FREQUENTLY ASKED QUESTIONS about CFSA's Self-insurance Pool Programs

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1. What exactly *is* self-insurance? How is it different from commercial insurance?

Self-insurance is an *alternative* to traditional commercial insurance. Also called risk sharing, it is a method of sharing the financing and payment of claims costs by all members of a group.

Instead of paying annual premiums to an insurance company with dividend-earning shareholders, self-insurance program members pool their annual fees into one interest-generating fund from which all claims costs are paid. At the end of the year, unspent pool funds remain in the pool's reserves to pay for future claims costs. Pool members *are* the pool "shareholders."

Typically, when a group decides to self-insure, a joint powers authority (JPA) such as CFSA is formed to manage and administer the pool(s). As a responsible pool manager, one of our key roles is to help pool member fairs control their annual pool fees. We do this through a collaborative year-round risk control program that includes prefair and fairtime fair facility inspections, state-mandated fair staff training, certification training and testing, workplace safety program development, and by serving as a liaison between the fairs and regulatory safety and fire officials.

By understanding how to spot and correct potential safety hazards, fair staff can head off incidents before they happen creating a safe environment for fair employees and visitors alike. Fewer incidents add up to fewer claims and lower claims costs can add up to lower annual fees, not to mention better staff morale and great public relations for your fairground. CFSA is *member* driven!

2. We keep hearing that a benefit of pool membership is fee stability. What does that mean?

While commercial insurance rates tend to fluctuate up and down year to year influenced by events around the country and in the stock market, self-insurance rates are historically more stable. This means annual rates stay the same or about the same from year to year because annual fees are affected only by the loss experiences of fellow pool members. In addition, CFSA maintains fee-stabilizing reserves to help during years when claims costs may be higher than anticipated.

Case in point: CFSA's Workers' Compensation Pool has had the same annual rate – 6% of gross payroll - for four consecutive years. The General Liability Pool's base fee was increased 10% in 2012 and

decreased 5% in 2013. In 2014, the base fee remained at the decreased fee. In 2015, fees were increased 5% in response to higher than anticipated claims losses. Remember too, even with an increase in 2015's General Liability fee, your own fair's annual fee could decrease depending on your own loss history.

3. How does CFSA know how much money is needed in the General Liability and Workers' Compensation pools to cover current and past year claims costs?

We consult annually with an actuarial firm that specializes in helping JPAs determine responsible and appropriate pool funding levels. The firm's goal is to identify funding levels sufficient to cover the year's anticipated claims, ongoing developing claims, and operational costs, while meeting CFSA's funding policy and governmental accounting standards. CFSA's board uses this information along with other factors such as projected future claims losses when setting annual pool fees: Is the pool funded at a level that enables fees to stay the same or will additional funding be necessary to augment pool reserves to meet future needs?

4. How are my fair's annual pool fees determined?

Both the General Liability and Workers' Compensation pool program fee formulas are designed to reward fairs with low loss histories and to assess higher fees to fairs with above average loss histories.

General Liability Pool fees are based on a formula that uses your CFSA fair classification and your individual fair's loss history over a period of five years as compared to the loss histories of the pool's membership for that same five-year period. For 2015, that five-year period is 2009-2013. The most recent year is excluded because claims for that year are too new.

Workers' Compensation Pool fees are based on a formula that uses your fair's gross payroll along with your own five-year loss history as compared to the pool membership's overall loss history average for the 2009-2013 period.

Note: CFSA's Risk Control specialists work closely with all fairs experiencing a higher than average loss modification ratio in an effort to improve the fairs' loss histories and lower their annual fees.

5. How does my fair's loss history influence our annual fees?

To evaluate loss histories with an emphasis on the frequency of claims, rather than the severity (cost) of claims, CFSA begins by capping General Liability and Workers' Compensation pool member claim losses at predetermined levels. Total capped losses are divided by total program fees paid for the five years 2009-2013, and the resulting loss ratio is used to pinpoint the fair's modification ratio within the current year's Modification Percentage Table.

In 2015, modification ratios or "mod rates" that fall below the pool membership's average are rewarded with discounts of 5% to 15% off the General Liability program base fees, and discounts of 5% to 20% off the Workers' Compensation program base rate. If your fair's modification ratio is within the average range, you'll pay 100% of the base fees/rate, and if it is above average, you could be assessed 10% to 60% over the base fees/rate. There are no broker fees, commissions or profit margins added into pool member annual fees.

Note: Your fair's Workers' Compensation program fees may also increase or decrease according to changes in your fair's gross payroll from one year to the next.

6. Are CFSA’s pools insured against catastrophic losses?

Yes they are. To protect the pools’ integrity and the pool members’ pocketbooks, CFSA proactively purchases excess coverage for claim losses that go over each pools’ self-insured retention dollar amount. A self-insured retention (SIR) is the level at which an excess insurance policy is triggered to begin payments on a claim.

The General Liability Pool has an SIR of $500,000 with excess coverage of up to $10 million per occurrence. CFSA lowered the pool’s SIR from $750,000 to $500,000 for 2015 to reduce the pool’s risk exposure and to provide added protection for pool reserves.

The Workers’ Compensation Pool also has an SIR of $500,000 with excess coverage up to California’s statutory limit per occurrence.

7. Why is it important for fairs to send CFSA copies of insurance certificates for review?

It is important because certificates of insurance that meet CFSA’s insurance requirements protect your fair! And, if your fair is a member of CFSA's General Liability Pool Program, the certificates also protect the pool.

When a certificate does not meet CFSA's insurance requirements, we will work on your behalf to correct the incomplete or missing information. Then, should an incident occur on your grounds during an event, the liability shifts to the event's insurance carrier rather than to your fair or, for pool members, to the General Liability Pool.

CFSA also reviews hazardous contracts for all DAA fairs - pool members and nonmembers - through a contract with the California Department of Food and Agriculture. Again, our goal is to ensure that all certificates meet CFSA’s insurance requirements.

In 2014, a total of 3,516 insurance certificates were reviewed and of those, approximately 25% had errors. The most common error was the absence of the required additional insured language.

8. Why does CFSA advise fairs to include fair volunteers in their Workers’ Compensation coverage?

If a volunteer is injured while working at your fair, he or she could file either a workers’ compensation claim if covered by the fair’s Workers’ Compensation Program, or a general liability claim if not. CFSA recommends including volunteers under your workers’ compensation coverage because it is typically less expensive to do so than to have a general liability claim filed. California has a no-fault system when it comes to workers’ compensation claims; coverage is automatic and no fault is assigned as would be the case with a general liability claim. If, on the other hand, a general liability claim is filed and your fair is determined to be at fault, it is possible for the injured volunteer to seek additional compensation such as for pain and suffering, and the cost of the claim and its impact on the pool can be substantial.

Under normal circumstances, volunteers aren’t considered employees of your fair and are excluded from coverage for workers’ compensation. The California Labor Code, however, allows coverage after the adoption of a resolution by a fair’s board of directors deeming volunteers performing services for the fair to be employees for workers’ compensation purposes. This resolution is kept on file at CFSA and in

January, volunteer wages (calculated by multiplying volunteer hours by minimum wage) should be included with your payroll report to CFSA for fee assessment purposes.

You will find a sample resolution on CFSA's website, www.cfsa.org, under Self-Insurance > Workers' Compensation > Alternate Work Program & Volunteers, and in your fair's CFSA *Red Book* (*Claims and Loss Reporting Guide*). You can also contact Steve Kushida, CFSA's workers' compensation claims administrator, if you have questions: 916/263-6172 or skushida@cfsa.org.

9. Why does CFSA advise fairs to have their counties provide Workers' Compensation coverage for Community Service and Alternate or Assigned Work Program workers?

Current California law states that for the purpose of workers' compensation coverage, Community Service (CS) and Alternate/Assigned Work Program (AWP) workers are considered employees of your fair, not volunteers. In fact, CS and AWP workers are considered to be employees of **both** the county supplying the workers and the fair using them (general/special employer), so either the county or your fair is required to provide workers' compensation coverage.

Because of the added risk exposure these workers present to CFSA's Workers' Compensation Pool, CFSA recommends that the county be the one to provide the coverage. In addition, there should always be a written agreement between the county and the fair identifying the terms and conditions for the use of these workers, including who is responsible for the workers' compensation coverage.

You'll find two sample CS and AWP worker forms on CFSA's website, www.cfsa.org, under Self-Insurance > Workers' Compensation > Alternate Work Program & Volunteers, and in your fair's *Red Book* (*Claims and Loss Reporting Guide*). These forms were written by legal counsel to CFSA and approved by legal counsel at the Division of Fairs and Expositions. CFSA strongly recommends that pool members use form #1, requiring the county to provide coverage. If this isn't an option, use form #2. Remember, it's the fair's responsibility to report the hours worked by the CS and AWP workers to CFSA annually for fee assessment purposes. Contact Steve Kushida, CFSA's workers' compensation claims administrator, if you have questions: 916/263-6172 or skushida@cfsa.org.

10. How many members are in the General Liability and Workers' Compensation pools?

There are currently 70 members (15 county fairs, 50 DAAs, 2 citrus fruit fairs, 1 fair JPA, 1 fair association and 1 special district) in the General Liability Pool, and 72 members (16 county fairs, 51 DAAs, 2 citrus fruit fairs, Cal Expo, 1 fair association and 1 special district) in the Workers' Compensation Pool. Most of these fairs and associations have been in the pools since the pools' inception nearly 30 years ago.

If you have additional questions about CFSA's pool programs, please contact CFSA Risk Manager Charlie Mitchell at 916/263-6150 or cmitchell@cfsa.org.