



Welcome to 2008!

In this first *fyi* newsletter of the New Year, *fyi* takes on the topic of self-insurance: what it is, how it works and the benefits California's fairs reap as members of the self-insurance risk-sharing pools managed and administered by California Fair Services Authority.

What Exactly is Self-Insurance?

Self insurance is an alternative to traditional commercial insurance. Instead of paying annual premiums to an insurance company for coverage, self-insurance program members pay annual fees that are pooled into one interest generating fund or pool. At the end of the year, unspent pool funds remain in the pool to the members' benefit. By comparison, money paid to commercial insurance companies is gone forever. Typically, when a group decides to self insure, a separate entity such as CFSA is formed to manage and administer the pool. One of the biggest differences between CFSA and a commercial insurance company is that CFSA is a not-for-profit agency created to protect, administer and tailor pools solely for California's fairs. Commercial insurance companies are motivated by profit, which they earn by charging premiums higher than needed to cover losses and by writing insurance policies that fit most everyone who comes to them for insurance.

How are Self-Insurance Pool Levels Determined?

CFSA consults with a specialized actuarial firm to help calculate and balance pool funding levels so that they are sufficient to cover the year's claims and operational costs yet keep pool member fees stable. There are no broker commissions or profit margins added into the annual premiums as would be the case with a commercial insurance company.

Safety Pays! Reducing Accidents Reduces Annual Fees

Another advantage of pool membership is the control and influence each member fair has over its annual fees: by improving its loss history, a fair can lower its annual fees.

To help fairs do this, CFSA has developed a strong, knowledgeable team of safety specialists whose primary job is to help fairs identify and correct potential hazards before an accident happens. These specialists also provide state-mandated training, certification training and testing, and serve as liaisons between the fairs and state safety officials. These safety services and more are provided to pool members at no extra charge.

Some commercial insurance companies may offer a limited safety program, such as an annual consultation, while CFSA's program is a much more comprehensive year-round commitment.

CFSA's Pools are Insured Against Catastrophic Losses

What happens when a particular year's losses skyrocket or a catastrophe sends losses over the actuaries' predictions? To protect the pools' integrity and the pool members' pocketbooks, CFSA proactively purchases excess insurance or reinsurance that steps in when a pool's losses exceed a predetermined dollar (loss) amount. This is the same type of insurance commercial companies purchase to protect themselves against catastrophic losses.

In addition, CFSA has always had an Adverse Development Fund (also called net assets or retained earnings) to cushion and absorb sharp increases in

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Advantages of CFSA's Self-Insurance Pool Membership

- **Stability** - Annual fees are impacted only by pool member loss experiences, not by commercial market swings or unrelated catastrophes. Any fee fluctuations from year to year tend to be minor.
- **Pool Ownership** - Retained earnings grow to the benefit of pool members.
- **Controlled Operating Costs** - Annual operating costs range between 25 percent and 28 percent compared to a commercial insurance average of 40 percent.
- **Value-Added Services** - Safety training, consulting and facility inspections; insurance certificate reviews and more are provided at no additional cost.
- **Flexibility and Responsiveness** - Programs and services are member driven. CFSA works solely for California's fairs.
- **Improved Risk Control** - Understanding that claims costs take money from the pool gives members a greater commitment to safety and loss control measures.
- **Open Communication** - CFSA's board of directors is comprised of member peers: fair managers and fair industry veterans. Members have a direct line to decision makers.

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"Everyone is entitled to their own opinion, but not their own facts."
~ Senator Daniel Patrick Moynihan



February 15, 2008
Issue 1, Volume 18

Let's hear from you!
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Stability. Flexibility. Reliability.
California Fair Services Authority
has served California's fairs for more than 20 years. For information about how CFSA's pool programs can help your fair, contact Charlie Mitchell, CFSA's risk manager, at 916/263-6150.

"Simplicity is the ultimate sophistication."

~ Leonardo da Vinci

fyi

February 15, 2008
Issue 1, Volume 18

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Self-Insurance, continued

costs, claims activity and/or investment shortfalls, further protecting the pools and pool members.

Case in point: In 2004, CFSA's worst ever year of adverse loss development, worker's compensation claims losses and expenses soared 173.24 percent (attributed to several different factors including a sharp increase in the severity of accidents). Thanks to CFSA's history of conservative reserve strategies, the availability of the Adverse Development Fund, and JPA-exclusive opportunities such as membership in an excess insurance program offered by another JPA, CSAC Excess Insurance Authority, CFSA was able to absorb the lion's share of the year's losses, passing on only a small rate increase to pool members. (Remember that even with a rate increase, some fairs could see a reduction in their annual fee due to a better than industry average loss history.)

It's important to note too, that never in CFSA's history has CFSA asked members for additional money to cover a previous year's claims expenses. On the contrary, CFSA has actually lowered fees several times and on one occasion gave rebates back to pool members.

CFSA's #1 Priority: Stability, Stability, Stability

Pool and fee stability are the linchpins of CFSA's self-insurance pool program. While commercial insurance rates tend to fluctuate up and down influenced by events around the country and the stock market, self-insurance rates are historically more stable affected only by the loss experience of pool members.

True, commercial rates may be lower in a given year than CFSA's, however, over a several year period, self-insurance rates have proven themselves repeatedly to be on average, lower in the long run. It's interesting to note that CFSA was created in 1986 in response to significant inconsistencies and instabilities among insurance companies that were making it difficult for California's fairs to obtain coverage.

And yes, annual pool fees can go up, but these increases are typically small and can be implemented over several years. Fairs affected by increases are notified in advance for budgeting purposes and also to set up meetings with CFSA's safety specialists to discuss strategies for bringing a fair's rates down.

Value-Added Benefits

Yet another large difference between traditional insurance and self-insurance is in the flexibility of services and programs CFSA offers its members. Members are actively encouraged to talk to CFSA staff and CFSA's board of directors with any concerns or questions they have.

Is Self Insurance Right for Your Fair?

Whether or not self insurance is the right match for your fair depends on your needs. Are you driven by price alone or are long-term stability and access to value-added services more important to your fair?

To learn more about CFSA and self-insurance pools, please contact Charlie Mitchell, CFSA's risk manager, at 916/263-6150 or Rick Wood, CFSA's chief financial officer, at 916/263-6147.

Advantages, con't.

- **Return on Investments** - Greater fairground safety has a direct effect on rates; fewer accidents translates to more money in the pools and lower annual fees.
- **Less Risk Exposure** - Pool members are affected only by incidents that involve pool members, not outside catastrophic events.
- **Peace of Mind** - CFSA has held an "Accreditation with Excellence" standing with the California Association of Joint Powers Authorities (CAJPA) for the past nine years, reassuring members that CFSA's best practices truly are among the best in the industry.

What Happens When a Fair Leaves the Pool?

On January 1, 2008, a large fair withdrew from CFSA's General Liability Pool. This fair contributed 20 percent of the pool's funding, but also represented 20 percent of the pool's risk exposures.

Will this have an adverse affect on the remaining pool members? Absolutely not. And when it's time for the pool's actuaries to evaluate and recommend 2008's pool levels and fees, they'll take this fair's withdrawal into consideration adjusting reserve levels and fees to fairly represent the remaining fairs' risk exposures.

To maintain stability in the pool, withdrawing fairs cannot re-enter the pool for three to five years and then only with the approval of CFSA's board of directors.