

# AGENDA ITEM SUMMARY

## FORT COLLINS CITY COUNCIL

ITEM NUMBER: 11

DATE: November 29, 2005

STAFF: Jim O'Neill

### SUBJECT

First Reading of Ordinance No. 164, 2005, Appropriating Prior Year Reserves in the Self Insurance Fund to Cover the Annual Actuarial Report Adjustment.

### RECOMMENDATION

Staff recommends adoption of the Ordinance on First Reading.

### EXECUTIVE SUMMARY

The City's Self-Insurance fund pays for liability (auto, public officials, general liability), property (damage to buildings, flood etc.) and worker compensation claims and related expenses. An actuarial report is provided annually in March to project reserves which are needed for claims which have been filed but not settled and claims that have not been filed or reported to the City. These are known as claims incurred but not reported, or "IBNR" claims.

Claims are affected by timing. Once an incident has occurred, claimants have 180 days after the incident to file a claim with the City for a State covered tort and two years to file claims covered by Federal law.

The reserves necessary to cover claims that have not been reported or filed (IBNR claims) and claims which have not yet been settled, fluctuates annually. For example, in 2002 the reserve/IBNR increased \$156,000, in 2003 it increased \$1,300,000, and in 2004 it decreased \$1,400,000. It is estimated that the amount of reserves will increase by \$500,000 – 800,000 for 2005. A chart depicting the variability is included.

In the latest actuarial report completed by Milliman USA on 3-9-05, there is a section called "Inherent Variability". This section explains why loss forecasting and funding estimates are difficult to determine. To summarize, this section points to the following factors that cause variability in annual forecasting:

1. The City has a relatively small number of claims and consequently there is a lot of variability from year to year. This results in difficulty predicting the final cost of the claims.
2. There are unpredictable external factors which affect the ultimate payout for claims such as, future inflation rates, future laws, benefit levels, litigation trends, and claim settlement patterns.

3. Milliman's 3/9/05 report stated the amount needed for reserves could differ significantly, and in either direction. "Nevertheless, the results presented herein reflect our best professional judgment."

This explains why the annual actuarial report can show significant change in the estimated reserve amount necessary to pay open and IBNR claims.

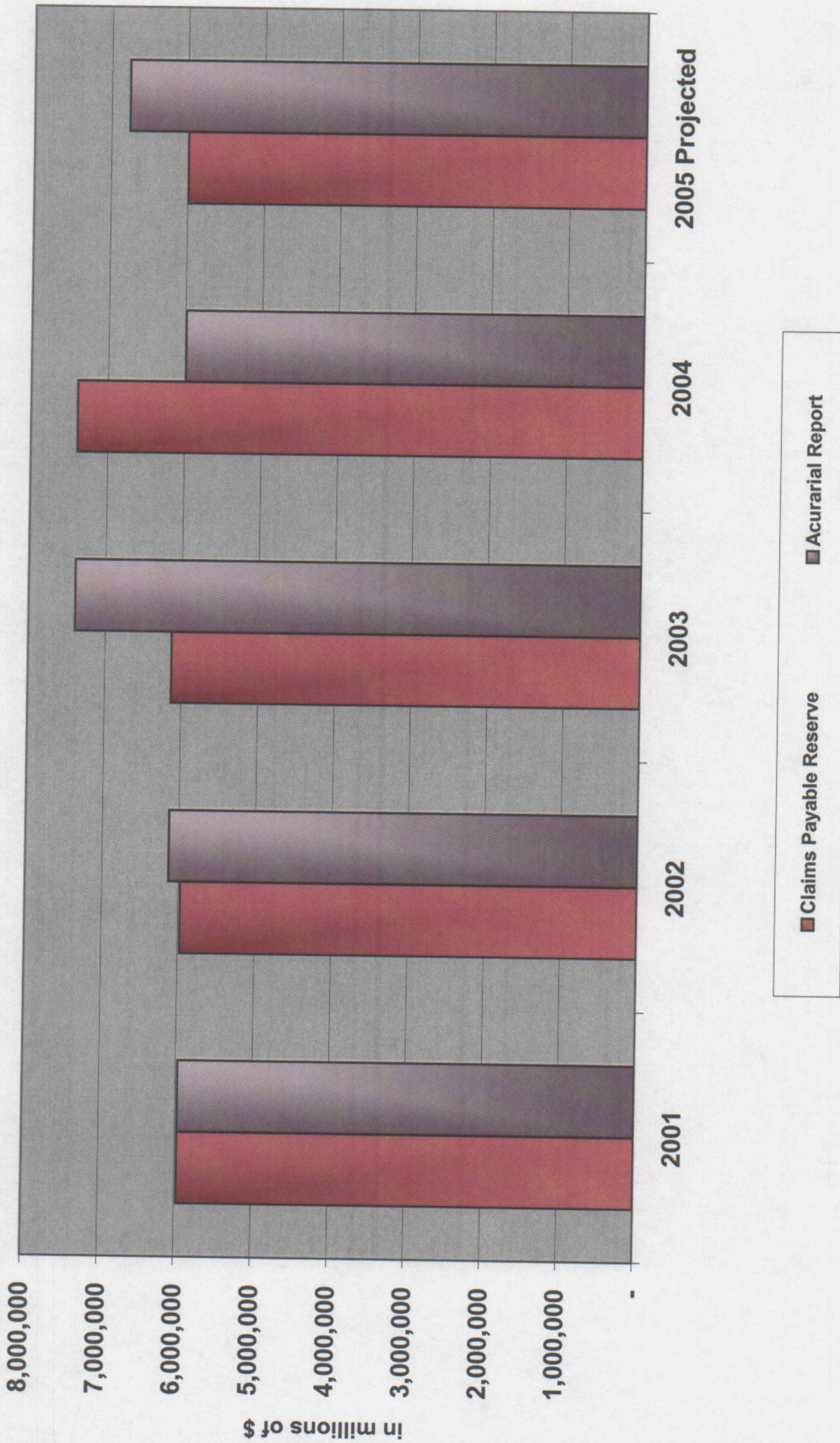
It is also important to understand the long term nature of workers' compensation and liability claims. It can take many years for claims to be settled completely as is evidenced by the fact that the City is still paying claims for the 1989 fiscal year.

When the actuarial report is finalized in March of each year, Self-Insurance funds are moved from Reserves for Operations to Reserves Designated for Claims Payable. In order to avoid exceeding authorized appropriations, the amount appropriated for Claims Payable needs to have adequate appropriations to cover the outstanding claims and IBNR amount for the year 2005 even though IBNR claims will be paid in the future years.

Because the amount is not known until after the end of the year this shifting of reserves is needed to ensure that the Self-Insurance Fund does not exceed authorized appropriations. The Self-Insurance Fund is adequately funded.



# Five Year Self Insurance Claims Payable Reserve History





ORDINANCE NO. 164, 2005  
OF THE COUNCIL OF THE CITY OF FORT COLLINS  
APPROPRIATING PRIOR YEAR RESERVES IN THE SELF INSURANCE FUND  
TO COVER THE ANNUAL ACTUARIAL REPORT ADJUSTMENT

WHEREAS, The City's Self Insurance Fund pays for liability, property and workers compensation claims and related expenses; and

WHEREAS, the Self Insurance Fund is sufficiently funded to cover claims and administration costs, and adequate reserves are maintained for use in the event that fund expenditures exceed the revenues received in the fund; and

WHEREAS, staff projects that the 2005 Self Insurance Fund expenditures could exceed budgeted appropriations by \$750,000; and

WHEREAS, the overages are anticipated because an actuarial study is performed in March of each year based on prior years' data to project reserves needed for incurred but not reported claims; and

WHEREAS, Article V, Section 9, of the Charter of the City of Fort Collins permits the City Council to appropriate by ordinance at any time during the fiscal year such funds for expenditure as may be available from reserves accumulated in prior years, notwithstanding that such reserves were not previously appropriated; and

WHEREAS, City staff has determined that the appropriation from prior year reserves to cover the annual actuarial report adjustment will not cause the total amount appropriated in the Self Insurance Fund to exceed the current estimate of actual and anticipated revenues to be received during the fiscal year.

NOW, THEREFORE, BE IT ORDAINED BY THE COUNCIL OF THE CITY OF FORT COLLINS that the sum of SEVEN HUNDRED FIFTY THOUSAND DOLLARS (\$750,000) is hereby appropriated for expenditure from the Self Insurance Fund prior year reserves to cover the annual actuarial report adjustment.

Introduced, considered favorably on first reading, and ordered published this 29th day of November A.D. 2005, and to be presented for final passage on the 20th day of December A.D. 2005.

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Mayor

ATTEST:

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City Clerk

Passed and adopted on final reading this 20th day of December A.D. 2005.

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Mayor

ATTEST:

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City Clerk