



## Commonwealth of Kentucky Public Protection Cabinet

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**FOR IMMEDIATE RELEASE**

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### **Recommended Changes to Troubled School Board Funds to Save Districts Millions, Provides Appropriate Funding for Claims Payments**

*Petitions entered today in Franklin Circuit Court for \$48.5 million assessment*

**FRANKFORT, Ky. (Nov. 7, 2013)** – In an effort to protect the state's school districts and their employees, the Kentucky Department of Insurance (DOI) today proposed a plan to take over the management of the troubled funds used for school board workers' compensation and property and liability claims at a much lower cost to the school districts. These funds have faced serious financial destabilization, with potentially significant and costly impact to the school boards. This recommendation, if accepted, will save the state's school boards at least \$21 million over proposals submitted earlier this year.

Attorneys for the DOI filed petitions today in Franklin Circuit Court asking that two of the Kentucky School Boards Insurance Trust's (KSBIT) self-insured funds be placed in rehabilitation, which means DOI will directly manage the funds. If granted, DOI Commissioner Sharon P. Clark and her staff will have full control of the KSBIT funds as the workers' compensation fund transitions to another entity and the property and liability fund is closed out.

The Insurance Commissioner is required by law to ask for a rehabilitation order when an insurer, including a self-insured group, meets certain conditions, including serious financial difficulty.

KSBIT has been operating under an ongoing deficit. In spite of directives and efforts to cure the deficit, the situation only worsened, triggering today's action. The funds stopped writing new

or renewal business on June 30, 2013. Since 2010, the funds have been under the management of the Kentucky League of Cities Insurance Services Association.

“The goal of this rehabilitation process is to ensure that payments to injured workers and coverage for property or liability claims are met in the most cost efficient manner possible for our school districts,” said Governor Steve Beshear.

“I am very pleased with the rehabilitation plan developed by the Kentucky Department of Insurance. Their hard work has resulted in a plan that is much better than previously discussed options, and that addresses liabilities while also providing savings to school districts. I applaud their efforts to bring this matter to a close, and allow school districts to move on and remain focused on student learning,” said Terry Holliday, Kentucky Commissioner of Education.

### **Recommendations from DOI**

The petitions seek approval of assessment plans totaling \$48.5 million (\$36 million for the workers’ compensation fund and \$12.5 million for the property/liability fund). The Department expects the court to set a hearing on the plans within the next 90 days.

Members (including certain former members) of self-insured funds sign agreements and are responsible by law to cure fund deficits through the assessment process. The \$48.5 million proposed assessment in the Commissioner’s plan is \$21 million less than an assessment proposed by KSBIT in July of this year.

“After months of review and discussion with all parties, we are confident that this represents the softest landing possible for the school districts and provides adequate funding for the protection of injured workers and claimants,” said Commissioner Clark. “There should be no interruption in the service and handling of claims.”

Under the proposed rehabilitation plans, the claims liabilities of the workers’ compensation fund would be transferred to Kentucky Employers’ Mutual Insurance (KEMI) in a loss portfolio transfer.

Clark said that assessment cost savings are realized because KEMI has agreed to handle the workers’ compensation claims at cost and it has claims payment and other systems already in place.

“I want to thank KEMI’s management and board for being willing to provide its assistance,” Clark said. “Without that partnership, the school districts would have been paying considerably more. Since KEMI has a relationship with many of the school districts, this adds a level of trust to the process.”

KEMI President and CEO Jon Stewart said, “KEMI is pleased to be part of a solution we believe is in the best financial interest of schools across Kentucky.”

Under the proposed plan, a claims administrator would be chosen for the property/liability fund through the state’s “request for proposal” bidding process. The entity selected will handle existing claims until all activity is completed.

For the property/liability fund, Clark said this option seemed most cost-effective since it is estimated that most claims in that fund should be closed in about five years.

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