Marion County
Risk Management Report
FY 2010-11

CONTENTS

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INTRODUCTION

Marion County Risk Management's mission is to protect the county's human resources and financial assets through a comprehensive risk management program that contributes to the health and safety of employees, reduces the potential for liability and minimizes the adverse effects of unpredictable events. Loss prevention is at the center of what risk management is all about. Our goal is to be pro-active and prevent losses before they occur. Risk management works closely with department leadership, human resources, legal counsel, emergency management, departments' safety committees and employees to reduce the potential of accidental losses.

The Marion County Annual Risk Management Report is intended to provide information that will allow us to develop a better understanding of the risks faced by the county and ultimately identify measures we can take to mitigate those risks. The report looks at loss data from the last five fiscal years (July 1, 2006 through June 30, 2010). The five year history allows us to look for both historical trends and emerging issues. Claims costs used in the report were valued on June 30, 2010. Claims counts and costs can change as previously unreported claims are filed and unresolved cases are finalized.

OVERVIEW

Just days into the 2010 fiscal year, risk management would be given the task of coordinating the move of all operation from Courthouse Square. The move related activities consumed the majority of risk management staff resources through the first two quarters of the fiscal year. The project would displace all other priorities including: completion of the annual risk management report, safety training and loss control activities. The disruption to regular loss control activities did have a negative affect on the county's safety and health program. The DART rate (days away, restricted or transferred) showed an increase in total recordable incident rates across county departments and OSHA found violations during inspections at Public Works and the Sheriffs office.

Self Insurance Fund Administration

The Marion County Risk Management Division manages the self-insurance fund. The purpose of the fund is to pay for claims expenses and insurance premiums. Expenses for operating the risk management program are not paid from the self-insurance fund. The self-insurance fund is managed using sound actuarial principles. An actuarial study is performed at least every three years to ensure the appropriate balance of available funds. The last study was done in 2009. Expected losses, insurance premiums and claims expenses are projected and used to determine the annual departmental assessments.

Claims Administration

Risk management administers all insurance claims for Marion County including workers' compensation, property, general liability, automobile, and employee dishonesty.

Claims reserves are maintained in the self insurance fund to protect the county from unexpected losses. It is important that reserves remain adequate. In the event of a natural disaster, large liability claim or catastrophic worker compensation claim, it is the money held in reserve the county would rely upon to recover from such losses.

Marion County's third-party claims administer for general liability discontinued operations in 2009. Based on cost comparisons and historically low claims frequency, self administering the general liability claims was determined to be the best option. Self administration of the general liability claims has

Chart 1-1: All Claims Filed

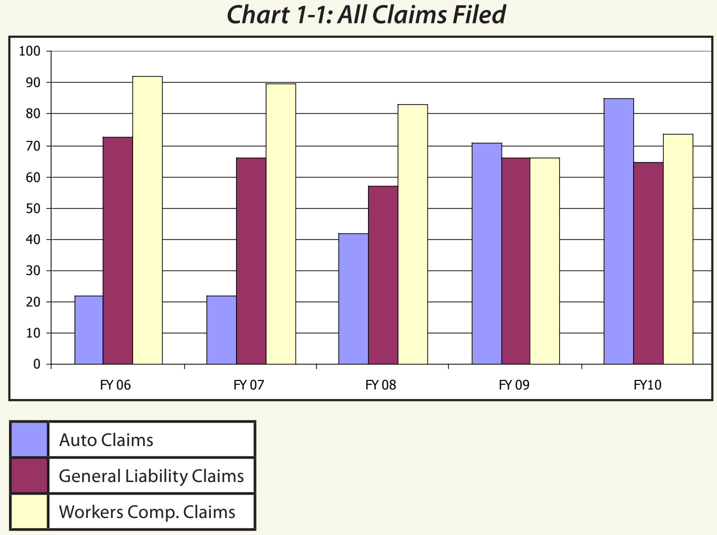


Chart 2-1: WC Claims Expense Paid FY 2010

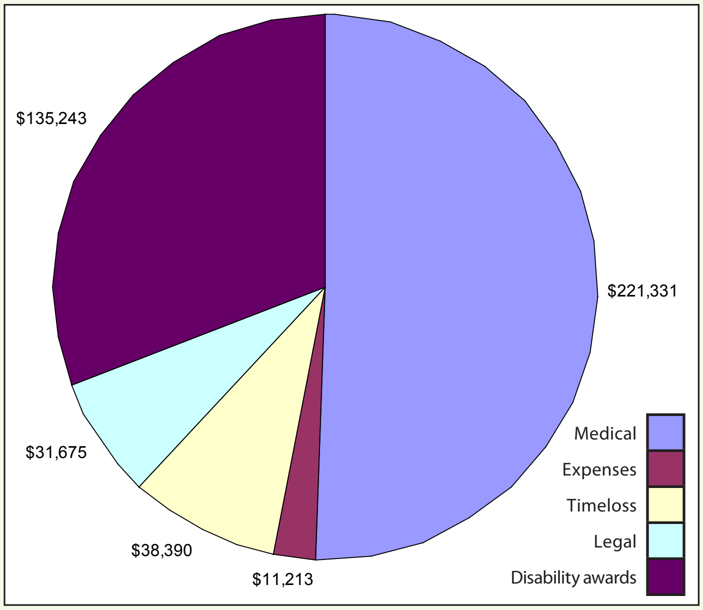
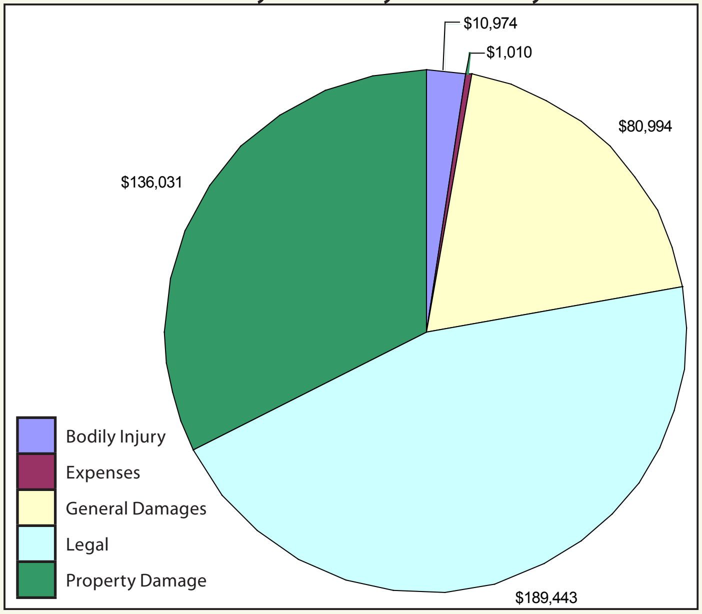


Chart 2-2: Liability Claims Payment Activity FY 2010



resulted in a decrease in claims handling expenses by 94% and a reduction in claims payments of 20%.

While the majority of the claims data provided in this report is based on the fiscal year in which the claim occurred, it is not uncommon for claims expenses to occur in more than one fiscal year. The pie charts to the left illustrate expenditures by type during fiscal year 2010 for all liability and workers' compensation claims regardless of the year in which the claim occurred.

Savings to the Organization

During fiscal year 2010 risk management services was able to return $302,801 to the organization. Savings included:

Workers' Compensation
Medical Bill Audit = $123,444

Recovery for damage
to county property = $17,689

Workers' Compensation
EAIP recoveries = $161,668

Wellness Administration

Maintaining or improving the health of employees is one of risk management's long-term strategies to reduce future healthcare and workers' compensation costs. The wellness program focuses on prevention, nutrition, fitness and reducing risk factors for heart disease, diabetes and cancer. The annual wellness report can be found on the risk management intranet site.

Marion County and the wellness program have been

recognized by the Portland Business Journal as one of the healthiest workplaces in Oregon. During fiscal year 2010 the wellness program worked successfully with Oregon Health Sciences University to secure the SHEILD grant. The SHEILD grant is studying long term health and wellness issues in law enforcement officers. Other services delivered during 2010 include:

- Biometric testing of 177 employees
- Ergonomic assessments for 144 employees
- Sixteen health workshops
- Smoking cessation and weight loss programs

Cost of Risk

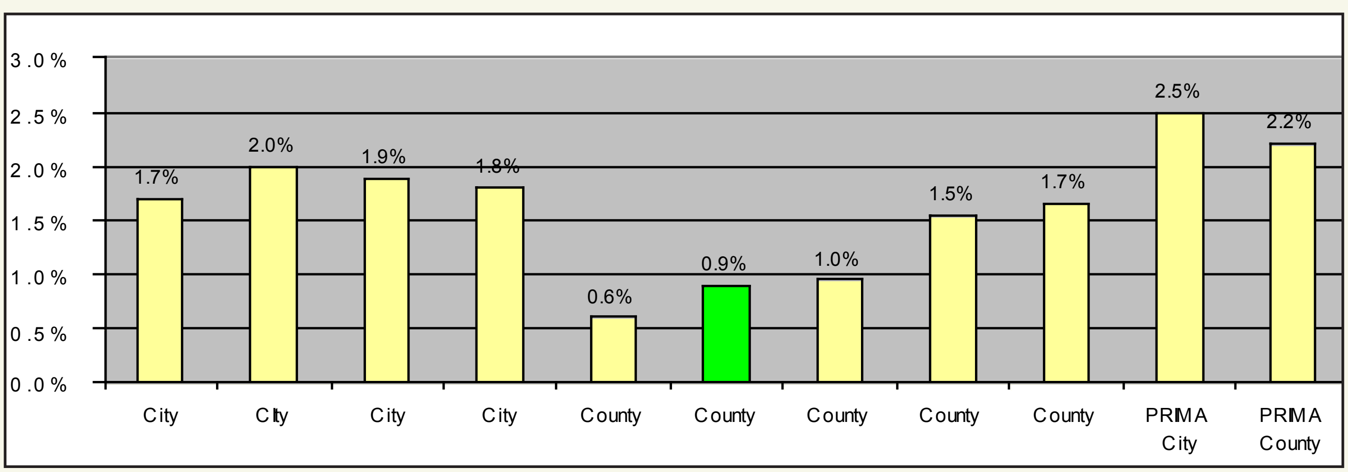
An important performance measurement in risk management is known as the "cost of risk." The cost of risk includes risk management staff salaries, claims costs, legal fees, consultation fees, insurance premiums, materials and supplies as a percentage of the overall county budget. Claims expenditures include all expenditures made during the fiscal year, regardless of the year in which the claims occurred. Claims expenditures do not include claims reserves.

Risk management expenses that amount to 2% or less of an entity's annual budget are considered average. Marion County's cost of risk for the is less than 0.61 of the total budget. Comparison to other Oregon public entities and to national PRIMA data for cities and counties further demonstrates the superior job Marion County has done in controlling the cost of risk.

Loss Prevention

Loss prevention activities during the first two quarters of the fiscal year were diverted to assist with the move from Courthouse Square. Activities such as new property safety inspections, coordination of tenant improvements, work station setup and

Chart 3-1: Cost of Risk Benchmark



inspection, developing new safety committees and building evacuation plans consumed the majority of staff time.

By the end of the second quarter of fiscal year 2010 loss prevention activities were again focused on traditional loss control activities including:

- Providing safety and health training for 579 staff in all departments
- Attending and consulting with department safety meetings
- Investigating 3 indoor air quality complaints
- Coordinating a mold remediation project in the courthouse
- Completing an environmental exposure assessment of county insured properties
- Annual safety inspections of leased property

DART RATE

The DART rate (days away, restricted or transferred) is used to compare occupational injury rates. The DART rate is calculated using workplace injury data and hours worked. The result allows for a side-by-side comparison with other similar organizations adjusted for variations in payroll hours.

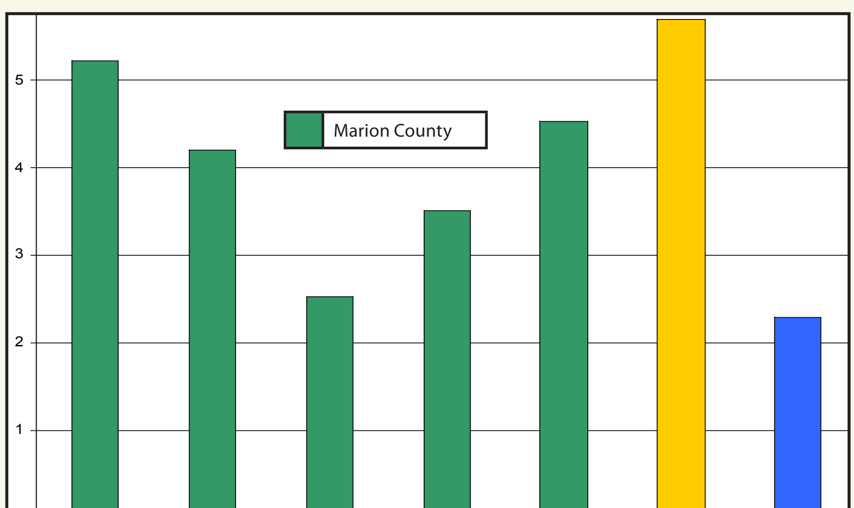
Marion County's DART was 4.53 for the calendar year 2010. As previously noted, the disruption to safety program as a result of the move from Courthouse Square had a negative affect on the DART rate. While the county rate was up from the prior year it remains lower than OSHA comparable data for other public entities in Oregon.

PROPERTY

Given the relatively low cost of property insurance and the potential for a significant loss, Marion County has elected to purchase property coverage for all county owned buildings. The policy insures against a variety of perils including flood, fire and earthquake.

Risk management filed a claim with the county's property insurance carrier Affiliated FM for the expenses incurred by the county as a result of the moves from Courthouse Square. The property carrier, as of the date of this report, has not made

Chart 4-1: OSHA DART Rate



2006	2007	2008	2008	2010	Public	Private
5.23	4.21	2.53	3.51	4.53	5.7	2.3

a decision on the compensability of the claim. The Courthouse Square Condominium Association secures the property coverage for Courthouse Square. A claim has been made by risk management on behalf of the Courthouse Square Condominium Association for damage to the building.

AUTO LIABILITY

During fiscal year 2010-11, Marion County employees drove more than 3,167,050 miles.   Motor vehicle accidents create an enormous potential for injury and property damage. During the past five fiscal years Marion County employees were involved in 245 motor vehicle accidents that resulted in a claim for damages. The total cost of damages was $379,098.

After several years of below average claims experience in auto liability, the county has seen a significant upward trend in claims. At the conclusion of fiscal year 2010-11, auto liability claims costs were above actuarial predictions for the third year in a row.

In response to this trend risk management completed a major revision to the county driving policy. The policy now includes provision for training drivers with poor driving records and more clearly outlines safety expectations. Along with the policy revisions, the defensive driving class was updated.

Another contributing factor to the apparent increased frequency is more accurate tracking of damage to county vehicles. During fiscal year 2010 risk management, fleet management and finance developed a method for more accurately capturing the cost of damage to county vehicles. In prior years, auto accidents involving only a county vehicle were not consistently reported to risk.

A factor that must be taken into consideration when looking at the frequency of auto accidents is the number of miles driven. Departments with

Chart 5-1: Property Insurance Premiums

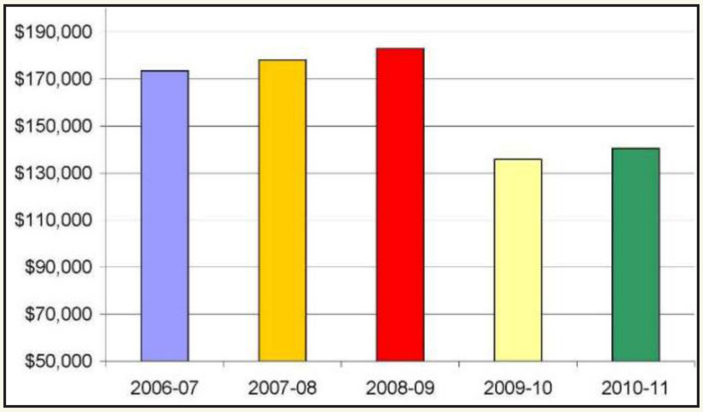


Chart 5-2: Insured Property Values

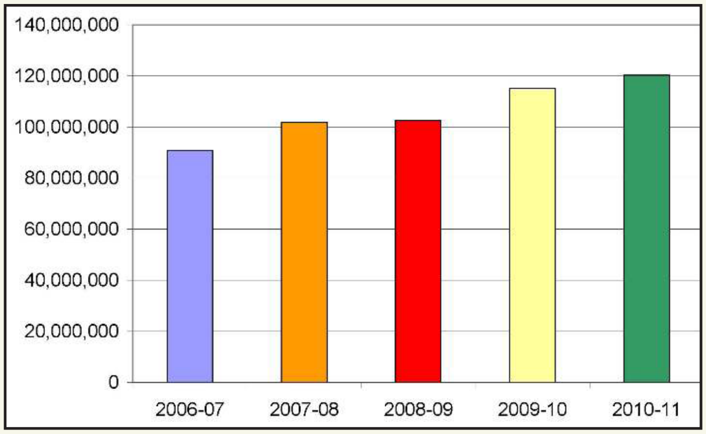


Chart 6-1: Auto Losses - Actual vs. Expected

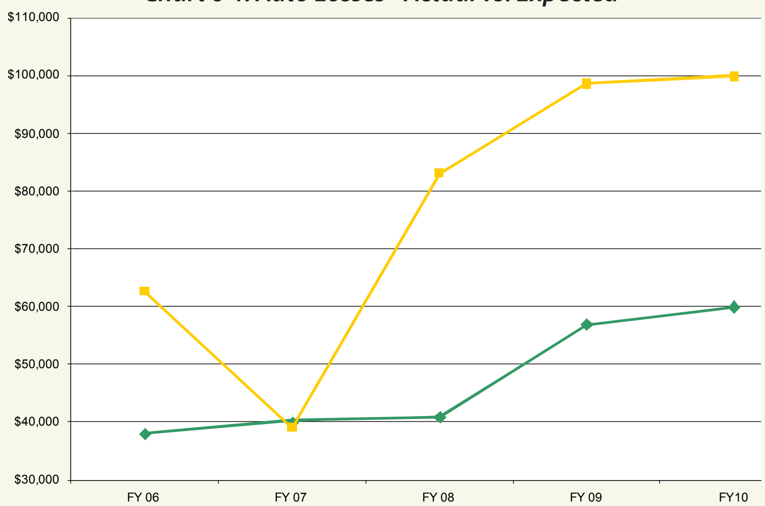
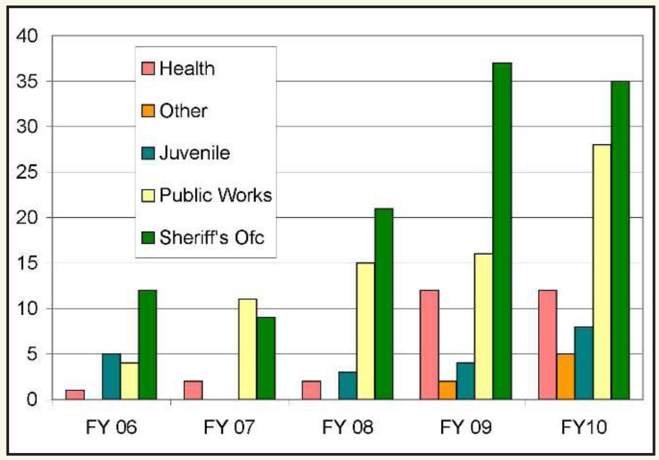


Chart 7-1: Auto Claims Cost



the greatest number of miles driven have a higher probability of accidents. During the past year risk management began tracking the number of accidents per 100,000 miles driven. Tracking accidents in this way provides clear picture of where loss prevention intervention should be taken.

The sheriff's office has taken steps to reduce the frequency and severity of auto accidents. Risk management will assist departments that are experiencing high rates of accidents per miles driven to develop strategies for reducing these rates.

AUTO ACCIDENTS PER 100K MILES DRIVEN
All County 4.8
Sheriff Office 3.67
Public Works 4.26
Juvenile 9.9
Health 7.4
All other departments 24.7

GENERAL LIABILITY

Risk management is responsible for administration of general liability and auto liability claims files against Marion County. The county's self-insured retention is $1 million per claim. Sixty five claims were filed against the county in fiscal year 2010 for a total incurred cost of $24,035. Of those 65 claims:

- 27 claims were closed without payment
- 17 were closed for a total cost of $17,719
- 14 were settled for less than $500 each
- 22 claims remain open

Employment practices liability claims continue make up for less that 3% of all liability claims filed. The costs associated with these claims continue to account for a major portion of the total claims costs over the past five years. Legal fees related to one large employment practices claim account for over 45% of the total cost over the past five fiscal years.

Traditional risk management looks at hazards related to operations and seeks to control or transfer the risk. A true enterprise approach to risk management looks at the entire organization and acknowledges that the greatest risks involve human factors. The greatest risk a public entity encounters involve decisions, actions or the lack of actions by an employee. As part of moving in the direction of an enterprise approach to risk management changes were made to the organizational structure within Marion County Business Services. Human resources and risk management were brought together under a single program manager. The result has been improved communication between the programs. Situations that have had the potential for litigation are being identified earlier and addressed. For example, during fiscal year 2010 there was only one employment practices claim filed and it was resolved without any claims expense.

While claims filed by inmates or arrestees account for 28% of the total general liability claims, only a small percentage, less than 10%, create any financial loss. Risk management works actively with the sheriff's office to address issues that could create additional liability in the jail and enforcement category. Property damage claims are comprised primarily of damage that occurs as a result from construction activities or common road hazards. The average costs associated with a property claim is $650.

Chart 8-1: Liability Claim Count

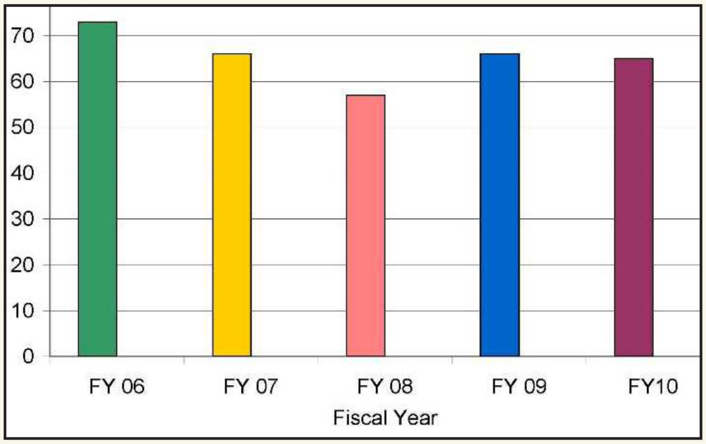


Chart 9-1: General Liability Claims Count by Type - FY 2006-10

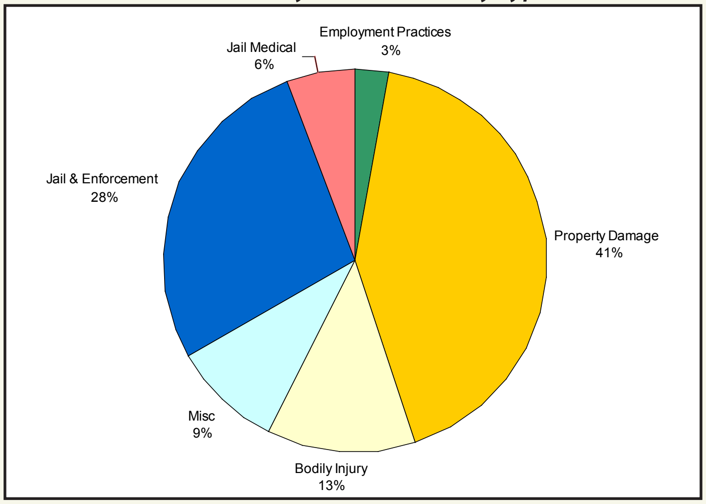
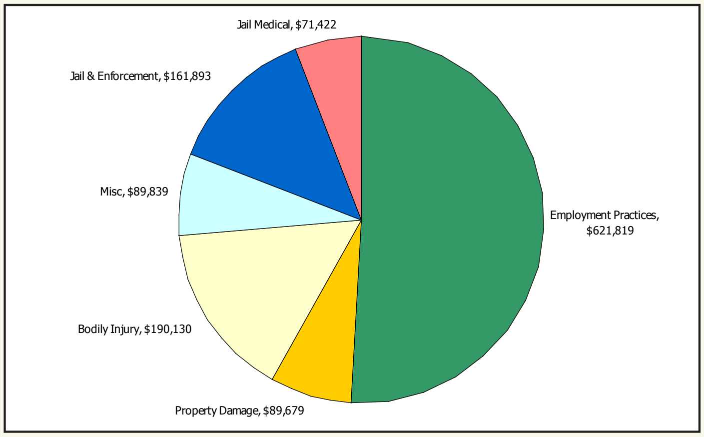


Chart 9-2: General Liability Claims Cost by Type - FY 2006-10



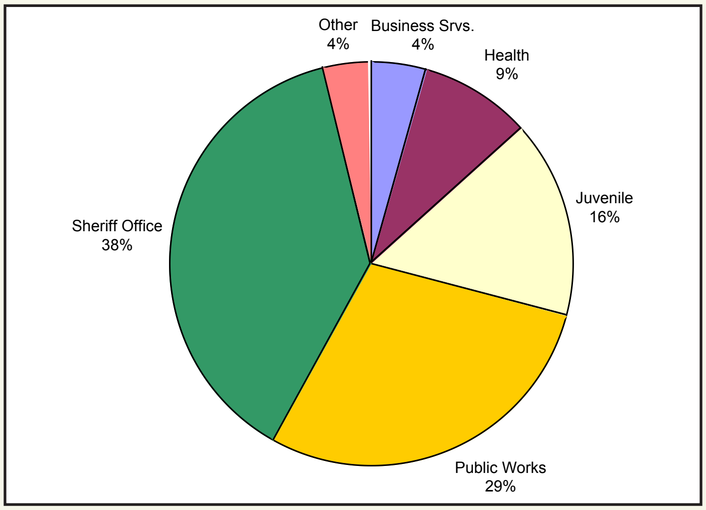
Workers' Compensation

Workers' compensation claims continue to account for the highest cost of the risk exposures faced by the county. Managed care contracts were entered into in 2007 with the primary intent of reducing medical expenses, and they have succeeded in this regard. Two years ago, medical costs accounted for more than 61% of the total expenditures; today, that number is 52%.

Another significant benefit of the managed care organizations (MCO's) is their impact on the number of days missed from work. Marion County has always had an aggressive early return-to-work program. The MCO's have assisted the county in working with the medical community on the benefits of early return to work. Between 2002 and 2006, Marion County's injured workers averaged 575 timeloss days and 1,417 modified duty days, for a ratio of one workday missed for every two modified duty days worked. During the past fiscal year, the county's injured workers had 133 timeloss days and 1,495 modified duty days, for a ratio of one workday missed for every eleven modified duty days worked.

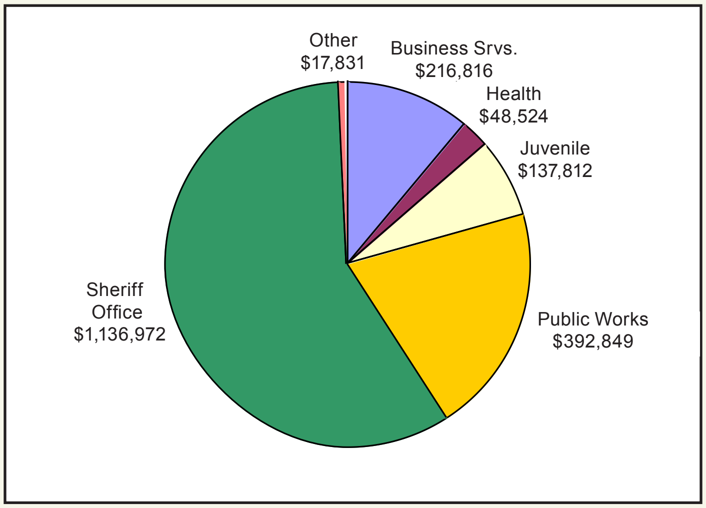
FY	Time Loss Days	Modified Duty Days	TL:MD
05-06	715	1392	1:2
06-07	155	739	1:5
07-08	275	1683	1:6
08-09	238	723	1:3
09-10	109	1096	1:10
10-11	133	1495	1:11

Chart 10-1: Workers Compensation Claims Count by Department FY 2006-10



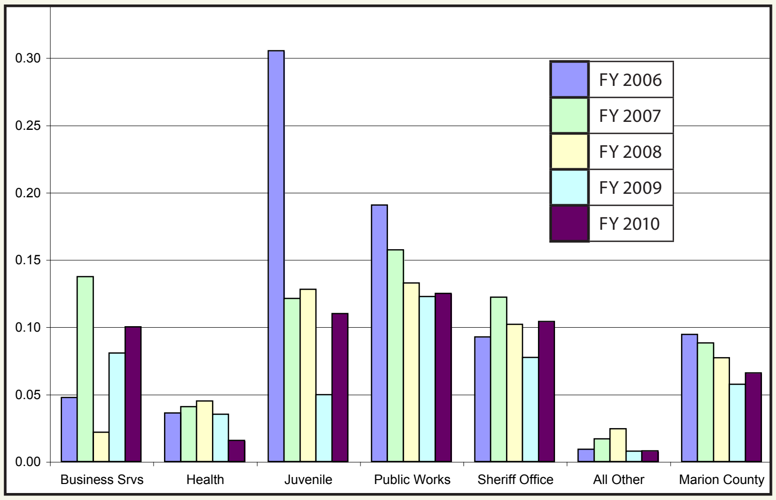
****Note: Catastrophic claims cost were capped at retained limits.***

Chart 10-2: Workers Compensation Claims Cost by Department - FY 2006-10



****Note: Catastrophic claims cost were capped at retained limits.***

Chart 10-3: Workers Compensation Claims
FY 2006-10 Frequency per $100,000 of Payroll



Over the last three years risk management has placed an increased emphasis on ergonomics and musculoskeletal injuries. While the number of musculoskeletal claims has been slowly declining, focusing prevention efforts in this area remains a priority. During the past two years, slips, trips and falls are emerging as cause of injuries that need added focus. Loss control will collaborate with the safety committee to address hazards that result in trips and falls.

A method for determining how a department is performing in comparison to other departments is to calculate claims per $100,000 of payroll. The above chart demonstrates that analysis. Claims trending in business services and juvenile warrant additional analysis and development of targeted loss prevention strategies.

Employer at Injury Program (EAIP)

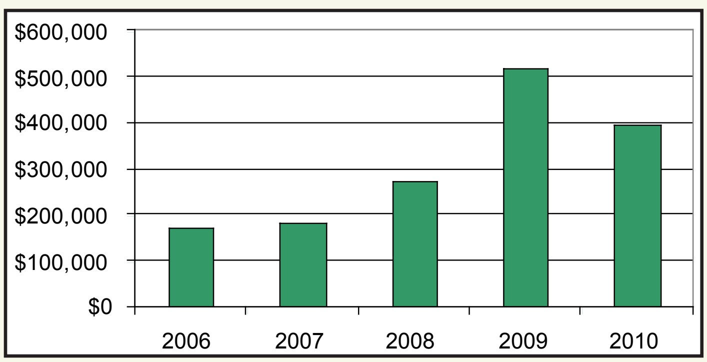
The Employer-at-Injury Program, or EAIP, is a program administered by the State of Oregon Workers' Compensation Division to encourage Oregon's employers to practice early return to work of injured workers. Risk management recovers the funds from the state. A total of $161,668 was recovered during fiscal year 2010. The funds are then used to fund safety and loss prevention needs. Examples of purchases during the most recently completed fiscal year include:

- Security camera upgrades for the jail campus
- Security camera upgrades for parole and probation
- Man bridges for public works excavation sites
- First Aid, CPR, AED classes for county employees
- Defensive driving training materials
- Safety committee member attendance at Governors' Occupations Safety and Health Conference
- Ergonomic workstation equipment for intake unit at the jail
- Replacement batteries for AEDs
- Ergonomic workstation for entrance at health department psychiatric crisis center

Unemployment claims

While unemployment claims costs fell in fiscal year 2010, they remained high. The slow economic recovery and the high unemployment rate continue to generate claims that last through the maximum period allowed. Based on the current employment and economic outlook, it is projected that these levels will remain high for at least the next two fiscal years.

Chart 11-1: Unemployment Claims Cost by Fiscal Year

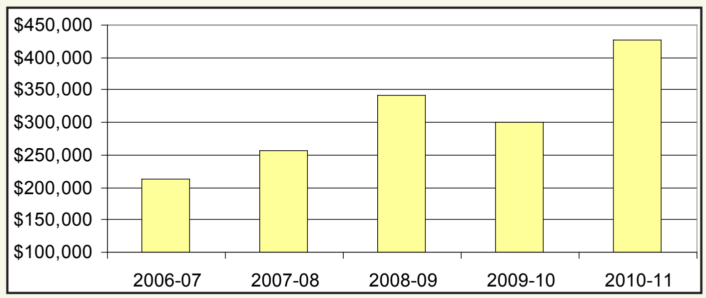


Long Term Disability Insurance

Marion County provides long term disability for employees who are medically unable to work for more than ninety days. The county self-insures the first five years of all long term disability claims. Claims that extend beyond five years are fully insured.

The frequency and cost of long term disability claims has trended steadily upward. Changes to the self-insurance claims reserves were made to account for the increased obligations. The fully insured coverage of this program has also seen significant increases in claims expense which resulted in dramatic

Chart 12-1: Long Term Disability Claims by Fiscal Year



premium increases. During the 2011-12 fiscal year, a full analysis of the risk retention and risk transfer involved in this program will be conducted.

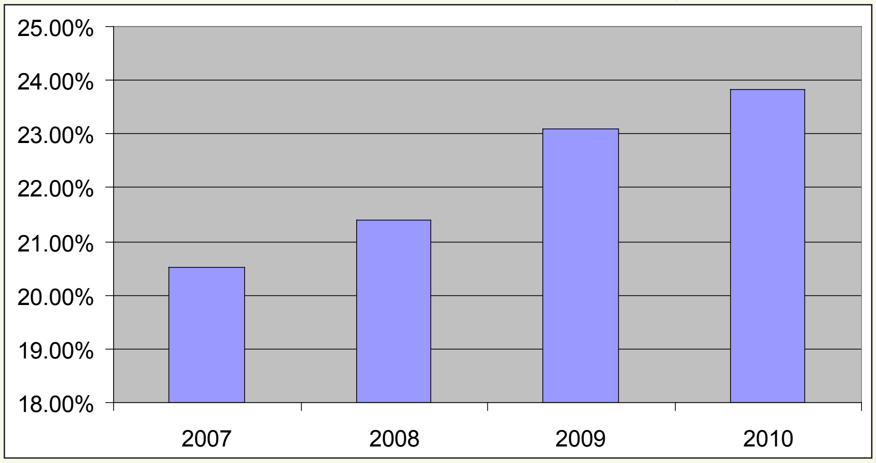
Employee Benefits

Employee benefits programs renew on a calendar year. A complete annual report will be available at the end of March 2012 for the calendar year 2011. A summary of key statistical data from prior policy years is provided below.

	2009	2010	% Change
ODS Medical Plans	$6,258,635	$6,075,640*	-3.01%
Kaiser Medical Plans	$8,821,767	$9,714,343	9.19%
ODS Dental Plans	$735,534	$718,388	-2.39%
Kaiser Dental Plans	$1,017,821	$1,091,132	6.72%
Life and AD&D	$252,194	$258,302	2.36%
Long Term Disability	$200,885	$339,878	40.89%
EAP Charges	$36,078	$34,753	-3.81%
FSA, COBRA, Retiree Admin	$24,357	$25,121	3.04%
Gross Plan Costs	$17,349,280	$18,259,567	4.99%

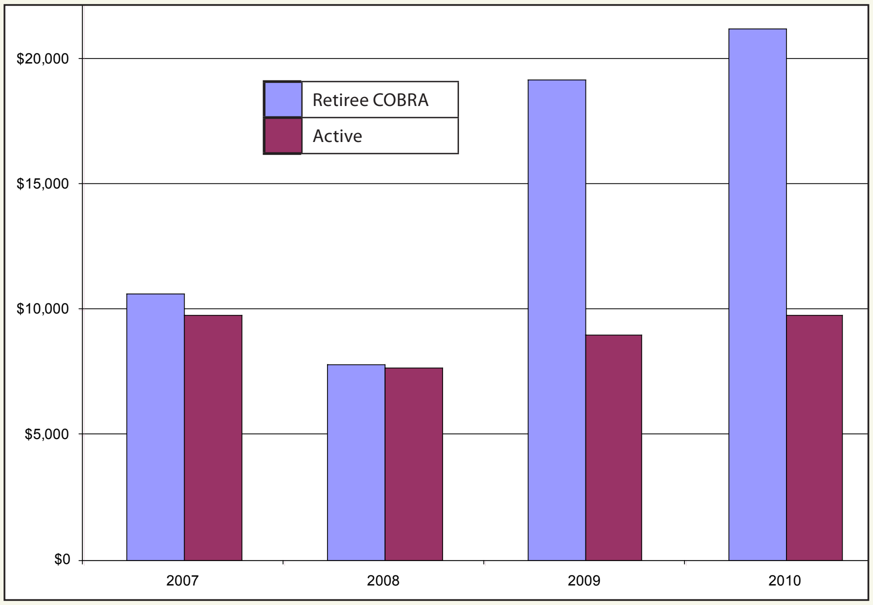
Cost difference not caused by rate reduction. Fewer employee enrolled in ODS in 2010 than in 2009.

Chart 13-1: Total Benefits Cost as a % of Total Payroll



** Does not include retirement benefits*

Chart 13-2: 5-Year COBRA Comparison



The county's health insurance cost continues to be adversely affected by the large number of retirees and former employees who continue their coverage under the county's plans on a self pay basis. Under state and federal regulations retirees and their families can continue to be enrolled in public employer health plans until they are eligible for Medicare. The retirees claim data is included when the health insurance companies establish the premiums. During fiscal year 2010 the average per employee per year claims cost for ODS was $9,755. The per year claims cost for retirees was more than twice that amount. While Kaiser Permanente was unable to provide retiree data, it is likely that the experience in that plan closely mirrors the data from ODS.

The aging workforce coupled with the rising cost of health care will continue to adversely impact the loss ratio under the health plan. Over the next year benefits will be exploring the options for reducing overall health plan expenses. In addition to completing a market analysis of health plan options, a return on investment analysis for an employee health clinic will be completed.

Risk Financing

Due diligence requires a periodic examination of the cost and benefits of self-insurance compared to a fully insured program on a regular basis. Based on the analysis completed by Marion County Risk Management and Beecher Carlson Insurance Agency, self-insurance continues to provide the best option for Marion County. That determination was based on the following findings:

- Self-insurance provides long-term savings. It is not unusual to have a wide variation in expenses and savings from year to year.
- Self-insurance provides the county with the ability to control claims. Insurance companies often settle claims for economic values, which may not be in the best interest of the county.
- Self-insurance promotes loss control, which lowers the long-term cost of claims for the county.
- It is not feasible for Marion County to be fully insured as such insurance is not generally available for all lines of coverage.

Examining the last three fiscal years the total savings of a self-insured program is $2,402,699.

Fully Insured vs. Self-Insured	FY 2010	FY 2009	FY 2008
Cost of Insurance	$2,398,500	$2,432,994	$2,402,600
Self-Insurance Cost	$1,530,827	$1,814,406	$1,486,162
Savings	$867,673*	$618,588	$916,438

FY 2010 is not fully developed. This amount will change over time.

RECOMMENDATIONS

The county has long had a decentralized approach to safety and safety compliance programs. As a result of the increase in the DART rate and OSHA citations, risk management is recommending that county wide safety rules be drafted and adopted. Departments would be responsible for enforcement of the program and working with risk management to develop safety programs and protocols for operational specific risks. As part developing a county wide safety program, a compliance audit needs to be completed for each department and loss prevention action plans developed.

The cost of employee benefits as a percentage of total compensation continues to increase each year. Employee health clinics have been used by other government entities to reduce the cost of employee benefits. Employee benefits and wellness are recommending that a study of the cost benefit of an employee health clinic be performed. A preliminary study can be completed by the employee benefits staff, the health insurance providers and benefits broker.

The cost of long term disability has been escalating dramatically. An analysis of continuing the current self-insured model verses fully insuring the benefit is being recommended. The employee benefits broker can complete this analysis.