

CALIFORNIA JPIA



MEMORANDUM

To: California JPIA Members — Elected Officials and Management Teams

From: Alexander Smith, Chief Executive Officer

Date: April 22, 2026

Subject: Liability Cost of Coverage

Executive Summary

Escalating liability costs have become a significant financial challenge for California public entities in recent years. Claims have grown in both frequency and severity—driven largely by forces beyond the control of individual cities or their risk pools. This memorandum provides elected officials and management teams at member agencies with a briefing on the factors shaping the current liability landscape and the Authority's strategic response. Topics addressed include:

- State of the liability insurance market
- Claim costs and actuarial trends
- Member contributions 2026–27
- The Authority's strategic response
- Impact of risk management and training programs
- Local government liability reform

State of the Liability Insurance Market

The Authority has experienced an escalation in liability claim costs since 2023. One of the most significant contributing factors is the legal environment itself, which continues to generate a growing volume of high-severity claims statewide. This is further complicated by the liability insurance market for California public entities, which has hardened considerably. Carrier capacity has diminished, fewer insurers are willing to underwrite California casualty business, and self-insured retentions are rising—either through direct imposition or through punitive pricing differentials that effectively compel higher retentions.

The type of claims experiencing the most pronounced cost increases include vehicle accidents, allegations of hazardous conditions of public property, employment practices liability, slip-and-fall incidents, and police use-of-force cases.

These challenges are not unique to California JPIA members. Schools, counties, special districts, and local government agencies across the state are grappling with the budgetary and operational consequences of third-party litigation financing, inflated settlement valuations, nuclear verdicts

(over \$10 Million), and an increasingly organized and aggressive plaintiffs' bar. Taken together, these dynamics constitute what the industry refers to as "social inflation."

A noteworthy aspect of social inflation is the growing distrust of large institutions—a sentiment that, while directed primarily toward corporations and large government agencies, increasingly has extended to local governments as well. This affects jury decision-making. Law enforcement is particularly exposed to this dynamic in courtrooms, where jury awards routinely reach the millions, and sometimes tens of millions, of dollars. Each outsized verdict establishes a new baseline for future settlement demands in similar cases, creating an upward cost trajectory that is unsustainable.

SOCIAL INFLATION



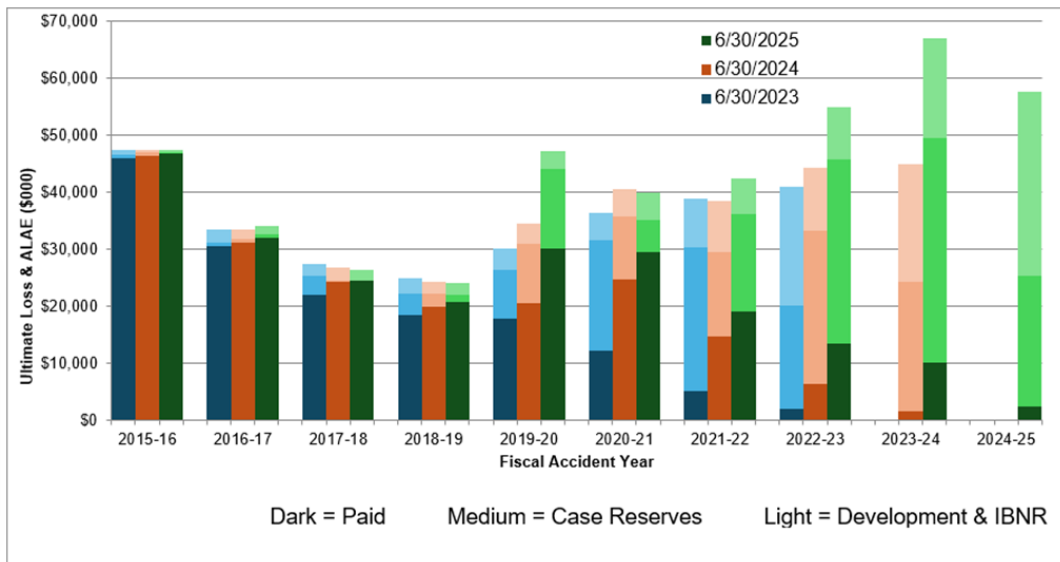
Claim Costs and Actuarial Trends

To see the full scope of the impact, a useful metric to review is the actuary's estimate of ultimate loss and allocated loss adjustment expense (ALAE). This is the projected total cost of all claims across open coverage years, updated annually as the underlying claims activity evolves.

The following tables show the pool-wide increase in projected claim costs across the Authority's primary and excess liability programs. The year-over-year escalation reflects the magnitude of the increase and underscores the urgency of the Authority's response. The three valuation dates presented below—6/30/2023, 6/30/2024, and 6/30/2025—illustrate how the projected ultimate costs have progressively increased across the most recent three actuarial studies.

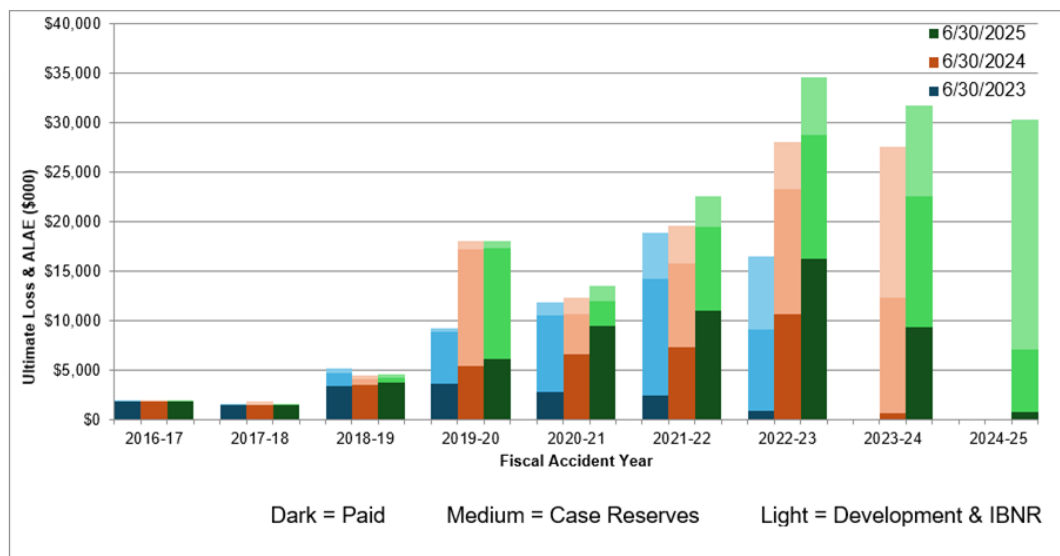
Primary Liability Program

Ultimate Loss & ALAE Historical Estimates (Unlimited, Gross of Recoveries)



Excess Liability Program

Ultimate Loss & ALAE Historical Estimates (Unlimited, Gross of Recoveries)



Liability Cost of Coverage

Annual contributions for liability coverage have increased by an average of 25% to 30% for most members for 2026–27. This reflects a material escalation in high-severity claims activity, which has directly impacted the Authority's underwriting process for both the primary and excess liability programs.

It bears noting that other lines of coverage—including workers' compensation and first-party property—continue to perform well, with normal claims activity and stable financial results. The liability line is the primary driver of the overall cost increase, which provides important context as members evaluate budgetary impacts.

California JPIA's Strategic Response

While the severity of current liability trends is concerning, it underscores the value of the Authority's longstanding practices and risk management focus. In partnership with our members, we are well-positioned to navigate this difficult environment. Our foundational strengths—collective purchasing power, deep market relationships, long-term financial discipline, equitable cost allocation, technical expertise, industry experience, and robust claims and litigation management capabilities—are precisely the assets that matter most when conditions are adverse.

Collective Purchasing Power: The combined strength of 126 member agencies provides leverage and economies of scale unavailable to individual public entities. The Authority negotiates from a position of credibility and scale, accesses both domestic and international markets, and secures high-quality excess and reinsurance protection through competitive placements.

Market Relationships: Our brokerage team maintains year-round relationships with excess and reinsurance underwriters—not just at renewal. They continuously share claims data and risk management information, explore emerging markets, and analyze coverage structures to maximize value and cost efficiency on behalf of members.

Financial Discipline: Conservative underwriting, sound reserving practices, and prudent investment management have strengthened the Authority's consolidated net position over time. This financial foundation has helped absorb the impact of large losses within the pool's retained layers, providing a valuable buffer to members.

Equitable Cost Allocation: Members with better-than-average loss experience, low claim severity, and improving loss trends are recognized and rewarded over time, through the cost allocation formula. The relative fairness and precision of the annual contribution calculation was recently improved by the addition of a new formula element called loss ratio adjustments.

Claims & Litigation Management: In 2024-25, the Authority received 3,138 new liability claims with a litigation rate of approximately 15%. Our experienced claims team composed of fourteen full-time professionals actively work to identify problematic cases early and move them toward timely resolution during the claims stage, eliminating the need for costly litigation in many circumstances. They conduct rapid investigations and prioritize member communication.

They also work closely with our legal defense panel who participate in training, share lessons learned, and jointly develop strategies to effectively counter plaintiff attorney tactics.

Impact of Risk Management and Training

Member engagement in proactive risk management remains one of the most powerful tools available for long-term cost containment. Adhering to best practices, deploying safety and loss control initiatives, utilizing risk management programs offered by the Authority, and participating in Authority training opportunities directly reduce exposure and mitigate the frequency and severity of claims across the pool.

The Authority's approach to risk management has evolved considerably since its founding—from a focus primarily on claims handling to a comprehensive, relationship-based strategy that distinguishes the Authority from other public entity risk pools in California. This strategy is built on five foundational principles: (1) collaborative partnerships with member agencies; (2) active provision of tools and resources; (3) education over enforcement; (4) data-informed recommendations; and (5) integration of litigation lessons learned into ongoing operational guidance.

The dedication and diligence of member agency staff in managing liability risks within their day-to-day operations is both recognized and valued by the Authority. Their ongoing commitment to risk management best practices and loss control continues to have a meaningful and measurable impact on the long-term cost of risk on a pool-wide basis—and remains one of the most important tools available as the Authority navigates the current environment.

Local Government Liability Reform

Risk management and market strategy alone cannot solve a problem rooted in the legal environment. A legislative solution is also necessary to address systemic lawsuit abuse, protect public funds, and safeguard local community services that residents depend on.

The connection between liability costs and service delivery is direct and consequential—as liability expenses consume a growing share of municipal budgets, funding available for parks, libraries, senior centers, youth programs, public education, public safety, health and social services, and infrastructure maintenance is reduced. These are not abstract budget line items—they are services that define the quality of life in the communities that our members serve.

Individuals who sustain legitimate injuries resulting from the negligence of a local government agency deserve fair compensation for medical expenses, lost wages, pain and suffering, and other actual damages. The Authority is fully committed to that obligation. That same standard, however, also protects the public: it ensures resources reach those who need them, rather than inflating verdicts, rewarding punitive outcomes unsupported by evidence, or generating profits for third-party investors with a financial stake in maximizing claim values.

Awards that reflect true harm and proportionate responsibility serve everyone—injured parties and the communities that depend on public agencies for services. What makes compensation fair is not the size of the award but whether it is grounded in evidence and proportionate to the agency's actual share of responsibility.

A number of industry associations and advocacy groups are working on this issue at the state level. The Authority is actively engaged and will continue to work persistently to help bring about meaningful reform. Updates will be provided as the situation develops.

Ultimately, it is the communities that local governments serve that feel the consequences of rising liability costs most directly. The Authority will continue to pursue every available avenue—through proactive risk management, safety and loss prevention programs, financial stewardship, and legislative advocacy—to prevent injuries before they occur, control costs, protect member interests, and preserve the long-term financial resilience of the pool.