

**REPORT OF THE
DEPARTMENT OF THE TREASURY,
DIVISION OF RISK MANAGEMENT**

Recommended Liability Insurance for Constitutional Officers and Regional Jails under the VARisk Program

**TO THE GOVERNOR AND
THE GENERAL ASSEMBLY OF VIRGINIA**

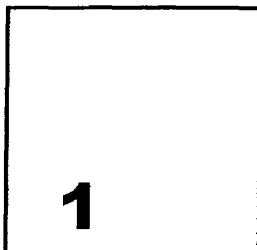


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**COMMONWEALTH OF VIRGINIA
RICHMOND
2005**

Contents

1. Executive Summary	1
▪ Purpose.....	1
▪ Results – Recommended Premiums.....	1
▪ Accounting Projections.....	2
▪ Results – Reserves and Settlements.....	3
▪ Conditions and Limitations.....	3
2. ANALYSIS.....	5
▪ Data.....	5
▪ Methodology.....	5



Executive Summary

Purpose

Mercer Oliver Wyman Actuarial Consulting, Inc. (Mercer) was asked by DRM to provide an allocation of the projected FY 2007 and FY 2008 costs of the Constitutional Officer (VARisk) insurance program to the constitutional officers and regional jails. FY 2007 refers to the period from July 1, 2006 through June 30, 2007. We relied on our annual analysis of the overall funding requirements of the Constitutional Officer insurance program as of June 30, 2005 using data as of March 31, 2005.

Please note that the VARisk program is also referred to as the Constitutional Officers program in this report.

Results – Recommended Premiums

The overall premium figures are from our preliminary June 30, 2005 reserve analysis and reflect the projected ultimate losses associated with claims expected to be reported during FY 2007 along with the FY 2007 program and administrative expenses. Three overall premium figures are allocated for FY 2007 and FY 2008. The first premium figure, termed “Mercer Oliver Wyman’s Recommended Funding on a Claims-Made Basis”, represents the projected premium necessary to achieve a \$0 fund position as of June 30, 2007 and maintain the \$0 fund position through June 30, 2008. The second premium figure represents the necessary premium to meet the projected undiscounted losses and expenses as of June 30, 2005. The third premium figure represents the necessary premium to meet the projected discounted losses and expenses as of June 30, 2005. The discounting calculation assumes a 3.0% annual interest rate.

The methodology used to allocate the overall funding amounts to the constitutional offices and regional jails is described in the “Analysis” section of this report. The allocation calculations are detailed in the attached exhibits.

It should be noted that all figures are on a claims-made (as opposed to occurrence) basis and, with the exception of the “Mercer Oliver Wyman Recommended Funding”, are not adjusted for the overall fund position.

The following table summarizes the funding projections under the three premium scenarios discussed above.

Estimated Premiums for Fiscal Years 2007 and 2008			
	Constitutional Officers	Regional Jails	Total
Mercer Oliver Wyman's Recommended Funding on a Claims-Made Basis			
FY 2007	\$1,812,332	\$344,668	\$2,157,000
FY 2008	\$2,925,105	\$556,295	\$3,481,400
Premium Based on Projected Undiscounted Losses and Expenses			
FY 2007	\$2,980,781	\$566,884	\$3,547,665
FY 2008	\$3,123,728	\$594,069	\$3,717,797
Premium Based on Projected Discounted Losses and Expenses			
FY 2007	\$2,795,482	\$531,643	\$3,327,126
FY 2008	\$2,929,164	\$557,067	\$3,486,231

Accounting Projections

The accounting projection exhibits display estimated fund cash flows and fund balances through FY 2010 under each of the three premium scenarios. The first row of each accounting exhibit shows the fund balance at the beginning of the year. For 2005, the fund balance at the beginning of the year is the fund balance as of June 30, 2004 as provided by the Commonwealth. For other fiscal years, it is the estimated fund balance at the end of the prior fiscal year (row 8).

The premium shown on row 2 varies depending on the funding assumptions presented. Row 3 represents transfers. Row 4 represents loss payments by fiscal year. Loss payments for FY 2005 were estimated based on data through March 31, 2005 provided by DRM. Loss payments for FYs 2006 through 2010 are our projections based on our reserve analysis using data as of March 31, 2005. The program and administrative expenses (rows 5 and 6) for 2005 through 2010 were provided by DRM. The anticipated investment income is presented as row 7. This projection is based on the fund balance at the beginning of the year, assumed premium collections and transfers at the beginning of the year, loss and expense payments made evenly throughout the year, and an assumed 3.0% annual rate of return.

The inflow of funds (i.e. premiums and investment income) is added to the fund balance at the beginning of the year and projected outflows (i.e. loss payments and program and

administrative expenses) are subtracted from this total to arrive at the projected end of year fund balance (row 8).

Results – Reserves and Settlements

In Mercer's preliminary analysis as of June 30, 2005 of the fund position for the Constitutional Officers Liability program and other DRM programs, we projected future payments associated with claims which have been reported on or before June 30, 2005. These future payments are referred to as the "required reserve" in our report. Rows 9 and 10 of the accounting projections exhibits contain our reserve estimates on an undiscounted basis and a discounted basis. As of June 30, 2005, we estimate the reserve to be \$6.943 million on an undiscounted basis and \$6.631 million on a discounted basis. The discounted reserve estimate represents the present value of the projected future payments or, in other words, how much would need to be invested today so that principle plus interest would be sufficient to pay claims as they come due. At the direction of DRM, a 3.0% annual interest rate assumption is used for discounting.

DRM requested that this report include the number and amount of settlements concluded in the previous fiscal year, and the impact of those settlements on the program's reserves. It is our understanding that eight claims were settled between July 1, 2004 and June 30, 2005, with settlement amounts totaling \$175 thousand. DRM also provided their case reserve estimates on these claims prior to settlements. Using these case reserves, we estimated the programs reserves as of June 30, 2005 assuming that the settlements had not occurred and the claims remained open. Under this scenario, we estimate that the program reserves would have been \$7.134 million on an undiscounted basis and \$6.813 million on a discounted basis.

Conditions and Limitations

Information concerning the program structure and risk exposure, as well as losses by office, were provided by DRM. We relied on the accuracy and completeness of this information without independent verification. If the data is inaccurate or incomplete, our findings and conclusions may need to be revised.

The conclusions are projections of the financial consequences of future contingent events and are subject to uncertainty. There may be abnormal statistical fluctuations in the future. Due to the inherent uncertainties in the estimation of future costs, it cannot be guaranteed that the estimates set forth in the report will not prove to be inadequate or excessive; actual costs may vary significantly from our estimates.

Unanticipated changes in factors such as judicial decisions, legislative actions, claim consciousness, claim management, claim settlement practices, and economic conditions may significantly alter the conclusions.

As discussed earlier in our text, we have been asked to provide premium estimates on a claims-made basis.

The “Mercer Oliver Wyman Recommended Funding” is our estimate of the premium required to present a \$0 fund position as of June 30, 2007 and June 30, 2008 on a discounted basis. We used an interest rate of 3.0% for discounting at the direction of DRM. We have not reviewed the investment policy or assets of the Commonwealth and express no opinion as to the appropriateness of this assumption. In addition, we have assumed that the Commonwealth will have assets supporting the projected liabilities, and have further assumed that these assets will have appropriate liquidity to meet loss payments as they come due.

The conclusions are predicated on the assumption that the selected reporting, reserving and payment patterns, frequency and severity trends, and claim distributions apply, and will continue to apply, to the program. The risk exposure covered by the program, as well as the claim reserving, management, and settlement practices, are assumed to be consistent over time, except as noted.

The report has been prepared solely for internal use by the Commonwealth, specifically DRM, and its accountants, auditors and attorneys. Other distribution, or use of this report by management or related parties described above, is not authorized without the prior written consent of Mercer. With our written consent, this report may be distributed only in its entirety. However, this report should not replace the due diligence on behalf of any third party and Mercer assumes no liability related to third party use of this report.

2**ANALYSIS****Data**

For purposes of this report, DRM provided the following information:

1. Actual losses as of March 31, 2005 by office, for fiscal report years 1993 through 2005.
2. Number of constitutional officers and regional jails FYs 1993 through 2005.

Methodology

The first step in our analysis was to compile historical loss (including loss adjustment expense) and claim count information by the various types of entities covered under the VARisk program. The entity types used in our analysis are (1) Clerks, (2) Commissioners of Revenue, (3) Commonwealth Attorneys (4) Regional Jails, (5) Sheriffs, and (6) Treasurers. Exhibits 5 through 8 provide historical incurred losses, loss reserves, paid losses, and reported claim counts by entity type and policy year.

Based on the information from DRM on the total number of entities historically covered by the VARisk program and the current number of entities covered by type, we have estimated the historical number of each type of entity covered by this program. This information is presented as Exhibit 9. It should be noted that if the actual number of entities covered by type for each year is available, we would be pleased to update our analysis for any material change.

The next step is to project these reported losses by entity type and fiscal year to an ultimate basis based on the loss development factors from our preliminary June 30, 2005 actuarial report. These projected ultimate losses are then trended to a FY 2004/2005 cost level based on a 5% per year trend and divided by the number of entities to arrive at pure premiums (i.e. losses per entity) at a FY 2005 cost level. The projected ultimate losses,

projected ultimate losses trended to a FY 2005 cost level, and the pure premiums are shown in Exhibits 2 through 4.

Based on the trended pure premiums, we select a preliminary FY 2005 cost level pure premium by entity. These preliminary selections are “re-balanced” so that the overall selected pure premium is achieved. The result is our final selection of the pure premiums (limited to \$1 million per occurrence) by entity type as shown on the last row of Exhibit 2.

The selected pure premiums by entity are multiplied by the respective entity exposures to derive preliminary ultimate losses at the FY 2005 cost level. Each entity’s percentage share of the total ultimate losses is then applied to the overall funding estimates to derive each entity’s share of the FY 2007 and FY 2008 funding amounts. These calculations are shown in Exhibit 1.

COMMONWEALTH OF VIRGINIA
DIVISION OF RISK MANAGEMENT
CONSTITUTIONAL OFFICERS

EXHIBIT 1

PROJECTIONS FOR 2007 AND 2008

	<u>Clerks</u>	<u>Comm. Of Revenue</u>	<u>C'wealth Attorneys</u>	<u>Regional Jails</u>	<u>Sheriffs</u>	<u>Treasurers</u>	<u>Total</u>
Preliminary Ultimate Loss at 2005 Cost Level	185,663	83,638	179,058	461,635	1,940,537	38,467	2,889,000
Allocation for Premium	6%	3%	6%	16%	67%	1%	100%

Mercer Oliver Wyman's Recommended Funding on a Claims-Made Basis

	<u>Clerks</u>	<u>Comm. Of Revenue</u>	<u>C'wealth Attorneys</u>	<u>Regional Jails</u>	<u>Sheriffs</u>	<u>Treasurers</u>	<u>Total</u>
Premium for 2007	138,821	62,447	133,689	344,668	1,448,854	28,721	2,157,000
Premium for 2008	223,734	100,789	215,775	556,295	2,338,452	46,355	3,481,400

Premium Based on Projection of Undiscounted Losses and Expenses

	<u>Clerks</u>	<u>Comm. Of Revenue</u>	<u>C'wealth Attorneys</u>	<u>Regional Jails</u>	<u>Sheriffs</u>	<u>Treasurers</u>	<u>Total</u>
Premium for 2007	227,993	102,707	219,882	566,884	2,382,962	47,238	3,547,665
Premium for 2008	238,926	107,633	230,427	594,069	2,497,240	49,503	3,717,797

Premium Based on Projection of Discounted Losses and Expenses

	<u>Clerks</u>	<u>Comm. Of Revenue</u>	<u>C'wealth Attorneys</u>	<u>Regional Jails</u>	<u>Sheriffs</u>	<u>Treasurers</u>	<u>Total</u>
Premium for 2007	213,819	96,322	206,213	531,643	2,234,826	44,301	3,327,126
Premium for 2008	224,044	100,929	216,074	557,067	2,341,697	46,420	3,486,231

- Notes: 1) The projected ultimate for each report year is the balanced pure premium from Exhibit 2 multiplied by the exposures for each office in Exhibit 9.
2) The allocation of the premium is determined by each office's share of the projected ultimate loss.
3) The total premiums for the recommended funding level, undiscounted losses and discounted losses are from the Accounting Projections exhibits from Mercer's preliminary reserve analysis as of June 30, 2005.

COMMONWEALTH OF VIRGINIA
DIVISION OF RISK MANAGEMENT
CONSTITUTIONAL OFFICERS

EXHIBIT 2

INDICATED AND SELECTED PURE PREMIUMS BY OFFICE

Report Year Ending 6/30	<u>Clerks</u>	<u>Comm. Of Revenue</u>	<u>C'wealth Attorneys</u>	<u>Regional Jails</u>	<u>Sheriffs</u>	<u>Treasurers</u>	<u>Total</u>
1993	1,980	59	1,922	2,842	44,652	192	9,493
1994	552	2,607	476	10,963	29,576	138	6,798
1995	111	33	714	20,003	18,275	867	4,488
1996	1,397	3	1,098	15,073	18,915	1,584	4,862
1997	1,014	424	1,521	798	14,584	26	3,401
1998	67	63	600	23,773	18,202	84	4,335
1999	522	675	280	9,958	30,630	452	6,564
2000	730	59	5,303	6,363	11,266	40	3,506
2001	4,817	1,936	1,778	13,078	6,404	221	3,277
2002	354	269	1,279	23,061	16,035	77	4,119
2003	296	6	1,769	37,680	11,526	8	3,677
2004	452	1,011	1,347	15,670	14,032	124	3,714
2005	5,284	0	1,228	24,802	22,461	14	6,331
All-Period Exposure Weighted	1,355	538	1,491	15,802	19,491	296	4,922
All-Period Excluding High/Low	1,112	412	1,248	15,053	18,682	203	4,709
5 Year Exposure Weighted Average	2,241	643	1,480	22,901	14,105	89	4,226
Report Years 1994 through 2005 Average	1,300	590	1,450	16,769	17,659	303	4,589
Selected Pure Premium							4,500
Preliminary Pure Premium for Projected Report Years	1,535	643	1,480	22,901	15,527	296	
Selected Pure Premium times Projected Exposure							2,889,000
Implied Loss	184,205	82,982	177,653	458,011	1,925,302	38,165	2,866,317
Off-Balance Factor							1.0079
Balanced Pure Premium	1,547	648	1,492	23,082	15,649	298	4,500

- Notes: 1) The indicated pure premiums equal the developed, trended losses in Exhibit 3 divided by exposures in Exhibit 9.
2) The implied loss by office is the preliminary pure premium multiplied by the exposure base in Exhibit 9.
3) Indicated pure premiums are "re-balanced" to achieve consistency with the overall Constitutional Officers' selected pure premium.

COMMONWEALTH OF VIRGINIA
DIVISION OF RISK MANAGEMENT
CONSTITUTIONAL OFFICERS

EXHIBIT 3

INCURRED LOSSES - DEVELOPED TO ULTIMATE AND TRENDED TO JUNE 30, 2005 LEVELS

Report Year Ending <u>6/30</u>	<u>Clerks</u>	<u>Comm. Of Revenue</u>	<u>C'wealth Attorneys</u>	<u>Regional Jails</u>	<u>Sheriffs</u>	<u>Treasurers</u>	<u>Total</u>	<u>Trend Factor to 6/30/2005 at 5.0% p.a.</u>
1993	214,298	6,911	207,987	51,264	4,993,557	22,284	5,496,301	1.7959
1994	59,787	303,334	51,565	197,745	3,307,550	16,106	3,936,088	1.7103
1995	13,156	4,170	84,440	394,448	2,234,333	110,252	2,840,799	1.6289
1996	167,673	332	131,749	271,309	2,326,503	204,331	3,101,897	1.5513
1997	121,698	54,285	182,483	14,366	1,793,850	3,390	2,170,072	1.4775
1998	8,075	8,079	72,022	427,918	2,238,901	10,774	2,765,770	1.4071
1999	62,604	86,378	33,565	179,244	3,767,448	58,315	4,187,554	1.3401
2000	87,631	7,529	636,408	114,534	1,385,701	5,217	2,237,020	1.2763
2001	578,091	247,753	213,413	235,409	787,717	28,570	2,090,954	1.2155
2002	42,506	34,374	153,442	415,092	1,972,264	9,982	2,627,661	1.1576
2003	35,483	831	212,331	678,243	1,417,738	1,096	2,345,723	1.1025
2004	54,277	129,377	161,668	282,056	1,725,902	16,050	2,369,331	1.0500
2005	634,071	0	147,408	496,047	2,785,160	1,759	4,064,445	1.0000
Office Total	2,079,350	883,354	2,288,482	3,757,678	30,736,625	488,125	40,233,614	

Notes: Ultimate Incurred Losses Trended to June 30, 2005 Levels equal Exhibit 4 trended at an annual rate of 5.0% .

COMMONWEALTH OF VIRGINIA
DIVISION OF RISK MANAGEMENT
CONSTITUTIONAL OFFICERS

EXHIBIT 4

UNLIMITED INCURRED LOSSES - DEVELOPED TO ULTIMATE LEVELS

Report Year Ending 6/30	<u>Clerks</u>	<u>Comm. Of Revenue</u>	<u>C'wealth Attorneys</u>	<u>Regional Jails</u>	<u>Sheriffs</u>	<u>Treasurers</u>	<u>Total</u>
1993	119,329	3,848	115,815	28,546	2,780,599	12,408	3,060,546
1994	34,956	177,353	30,149	115,618	1,933,856	9,417	2,301,349
1995	8,077	2,560	51,839	242,157	1,371,687	67,685	1,744,004
1996	108,084	214	84,927	174,888	1,499,685	131,713	1,999,510
1997	82,370	36,742	123,511	9,724	1,214,149	2,295	1,468,790
1998	5,739	5,742	51,185	304,113	1,591,145	7,657	1,965,581
1999	46,716	64,457	25,047	133,755	2,811,328	43,516	3,124,817
2000	68,661	5,899	498,642	89,741	1,085,733	4,087	1,752,764
2001	475,597	203,827	175,576	193,672	648,057	23,505	1,720,233
2002	36,718	29,694	132,549	358,572	1,703,716	8,623	2,269,872
2003	32,184	754	192,591	615,187	1,285,930	994	2,127,640
2004	51,693	123,216	153,969	268,625	1,643,716	15,286	2,256,506
2005	634,071	0	147,408	496,047	2,785,160	1,759	4,064,445
Office Total	1,704,194	654,306	1,783,208	3,030,644	22,354,760	328,945	29,856,057

Notes: The Unlimited Incurred Losses equal Exhibit 5 multiplied by the cumulative loss development factors from the June 30, 2005 Constitutional Officers Liability reserve analysis interpolated at 9, 21, 33, etc. months.

COMMONWEALTH OF VIRGINIA
DIVISION OF RISK MANAGEMENT
CONSTITUTIONAL OFFICERS

EXHIBIT 5

UNLIMITED INCURRED LOSSES AS OF MARCH 31, 2005

Report Year Ending 6/30	<u>Clerks</u>	<u>Comm. Of Revenue</u>	<u>C'wealth Attorneys</u>	<u>Regional Jails</u>	<u>Sheriffs</u>	<u>Treasurers</u>	<u>Total</u>
1993	119,329	3,848	115,815	28,546	2,780,599	12,408	3,060,546
1994	34,956	177,353	30,149	115,618	1,933,856	9,417	2,301,349
1995	8,077	2,560	51,839	242,157	1,371,687	67,685	1,744,004
1996	108,084	214	84,927	174,888	1,499,685	131,713	1,999,510
1997	82,370	36,742	123,511	9,724	1,214,149	2,295	1,468,790
1998	5,739	5,742	51,185	304,113	1,591,145	7,657	1,965,581
1999	46,687	64,417	25,031	133,671	2,809,572	43,488	3,122,866
2000	68,436	5,880	497,007	89,446	1,082,171	4,074	1,747,015
2001	471,220	201,951	173,960	191,889	642,092	23,288	1,704,400
2002	35,965	29,085	129,831	351,219	1,668,777	8,446	2,223,323
2003	30,955	725	185,237	591,697	1,236,829	956	2,046,399
2004	47,863	114,088	142,562	248,723	1,521,938	14,154	2,089,328
2005	306,581	0	71,273	239,845	1,346,658	851	1,965,207
Office Total	1,366,261	642,604	1,682,327	2,721,536	20,699,157	326,432	27,438,318

Notes: 1) Data evaluated as of March 31, 2005 and provided by DRM.

2) The Unlimited Incurred Losses equal the sum of Unlimited Case Reserves and Paid Losses from Exhibit 6 and Exhibit 7, respectively.

COMMONWEALTH OF VIRGINIA
DIVISION OF RISK MANAGEMENT
CONSTITUTIONAL OFFICERS

EXHIBIT 6

UNLIMITED CASE LOSS RESERVES AS OF MARCH 31, 2005

Report Year Ending 6/30	<u>Clerks</u>	<u>Comm. Of Revenue</u>	<u>C'wealth Attorneys</u>	<u>Regional Jails</u>	<u>Sheriffs</u>	<u>Treasurers</u>	<u>Total</u>
1993	0	0	0	0	0	0	0
1994	0	0	0	0	0	0	0
1995	0	0	0	0	80,000	0	80,000
1996	0	0	0	0	0	0	0
1997	0	0	0	0	0	0	0
1998	0	0	0	7,161	31,000	0	38,161
1999	0	0	0	0	854,035	0	854,035
2000	0	0	8,500	0	6,500	0	15,000
2001	0	0	40,765	4,238	7,000	0	52,003
2002	0	6,000	20,743	124,082	779,560	0	930,385
2003	0	0	1,860	132,500	469,264	0	603,624
2004	9,593	89,238	107,456	118,666	1,283,310	8,500	1,616,764
2005	299,253	0	66,500	229,250	1,310,185	0	1,905,188
Office Total	308,846	95,238	245,824	615,898	4,820,854	8,500	6,095,160

Notes: Data evaluated as of March 31, 2005 and provided by DRM.

COMMONWEALTH OF VIRGINIA
DIVISION OF RISK MANAGEMENT
CONSTITUTIONAL OFFICERS

EXHIBIT 7

UNLIMITED PAID LOSSES AS OF MARCH 31, 2005

Report Year Ending 6/30	<u>Clerks</u>	<u>Comm. Of Revenue</u>	<u>C'wealth Attorneys</u>	<u>Regional Jails</u>	<u>Sheriffs</u>	<u>Treasurers</u>	<u>Total</u>
1993	119,329	3,848	115,815	28,546	2,780,599	12,408	3,060,546
1994	34,956	177,353	30,149	115,618	1,933,856	9,417	2,301,349
1995	8,077	2,560	51,839	242,157	1,291,687	67,685	1,664,004
1996	108,084	214	84,927	174,888	1,499,685	131,713	1,999,510
1997	82,370	36,742	123,511	9,724	1,214,149	2,295	1,468,790
1998	5,739	5,742	51,185	296,953	1,560,145	7,657	1,927,420
1999	46,687	64,417	25,031	133,671	1,955,537	43,488	2,268,831
2000	68,436	5,880	488,507	89,446	1,075,671	4,074	1,732,015
2001	471,220	201,951	133,195	187,651	635,092	23,288	1,652,397
2002	35,965	23,085	109,088	227,137	889,217	8,446	1,292,937
2003	30,955	725	183,377	459,197	767,565	956	1,442,776
2004	38,270	24,850	35,106	130,057	238,627	5,654	472,564
2005	7,327	0	4,773	10,595	36,472	851	60,018
Office Total	1,057,415	547,366	1,436,503	2,105,638	15,878,303	317,932	21,343,157

Notes: Data evaluated as of March 31, 2005 and provided by DRM.

COMMONWEALTH OF VIRGINIA
 DIVISION OF RISK MANAGEMENT
 CONSTITUTIONAL OFFICERS

EXHIBIT 8

REPORTED CLAIM COUNT

Report Year Ending <u>6/30</u>	<u>Clerks</u>	<u>Comm. Of Revenue</u>	<u>C'wealth Attorneys</u>	<u>Regional Jails</u>	<u>Sheriffs</u>	<u>Treasurers</u>	<u>Total</u>
1993	16	1	9	26	329	4	385
1994	20	13	18	60	348	6	465
1995	17	3	21	28	397	9	475
1996	23	3	22	30	325	6	409
1997	19	5	17	9	210	8	268
1998	11	6	25	26	220	6	294
1999	12	8	23	51	183	5	282
2000	27	3	21	58	212	3	324
2001	18	8	22	90	194	8	340
2002	27	9	36	84	201	9	366
2003	22	19	25	60	173	5	304
2004	15	5	22	43	102	4	191
2005	15	0	12	32	87	1	147
Office Total	242	83	273	597	2,981	74	4,250

Notes: Data evaluated as of March 31, 2005 and provided by DRM.

COMMONWEALTH OF VIRGINIA
DIVISION OF RISK MANAGEMENT
CONSTITUTIONAL OFFICERS

EXHIBIT 9

CONSTITUTIONAL OFFICE EXPOSURES

Report Year Ending 6/30	<u>Clerks</u>	<u>Comm. Of Revenue</u>	<u>C'wealth Attorneys</u>	<u>Regional Jails</u>	<u>Sheriffs</u>	<u>Treasurers</u>	<u>Total</u>
1993	108	116	108	18	112	116	579
1994	108	116	108	18	112	116	579
1995	118	127	118	20	122	127	633
1996	120	128	120	18	123	129	638
1997	120	128	120	18	123	129	638
1998	120	128	120	18	123	129	638
1999	120	128	120	18	123	129	638
2000	120	128	120	18	123	129	638
2001	120	128	120	18	123	129	638
2002	120	128	120	18	123	129	638
2003	120	128	120	18	123	129	638
2004	120	128	120	18	123	129	638
2005	120	129	120	20	124	129	642
2006	120	129	120	20	124	129	642
2007	120	129	120	20	124	129	642
2008	120	129	120	20	124	129	642

- Notes: 1) Office level exposure data for 1996 through 2005, and total exposure data for 1993-1995 as of June 30 of each year were provided by DRM.
2) The exposure base for Regional Jails is the number of physical sites. This exposure base was used for consistency with prior loss reserve studies.

**COMMONWEALTH OF VIRGINIA
SELF INSURANCE FUND
REVIEW AS OF 6/30/05**

**ACCOUNTING PROJECTIONS WITH MERCER OLIVER WYMAN'S RECOMMENDED FUNDING ON A CLAIMS-MADE BASIS
CONSTITUTIONAL OFFICERS**

	FISCAL YEARS ENDING					
	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
1. FUND BALANCE (BEGINNING OF YEAR)	7,390	7,829	7,305	6,046	6,114	6,304
2. PREMIUM	3,102	3,102	2,157	3,481	3,648	3,823
3. TRANSFER TO STATE AGENCIES	0	0	0	0	0	0
TRANSFER OF RESERVE	0	0	0	0	0	0
TRANSFER OF FUND BALANCE	0	0	0	0	0	0
4. LOSS PAYMENTS	2,464	3,544	3,283	3,271	3,311	3,392
CURRENT REPORT YEAR	187	287	301	316	332	348
PRIOR REPORT YEARS	2,277	3,257	2,982	2,955	2,979	3,043
5. PROGRAM EXPENSES	17	18	19	19	20	20
6. ADMINISTRATIVE EXPENSES	324	334	344	354	365	376
7. INVESTMENT INCOME	142	269	229	231	237	247
8. FUND BALANCE (END OF YEAR)	7,829	7,305	6,046	6,114	6,304	6,586
<u>REQUIRED RESERVE</u>						
9. UNDISCOUNTED	6,943	6,433	6,335	6,409	6,610	6,905
10. DISCOUNTED	6,631	6,140	6,046	6,114	6,304	6,586
<u>FUND POSITION</u>						
11. UNDISCOUNTED	886	872	(289)	(295)	(306)	(319)
12. DISCOUNTED	1,198	1,165	0	0	0	0

NOTE: (1) PRIOR YEAR END FUND BALANCE EXCEPT THE ACTUAL FUND BALANCE FOR 2005 PROVIDED BY DEPT OF TREASURY
(2) ACTUAL 2005 AND PROJECTED 2006 PREMIUMS; 2007 THROUGH 2010 SET TO PRODUCE \$0 FUND POSITION.
(3) FROM DEPT OF TREASURY
(4) BASED ON RESERVE ANALYSIS USING DATA AS OF 6/30/05.
(5), (6) FROM DEPT OF TREASURY.
(7) $0.03 \times (\text{ROW (1)} + \text{ROW (2)} - \text{ROW (3)} - (\text{ROW (4)} \times 5) - (\text{ROW (5)} \times 5) - (\text{ROW (6)} \times 5))$
(8) $\text{ROW (1)} + \text{ROW (2)} - \text{ROW (3)} - \text{ROW (4)} - \text{ROW (5)} - \text{ROW (6)} + \text{ROW (7)}$
(9), (10) REQUIRED RESERVES ARE EXPECTED VALUE PROJECTIONS FROM EXH. COL-3 AND COL-4 AND DO NOT INCLUDE CONFIDENCE INTERVAL MARGINS.
(11) $\text{ROW (8)} - \text{ROW (9)}$
(12) $\text{ROW (8)} - \text{ROW (10)}$
DOLLARS ARE IN THOUSANDS.

**COMMONWEALTH OF VIRGINIA
SELF INSURANCE FUND
REVIEW AS OF 6/30/05**

**ACCOUNTING PROJECTIONS WITH PREMIUM BASED ON PROJECTION OF UNDISCOUNTED LOSSES AND EXPENSES
CONSTITUTIONAL OFFICERS**

	FISCAL YEARS ENDING					
	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
1. FUND BALANCE (BEGINNING OF YEAR)	7,390	7,829	7,305	7,478	7,833	8,330
2. PREMIUM	3,102	3,102	3,548	3,718	3,896	4,083
3. TRANSFER TO STATE AGENCIES	0	0	0	0	0	0
TRANSFER OF RESERVE	0	0	0	0	0	0
TRANSFER OF FUND BALANCE	0	0	0	0	0	0
4. LOSS PAYMENTS	2,464	3,544	3,283	3,271	3,311	3,392
CURRENT REPORT YEAR	187	287	301	316	332	348
PRIOR REPORT YEARS	2,277	3,257	2,982	2,955	2,979	3,043
5. PROGRAM EXPENSES	17	18	19	19	20	20
6. ADMINISTRATIVE EXPENSES	324	334	344	354	365	376
7. INVESTMENT INCOME	142	269	271	281	296	316
8. FUND BALANCE (END OF YEAR)	7,829	7,305	7,478	7,833	8,330	8,941
<u>REQUIRED RESERVE</u>						
9. UNDISCOUNTED	6,943	6,433	6,335	6,409	6,610	6,905
10. DISCOUNTED	6,631	6,140	6,046	6,114	6,304	6,586
<u>FUND POSITION</u>						
11. UNDISCOUNTED	886	872	1,143	1,424	1,720	2,036
12. DISCOUNTED	1,198	1,165	1,432	1,719	2,026	2,355

NOTE: (1) PRIOR YEAR END FUND BALANCE EXCEPT THE ACTUAL FUND BALANCE FOR 2005 PROVIDED BY DEPT OF TREASURY
(2) 2005 - 2006 FROM DEPT OF TREASURY, 2007 AND FORWARD BASED ON PROJECTIONS OF ULTIMATE LOSSES FROM COL-2.
(3) FROM DEPT OF TREASURY
(4) BASED ON RESERVE ANALYSIS USING DATA AS OF 6/30/05.
(5), (6) FROM DEPT OF TREASURY.
(7) $0.03 \times (\text{ROW (1)} + \text{ROW (2)} - \text{ROW (3)} - (\text{ROW (4)} \times 0.5) - (\text{ROW (5)} \times 0.5) - (\text{ROW (6)} \times 0.5))$
(8) $\text{ROW (1)} + \text{ROW (2)} - \text{ROW (3)} - \text{ROW (4)} - \text{ROW (5)} - \text{ROW (6)} + \text{ROW (7)}$
(9), (10) REQUIRED RESERVES ARE EXPECTED VALUE PROJECTIONS FROM EXH. COL-3 AND COL-4 AND DO NOT INCLUDE CONFIDENCE INTERVAL MARGINS.
(11) $\text{ROW (8)} - \text{ROW (9)}$
(12) $\text{ROW (8)} - \text{ROW (10)}$
DOLLARS ARE IN THOUSANDS.

**COMMONWEALTH OF VIRGINIA
SELF INSURANCE FUND
REVIEW AS OF 6/30/05**

**ACCOUNTING PROJECTIONS WITH PREMIUM BASED ON PROJECTION OF DISCOUNTED LOSSES AND EXPENSES
CONSTITUTIONAL OFFICERS**

	FISCAL YEARS ENDING					
	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
1. FUND BALANCE (BEGINNING OF YEAR)	7,390	7,829	7,305	7,251	7,360	7,593
2. PREMIUM	3,102	3,102	3,327	3,486	3,653	3,828
3. TRANSFER TO STATE AGENCIES	0	0	0	0	0	0
TRANSFER OF RESERVE	0	0	0	0	0	0
TRANSFER OF FUND BALANCE	0	0	0	0	0	0
4. LOSS PAYMENTS	2,464	3,544	3,283	3,271	3,311	3,392
CURRENT REPORT YEAR	187	287	301	316	332	348
PRIOR REPORT YEARS	2,277	3,257	2,982	2,955	2,979	3,043
5. PROGRAM EXPENSES	17	18	19	19	20	20
6. ADMINISTRATIVE EXPENSES	324	334	344	354	365	376
7. INVESTMENT INCOME	142	269	264	267	275	286
8. FUND BALANCE (END OF YEAR)	7,829	7,305	7,251	7,360	7,593	7,919
REQUIRED RESERVE						
9. UNDISCOUNTED	6,943	6,433	6,335	6,409	6,610	6,905
10. DISCOUNTED	6,631	6,140	6,046	6,114	6,304	6,586
FUND POSITION						
11. UNDISCOUNTED	886	872	916	951	983	1,014
12. DISCOUNTED	1,198	1,165	1,205	1,246	1,289	1,333

NOTE: (1) PRIOR YEAR END FUND BALANCE EXCEPT THE ACTUAL FUND BALANCE FOR 2005 PROVIDED BY DEPT OF TREASURY
(2) 2005 - 2006 FROM DEPT OF TREASURY, 2007 AND FORWARD BASED ON PROJECTIONS OF ULTIMATE LOSSES FROM COL-2.
(3) FROM DEPT OF TREASURY
(4) BASED ON RESERVE ANALYSIS USING DATA AS OF 6/30/05.
(5), (6) FROM DEPT OF TREASURY.
(7) $0.03 \times (\text{ROW (1)} + \text{ROW (2)} - \text{ROW (3)} - (\text{ROW (4)} \times 5) - (\text{ROW (5)} \times 5) - (\text{ROW (6)} \times 5))$
(8) $\text{ROW (1)} + \text{ROW (2)} - \text{ROW (3)} - \text{ROW (4)} - \text{ROW (5)} - \text{ROW (6)} + \text{ROW (7)}$
(9), (10) REQUIRED RESERVES ARE EXPECTED VALUE PROJECTIONS FROM EXH. COL-3 AND COL-4 AND DO NOT INCLUDE CONFIDENCE INTERVAL MARGINS.
(11) $\text{ROW (8)} - \text{ROW (9)}$
(12) $\text{ROW (8)} - \text{ROW (10)}$
DOLLARS ARE IN THOUSANDS.

MERCER OLIVER WYMAN

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