FREQUENTLY ASKED QUESTIONS ABOUT
PROPERTY and CASUALTY COVERAGE for EDUCATION (PACE)

Would competition bring PACE rates down?

Currently, PACE is the only self-insured non-profit pool in Oregon offering property and casualty coverage to the state’s public school districts, education service districts, community colleges and charter schools. There are numerous national property and casualty insurance companies licensed in Oregon that could provide coverage to public education entities. The PACE Board of Trustees believes that if PACE premium rates and coverage were not competitive, then for-profit insurance companies would make a stronger effort to sell their products.

How does PACE compare to a private, for-profit insurance company?

PACE is an intergovernmental entity and all of its assets and liabilities belong to its members. PACE is governed by a Board of Trustees composed of PACE members. The Trustees have hired the Oregon School Boards Association (OSBA) to administer the program, and OSBA contracts with the Special Districts Association of Oregon (SDAO) to manage some PACE member services. PACE’s assets and liabilities belong to its members. There are no “profits” shared by any organization that works for the PACE Board of Trustees, and no shareholders motivated by profit and stock price.

How are OSBA and SDAO compensated by the PACE Board of Trustees?

The PACE Board of Trustees negotiates annual service contracts with the two organizations. OSBA provides PACE with administrative, legislative and marketing support as well as member pre-loss legal support. SDAO provides underwriting, claims administration, loss control and accounting support. Every year, trustees review the service fees these two organizations charge and evaluate the quality of the work provided. Both organizations are only allowed to charge actual costs for services, to include salary, benefits, materials and overhead. The combined OSBA and SDAO service fees total less than eight percent (8%) of member premium rates. The percentage of administrative costs to member premiums has decreased every year since the founding of PACE in 2006. PACE’s fees and underwriting expenses (excluding claims administration) relative to premiums have averaged 16.8%, compared to a 24% average “expense ratio” for similar carriers.
If PACE dissolves sometime in the future, what happens to the net assets? Those funds would be returned to PACE members as per the PACE Trust Bylaws. PACE’s net assets are currently $12 million.

**Why are PACE claims costs increasing?**

PACE has seen an uptick in the number and cost of claims.

The biggest claims drivers:

- sexual abuse and employment practices

Sexual abuse and employment practice claims are extremely costly to defend and often end in mid-six-figure jury judgments. Following the Penn State scandal, PACE dealt with sexual abuse claims on almost a weekly basis. Preceding the rush of sexual abuse claims were the unending wrongful termination claims brought about by staff layoffs PACE members faced due to the 2008 economic crash.

*(NOTE: Under state laws, nearly every staff member laid off can now fit into a protected employment class and can file a wrongful termination claim.)*

In the property claims arena, several costly PACE member freeze damage claims have been incurred. PACE estimates the cost of those claims to be just under $4 million. With the higher self-insured retention now being $5 million, all of those losses will be paid with PACE dollars.

**What is reinsurance?**

PACE buys reinsurance to cover catastrophic claims. For liability claims, PACE covers the first $633,000 in damages of any claim with the pool’s reinsurance policy paying for claims over that amount. For property claims, PACE pays the first $5 million *(up from $250,000 last year)*, with the pool’s reinsurance paying for claims over that amount. PACE markets its reinsurance coverage regularly to make sure the pool is getting the best price. In the liability arena, PACE has paid all its liability claims, so the pool is continuing to get favorable liability reinsurance pricing. The pool’s property reinsurance experience has not been so fortunate. Since PACE was first formed in 2006, the pool’s property reinsurer has collected about $40 million in premiums and has paid out over $40 million. To break even, the reinsurer needs to maintain approximately a sixty-five percent (65%) loss ratio.

**My organization didn’t have any large claims, why are our rates going up?**

PACE is a self-insured member pool. Large claims impact everyone in the pool because all of the claim liabilities are shared by the pool members. PACE bases part of its member ratings on individual member claims experience, so members with better claims experience receive lower rates.
rates than members with higher claims experience. However, a certain amount of risk sharing is part of any self-insured pool, or for that matter, any insurance company.

**Why doesn’t PACE provide more earthquake insurance?**

Currently, PACE buys $100 million of earthquake and flood coverage. In the event of a catastrophic earthquake or flood that exceeds $100 million, the $100 million would be prorated among pool members. Certainly, the $100 million of coverage for a catastrophic earthquake is not enough. The pool’s challenge is that to purchase an additional $100 million of earthquake coverage would cost more than $1 million, and that cost would have to be paid for by the pool’s members. There is a financial backstop that might provide financial help in the event of a major earthquake. If the event is declared a national emergency, the Federal Emergency Management Agency (FEMA) will pay up to seventy-five percent (75%) of any uninsured loss for public facilities.

**Why aren’t net assets used to keep member rates in check?**

PACE is required by state law and by its own actuarial standards to maintain a certain level of “net assets”. These dollars are the pool’s safety net if PACE faces an influx of unexpected claims. (An example would be the increase in sexual abuse claims following the Penn State scandal.) In 2012, PACE liability claims increased $4 million more than our actuary initially projected. The net assets allow for these claims to be paid without risking the pool’s financial stability.

**How is your PACE insurance premium dollar spent?**

Claims = 40.5¢ of every premium dollar

General Liability = 25¢ (of every premium dollar)

General liability includes sexual abuse, employment liability (i.e., age, racial, gender discrimination wrongful termination), special education and other employee and student issues.

PACE’s largest liability claims (2006-2013):

- $850,000 - Age discrimination/wrongful termination
- $660,000 - Student/student sexual abuse
- $560,000 - Teacher/student sexual abuse
- $545,000 - Workplace harassment/discrimination
- $540,000 - Wrongful termination/sexual harassment
- $480,000 - Wrongful termination

PACE is responsible for up to $633,000 per incident, at which point reinsurance kicks in. Between 2008 and 2012 general liability claims increased at a substantial rate. This trend appears to be stabilizing.
Property = 12¢ (of every premium dollar)
Property includes fire, flood and facility damage.

PACE’s largest property claims (2007-2013):
• $7.8 million - Fire
• $7.2 million - Flood
• $6.5 million - Fire
• $6 million - Fire
• $4.5 million - Fire

As of July 2013, PACE is responsible for the first $5 million per occurrence and $5 million in the annual aggregate, at which point reinsurance kicks in.

Auto = 3¢ (of every premium dollar)

Reinsurance = 39.3¢ (of every premium dollar)
Reinsurance is a risk management tool to help cover catastrophic events; it accounts for 39.3¢ of every premium dollar. PACE’s reinsurance policies provide coverage for general liability claims over $633,000 and property claims over $5 million per occurrence and in the annual aggregate. For every $100 PACE has paid in property reinsurance premiums, the reinsurer has paid $93 in claims. The traditional “break-even” point for reinsurers is 65 percent. This resulted in PACE changing the Self-Insured Retention to $5 million, to exchange reinsurance premium costs with additional claim costs.

Agent/Broker Commission = 9.5¢ (of every premium dollar)
Local agents provide personal service to clients they know. PACE pays a 14 percent commission on gross premiums. Members with premiums over $100,000 may choose to have a separate fee arrangement with their agent. PACE uses an insurance broker to negotiate and purchase program reinsurance.

Program Administration = 7.2¢ (of every premium dollar)
Fourteen full-time equivalent positions from SDAO and OSBA support PACE.

Services include:
• claims administration;
• loss control;
• accounting;
• communication;
• marketing;
• education;
• training; and
• clerical support.
Other Operating Expenses = 2¢ (of every premium dollar)
• Pre-loss legal services provided by OSBA attorneys
• Online training (SafeSchools/SafeColleges)
• Business insurance, audit and actuary services
• Sponsorships

Retained Earnings = 1.5¢ (of every premium dollar)
Retained earnings are currently $12.1 million, a position well above the state requirement for self-insured pools, and ensure the program’s financial stability.

Specialized Programs Implemented in 2015-16

Boundary Invasion Toolkit

This is the 2nd year of a program providing a 5% credit on member’s general liability premiums when the member completes a checklist of activities that include:
• policies related to boundary invasions;
• training; and
• reporting process

Approximately 100 PACE members are expected to complete the process in the 2015-16 fiscal year and qualify for a credit in the 2016-17 general liability premiums.

The toolkit was developed to address some of the highest cost claims the PACE program experiences. The focus was to assist members in developing best practices in hopes of providing a safe environment for students and reducing claims and the corresponding costs to PACE members.

Risk Manager Training

Conducted ten (10) regional workshops designed to enhance members risk management plans. Providing training for member staff who are responsible for overseeing risk management protocols to learn more about how to manage and reduce risk and liability.

Regional Training Program

Provided training at sixteen (16) sites throughout Oregon on topics ranging from:
• boundary invasions;
• bullying;
• how to conduct an investigation;
• OFLA/FMLA;
• performance management;
• sexual harassment; and
• things supervisors do to get sued
PACE also sponsored six (6) Standard Response Protocol (SRP) trainings throughout the State of Oregon.

**PACE Day**

PACE Day was on April 21st. PACE Day is a one day training event for PACE members where PACE covers the cost of registration and hotel for one employee from each PACE member. In addition, members can send additional participants by paying a $75.00 fee to cover meals and materials.

Topics covered were managing social media and preventing cyberbullying, dealing with marijuana in the workplace, navigating transgender issue and how to conduct effective negotiations.

Attendance at the one day event grew again this year; we had 224 individuals in attendance for the one day event in Eugene. This up from the 183 registered last year, this reflects about a 23% increase in participation.