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Loss Portfolio Transfer (LPT)

Useful definition….LPT is a financial reinsurance arrangement whereby loss obligations that have already been incurred, but not yet paid by the self-insured employer are transferred to a reinsurer. The liability to pay future medical and indemnity claims now falls to another. The ceding company (the self-insured employer) is to improve their balance sheet by the amount ceded to the reinsurer.

LPTs are a specialty product underwritten by only a few specially trained folks. The major components of a liability transfer are age of losses, amount of outstanding reserves, and the time value of money. It is not uncommon for the reinsurer to send an auditor to review reserving practices of the claims administrator. As a practical matter and at the time this was written reinsurers will not consider an LPT unless the total outstanding liabilities are in excess of $1,000,000.

It wasn't until January of 2000 that public entities could participate in LPTs. Unlike private self-insureds who are most concerned with their bottom line, public entities seem bent to carry their liabilities indefinitely. However, this is changing as risk managers become more informed about this neat way to pass their past liability onto someone else.

It is confusing when a risk manager 'sells' his liabilities to another. When, in fact, the risk manager is spending money to have someone else assume their liability for future payments on losses that occurred during a specified range of years. How much would you spend now to have someone take over your future mortgage payments, similar concept? However, the unknown nature of future loss development requires the artistry of an actuary to price the transfer.

California has adopted a standardized policy form to address the transfer. In any loss transfer make sure the transaction includes IBNR (incurred but not yet reported) losses. This is particularly important in States with assumed liability for any future heart or lung losses suffered by firefighters or policefolks.

Likely candidates for an LPT are:

1. A self-insured employer with a minimum $1,000,000 in outstanding reserves for the term covered.
2. A self-insured going back to a first dollar program and bother by the continued day to day management of the claims handling for losses incurred during their self-insured term..
3. A long time self-insured employer desiring to off load a number of years of outstanding liabilities to get the liability off their balance sheet..

4. It is all about money and good advice.