



Actuarial Review of the SELF Excess Liability Program: Sexual Molestation Liability Claims

Ultimate Costs as of March 31, 2022

Presented to
Schools Excess Liability Fund

May 25, 2022 - DRAFT

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Mr. Dave George
Chief Executive Officer
Schools Excess Liability Fund

Re: SELF Sexual Molestation Liability Claim Costs as of 3/31/22

As requested, we have completed an analysis of SELF's Sexual Molestation Liability (SML) claim costs as of March 31, 2022. Our analysis includes the anticipated ultimate loss and Allocated Loss Adjustment Expense (ALAE) on reported and incurred but not reported (IBNR) claims.

We have performed the analysis using Monte Carlo simulations to predict the ultimate costs based on a set of variables and to show the variability in the possible outcomes based on these assumptions. Each variable is assigned a distribution based on historical or assumed probabilities of occurrence. The Monte Carlo simulation runs separate trials that predict the output for each variable based on the assigned distributions. We assign forecast cells that capture the results of each trial. In this case, the forecasts are the total ultimate costs. 10,000 trials are simulated, and the results are summarized at the expected level as well as various confidence levels.

The simulated variables used in this analysis are the following:

- Number of reported and IBNR Claims
- Accident Year (to determine member SIR and SELF layer for IBNR claims only)
- Number of Claimants per Claim (for IBNR claims only)
- Severity per Claimant (reported data only available for 1986/87 – 2007/08)
- Parameter Risk Adjustment

The assumptions underlying these variables are discussed in detail in the Methodology section.

We have separated the results of our analysis to pre/post 2007/08 claims in order to assist SELF in determining costs of AB218 claims (which are defined as claims with dates of loss prior to 7/1/08). The following table shows the estimated SELF layer **ultimate** loss and ALAE for SML claims at expected and various confidence levels.

Ultimate SELF Layer SML Loss & ALAE
(\$Millions)

	1986/87 to 2007/08	2008/09 to 2019/20	All Accident Years
Expected	116.3	24.8	141.2
70%	133.5	30.0	163.5
75%	141.0	32.0	173.0
80%	149.4	34.6	184.0
90%	172.2	41.9	214.1
99%	231.3	61.5	292.7

Based on information provided by SELF, we have assumed a 12% load on ground up losses to account for ALAE.

Ultimate losses broken down into components are as follows:

	1986/87 to 2007/08	2008/09 to 2019/20	All Accident Years
Paid to Date	13.7	0.4	14.1
Case Reserves	53.8	3.5	57.3
IBNR	48.8	20.9	69.8
Total	116.3	24.8	141.2

It should be noted that the 1986/87 – 2007/08 accident year loss payments and case reserves were obtained from a detailed spreadsheet with a claim settlement probability analysis provided by SELF, while subsequent years were based on a STARS loss run valued as of March 31, 2022, also provided by SELF.

SELF's ultimate losses and ALAE broken down by accident year are as follows:

Accident Year	Ultimate SELF
1987	5,059,000
1988	1,958,000
1989	2,032,000
1990	2,476,000
1991	10,913,000
1992	2,505,000
1993	2,661,000
1994	2,860,000
1995	3,797,000
1996	6,613,000
1997	5,367,000
1998	12,787,000
1999	4,675,000
2000	19,237,000
2001	13,176,000
2002	3,893,000
2003	3,874,000
2004	2,844,000
2005	4,263,000
2006	2,302,000
2007	1,831,000
2008	1,209,000
2009	-
2010	732,000
2011	732,000
2012	716,000
2013	2,627,000
2014	971,000
2015	714,000
2016	2,353,000
2017	10,655,000
2018	2,273,000
2019	1,995,000
2020	1,053,000
Total	141,153,000

METHODOLOGY

We tailored our approach in this analysis based on the data available. More detailed claims information was available regarding reported claims with dates of injury 2007/08 & prior, and we had less information related to claims from subsequent years. In addition, we separately modeled the cost of known claims from claims which we anticipate to be reported after 3/31/22 (i.e. IBNR claims).

Known (Reported) Claims: Accident Years 2007/08 and Prior

For these years, Bickmore analyzed a list of reported claims by claimant, including identification of the claimant severity grouping. These groupings are based on the types of allegations charged. Additionally, SELF provided the following estimates of the ranges of settlements (ground up per claimant):

Potential Settlement Values
By Claimant Severity Grouping

Claimant Severity Grouping	Low	Mean	High	Outlier
0	-	-	-	-
1	-	50,000	150,000	500,000
2	50,000	200,000	400,000	1,000,000
3	250,000	600,000	1,500,000	2,000,000
4	350,000	1,200,000	2,500,000	5,000,000
5	1,000,000	2,000,000	5,000,000	7,500,000
6	1,000,000	3,000,000	7,500,000	70,000,000

The potential cost of each reported claim was then simulated based on the claimant data provided by SELF as well as the values in the above chart. The following were key variables and steps in this simulation:

1. Variable 1 (Settlement per Claimant): Probabilities were assigned to the average settlements per claimant in the preceding table in order to create an assumed distribution to be used in the simulation. Since the claim category is known for the reported claims in this portion of the analysis, the claim category and number of claimants is fixed, while the settlement per claimant is variable. Actual reported losses were used for claims that were identified as “settled”.
2. Variable 2 (Parameter Risk Adjustment): The settlement amounts in the preceding table were provided by SELF and an outside contractor. To adjust for the risk that these estimates are either too high or too low, we have incorporated a parameter risk adjustment process that applies a factor to the average settlement based on an assumed distribution.

3. Individual claims are combined on a per occurrence basis.
4. ALAE: Per information provided by SELF, a load of 12% is added to the cost of each claim to reflect potential ALAE costs.
5. SELF Layer: Member retentions and SELF retention limits are applied to reflect SELF's net retained portion of the ultimate cost. This includes SELF's Optional Excess Liability (OEL) layers.

Known (Reported) Claims: 2008/09 and Subsequent Reported Claims

Our approach to estimating the ultimate cost of claims for accident years 2008/09 and subsequent was similar to the approach for the years 2007/08 and prior. The key difference is that for the more recent years we were not provided with a claimant severity grouping for each claimant. As a result, we assumed that the claimants from 2008/09 and subsequent would have a similar severity distribution as those from 2007/08 and prior. In addition, the data regarding the number of claimants per claim was valued as of 1/31/22 rather than 3/31/22. In all other ways the simulations in this group were as for those of 2007/08 and prior.

IBNR Claims

These represent claims which we expect to be reported after 3/31/22. These estimates were based on simulation, similar to the approach for reported claims but with the following adjustments.

1. Number of Claims: We first estimated the total number of SELF SML IBNR claims based on the rate at which new SML claims have been reported SELF, also assuming that the rate will slow down after 12/31/22. In particular, we have selected an IBNR claims assumption of 3 new claims per month through 12/31/22 with an additional 25 claims subsequently. This variable is modeled using a Poisson distribution.
2. Number of Claimants per Claim: This was modeled based on a distribution fit to the historical number of claimants per reported claim. A negative binomial distribution is used to predict the number of claimants per claim.
3. Claim Size: We estimated the size of each IBNR claim based on the same considerations as the simulations for reported claims from 2008/09 and subsequent.
4. Parameter Risk: An adjustment for parameter risk was included, as described previously.
5. Individual claims are combined on a per occurrence basis.
6. ALAE: Per information provided by SELF, a load of 12% is added to the cost of each claim to reflect potential ALAE costs.
7. Assignment of Accident Year: After estimating the total number of SELF SML IBNR claims, we assigned the IBNR claims to individual accident years based on SELF's exposures and retentions for each year. The accident year distribution is modeled using the accident year aging factor from our main SELF actuarial analysis as well as the relative accident year probability based on historical Average Daily Attendance (ADA).
8. SELF layer: Member retentions and SELF retention limits are applied to reflect SELF's net retained portion of the ultimate cost. This includes SELF's Optional Excess Liability (OEL) layers.

KEY ASSUMPTIONS AND LIMITATIONS

Although we have done our best to objectively define the parameters and probabilities necessary for this analysis, we note that there are several limitations related to our analysis due to the lack of credible historical data and comprehensive published statistics from which to draw conclusions. Additionally, the litigation environment involving these claims continues to evolve rapidly. Due to these limitations, the uncertainty surrounding our estimates is larger than typical.

We have assumed that the claimant severities follow the distribution provided by SELF as noted in the Methodology section, and we added an adjustment for the parameter risk that these estimates may be too high or too low.

Based on historical claim reporting patterns and discussions with SELF staff, we have assumed that approximately three new IBNR claims will be reported per month through 12/31/22, and approximately 25 subsequent to 12/31/22.

Our expense assumption is 12% per discussion with SELF staff.

Claim costs in this report are not discounted to reflect net present value and do not include unallocated loss adjustment expense (ULAE).

DEFINITION OF TERMS

1. Allocated Loss Adjustment Expense (ALAE): ALAE includes those expenses which are clearly assignable to an individual claim (i.e., legal and expert witness fees). ALAE excludes claims adjusters fees not assignable to an individual claim.
2. Claimant Severity Grouping: Claimant categories based on the types of allegations being charged.
3. Discounting: Losses are discounted to estimate the net present value of losses. Costs in this report are not discounted.
4. Exposure: These attempts to quantify the source from which claims arise. The exposure base for this study is average daily attendance (ADA).
5. Incurred but not Reported (IBNR) Claims: Claims for which the accident has occurred but the claim has not yet been reported as of the valuation date of this study. For the purposes of this study, this includes claims that occurred prior to 3/31/22 but had not been reported as of 3/31/22.
6. Member Retention: Similar to a deductible, this the value below which SELF members are responsible for claims costs and SELF is not responsible.

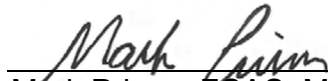
7. Parameter Risk: This describes the uncertainty that the parameters in the model are appropriate for SELF's SML claims.
8. Simulation: In this report, simulation is used to statistically generate data to evaluate the potential variability regarding the cost of SML claims.
9. Severity: Average Claim Size
10. Unallocated Loss Adjustment Expenses (ULAE): Claim settlement expenses that cannot be directly attributed to individual claims (e.g., claims adjusters' salaries, taxes, etc.)

CONCLUDING REMARKS

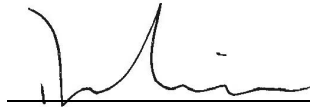
We appreciate the opportunity to be of service to SELF in preparing this analysis. Please feel free to call Mark Priven at (916) 244-1161 or Dana Winkler at (503) 419-0455 with any questions you may have concerning this report.

Sincerely,

Bickmore Actuarial



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