

**COUNCIL ACTION FORM**

**SUBJECT:     EXCESS WORKER’S COMPENSATION INSURANCE RENEWAL**

**BACKGROUND:**

The City is self-insured for Worker’s Compensation insurance coverage. However, the City purchases excess Worker’s Compensation insurance to reduce the financial risk of catastrophic self-insured worker’s compensation claims. This coverage limits the City's financial exposure for self-insured worker’s compensation claims (including police and firefighter Chapter 411 injury disability claims) to a maximum dollar amount per individual claim. Since FY 2014/15, this coverage has also included an added layer of aggregate protection for multiple large claims exceeding a specified amount.

Since July 2010, the City’s excess Workers' Compensation insurance coverage has been brokered by Holmes Murphy. The current coverage, which is provided by Midwest Employers Casualty Company (MWECC), will expire on June 30, 2019.

For both the expiring coverage and the quoted renewal coverage, the City pays 100% of each individual claim up to \$500,000. Any expenses for a single claim in excess of this threshold are paid by the insurer. Additionally, an aggregate layer protects the City against costs for multiple large claims within a year. This layer requires the insurer to pay for all costs in excess of \$2,000,000 for the year.

**QUOTATION SUMMARY**

Holmes Murphy obtained a renewal quotation from MWECC for the same level of coverages, which is shown below:

	<b>FY 2019/20 Renewal Quote</b>	<b>FY 2018/19 Expiring Coverage</b>
Rate	\$0.2515/\$100 of payroll	\$0.2489/\$100 of payroll
<b>TOTAL PREMIUM</b>	<b>\$104,765</b>	<b>\$100,693</b>

The quoted rate for FY 2019/20 is an increase of approximately 1%. However, the total premium paid is affected by the City's estimated FY 2019/20 payroll, which is estimated to increase approximately 3% compared to FY 2018/19.

Additionally, the broker received a quote from MWECC and another underwriter, Safety National, with a \$600,000 per claim self-insured retention level compared to the current level of \$500,000. In the past nine years and perhaps longer, the City has not had a single claim reach the \$500,000 threshold. Increasing this threshold would increase the City's potential exposure to a single costly claim, while reducing the premium cost for the coverage, since the City would assume more risk.

MWECC's quote for the \$600,000 self-insured retention level would result in a premium of \$94,800. The quote from Safety National at this retention level was a premium cost of \$124,780. **Upon evaluation, City staff believes it would be appropriate to maintain the retention level at \$500,000.**

The FY 2019/20 Budget includes \$107,000 for the purchase of excess Worker's Compensation insurance coverage.

**ALTERNATIVES:**

1. Accept the quote from Holmes Murphy & Associates, for coverage with Midwest Employers Casualty Company (MWECC), with the same coverage types and limits as expiring at a renewal premium of \$104,765.
2. Select the quote with higher retention through MWECC at the premium of \$94,800.
3. Select the quote from Safety National with the higher retention at the premium of \$124,780.
4. Decline to purchase Excess Workers Compensation Insurance and self-insure 100% of all employee injury claims that are incurred.

**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 and electric distribution employees. The individual claim and aggregate layer coverages will protect the City against unlimited financial exposure for large individual claims and for events that could cause multiple injuries.

Midwest Employers Casualty Company continues to provide acceptable excess workers compensation insurance that limits 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 accepting the quote from Holmes Murphy & Associates, for coverage with Midwest Employers Casualty Company (MWECC), with the same coverage types and limits as expiring at a renewal premium of \$104,765.