorded in the fund as of December 31, 2008, is \$59.27 million.

The County purchases excess liability coverage that currently provides \$97.5 million in limits above a \$2.5 million per occurrence self-insured retention (SIR) for its general liability, automobile liability, police liability, public officials, errors and omissions, and Health Department professional malpractice exposures. The reinsurance policy has a "corridor" deductible that requires the County to pay an additional \$1 million above the \$2.5 million SIR before the reinsurance company becomes responsible for losses. This \$1 million may either be satisfied by one large loss exceeding \$3.5 million or through a combination of losses above the \$2.5 million SIR. Effective September 1, 2008, the County renewed the property insurance policy. This policy has a blanket limit of \$1 billion above a \$100 thousand per occurrence deductible and provides an overall earthquake sublimit of \$100 million. The 2008 policy was endorsed to cover Certified and Non-Certified Acts of Terrorism on a blanket basis up to \$250 million.

In addition to its excess liability policy and property insurance policies, the County has specific liability insurance policies to cover some of its other exposures. The County has a liability policy for the King County International Airport with policy limits of \$300 million; a liability policy to cover the police helicopter activities with liability limits of \$50 million per occurrence; and excess statutory coverage for the Workers' Compensation program over a \$2.5 million per occurrence SIR.

**NOTE 10 – CONTINUED**

In the past three years, there were two occurrences that resulted in payment in excess of the self-insured retention of \$2.5 million. No significant changes were made in the County's insurance program during 2008.

The County has extensively reviewed and revised its marine policies to better address some new and expanding County exposures due mainly to the Homeland Security Act. The marine program now has limits of \$50 million with additional coverage for sudden and accidental pollution, maritime employers' liability, towers liability, and contingent charterers liability.

With the assistance of an actuary, the Insurance Fund's claims liability is estimated based upon historical claims experience and other actuarial techniques. Nonincremental claim adjustment expenses are not included as part of the liability. The changes in the Insurance Fund's estimated claims liability in 2007 and 2008 were as follows (in thousands):

	<b>Beginning of Year Liability</b>	<b>Claims and Changes in Estimates</b>	<b>Claim Payments</b>	<b>End of Year Liability</b>
2007	\$ 45,707	\$ 22,255	\$ (9,770)	\$ 58,192
2008	58,192	11,938	(10,861)	59,269

**Safety and Workers' Compensation Fund**

The Safety and Workers' Compensation Fund, an internal service fund, accounts for the County's self-insurance for workers' compensation as certified under Title 51 Revised Code of Washington (RCW), Industrial Insurance Act. Interfund premiums are based on the hours worked by the fund/department-covered employees times an hourly rate that varies for different classes of employees and are recorded as quasi-external interfund transactions. Public Transportation and Water Quality internal fund charges are derived from actuarial projections of their future claims and administrative costs. The estimated liability for probable self-insurance losses (reported and unreported) recorded in the financial statements is discounted at 4.25 percent, the County's average forecasted rate of return on investments. As of December 31, 2008, the total discounted claim liability is \$72.69 million and the undiscounted carrying amount of the claim liability is \$88.69 million.

The County purchases an excess workers' compensation policy that provides statutory limits coverage. The amount of loss retained by King County (the self-insured retention) under this policy, effective September 1, 2004, was \$2.5 million. In the prior three years, there has been no settlement in excess of the insurance coverage.

The Fund's claims liability is estimated by an independent actuary and discounted. The claim liability represents the estimated ultimate amount to be paid for reported and incurred but not reported claims based on past experience and other actuarial techniques. Nonincremental claim adjustment expenses are not included as part of the liability. Changes in the Safety and Workers' Compensation Fund's claims liability in 2007 and 2008 were (in thousands):

**NOTE 10 – CONTINUED**

	<b>Beginning of Year Liability</b>	<b>Claims and Changes in Estimates</b>	<b>Claim Payments</b>	<b>End of Year Liability</b>
2007	\$ 57,149	\$ 23,575	\$ (16,243)	\$ 64,481
2008	64,481	26,314	(18,104)	72,691

**Employee Benefits Program Fund**

The Employee Benefits Program Fund, an internal service fund, accounts for employee medical, dental, vision, life, accidental death and dismemberment, and long-term disability benefit programs. There are three insured and one self-insured medical plans. Seventy-five percent of County employees are insured through the self-insured medical plan. The dental and vision plans are also self-insured. Interfund premiums are determined on a per employee, per month basis and charged to departments through a composite rate of expected claims, expenses and premiums. In some cases, there are employee contributions towards premiums. The estimated liability for probable self-insurance losses (reported and unreported) recorded in the fund as of December 31, 2008, is \$13.83 million.

The Fund's claims liability is based on historical experience. Changes in the Employee Benefits Program Fund's claims liability in 2007 and 2008 were (in thousands):

	<b>Beginning of Year Liability</b>	<b>Claims and Changes in Estimates</b>	<b>Claim Payments</b>	<b>End of Year Liability</b>
2007	\$ 13,893	\$ 123,990	\$ (124,011)	\$ 13,872
2008	13,872	138,090	(138,136)	13,826

**Unemployment Liability**

The County has elected to retain the risk for unemployment compensation payable to former County employees. The State of Washington Employment Security Department bills the County for the unemployment compensation benefits paid to former employees. Expenditures are then recognized in various county funds. In addition, a long-term liability of \$1.18 million is recorded in governmental long-term liability for the estimated future claims liability for employees as of December 31, 2008.

Changes in governmental long-term liability for unemployment compensation in 2007 and 2008 were (in thousands):

	<b>Beginning of Year Liability</b>	<b>Claims and Changes in Estimates</b>	<b>Claim Payments</b>	<b>End of Year Liability</b>
2007	\$ 1,347	\$ 970	\$ (1,266)	\$ 1,051
2008	1,051	1,081	(951)	1,181

**NOTE 10 – CONTINUED****Component Unit – Harborview Medical Center**Insurance Fund

Harborview Medical Center (HMC) participates in a self-insurance revolving fund for professional liability coverage through the University of Washington (UW). As of June 30, 2008, the UW did not carry commercial general liability coverage at levels below \$2 million per occurrence. The UW's philosophy with respect to its self-insurance programs is to fully fund its anticipated losses through the establishment of actuarially determined self-insurance reserves. These reserves are deposited in a statutorily created and regulated fund and can only be expended for payment of claim costs and related expenses.

The annual funding to the self-insurance revolving fund is determined by the UW administration based on recommendations from the UW's Risk Management Advisory Committee. The HMC's *pro rata* share of premiums paid to the self-insurance revolving fund were approximately \$1.72 million in the period July 1, 2006 to June 30, 2007 and \$1.68 million in the period July 1, 2007 to June 30, 2008.

Employee Benefits Program

Eligible permanent employees of HMC receive the basic insurance benefits package that is purchased by the University of Washington through the Public Employees Benefits Board (PEBB). HMC faculty and staff meeting PEBB eligibility rules receive this package of medical, dental, life, and long-term disability (LTD) insurance. In addition, there are optional employee-paid components to the life and LTD insurance that HMC employees may elect.

All employees of HMC are covered by Workers' Compensation and Medical Aid Acts for injuries and occupational diseases that occur during the course of their employment. Coverage includes doctors' services, hospital care, ambulance, appliances, compensation for permanent, partial, and total disability, and allowances and pensions to surviving spouses and children in the case of fatal injuries. A majority of the premium cost is paid by the UW and a small deduction is made from the employee's pay to conform with State law.

**Component Unit – WSMLBS Public Facilities District**Insurance Fund

The Washington State Major League Baseball Stadium Public Facilities District (PFD) carries commercial general liability insurance with a general aggregate limit of \$2 million and a per occurrence limit of \$1 million. Excess liability coverage is in force at aggregate and per event limits of \$5 million. Business automobile liability coverage limit is at \$1 million per any one accident or loss. Commercial personal property losses are covered up to the replacement value not exceeding \$100 thousand with separate coverage for earthquake and flood losses. The PFD also has purchased employee benefit liability coverage with an aggregate limit of \$3 million and a per employee limit of \$1 million.

**NOTE 10 – CONTINUED**

**Component Unit – Cultural Development Authority of King County**

Insurance Fund

The Cultural Development Authority of King County (CDA), dba 4Culture, carries comprehensive general liability and auto liability insurance with no aggregate limit per member. The total limit is \$10 million with a per occurrence limit of \$9.5 million. Commercial property losses are covered up to the replacement cost on file with Washington Governmental Entity Pool.

The CDA also has purchased employee benefit liability coverage with an aggregate limit of \$20 million and an aggregate per member limit of \$10 million.

Employee Benefits Program

Employees of the CDA have a comprehensive benefits package through the Public Employees Benefits Board (PEBB). The comprehensive package includes medical, dental, life, and long-term disability coverage. In addition, the PEBB offers the following optional products: long-term care, auto, and home insurance. The State of Washington Health Care Authority (HCA) is the administrating authority. The CDA also offers insurance with American Family Life Assurance Company (AFLAC). With the AFLAC coverage, the CDA employees can pick from a selection of insurance policies.