

# PACE

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

# ANNUAL RATE 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 the pressures you face 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 PACE to raise rates for the upcoming renewal on July 1, 2021, by an average of 15% as communicated through your agent, at the OASBO Spring Zone Meeting and during the PACE Day Business Update. 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 23%, but thanks to the interest earnings from our claim reserves, PACE was able to lower it to 15%. The following pages indicate how the PACE funds are allocated and used. If you have questions, please do not hesitate to contact us.



*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 15-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 2020 year-end insurance regulatory filings).

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

**CLAIMS  
= 37¢**

**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, general 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 (2015-2020):

- \$3 million · Sexual abuse and molestation (SAM)
- \$2.3 million · Employee/student assault
- \$1.56 million · SAM
- \$945,000 · SAM
- \$571,000 · EPL
- \$1.55 million · Drowning

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*

## PROPERTY = 14¢

### PACE'S LARGEST PROPERTY CLAIMS (2015-2020):

- \$18 million · Statewide snowstorm
- \$8.45 million · Wildfire
- \$5.27 million · Fire
- \$3.2 million · Fire
- \$2.3 million · Snow collapse

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 = 3.5¢

**REINSURANCE  
= 46¢**

Each year PACE searches the global marketplace to find the best price and coverage for PACE members. In 2021, we requested quotes from most of the property and liability companies willing to insure schools and community colleges. As with the 2020 renewal, the market continued on the path of rate increases, lower available capacity and changes in the terms and conditions being provided. The feedback we received from the market related to the rate increase was due to the state of the property market, 2020-2021 loss experience, and the overall account loss activity over the past five years.

## 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 = 10¢

- 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 = 3.1¢

- 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 23%. With the use of interest earnings, PACE was able to lower this to an average of 15% per member.

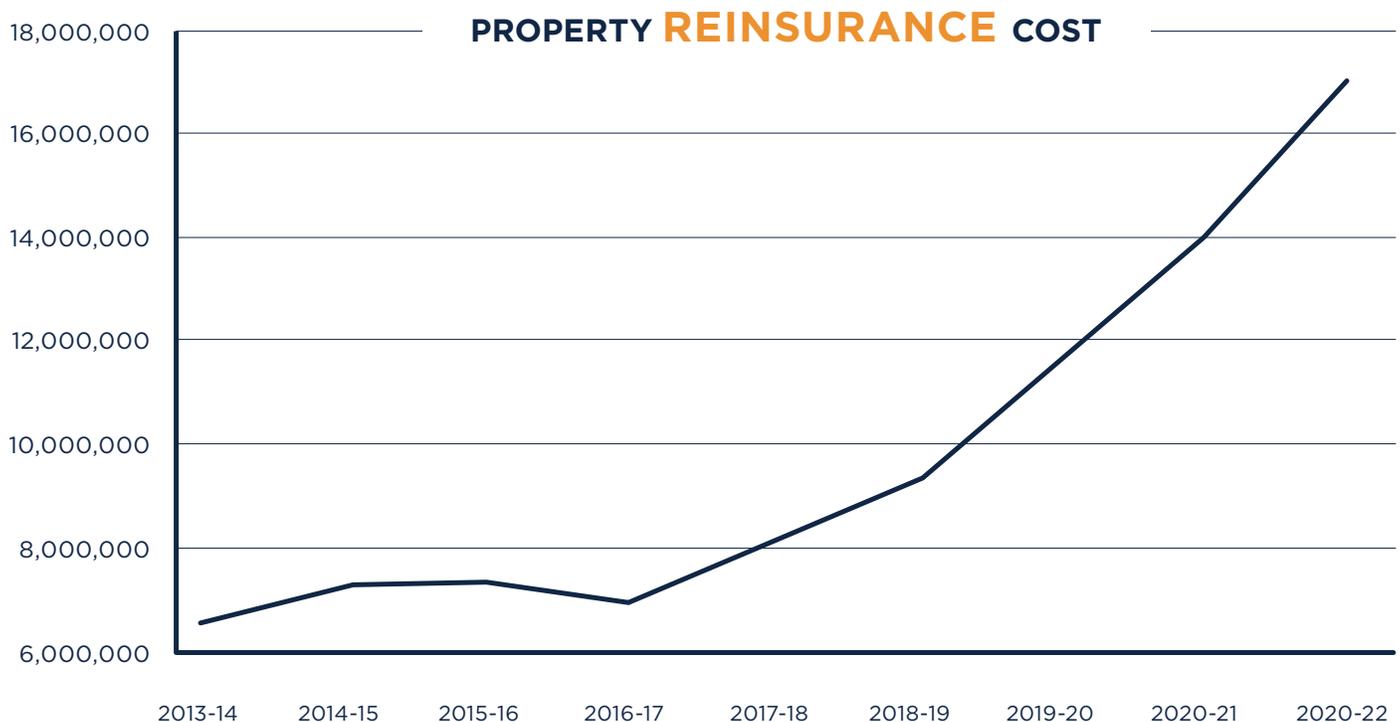
## REASONS FOR THE RATE INCREASE

**PROPERTY REINSURANCE:** The property reinsurance market continued to harden in respect to rate increases, available capacity and terms and conditions. There were several conditions that impacted the PACE's property program during this year's renewal. Those conditions were the state of the property market, PACE's 2020-2021 loss experience and the overall account loss activity over the past five years. Our property reinsurance increase is 18%.

**LIABILITY REINSURANCE:** Liability reinsurers have seen a drastic change in the last several years related to premium and retention increases. The PACE program continues to see challenges related to eroding governmental immunity and increases in the immunity caps, reinsurers not willing to put up full limits resulting in a layered liability program, public entity reinsurance marketplace perceptions issues with increases in frequency and severity of liability claims, and concerns about retroactive sex abuse claims creating restrictions to coverage and higher retentions. Our liability reinsurance increase is 38%.

**PACE SAM CLAIMS:** SAM claims continue to be atop the list of claims PACE sees annually. In the past year PACE hired a SAM prevention specialist to provide prevention models for members. This is not just a PACE issue and is impacting liability reinsurance carriers nationwide. Last year we were required to increase our per claim deductible to \$1 million per claim and this year we are required to increase it to \$1.5 million per claim.

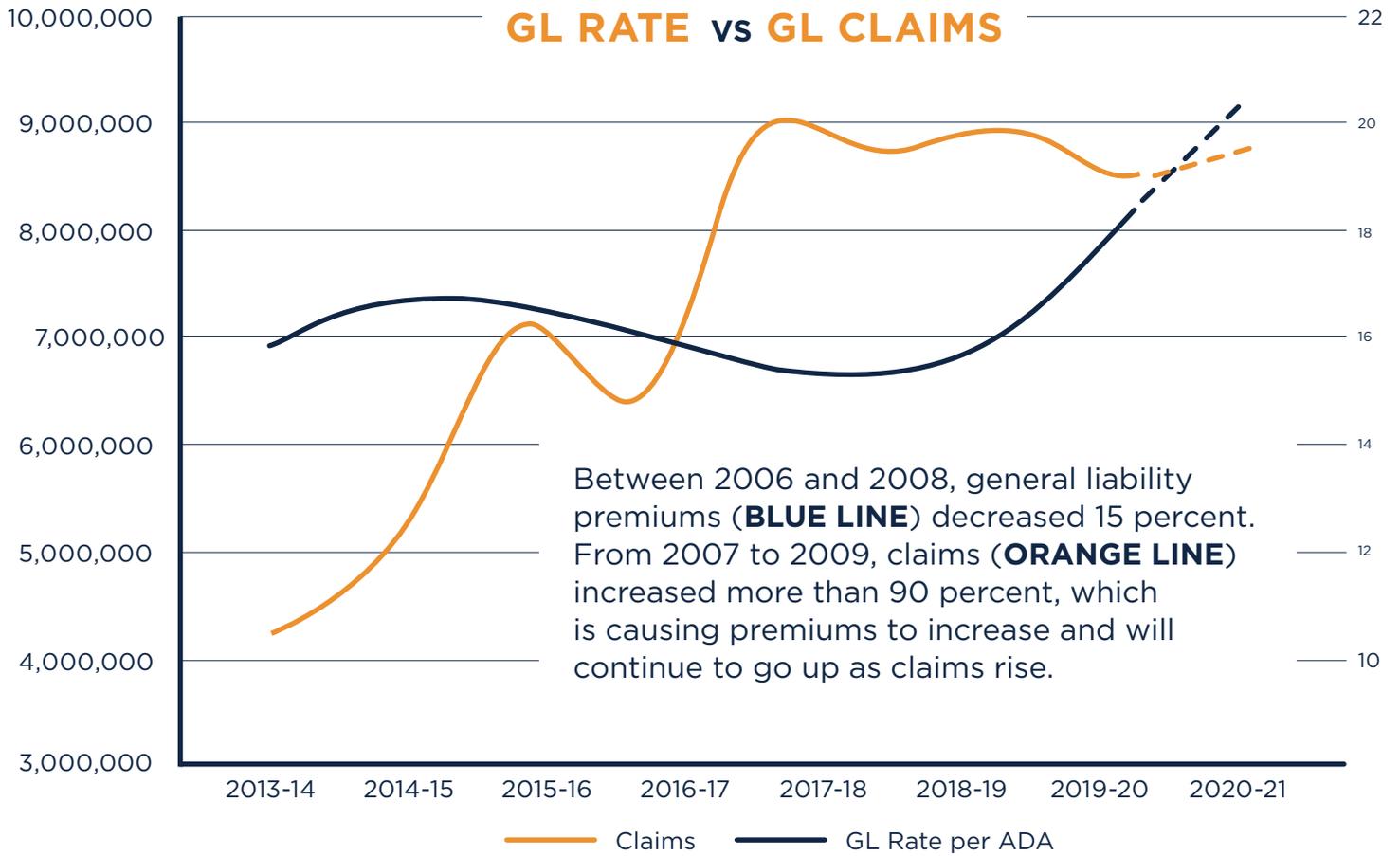
**CYBER CLAIMS AND PREMIUM:** Cyber claims continue to increase and cyber coverage is becoming more difficult to find for PACE. The cyberattacks targeting educational entities is happening at an alarming rate. PACE has paid over \$1.5 million in cyber claims over the past four years. This year PACE members were significantly impacted by ransomware attacks which compromised personal data, interrupted school days and resulted in considerable financial losses.



The property reinsurance cost chart illustrates the programs historical premium since 2013. Since 2013 costs have increased each year. This is partially due to the total insured value of the property being insured increasing but also due to the hardening property market where reinsurers were increasing rates and decreasing capacity as well as PACE's loss experience for its claims has increased. All of this is shown in the upward trend in the chart.

## AVERAGE LIABILITY RATE CHART

### GL RATE vs GL CLAIMS



General liability claims have flattened out over the last couple policies and the rates we are charging to members has been able to catch up to the rates our actuaries provide us each year.

# 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 (OSBA) and the Special Districts Association of Oregon (SDAO) 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 OSBA and SDAO 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.

**What is PACE doing to help us during these difficult times?** PACE staff is continuing to work full time during this crisis. 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 the last dividend payment this July from funds they paid into PACE when it started in 2006. The risk management staff continues to create and improve safety materials and sexual abuse prevention trainings, guidelines and policies. Interest earnings from claim reserves are helping offset what could have been an average 23% 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?** 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.

## COVID-19 FAQ RESOURCES

[osba.org/covid19faq](https://osba.org/covid19faq)

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