

February: Program Structure & Funding



Process Update

Gather Data

	ASPSIT	ASBA	Higher-Ed
Statement of Values	10/3	10/9	10/3
Policies	10/3	10/9	10/3
Losses	10/3	10/9	10/3
Valuation Reports	10/24	10/31	10/24

AID Sent: 10/3 3:08 AM
ASBA Sent: 10/9 11:32 AM

Interview Program Managers

AID: 10/10 9:30 AM
ASBA: 10/10 10:30 AM

Organize Data

Complete

Data Analysis

Concentration/Mapping	100%
Loss Analysis	100%
Weather Modeling	100%

Complete

Evaluate Insurance Trust & Funding

Ongoing

Market Evaluation

Complete

Final Recommendations

Ongoing

Final Analysis: Weather & Concentration Models

Springdale Tornado 2022

F-3

5.2 Miles Traveled

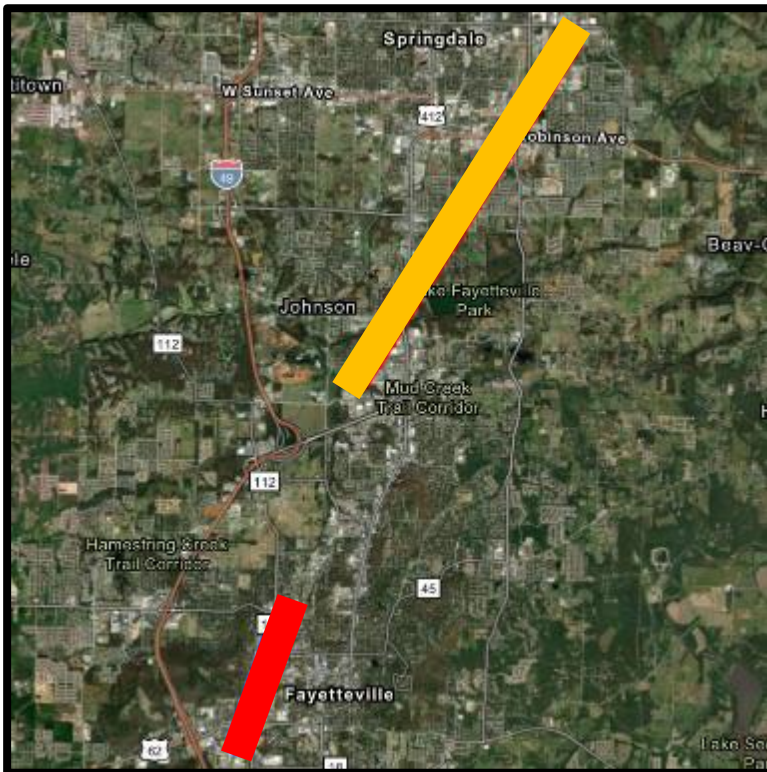
350 Yards Wide

145 MPH Wind

UARK: \$1,267,636,285.48

FSD: \$543,950,146.98

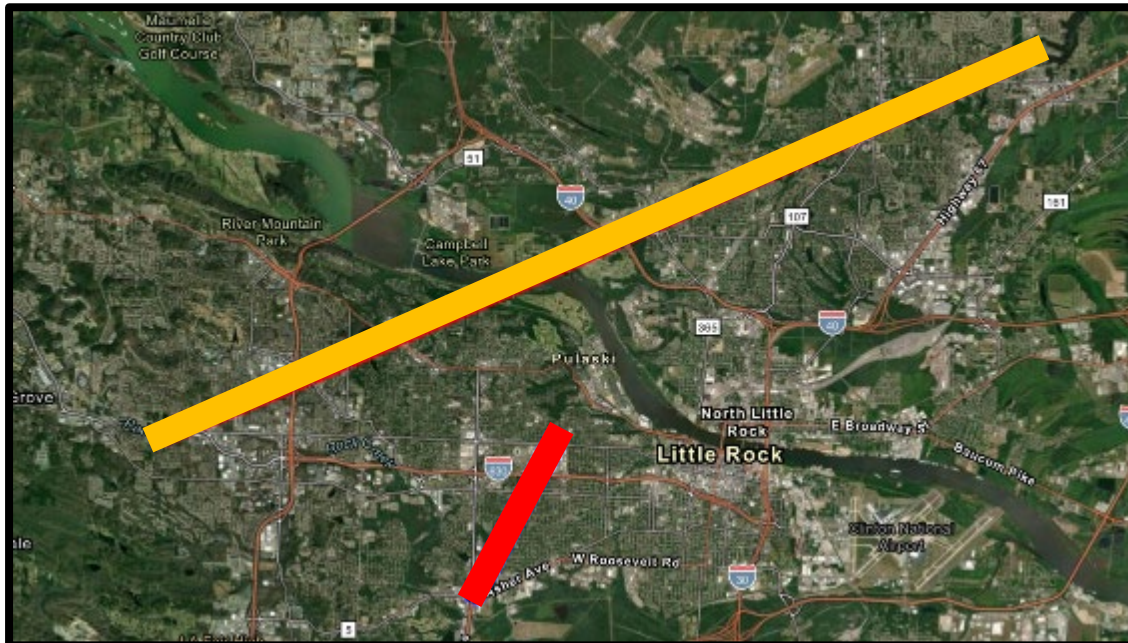
Total: \$1,811,586,432.46



Little Rock Tornado 3/31/23

F3
29.9 Miles Traveled
1.3 Miles Wide
165 MPH Wind

UALR: \$1,101,425,369.37
UAMS: \$2,646,335,006.31
Total: \$3,747,760,375.68



Challenges



Increase Loss Limits

Stablize Cost on Schools

Buying 5x limits while spending less money

Review

- Adequacy
 - Limits of Insurance
 - Funding
- Standards
 - Valuation and appraisal process
 - Insurance to value
 - Separation of duties within operation of program
 - Policy Language.
- Capabilities
 - AID has the administrative structure and scope to handle one program
 - State oversight

Control

Controllable Variables

Structural

- Funding
 - Determined by historical losses
 - Subject to market analysis
- Loss Limit
- Program Retention
 - Attachment of Insurance

Operational

- Risk Management
- Trust vs. Captive Insurance Company
 - Regulation
 - Oversight
- Policy Language
 - Deductibles
 - Reduce deferred maintenance
 - Roof age and mechanical systems limitation
 - Eliminate opportunity for a public adjuster

Uncontrollable Variables

- Weather
 - Convective Storms
 - Hail
 - Flood
- Concentrations
 - Location of schools
- Inflation
 - Reconstruction cost
 - Operational costs
- Insurance Market
 - Global losses have resulted in a hard market.
 - Less capacity
 - Higher rates

Affordability

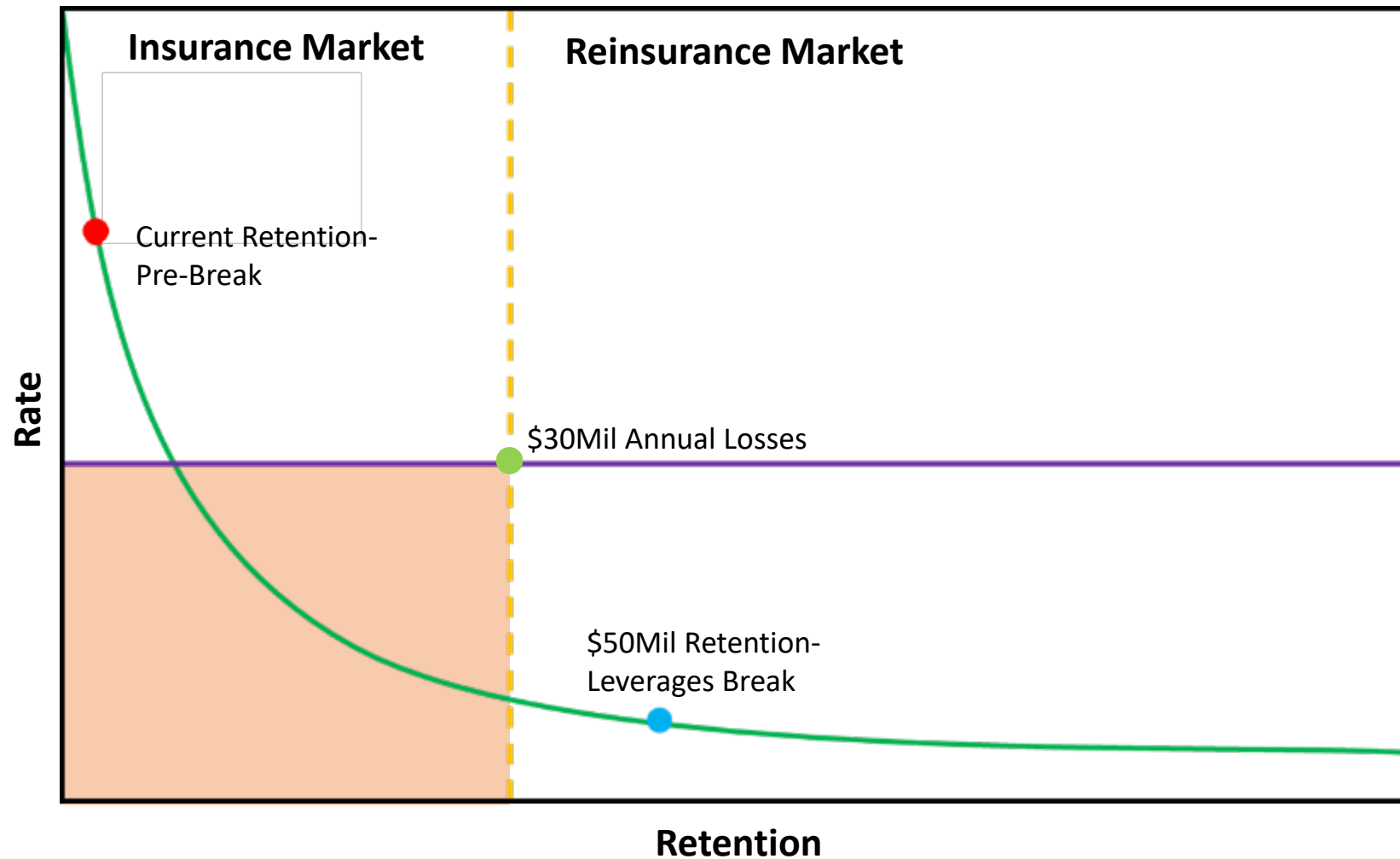
Currently The Insurance Market Has Control



These elements give control back to the state

- State funding allows a high retention
- High retention moves placement to *reinsurance* market, reducing frictional cost
- High retention decreases the cost of reinsurance
- Decreased cost of reinsurance creates the opportunity to purchase a higher loss limit and builds surplus premium
- Surplus premium allows for investment income

Retention Analysis



Variables



Limit	Total Insured Value	Rate	Reinsurance Premium	Claims	Retention	State Funding
\$500,000,000	\$ 40,593,458,670	0.05000	\$ 20,296,729	\$ 30,000,000	\$ 50,000,000	\$ 100,000,000
\$500,000,000	\$ 40,593,458,670	0.02500	\$ 10,148,365			
\$500,000,000	\$ 40,593,458,670	0.01000	\$ 4,059,346			
\$500,000,000	\$ 40,593,458,670	0.00750	\$ 3,044,509			
\$500,000,000	\$ 40,593,458,670	0.00500	\$ 2,029,673			
\$2,500,000,000		0.0975	\$39,578,622			
						Market Controlled
						State Controlled

Sustainability

Sustainability



- Protect the fund
 - Funding 3 Retentions
 - Lateral reinsurance
- Investment Income
- Policy Language
- Separation of duties

Sustainability



Policy Term	Total Insured Value	Reinsurance Rate	Premium	Spread
2023/2024	\$ 40,593,458,670	0.0975	\$ 39,578,622	
		Targeted Program Rate	Program Premium	\$32,474,767
		0.1775	\$ 72,053,389	

Looking Back



Policy Term	Incurred	Deducted \$25k-\$250k	Retained \$50M	Reinsurance	Loss Fund	
2013-2014	\$ 9,373,701	\$ 3,101,843	\$ 6,271,858	\$ -	\$ 126,202,909	
2014-2015	\$ 9,941,911	\$ 2,720,138	\$ 7,221,773	\$ -	\$151,455,903	
2015-2016	\$ 7,854,518	\$ 2,544,422	\$ 5,310,096	\$ -	\$178,620,574	
2016-2017	\$ 11,636,598	\$ 3,108,385	\$ 8,528,213	\$ -	\$202,567,128	
2017-2018	\$ 28,856,615	\$ 4,006,931	\$ 24,849,684	\$ -	\$210,192,211	
2018-2019	\$ 10,670,073	\$ 2,508,283	\$ 8,161,789	\$ -	\$234,505,189	\$ 124,312,978
2019-2020	\$ 19,844,340	\$ 3,151,628	\$ 16,692,712	\$ -	\$250,287,244	\$140,095,032
2020-2021	\$ 35,658,201	\$ 4,766,395	\$ 30,891,805	\$ -	\$251,870,205	\$141,677,994
2021-2022	\$ 68,593,768	\$ 3,193,744	\$ 50,000,000	\$ 15,400,024	\$234,344,972	\$124,152,761
2022-2023	\$ 116,267,114	\$ 8,033,510	\$ 50,000,000	\$ 58,233,604	\$216,819,739	\$106,627,528
2023-2024	\$ 6,547,742	\$ 862,067	\$ 5,685,675	\$ -	\$199,294,506	\$133,416,620
TOTAL	\$ 325,244,581	\$ 37,997,347	\$ 213,613,605	\$ 73,633,628		
10.5 YR AVG	\$ 30,975,674	\$ 3,618,795	\$ 20,344,153	\$ 7,012,726		
5.5 YR AVG	\$ 44,892,939	\$ 3,637,699	\$ 27,867,308	\$ 13,387,932		

Look Forward



Policy Term	Incurred	Deducted \$25k-\$250k	Retained \$50M	Reinsurance	Loss Fund
2024-2025	\$ 25,000,000	\$ 2,886,604	\$ 22,113,396	\$ -	\$ 115,760,000
2025-2026	\$ 27,500,000	\$ 3,175,264	\$ 24,324,736	\$ -	\$131,065,000
2026-2027	\$ 30,000,000	\$ 3,463,925	\$ 26,536,075	\$ -	\$145,116,000
2027-2028	\$ 50,000,000	\$ 5,773,208	\$ 44,226,792	\$ -	\$140,815,000
2028-2029	\$ 32,500,000	\$ 3,752,585	\$ 28,747,415	\$ -	\$154,944,000
2029-2030	\$ 50,000,000	\$ 5,773,208	\$ 44,226,792	\$ -	\$153,304,000
2030-2031	\$ 30,000,000	\$ 3,463,925	\$ 26,536,075	\$ -	\$172,786,000
2031-2032	\$ 35,000,000	\$ 4,041,245	\$ 30,958,755	\$ -	\$189,305,000
2032-2033	\$ 30,000,000	\$ 3,463,925	\$ 26,536,075	\$ -	\$212,784,000
2033-2034	\$ 40,000,000	\$ 4,618,566	\$ 35,381,434	\$ -	\$228,556,000
TOTAL	\$ 350,000,000	\$40,412,453	\$ 309,587,547	\$ -	
10 YR AVG	\$ 35,000,000	\$ 4,041,245	\$ 30,958,755	\$ -	

Rate Increase	
2024-2025	0.0985
2025-2026	0.1010
2026-2027	0.1056
2027-2028	0.1093
2028-2029	0.1131
2029-2030	0.1170
2030-2031	0.1211
2031-2032	0.1254
2032-2033	0.1298
2033-2034	0.1343

Trust or Captive



- The main difference is the captive has rigorous regulatory oversight
 - From claims adjudication to investments not to mention the favorable optics for the public that a “regulated insurance company” has been created to insure the State of Arkansas property
- Insurance trusts are governed by state law just like other trusts, but an insurance trust does not have to report regularly to a state agency like the AID
 - The trustees will have complete control with little oversight
 - Oversight creates the need for an additional state agency to either step up or one is created
 - The captive already has the AID in place to handle the oversight

In Practice

Reinsurance Rate	Program Rate	Spread Rate	Spread	Investments	Annual Claims Budget
0.11	0.1775	0.0675	\$ 27,400,585	\$ 12,600,000	\$ 40,000,585

\$27.4M Premium Spread Income
\$12.6M Investment Income (4%)

\$40M Annual Claims Budget

\$50M Passthrough:
Pays claims as they happen, 100% liquid

Retained claims will never exceed via \$50M Retention, refilled at the end of policy term when investments are liquidated

\$315M Fund:
Protected from erosion by Retention & Sideways Insurance, 100% Invested

Sideways Insurance activated if Fund Surplus < \$50M Retention, absorbs claims that would otherwise erode \$315M Capitalization

	Limit	Cost
Target	\$2.5Bil	\$ 72,053,389
Current	\$500M/\$700M /\$500M	\$ 86,599,337
Potential Savings		\$ 14,545,948

Next/Immediate Action



- Draft report