

Factors Affecting 2024 Contributions & The CIRSA Rating Methodology

This article was written by Tami Tanoue, CIRSA Executive Director.

If you keep up with the news, whether locally, nationally, or globally, you already know the biggest drivers of insurance costs for the coming year: (1) police liability trends; (2) wind, hail, and tornado risks; and (3) wildfire risks. Each of these factors is discussed below.

LIABILITY COVERAGE

Police departments around the country are seeing unprecedented judgments and settlements in police liability cases. This trend has intensified in Colorado with the passage of S.B. 20-217, which expands police liability under state law. In the past decade, Colorado police departments, including CIRSA members, have experienced ever-larger settlements and judgments. A couple of years ago, an \$8.75 million settlement by a CIRSA member department was the largest ever in the state for a police settlement. That record was broken shortly thereafter by a \$9.5 million settlement involving a county sheriff's department. In 2022, Denver experienced a \$14 million jury verdict in a case arising out of the 2020 George Floyd protests. This year, another record was set with a \$19 million settlement involving a county sheriff's department, two CIRSA members, and some state agencies.

The result of this trend is that many insurers are getting out of the law enforcement liability business altogether. In recent years, CIRSA has seen some of its long-time liability reinsurers leave the market. Other insurers are cutting back on coverage limits and greatly increasing premiums. A large Colorado police department recently noted that its law enforcement coverage premium is doubling. Premium increases of as much as 400 percent are being reported elsewhere.

For those CIRSA members with police departments, your 2024 contributions reflect a 150% increase* in the cost of law enforcement liability coverage. This increase is necessary to cover the cost of defense and settlements/judgments in CIRSA's retention, a potential increase in that retention from \$1 million to \$2 million, and the likely cost of reinsurance coverage. A member without a police department will not be charged for any portion of the law enforcement liability coverage.

**This increase will be offset by decreases in the cost of other liability coverages for 2024. There will be decreases in general liability (-9.3%), auto liability (-8.2%), and public officials' errors and omissions coverage (-4%). Thus, the average "blended" liability increase will be 47%.*

PROPERTY COVERAGE

The big story this year is hail. If you're in the eastern half of the state, your roofs have likely been pummeled multiple times. As of this writing, CIRSA members' 2023 hail damage claims have been reserved at \$15.4 million, a figure that may still increase as roof, vehicle, and other property inspections continue. Earlier this summer, a tornado hit a metropolitan residential area, causing substantial damage. CIRSA members have experienced some tornado damage as well.

Although the severe weather has been accompanied by unusually large (and welcome) rainfalls, it's a mixed blessing. The vegetation is lush and green now, but it doesn't take much to turn that greenery into fuel for wildfires once it dries out. With a virtually year-round wildfire "season," mountain communities will be on high alert in coming months. We've also learned, from the catastrophic 2021 Marshall fire, that urban areas aren't exempt from wildfire risk.



Your 2024 contribution quotes reflect a 7.4% increase for property, and auto physical damage will increase by 11.4%. The percentages noted above for property and liability contribution increases and decreases are for the membership as a whole. Individual members may see greater or lesser increases, depending on a number of factors.

OTHER FACTORS AFFECTING THE COST OF YOUR PROPERTY AND LIABILITY COVERAGE

- Your liability coverages reflect your entity's loss experience. A larger number of liability claims, or a small number of severe liability claims, will increase the cost of your liability coverages. However, property claims are not impacted by loss experience.
- If your exposures have increased for the upcoming year, your contributions will likely increase as well. The addition of new properties would be an example of an exposure increase. Payroll increases, or new hires, would likewise constitute an exposure increase.
- Your chosen deductible(s) impact your contributions. A member choosing a higher deductible will have a lower CIRSA contribution than a similarly-situated member choosing a lower deductible. Of course, choosing a higher deductible means that your entity will bear more of the cost of a claim, so it's important to assess your entity's appetite and capacity for a higher deductible. CIRSA can help you with this assessment.
- The coverage limits you choose will impact your contributions. For 2024 and beyond, your entity will have the ability to choose what limits of liability coverage are desired. In past years, CIRSA provided \$10 million per claim/occurrence for most liability coverages. Now, you will have the ability to choose limits of \$2 million, \$5 million, or \$10 million per claim/occurrence for various liability coverages. You may find that your contribution costs can be significantly reduced by choosing a lower limit. CIRSA's Finance Team can help you with this assessment.

CIRSA'S RATING METHODOLOGY

CIRSA uses a rating methodology to allocate costs for the upcoming year fairly among all of the members. Those costs consist of the following:

- The loss fund, which encompasses the projected losses and loss adjustment expenses for the upcoming year that will be paid out of CIRSA's chosen self-insured retentions.
- Contributions for the reserve fund, which is a fund established to pay claims and related expenses when amounts collected for the loss fund for the year are insufficient. Once your entity's reserve fund contributions hit a defined limit, you're no longer charged a reserve fund contribution.
- Excess/reinsurance premiums, to pay for the costs of excess insurance or reinsurance to the limits of coverage above CIRSA's chosen self-insured retentions.
- Administrative expenses, which are mostly those reflected in CIRSA's annual administrative budget.

The information you provide in your annual renewal is used, along with other factors, to allocate these costs equitably among the members. The rating methodology continues to be refined and streamlined each year. Among the refinements that were made for the calculation of 2024 contributions are the following:

- In past years, the rating methodology tended to place more weight on high member deductibles. Thus, for example, 80% of the projected losses above \$250,000 were discounted, which in turn required higher rates for the losses below \$250,000. This weighting meant that small and medium members bore an increased portion of the cost of property and liability coverage. An adjustment has been made to reallocate that cost among members of all sizes.
- The new rating methodology is a more simplified calculation and charges each member based on their experience and exposure. Each coverage has its own rate, which is multiplied by the exposure, deductible factor, and experience modifier. Property coverage is not affected by loss experience. Other changes made for 2024 include:

- Option to choose a separate deductible for individual vehicles, provided that CIRSA maintains your vehicle schedule.
- Option to choose whether to carry auto physical damage on each vehicle, provided CIRSA maintains your vehicle schedule.
- Option to choose different deductibles for each scheduled property.
- Golf course coverage for tees, greens, and fairways as an optional coverage.

CONCLUSION

It continues to be a rough period for liability and property coverage in Colorado. We know it's scant comfort, but please know that these difficulties prevail for municipalities whether or not they participate in pooling their risks. Thus, those who self-insure or insure commercially are facing the same situation as CIRSA members are facing. Pooling means that the challenges of a hard market are spread out, that no single member bears the entirety of a large claim, and that the high limits and broad coverages you've come to expect as a pool member will remain in place. We thank you for your continued membership in CIRSA, and for your commitment to public entity pooling.