



**SAFETY • SERVICE • SAVINGS**  
 A TRUST BUILT FOR STUDENTS

# RATE INCREASE

## INFORMATIONAL SHEET

Dear fellow PACE Member,

These are difficult times for all of us as we struggle to deal with the COVID-19 pandemic’s impact on our organizations and communities. Our PACE board members understand your pressures because they include business managers, superintendents and board members of school districts, community colleges and education service districts. The PACE board and staff also have an obligation to members to ensure that PACE can meet its commitment to defend you in lawsuits and pay your claims.

PACE was formed by intergovernmental agreement to jointly self-insure to protect members from liability and property claims. PACE is not an insurance company; it is a trust governed by a board of PACE members. Oregon law, under ORS 30.282, specifies that self-insured local government programs such as PACE must annually set their rates based on proper actuarial calculations and must purchase reinsurance to protect against catastrophic loss.

Unfortunately, those requirements coupled with a series of recent claims and turmoil in reinsurance markets are driving the necessity for PACE to raise rates for the upcoming July 1, 2020, renewal by an average of 17%. This is a significant departure from the last six years, when we have been able to keep annual rate increases to an average of 2.5%. Remember, we are in this together. When we keep claims down, we share the savings; when claims rise, we share the cost.

If there were a way to reduce our required increase during these difficult times, we certainly would do so, but our primary obligation must be having enough resources to meet the law, and most importantly, fulfilling our promises to PACE members. In fact, the rate increase would be closer to 25%, but thanks to the interest earnings from our claim reserves, PACE was able to lower it to 17%. The following will explain the reasons for this rate increase. If you have questions, please do not hesitate to contact us. As always, PACE staff is available to answer your questions and meet member needs.



*Sharla Andresen*

**SHARLA ANDRESEN**  
 Chair, PACE Board of Trustees  
 Director of Risk Management  
 Central Oregon Community College



*Dave Harvey*

**DAVE HARVEY**  
 PACE Administrator  
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### PACE controls expenses to provide the **best value** for members

Over its fourteen-year history, PACE’s “expense ratio” — the calculation of fees and underwriting expenses (excluding claims administration expenses) relative to premiums — has averaged 18.5%. The average “expense ratio” for comparable-size commercial carriers with direct written premiums is 25% (based on 2019 year-end insurance regulatory filings).

# HOW IS YOUR PACE INSURANCE PREMIUM \$1 SPENT?

**CLAIMS  
= 40¢**

**GENERAL LIABILITY** includes sexual abuse, employment liability (i.e., age, racial and gender discrimination; wrongful termination), special education and other employee and student issues. Although general liability accounts for just 20 cents of every premium dollar, generally liability claims account for 50 cents of every claim dollar PACE pays out.

**PROPERTY CLAIMS** include those for fire, flood and facility damage.

## GENERAL LIABILITY = 20¢

### PACE'S LARGEST LIABILITY CLAIMS (2015-2019):

- \$3 million · Sexual abuse and molestation (SAM)
- \$1.7 million · Employee/student assault
- \$899,000 · SAM
- \$705,000 · SAM
- \$621,000 · SAM
- \$543,000 · Drowning
- \$502,000 · Defamation

NOTE: on each general liability claim, PACE pays up to \$1 million in damages before its reinsurance policy kicks in.

General liability claims are increasing at an alarming rate since 2013.

See *Average Liability Rate Chart*, on next page

## PROPERTY = 16¢

### PACE'S LARGEST PROPERTY CLAIMS (2015-2019):

- \$18 million · Statewide snowstorm
- \$6.5 million · Fire
- \$3.4 million · Fire
- \$3.2 million · Fire
- \$2.7 million · Fire

NOTE: Under PACE's reinsurance policy, PACE is responsible for \$250,000 per incident and \$5 million total per policy year before its reinsurance policy kicks in.

## AUTOMOBILE = 4¢

**REINSURANCE  
= 43¢**

Each year PACE searches the global marketplace to find the best price and coverage for PACE members. In 2020, we requested quotes from over 100 property reinsurance companies and most liability companies that are willing to insure schools and community colleges. The responses were the same across the board. Globally rates are increasing substantially because of wildfires, hurricanes and other catastrophic events. There is also a heightened level of concern over the Cascadia subduction zone.

PACE is not the only Oregon public entity impacted. Large self-insured school districts, such as Portland and Salem-Keizer, are also seeing reinsurance rate increases from 15% to 30%. The self-insured pool representing Oregon's public universities experienced almost a 100% property reinsurance increase in 2019.

## AGENT COMMISSIONS/ BROKER SERVICES = 6¢

- PACE uses an insurance broker to negotiate and purchase reinsurance.
- Local agents provide personal service to clients they know.

## PROGRAM ADMINISTRATION = 11¢

- Nearly 30 full-time equivalent (FTE) positions including SDAO and OSBA staff that support the PACE program.
- Services include claims administration, underwriting, loss control, accounting, crisis communications, marketing, education, training, legal and clerical support.

## OTHER OPERATING EXPENSES = 4¢

- Property appraisals
- Online training (SafeSchools/SafeColleges)
- Business insurance, audit and actuary services
- PACE risk management support for our partnerships

# WHY IS THE TOTAL MORE THAN \$1?

PACE generates interest earnings from its claim reserves. Those interest earnings are used to offset premium increases. Without these interest earnings the average rate increase for members would be closer to 25%. With the use of interest earnings, PACE was able to lower this to 17%.

## REASONS FOR THE RATE INCREASE

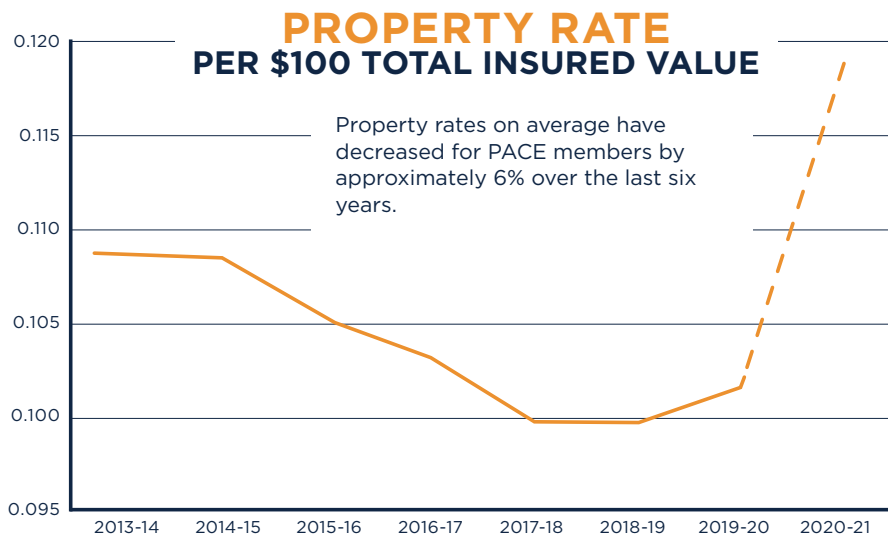
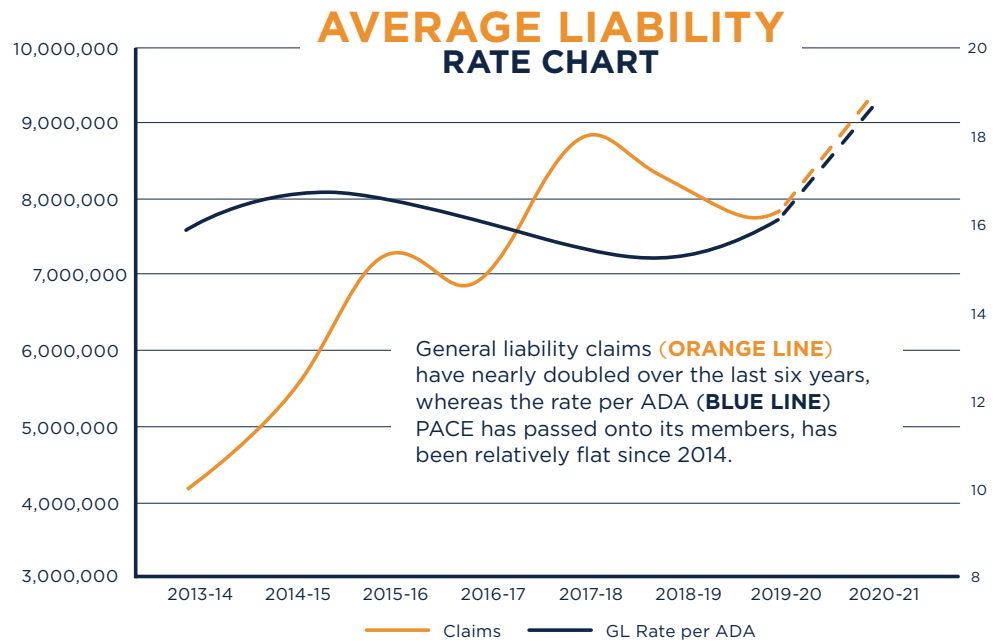
**PROPERTY REINSURANCE:** The property reinsurance market was in a state of turmoil even before COVID-19 due to catastrophic events worldwide. Now it is getting even harder to place coverage as reinsurers are trying to evaluate their ongoing underwriting and investment exposure. Especially difficult has been the ability for PACE to retain our earthquake flood insurance limits for members. Our property reinsurance increase is 23%.

**LIABILITY REINSURANCE:** Liability reinsurers are being hit hard with sexual abuse and molestation (SAM) claims. Jury verdicts are increasing at a dramatic frequency and severity. As a result, our estimated liability reinsurance costs have increased by 33%.

**PACE SAM CLAIMS:** PACE members continue to be hit with an increasing number of SAM claims. This is not just a PACE issue. It is a nationwide crisis, and not just for school districts, as we have large SAM claims at community colleges, education service districts and charter schools. Amplifying the issue, one PACE member experienced a \$3 million jury verdict arising out of a SAM claim. In addition, our liability

reinsurer has increased our per-claim deductible from \$750,000 per claim to \$1 million per claim. Accordingly, we have raised our claims reserves on most of our other current SAM claims and our actuary has substantially increased loss estimates for future unknown claims.

**CYBER CLAIMS AND PREMIUM:** Cyber claims have gone from an obscure and infrequent event to a rapidly escalating exposure. School districts, education service districts and community colleges are being specifically targeted. Over the past two years, PACE has paid over \$1 million in cyber claims, and the trend is escalating.



# PACE FREQUENTLY ASKED QUESTIONS

**Would competition bring PACE rates down?** Currently, PACE is the only self-insured nonprofit 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. Experts we have consulted with are telling us the same story. Rates for education entities are going up dramatically nationwide. The PACE Board of Trustees feels 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 its assets and liabilities belong to its members. PACE is governed by a Board of Trustees composed of PACE members. Trustees have hired the Oregon School Boards Association and the Special Districts Association of Oregon to administer the program. PACE's assets and liabilities belong to its members. There are no "profits" that are shared by any organization that works for the PACE Board of Trustees.

**How are the Oregon School Boards Association and the Special Districts Association of Oregon compensated by the PACE Board of Trustees?** PACE trustees negotiate annual service contracts with the two organizations. OSBA provides PACE with administrative,

legislative, communications and marketing support as well as member legal services. 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, which include salary, benefits, materials and overhead. Because of the COVID-19 crisis both SDAO and OSBA are proposing a salary pay freeze to lower the contract rate and lower the fee.

**What is PACE doing to help us during these difficult times?** PACE staff is continuing to work full-time during this crisis. The PACE legal team handled more than 5,200 questions free of charge for members with a total value of \$893,000 during 2019. They are fully staffed and available to answer your COVID-19 questions. Over 124 members that were part of the prior SDAO school program will receive a dividend totaling \$2.9 million over the next two years based on funds they paid into PACE when it started in 2006. The risk management staff is working on new safety materials and a sexual abuse prevention strategy that will include expanded training, guidelines and policies. Interest earnings from claim reserves are helping offset what could have been an average 25% increase for PACE members. We have aggressively shopped PACE's reinsurance in the global marketplace to find the best coverage and prices that we can.

**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 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 than those 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.

**I've seen on the news that some insurance companies are giving policy holders refunds of some premiums because people aren't driving as much during stay-at-home orders. Why isn't PACE doing the same?** This fiscal year has been the most challenging for PACE since its inception in 2006. Third quarter financial results project a loss of nearly \$12 million. Most of this is due to a dramatic increase in the frequency and severity of SAM claims and loss of interest earnings. This has also been one of the worst PACE years for automobile claims, with claims higher than budgeted even before COVID-19. Fortunately, PACE has a financial plan that retains surplus sufficient to withstand a 1-in-250 year event. Because of that plan, PACE has enough reserves to withstand this event, but it does not have the capacity to return additional funds at this time. If in the future it is determined that claims develop less than expected and there is more money in reserves than anticipated, PACE trustees can certainly issue a dividend as they have several times in the past.

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