



Special Edition

Rising Excess Insurance & Claims Handling Costs Lead CFSA to Project Rate Increases for its 2004 General Liability & Workers' Compensation Programs

When budgeting for 2004, here's some food for thought for members of CFSA's risk-sharing pools: Due to rising costs in several different areas of influence, CFSA is projecting increases in the overall base rates of its workers' compensation and general liability programs for 2004.

Workers' Compensation

According to Rick Wood, CFSA's assistant director, finance, a projected 10 percent increase in the workers' compensation program's overall base rate would raise your rate from 5.25 percent to 5.75 percent of payroll and volunteer wages.

The primary catalysts behind this expected increase are:

1. A significant increase in the cost of renewing existing commercial excess insurance policies. In 2003, the renewal cost rose 396 percent and in 2004, another increase of approximately 289 percent is foreseen.
2. Legislation that went into effect January 1, 2003, has raised the cost of handling new and existing claims. During the past four years, CFSA has been able to offset a large portion of the rising costs by tapping into pool reserves designed for such contingencies. To maintain the

pool's integrity, however, this solution isn't feasible for yet another year of rising costs. But even with the projected increase, Rick is quick to point out, CFSA's workers' compensation rate is still much lower than the state average.

There is reform legislation currently on the governor's desk, Rick adds, but any cost savings realized by the legislation won't be felt for at least two or three years.

General Liability

In 2003, CFSA's general liability pool also felt the adverse effects of rising policy renewal costs. But, thanks in part to several large defense cost "recoveries," CFSA had the opportunity to absorb 75 percent of 2003's necessary increase.

Unfortunately, CFSA won't have this opportunity in 2004 and with general liability excess insurance costs continuing to rise, the Authority is projecting an overall base rate increase of 10.8 percent. While each member fair's increase will depend on their individual fair loss history,

a safe bet would be to simply increase your last year's fee by 10.8 percent for budgeting purposes.

To illustrate how much excess renewal costs have risen, CFSA paid nearly \$350,000 in 2002 and \$559,000 in 2003, and is projected to pay approximately \$600,000 in 2004.

The Bottom Line

Exact rate increases won't be known until after CFSA's Risk Advisory Committee has reviewed and CFSA's Board of Directors has approved the 2003 actuary and audit reports available in April 2004. Because 2004 fair budgets are being formulated now, CFSA wanted to notify you well in advance that rate increases in 2004 seem unavoidable.

If you have questions about these projections or CFSA's risk pool programs in general, contact Rick Wood at 916/263-6147.

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