

COUNCIL ACTION FORM

SUBJECT: EXCESS WORKERS COMPENSATION INSURANCE – REQUEST TO CONSIDER RESCISSION OF RESOLUTION 14-334 (6-10-2014)

BACKGROUND:

During the June 10, 2014 meeting, the Council approved Resolution 14-334 approving renewal of Excess Workers Compensation insurance, brokered by Holmes Murphy, with Safety National. The marketplace for this type of coverage is very limited. Prior to the June 10, 2014, Council meeting, the Safety National proposal was the only one received.

When staff contacted the broker to inform them of the Council approval on June 11, the broker advised staff that a new proposal from another insurance company had just been received. **The second proposal was unexpected and was from an insurer that had been approached numerous times on Ames’ behalf during this and prior renewals. Holmes Murphy asked that the City seriously concerned this new quote.** This insurer had previously required ten years’ electronic loss history before making a proposal; and Ames’ workers compensation loss history in electronic format dates back only to August 2009, when EMC was contracted to process claims.

According to the broker, Midwest Employers Casualty Company (MWECC) changed its position and decided that Ames’ five years of loss history was sufficient and that the trend data of the claims was within their acceptable risk guidelines. Since City staff had not given the broker instructions to confirm the coverage with Safety National prior to receipt of the MWECC quote, the broker believed it would be acceptable to communicate it to the City.

The MWECC quote includes an aggregate coverage layer option not offered by Safety National that reduces the City’s exposure in the event of a catastrophic event involving multiple, serious injuries. It also includes coverage for injury leave wages, also known as “indemnity” payments, which Safety National excludes.

	2013-14	2014-15	2014-15	2014-15	
	Safety National Specific Only Plan	Safety National Specific Only Plan	MWECC Specific Only Plan	MWECC Aggregate Plan	Comments
Per Claim Retention	\$500,000	\$500,000	\$500,000	\$500,000	City pays 100% of each \$500,000 claim up to a total of \$2,713,825.
Aggregate 100% Insured Layer	None	None	None	\$2,000,000	Insurer pays 100% of this layer for any & all claims <u>after</u> City pays \$2,713,825 shown in the Per Claim Retention.
Total	\$75,663	\$88,485	\$87,100	\$88,652	\$90,000 budgeted

Medical	included	included	included	included	
Indemnity	excluded	excluded	included	included	

The cost of the MWECC proposal for the same basic type of individual per claim excess, that pays 100% of individual claims that exceed \$500,000, is \$1,385 lower than the Safety National proposal at \$87,100. However, it includes indemnity claims (injury leave wages), which Safety National excludes.

MWECC has also provided an optional quote for \$167 higher than Safety National (\$88,652) that not only covers individual claims exceeding \$500,000, but also includes a 100% coverage layer for \$2,000,000 in claims (of any size) that are incurred after the City has paid out an initial amount of \$2,713,825. In evaluating this catastrophic coverage, a scenario was used where 12 firefighters or 12 power plant workers are seriously injured in an explosion and each claim was valued at \$500,000.

- With the Safety National coverage, the City would simply pay \$6,000,000 in medical expenses for twelve \$500,000 individual claims, with insurance paying 100% of the excess over \$500,000 per claim. However, under Safety National, all injury leave wages (indemnity) would be self-insured, even for claims exceeding \$500,000.
- Under MWECC, with the aggregate layer option, the City's total payment exposure would be \$4,000,000 for twelve \$500,000 claims, where the City pays the first \$2,713,825 of individual claims up to \$500,000 per claim (approximately 5½ \$500,000 claims), with the next \$2,000,000 coverage layer above the \$2,713,825 amount that is paid 100% by insurance. The coverage would revert to excess amounts over \$500,000 per claim after \$4,713,825 of claims payments have been paid by the City and the insurer.

ALTERNATIVES:

1. Rescind Council Resolution 14-334 (6-10-2014) and select one of the following two options received on June 11 from Holmes Murphy for coverage from Midwest Employers Casualty Company (MWECC):
 - a. **MWECC Option 1.a.** at a cost of **\$87,100** for individual claim coverage that pays in excess of \$500,000, including indemnity expenses (injury leave wages).
 - b. **MWECC Option 1.b.** at a cost of **\$88,652** that includes individual claim coverage described in Option 1, plus a 100% covered layer of \$2,000,000 for all claims after City claim payments reach the amount of \$2,713,825. For claims incurred above the \$2,000,000 covered layer, they revert to the individual excess coverage that pays above \$500,000 per individual claim.
2. Do not rescind Council Resolution 14-334 (6-10-2014) and instruct staff to place the order for insurance with Safety National as adopted in Resolution 14-334.

MANAGER'S RECOMMENDED ACTION:

The City has significant financial exposure for medical and long-term disability expenses from statutory 411 police and firefighter claims, as well as from other job classifications such as power plant workers. The actual reduction in total financial exposure for a catastrophic event such as an explosion involving multiple employees varies by the details of the scenario envisioned.

The broker for this insurance, Holmes Murphy, was able to provide a more comprehensive coverage alternative prior to the actual placement of the Safety National insurance approved on June 10, 2014. Basically, the new alternative reduces the exposure to a large claims scenario involving multiple individual injury claims, whereas under the expiring and renewal insurance with Safety National, the City is theoretically exposed to unlimited numbers of individual \$500,000 claims.

- For example, if twelve employees each experienced a \$500,000 claim, the MWECC proposal offers an exposure reduction of up to \$2,000,000 paid 100% by insurance out of a potential \$6,000,000 (using the scenario of 12-\$500,000 claims) after the City expenses the specified amount (shown in 1.b. above), for an additional \$167 in annual premium versus Safety National.
- Also, under Safety National, all injury leave (indemnity) wages are excluded from coverage and therefore are self-insured for individual claims exceeding \$500,000. Both MWECC proposal options include coverage for indemnity wages as well as medical expenses for the same excess of \$500,000 level.

Therefore, it is the recommendation of the City Manager that the Council rescind Resolution 14-334 (6-10-2014) and approve **Option 1.b. from Midwest Employers Casualty Company**, thereby approving the new alternate proposal for excess workers compensation insurance that includes both individual and aggregate excess insurance layers, as well as indemnity coverage, at an annual premium of \$88,652.