

October 31, 2019

Mr. Daniel Sovocool  
Outside General Counsel  
California Self-Insurers' Security Fund  
555 12<sup>th</sup> Street, Suite 680  
Oakland, CA 94607

RE: Study Reviewing Self-Insured to Insured Costs

Dear Mr. Sovocool:

At your request, the following is an overview of the findings of the study we conducted comparing estimated workers' compensation self-insurance versus insurance costs for a variety of employers who are currently self-insured in California. Based on a sample of 14 self-insurers, we estimate self-insurance savings of 14% to 28% versus full insurance. The average savings are 21%.

The 14 self-insurers that we evaluated are in a variety of industries and retain over \$150,000,000 in annual workers' compensation loss and allocated loss adjustment expense (ALAE), as projected by their independent actuaries. The self-insured retentions (SIRs) of those included in our evaluation range from \$250,000 to \$2,500,000.

In order to estimate self-insurance savings we started with projected ultimate loss & ALAE detailed in each self-insurers' actuarial study, and then we added industry-wide loads for both insurance and self-insurance. The self-insurance savings are largely driven by the reduction in commissions, insurance company other acquisition costs, and insurance other/general expenses (including premium tax). For 2017 the California Workers' Compensation Insurance Rating Bureau (WCIRB) has estimated these costs to total 18% of premium<sup>1</sup>.

The key difference between the low and high savings estimates is the assumed insurance company profit. Historically, California insurance company workers' compensation profit has been highly variable by year. The low savings estimates assume no insurance underwriting profit. The

high savings estimates assume insurance company profit is roughly 10% of premium, which the WCIRB has estimated insurance company profit to be for the 2017 year.

In addition to the costs previously discussed, our study adjusts for the estimated cost of excess insurance purchased by the self-insurer, self-insurance assessments from the California Department of Industrial relations (DIR), and charges by the California Self-Insurers' Security Fund (SISF). The following chart summarizes our treatment of each cost component.

**Chart 1  
Cost Components**

		<b>Self-Insurance</b>	<b>Insurance</b>
(1)	Ultimate Loss & ALAE Limited to SIR	Based on actuarial study provided by SISF	Same as for self-insurance.
(2)	Cost of Ultimate Loss & ALAE Above SIR	Estimated Excess Premium: Loss & ALAE above SIR based on (1) and WCIRB 2019 Loss and ALAE Elimination Ratios. Expense loads same as for insurance industry (4).	Loss & ALAE above SIR based on (1) and WCIRB 2019 Loss and ALAE Elimination Ratios.
(3)	Unallocated Loss Adjustment Expense (ULAE): Claims Administration	9.8% of Loss & ALAE <sup>2</sup>	Same as for self-insurance
(4)	Other Insurance Costs	n/a	18% of Premium <sup>1</sup>
(5)	Insurance Company Underwriting Profit	n/a	Low Scenario 0% Middle Scenario: 5% High Scenario: 10% <sup>1</sup>  Percentages of Premium. Middle based on average of high & low.
(6)	Self-Insurance Assessments	SISF cost provided by SISF. DIR assessments based on 2017/18, assuming indemnity is about 33% of loss & LAE <sup>3</sup>	

<sup>1</sup> Based on 2017 results in WCIRB 2018 State of the System Report, Pages 58

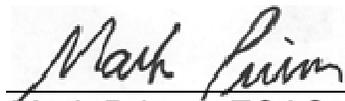
<sup>2</sup> Based on 2017 results in WCIRB 2018 State of the System Report, Pages 47 & 48

<sup>3</sup> WCIRB 2018 State of the System Report, Page 15

I appreciate the opportunity to work with SISF. Please feel free to contact Mark Priven at (916) 244-1161 ([mpriven@bickmoreactuarial.net](mailto:mpriven@bickmoreactuarial.net)) with any questions or concerns regarding this report.

Sincerely,

Bickmore Actuarial



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Mark Priven, FCAS, MAAA

Vice President and Principal – Specialty Actuarial, Bickmore Actuarial