WHA INSURANCE

Charting a course for a secure future

ANNUAL BUDGET FORECAST 2023

Property/Liability, Auto, Cyber, Workers' Compensation & Employee Benefits

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GENERAL OBSERVATIONS

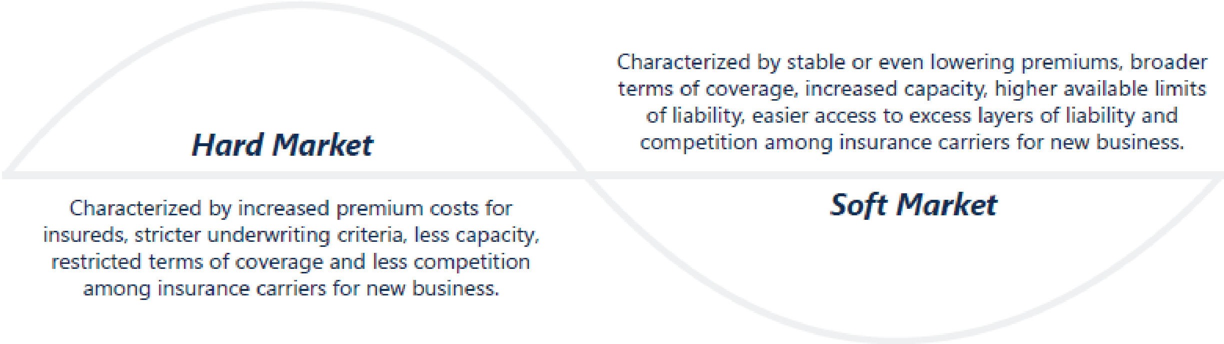
Dear Board Members and Fire Chief,

This information has been generated to assist your District with projecting insurance premiums as you prepare your operating budget for adoption in June 2023. Your District's individual claims frequency and severity of losses will play a key role in the final equation for your potential increases or decreases of premiums.

Since 2019, the commercial insurance sector has been grappling with a hard marketplace—one that is particularly less friendly to insurance buyers. Such challenging conditions were brought on by a confluence of factors that led insurance companies to reevaluate their positions in the industry. After all, the increased frequency and severity of claims, growing social inflation issues, lasting complications created by the COVID-19 pandemic, evolving cyberthreats and worsening natural disasters have fundamentally reshaped the insurance market. As a result, hardened conditions have pressed on for multiple years, prompting limited capacity, stricter underwriting standards, and rising premiums across many lines of commercial coverage.

A SHIFTING MARKET

Like many sectors of the economy, the insurance industry experienced changes to both its market cycles and operating procedures during the past 12 months. Specifically, in contrast to recent years, the hard market conditions started to ease somewhat. While this shift represents signs of an improving landscape, industry experts have asserted that ongoing issues have continued to generate hardened conditions overall.
2022 marked the third year of the pandemic and saw an acceleration of ongoing supply chain issues and labor shortages for businesses of all sizes and sectors. These challenges are further complicated by record-setting inflation trends,



the growing possibility of a recession and large-scale international events.

Industry experts anticipate that the commercial insurance space will remain challenging in 2023, although it may present more favorable conditions for some insurance buyers. With such ongoing evolution to the risk environment, businesses should focus on addressing the factors they can control and take a proactive approach to bolster their risk management efforts and secure adequate coverage.

THE INSURANCE MARKET CYCLE: HARD VS. SOFT

The commercial insurance market is cyclical in nature, fluctuating between hard and soft markets. These cycles affect the availability, terms, and price of commercial insurance, so it's helpful to know what to expect in both a hard and soft insurance market.

During a hard market, it is more common for businesses to receive conditional or non-renewal notices from their insurance carrier. What's more, during a hard market cycle, insurance carriers are more likely to exit certain unprofitable lines of insurance.

Many factors affect insurance pricing, but the following are the most common contributors to the hard market:

Catastrophic (CAT) losses

Floods, hurricanes, wildfires, and other natural disasters are increasingly common and devastating. Years of costly disasters like these have compounded losses for insurers, driving up the cost of coverage overall, especially when it comes to commercial property policies.

Inconsistent Underwriting Profits

When an insurance company collects more in premiums than it pays out in claims and expenses, it will earn an underwriting profit. Conversely, an insurance company that pays more in claims and expenses than it collects in premiums will sustain an underwriting loss. The company's combined ratio after dividends is a measure of underwriting profitability. A combined ratio above 100 indicates an underwriting loss.

Mixed Investment Returns

Insurance companies also generate income through investments, and due to regulations invest heavily in bonds. When interest rates are high and returns from other investments are solid, insurance companies can make up the underwriting losses through their investment income. But when rates are low, insurers must pay close attention to their underwriting standards and other investment returns.

The Economy

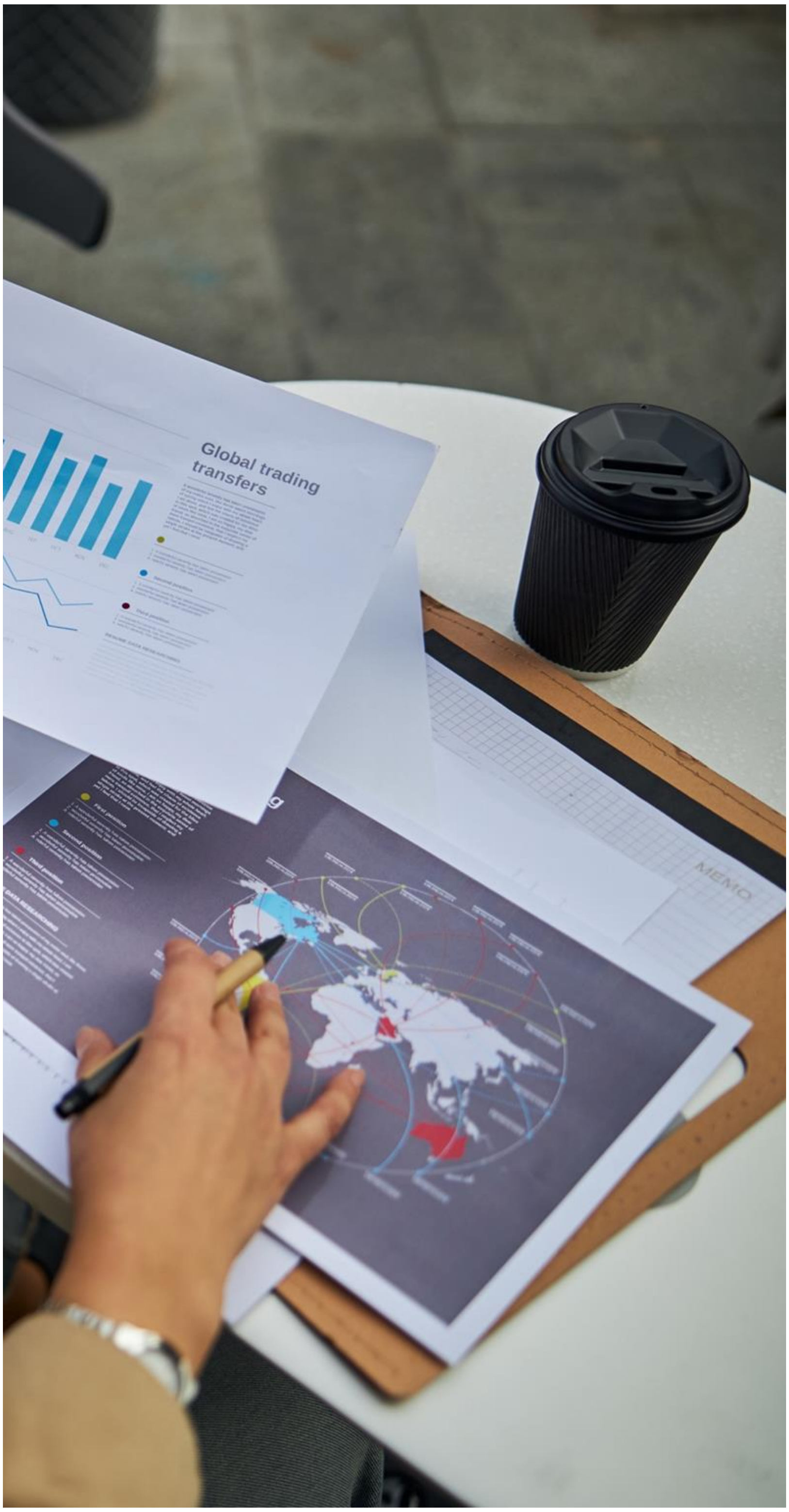
During periods of economic downturn and uncertainty, some businesses may purchase less coverage or forgo insurance altogether. A business's revenue and payroll may decline and create an environment where there is less premium income for insurers.

The Inflation Factor

Prolonged periods of inflation can make it challenging for insurance carriers to maintain coverage pricing and subsequently keep pace with more volatile loss trends. Unanticipated increases in loss expenses can result in higher incurred loss ratios for insurance carriers, particularly as inflation affects key cost factors.

The Cost of Reinsurance

Reinsurance helps stabilize premiums for regular businesses by making it less of a risk for insurance carriers to write a policy. Reinsurers are exposed to many of the same events and trends affecting insurance companies and make pricing adjustments of their own.



Please Note

In order to make sure you and your District stay protected and informed, it's essential to have a thorough understanding of the market and what forces are shaping it. Read on to learn more about what events influenced the insurance market in 2022 and what you can expect in 2023/2024.

Property Forecast

Forecast Disclaimer:

Individual District rates may differ from these projected numbers for a variety of reasons including but not limited to loss ratio, property changes, building appraisals, auto changes, exposure changes, coverage changes, payroll changes, etc.

The past five years have seen the commercial property insurance market progressively harden, evidenced by consistent rate increases since 2017. However, according to industry data, such rate jumps showed some signs of stagnation in early 2022, with average increases staying within single digits. Going into 2023, rates are still on the rise. Some insureds are also encountering above-average rate increases and lower capacity—particularly those exposed to catastrophe (CAT) perils (e.g., hurricanes and wildfires). Looking ahead, policyholders who conduct high-risk operations, have poor loss control practices, or are located in natural disaster-prone areas will likely remain vulnerable to persistent rate hikes and coverage restrictions.

2023-2024 Property Insurance Price Forecast

SDAO

+17.5% to +21.5%

Open Market

+15% to +25%

Tips for your District

- Conduct a thorough inspection of your commercial property and the surrounding area for specific risk management concerns. Utilize additional mitigation measures as needed.
- Analyze your District's natural disaster exposures. If your commercial property is in a disaster-prone area, implement mitigation and response measures that will protect your property as much as possible.
- Conduct accurate ITV calculations to remain fully protected when covered events occur.

Liability Forecast

The general liability insurance segment has steadily underperformed over the past few years, generating minimal underwriting profitability due to rising claim frequency and severity. In response, insurance carriers have reduced coverage capacity, deployed stricter underwriting standards, and implemented ongoing rate increases. However, carriers experienced slightly improved market results in 2022, paving the way for rate deceleration. According to industry data, rates continued to increase during 2022, albeit at a slower pace than in prior years. As such, policyholders can expect yet another year of modest rate increases in 2023. Renewal results will likely depend on insureds' exposures, class, and loss history.

2023-2024
Liability Insurance Price Forecast

SDAO

+5% to +15%

Open Market
+5% to +15%

Tips for your District

- Work with your WHA Team to educate yourself on key market changes affecting your rates and how to respond using loss control measures. Ensure coverage limits match up with your insurance needs.
- Make sure your District has measures in place to reduce the likelihood of customer or visitor injuries.
- Create workplace policies and procedures aimed at minimizing active assailant exposures and establishing effective response protocols amid potential incidents.

Auto Forecast

The commercial auto insurance market has faced substantial underwriting losses and diminished profitability for more than a decade. While the segment continues to face difficult market conditions, rate increases largely remained in the single digits in 2022, demonstrating signs of stagnation compared to double-digital rate jumps that took place in prior years. Nevertheless, several cost-driving trends remain pressing concerns in the segment, pushing claims frequency to pre-pandemic levels and increasing overall loss severity. Policyholders across industries and vehicle classes can still expect to experience rate increases going into 2023.

2023-2024
Auto Insurance Price Forecast

SDAO

+5% to +15%

Open Market
+15% to +25%

Tips for your District

- Examine your loss control practices relative to your fleet and drivers. Enhance your driver safety programs by implementing or modifying policies on safe driving and distracted driving.
- Design your driver training programs to fit your needs and the exposures facing your business. Regularly retrain drivers on safe driving techniques.
- Ensure you hire qualified drivers by using motor vehicle records to vet drivers' past experience and moving violations.
- Determine whether you should make structural changes to your commercial auto policies by speaking with trusted insurance professionals.

Cyber Forecast

Evolving technology, increasing threat vectors, and growing attacker sophistication has continued to drive up both the frequency and severity of cyber incidents, resulting in an ongoing rise in cyber insurance claims and subsequent underwriting losses. Amid these market conditions, most policyholders experienced higher cyber insurance rates throughout 2022. In addition to elevated premiums, insureds have begun encountering coverage restrictions, further scrutiny from underwriters regarding cybersecurity practices and exclusions for losses stemming from certain types of cyber incidents—namely, acts of cyberwarfare related to international conflicts and other prevalent cyberattack methods (e.g., ransomware). Moving into 2023, industry experts anticipate that difficult market conditions—combined with several new entrants to the segment—will make for an increasingly volatile and unpredictable cyber insurance space.

2023-2024
Cyber Insurance Price Forecast

SDAO

Does not charge

Open Market
+25% to +100%

Tips for your District

- Work with your WHA Team to understand the different types of cyber coverage available and secure a policy that suits your unique needs.
- Utilize loss control services offered by WHA and SDAO to help strengthen your cybersecurity measures.
- Focus on employee training to prevent cybercrime from affecting your operations.
- Keep District's technology secure by utilizing a virtual private network, installing antivirus software, implementing a firewall, restricting employees' administrative controls, and encrypting all sensitive data.

Property, Liability, Auto, & Cyber
Service Team

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Field Service Agent

Workers' Compensation Forecast

Data from the National Council on Compensation Insurance (NCCI) shows that the workers' compensation segment has been profitable for eight consecutive years, with the combined ratio falling under 100 every year since 2014. However, the ratio bottomed out at 79 in 2016 and has been slowly increasing ever since. Despite this, industry experts predict that the market's past profitability will still allow for some stability in 2023. Therefore, most policyholders can anticipate minor rate increases, while insureds with higher experience modification factors will likely encounter greater rate jumps.

CODE	Description	2022	2023	% Chg
7710	Firefighters & Drivers	2.24	2.25	+1.00%
8411	Municipal Volunteers: Fire Fighters & Drivers	0.65	0.64	-1.00%
8742	Outside Representatives	0.12	0.12	0.00%
8810	Office Clerical	0.06	0.06	0.00%

2023-2024
Workers' Compensation
Insurance Price Forecast

saif Work. Life. Oregon.

+10% to +25%

Open Market
+15% to +40%

Tips for your District

- Implement safety and health programs to address common risks, especially when using a loss-sensitive workers' compensation program.
- Conduct routine safety training for employees of all ages and experience levels.
- Consider implementing various digital solutions, such as telemedicine, to help prevent and treat injuries within your workers' compensation program.
- Establish workplace wellness initiatives aimed at promoting mental health and improving the overall well-being of your staff.

Workers’ Compensation
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Account Manager

Employee Benefits **Forecast**

In 2023, organizations face the difficult task of reining in rising costs and keeping employee coverage affordable while trying to remain attractive to current and prospective talent despite their shrinking budgets. Industry experts project a 6% to 8% increase in employers' health care costs in 2023. Employers may see a greater increase should they fail to take effective action to curb rising costs, such as expanding telemedicine options and digital health care resources. These efforts are further complicated by record-high inflation, marketplace consolidation and ongoing labor market issues. As employers brace for further health care cost hikes in 2023, they are desperately searching for solutions to manage their growing costs and address the long-term impacts of these increases on their organizations.

There are several reasons why employers' health care costs are increasing. While most employers experienced reduced claim costs during the COVID-19 pandemic, medical plan costs have begun returning to pre-pandemic levels as health care utilization rebounds, outplacing inflation, and wage increases. Utilization has especially increased for employees dealing with severe chronic diseases and late-stage cancer due to missed or delayed care during the pandemic. Further, some employees are facing long COVID-19. Even employees who recovered from COVID-19 are experiencing cardiovascular and neurological diseases, causing employers' health care costs to increase. In addition, rising expenses among medical providers and specialty and novel prescription drugs are exacerbating employers' health care costs. The projected annual costs trend for outpatient prescription drugs is expected to approach double-digit levels—the highest rate since 2015—due to price increases and new specialty drugs.

Inflation is also causing health care costs to rise, and it will likely drive-up costs moving forward. Additionally, there's been an increase in hospital closures, physician retirements and health care worker quits. In fact, 3% of health care workers quit each month of 2022, according to the U.S. Bureau of Labor Statistics. The recent trend of consolidation among hospitals, physician practices and commercial insurers is also triggering higher health care prices for private insurance. Altogether, these developments are putting further pressure on the health care system and causing costs to increase.

Planning is critical for employers to develop cost-saving strategies in 2023. Traditionally, many employers have addressed rising health care costs by shifting a greater

2023-2024
Employee Benefits
Insurance Price Forecast

SDIS

Regence Medical
Average +**2%** Increase
(Renewal dependent on demographics)
Moda Dental +**4%**
Willamette Dental **0%**
Standard Life **0%**
Standard STD & LTD **0%**

Oregon Fire Chiefs Association

Regence Medical +**4%**
Regence Vision **+4%**
Moda Dental +**4%**

Open Market
Small Group +3.4% to +10.6%
Large Group +10% to +20%

share of costs onto their employees. While some employers plan to stick with this strategy, savvy employers will recognize the potential chilling effect this can have on recruiting efforts due to the state of the labor market. Employers should understand that employees are already financially strained due to inflationary pressures. However, employers' budgets may be limited, so increased health care spending will likely restrict spending elsewhere. In 2023, employers should be open-minded regarding strategies that could help manage their health care costs while attempting to improve affordability for employees, such as investing in telemedicine or incentivizing employees to seek cost-effective care options. Some organizations are negotiating with providers, as some carriers are currently offering discounts and reduced management fees.

Tips for your District

- ☑ Revisit compensation and benefits strategies
- ☑ Automate internal processes
- ☑ Consider alternative staffing options
- ☑ Stay transparent
- ☑ Prioritize employee engagement
- ☑ Reduce health care costs

Employee Benefits
Service Team

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Holly Bell
Account Manager

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Account Manager

Overall Insurance Premium Package

Increase for 2023-2024

SDAO

+11% to +18%

SAIF

+10% to +25%

IMPORTANCE OF RISK MANAGEMENT ESPECIALLY NOW

It can sometimes seem as if the forces determining your insurance rates are beyond your control. But, as an insurance buyer, it's important to know how your premiums are calculated, what trends influence the market and what you can do to get the best price. Your claims history—which you can control—has an enormous impact on whether your rates go up or down. That's where implementing a solid risk management plan will help steer your pricing in a more favorable direction, both now and in future renewal periods.

Risk Management Statistics

"Fewer than 50% agree that risk management is likely to be more complex two years from now."

"52% of public entity respondents agree that proactive risk mitigation is as important as effective risk response."

"Organizations expect a 122% increase in optimized risk strategies in the next 18 months."

Source: OnSolve

WHA Insurance has resources to assist in your risk management efforts. Districts who proactively address risk, control losses, and manage exposures will be adequately prepared for changes in the market and will get the most out of each insurance dollar spent.

Tips for your District

The following are five key components of a successful risk management strategy:

- Pinpoint your exposures and cost drivers.
- Identify the best loss control solutions to address your unique risks.
- Create a solid business continuity plan to account for disasters and other unpredictable risks.
- Build a culture focused on safety.
- Manage claims efficiently to keep costs down.

In addition to implementing the above risk management strategies, working alongside our experienced agency is equally crucial. As qualified insurance and risk management professionals, we can help you analyze your District, understand your exposures, and establish a suite of customized insurance policies and strategies that act as a last line of defense against claims. We will also thoroughly explain your policies, notifying you of any additional considerations to keep in mind.

Remember, the insurance landscape is complex, and although the predictions found in this forecast are based on expert research, they are subject to change. Fortunately, we here at WHA Insurance are diligently monitoring the market throughout the year and will keep you informed of any changes that might affect your District.

Marketing
Due Diligence

WHA monitors carriers and programs in the marketplace to fulfill our duty of due diligence for the most comprehensive coverage and policy forms, competitive premiums, efficient claims adjustors and loss control services. As we work with you, we will continue to approach the general insurance industry to provide a thorough market analysis.

WHA is a full-service insurance and risk management insurance agency. Our team is available to aid with your ongoing insurance and risk management efforts. If you have any questions or would like assistance, please contact us at (800) 852-6140 or email your question to the WHA Team below.

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This document is not intended to be exhaustive, nor should any discussion or opinions be construed as legal advice. Readers should contact legal counsel for appropriate advice. For more details regarding the information contained in this report, contact WHA Insurance today.

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References: CIS, Marsh McLennan, MegaTrends, Munich Re, NOAA, SDAO/SDIS/ PACE, World Economic Forum, Zurich Insurance Group, Zywave