

**COUNCIL ACTION FORM**

**SUBJECT:**    **EXCESS WORKERS' COMPENSATION INSURANCE**

**BACKGROUND:**

The City purchases excess Workers' Compensation insurance coverage through Safety National Insurance Co. This coverage limits the City's self-insured workers compensation claims (including police and firefighter 411 disability claims) to a maximum dollar amount, above which Safety National fully insures the claim.

The City's current policy will expire on June 30, 2013. Safety National provided a renewal quotation based on the City's estimated FY 2013/14 payroll (approximately \$35.69 million) times the insurer's rate. Excess Workers Compensation rates are typically affected by past claims experience and national trends of overall claims experience and medical cost inflation. According to the underwriter, Ames' rates are impacted this year more by national cost trends, especially in the police and fire classifications, than its own claim experience.

Each workers compensation claim is covered 100% by Safety National's excess coverage if it exceeds a \$500,000. This is known as the attachment point. Prior to the renewal of the FY 2012/13 policy, the attachment point per claim was \$475,000.

<b>Fiscal Year</b>	<b>Insurance Attachment Point (Retention)</b>	<b>Rate per \$100 of Payroll</b>	<b>Change in Rate vs. 2012/13</b>	<b>Annual Premium</b>	<b>Payroll Amount</b>
<b>2012/13</b>	<b>\$500,000</b>	<b>\$0.1780</b>		<b>\$61,920</b>	<b>\$34,786,679</b>
<b>Renewal Alternative 1:</b>					
<b>2013/14</b>	<b>\$500,000</b>	<b>\$0.2120</b>	<b>+19.1%</b>	<b>\$75,663</b>	<b>\$35,689,975</b>
<b>Renewal Alternative 2:</b>					
<b>2013/14</b>	<b>\$750,000</b>	<b>\$0.1780</b>	<b>+0%</b>	<b>\$63,528</b>	<b>\$35,689,975</b>

The City has significant self-funded financial exposure to long-term medical disability expenses from statutory 411 police and firefighter claims as well as from other job classifications, such as Electric Line Workers, Power Plant Workers, etc. This insurance is an effective technique for limiting its exposure to catastrophic injury costs.

*The City's 2013/14 Budget anticipated the renewal cost to be \$71,208. The budget shortfall will be added to departmental payments to the Risk Management Fund for this*

*purpose.*

**ALTERNATIVES:**

1. Accept the quote from Safety National with the same as expiring \$500,000 Retention at an annual premium of \$75,663.
2. Accept the alternative from Safety National to increase the Attachment Point (Retention) from \$500,000 to \$750,000 in order to maintain the expiring rate and avoid a 19.1% rate increase, at an annual premium of \$63,528.
3. Reject the quote from Safety National and direct staff to search for other alternatives.

**MANAGER'S RECOMMENDED ACTION:**

Safety National continues to provide acceptable excess workers compensation insurance and limit catastrophic injury claims costs for the City of Ames.

Therefore, it is the recommendation of the City Manager that the City Council adopt Alternative No. 1, thereby approving the renewal of insurance coverage with Safety National, maintaining the current retention at the \$500,000 Attachment Point, at an annual premium of \$75,663.