



SAFETY • SERVICE • SAVINGS
A TRUST BUILT FOR STUDENTS

FINANCIAL RATE INFORMATIONAL SHEET

Dear fellow PACE Member,

The past two years have been difficult as we learned to deal with the COVID-19 pandemic's impact on our organizations and communities. Our PACE board members adapted to help your staff and students thrive and have worked hard to support you.

PACE was formed by an 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. The PACE board and staff are committed to both your day-to-day operations and ensuring that PACE can meet its commitment to defend you in lawsuits and pay your claims.

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, 2022, by an average rate of 7%, as communicated through your agent and during the PACE Day Business Update. For comparison, the [average rate increase nationally for property and liability insurance](#) is in the range of 6% to 8% for the first quarter of 2022. Remember, we are in this together. When we keep claims down, we share the savings; when claims rise, we share the cost. It is one of PACE's primary goals to ensure that we have enough resources to pay any past, current and future claims.

PACE's primary obligation is to have enough resources to meet the law, and most importantly, to fulfill our promises to PACE members. The following pages indicate how the PACE funds are allocated and used. If you have questions, please do not hesitate to contact us.



BRETT YANCEY
Chair, PACE Board of Trustees
Chief Operations Officer
Springfield Public Schools



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

Over its 16-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 2021 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 19 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 = 19¢

PACE'S LARGEST LIABILITY CLAIMS (2015-2021):

- \$1.6 million · sexual abuse and molestation (SAM)
- \$1.55 million · drowning
- \$680,000 · improper transport of student in wheelchair
- \$620,000 · SAM
- \$500,000 · defamation with position change/demotion

NOTE: on each general liability claim, PACE pays up to \$1.5 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 = 14¢

PACE'S LARGEST PROPERTY CLAIMS (2015-2021):

- \$8.45 million · wildfire
- \$4.1 million · smoke damage from wildfire
- \$2.3 million · beam support damage from snow
- \$2.1 million · building leaks from snow
- \$1.9 million · wildfire

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. If that limit is reached the deductible per claim is \$250,000.

AUTOMOBILE = 3.2¢

**REINSURANCE
= 47¢**

Each year PACE searches the global marketplace to find the best price and coverage for PACE members. In 2022, we requested quotes from most of the property and liability companies willing to insure schools and community colleges. The market for the property reinsurance did show a slight softening. However, we are still in one of the longest hard markets in recent history according to our brokers. The liability market, on the other hand, had a larger rate increase this year than last year especially in the higher limit layers.

AGENT COMMISSIONS/ BROKER SERVICES = 5¢

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

PROGRAM ADMINISTRATION = 9.5¢

- 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 = 3.5¢

- 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 retained earnings balances, which are backed up by an actuarial evaluation every three years. Similar to the insurance industry, PACE is able to offer its self-insured coverage at a loss and make up that difference with interest earnings on its retained earnings portfolio.

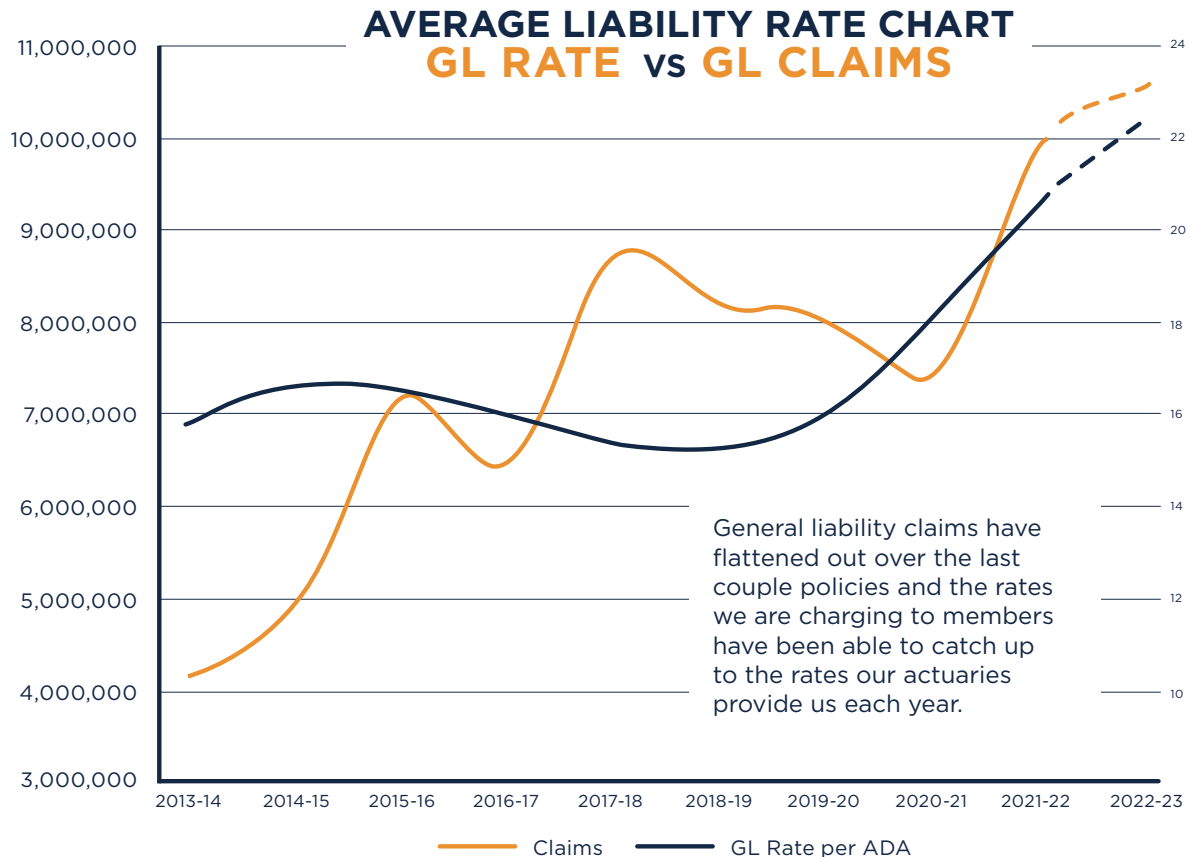
REASONS FOR THE RATE INCREASE

PROPERTY REINSURANCE: The property reinsurance market continues to rise but not at the same rate we have experienced in the last couple of years. There were several conditions that impacted PACE’s property program during this year’s renewal: the state of the property market, PACE’s 2020-21 loss experience and the overall account loss activity over the past five years. Our property reinsurance increased more than 10%.

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 increased approximately 30%.

PACE SAM CLAIMS: SAM claims continue to be atop the list of claims PACE sees on an annual basis. PACE’s SAM Prevention Specialist continues to provide resources and training to support members. This is not solely a PACE issue and impacts all liability reinsurance carriers nationwide.

CYBER CLAIMS AND PREMIUM: Cyber claims continue to increase and cyber coverage is becoming more difficult to find for PACE. The cyberattacks hitting educational entities are happening at an alarming rate. PACE has paid over \$1.8 million in cyber claims over the past four years. PACE members continue to be hit by ransomware attacks, affecting both finances and operations. Implementing underwriting requirements is the only reason PACE has been able to continue to offer cyber coverage through AIG.



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 OSBA and SDAO. 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.

How is PACE helping its members? PACE staff is continuing to work full time during this crisis. The PACE legal team handled more than 4,731 questions free of charge for members with a total value of \$859,660 during 2021. They are fully staffed and available to discuss many topics, including COVID-19 questions. An additional attorney was hired to help answer our members' questions more efficiently. PACE adapted to provide virtual and hybrid webinars, trainings and resources to our members, and provided crisis communications to those who needed it. The risk management staff continues to create and improve safety materials and sexual abuse prevention trainings, guidelines and policies. Also,

interest earnings on the retained earnings balance is allowing rate increases to be minimized. 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.

Cybersecurity and sexual abuse and molestation prevention continue to be important. Click [here](#) to review our resources or email pace@osba.org with any questions.

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