DEPARTMENT OF ADMINISTRATIVE SERVICES

STATE OF CONNECTICUT

165 Capitol Avenue
Hartford, CT 06106-1658

FY 14 Deficiency Hearing

Appropriations Committee
November 14, 2013

Testimony of Martin Anderson, DAS Deputy Commissioner &
Linda Savitsky, Acting Chair of the State Insurance & Risk Management Board

Good afternoon Senator Harp, Representative Walker, Senator Kane, Representative Miner, and members of the Appropriations Committee. My name is Martin Anderson, and I am Deputy Commissioner for Central Administration in the Department of Administrative Services.

I am here this afternoon with the Chair and the staff of the State Insurance & Risk Management Board (SIRMB) to request your support for a deficiency appropriation for DAS. As you may know, the SIRMB was consolidated into the Department of Administrative Services in 2009, but by statute, the Board retains its own independent decision making authority.

DAS's appropriated budget includes both General Fund and Special Transportation Fund line items for SIRMB Operations. For FY14, General Fund appropriations for SIRMB Operations totaled $12,643,063; and STF appropriations for SIRMB Operations totaled $7,364,543. These monies pay for premiums associated with policies purchased by the State to insure against losses; for claims and judgments issued against the State for losses that occur within our self-insured deductible amounts; and for payment of our insurance broker and Third Party Administrator, responsible for managing the state's liability claims. SIRMB is a pay-as-you-go operation that is not permitted to maintain reserves.

This fiscal year, two large claim settlements that fell outside of the Board's standard projections resulted in an anticipated deficiency in the SIRMB account of $8 million. In a moment, I will turn the testimony over to Linda Savitsky, the Acting Chair of the SIRMB, to discuss the specifics of the $8 million deficiency. Please know, however, that because there are strict deadlines for paying insurance premiums and court judgments, the Finance Advisory Committee last week approved a transfer of $8 million from DAS's Personal Services account to the SIRMB account. I want to emphasize that this is not because DAS has an extra $8 million of Personal Services monies; only that we needed the $8 million now in the SIRMB account to pay the required judgments and premiums. We anticipate a deficiency of $8 million in our PS by the end of the fiscal year due to this aforementioned FAC transfer.

Now, here is Linda Savitsky to provide you with additional detail.

Testimony of Linda Savitsky

Hello Senators and Representatives. My name is Linda Savitsky and I am the Acting Chairperson of the State Insurance and Risk Management Board. I am here today to request your support for the $8 million deficiency appropriation that Deputy Commissioner Anderson just identified.

By way of background, the State Insurance and Risk Management Board receives its statutory authority from Connecticut General Statute Sections 4a-19, 20 and 21. The primary mission of the State Insurance and Risk Management Board is to protect the assets of the State through a comprehensive and cost effective insurance and risk management program.

The deficiency is a direct result of an unusual amount of large fleet liability claim settlements and judgments this fiscal year.

The Fleet Liability insurance policy for the State insures approximately 12,000 vehicles and is written subject to a $4 million per occurrence self-insured retention. The State self-insures the first $4 million of each and every fleet liability claim. All fleet claims are professionally managed and serviced by a Third Party Administrator with oversight and authority of the State Insurance and Risk Management Board.

The Board pays for all fleet claims within the $4 million self-insured retention out of its allocated fleet claims budget. This fleet claims budget is determined using sound actuarial principals, historical data, industry standards and anticipated exposures. Anything outside of the usual parameters is difficult to predict with any high degree of certainty.

During this fiscal year there have been an inordinate amount of large fleet claim settlements. The allocated budget for the fleet claims in Fiscal Year 2014 is $5.1 million and the anticipated fleet claim payout for this fiscal year is $13.1 million. The timing and settlement amounts of these claims are outside of the normal expected parameters and have had a severe and immediate impact on the Board's fleet claim budget.

The Board has been advised in past budgets to prepare a budget based upon the standard frequency and severity of fleet claims and not to build any large fleet claims into the budget. If and when unpredictable large fleet losses occur, we were then to advise OPM.

This $8 million deficiency in the fleet claim budget is specifically related to two large fleet claims that have been resolved this fiscal year. Each one of these claims was a $4 million payout from the Board's claims budget.

Thank you for this opportunity to present this information. We are available to answer any additional questions you may have.