

ITEM #: 26
DATE: 06-13-23
DEPT: HR

COUNCIL ACTION FORM

SUBJECT: EXCESS WORKER'S COMPENSATION INSURANCE RENEWAL

BACKGROUND:

The City began purchasing Excess Workers' Compensation Insurance coverage brokered by Holmes Murphy on July 1, 2010, 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. Beginning with the FY 2014/15 coverage, this also includes an added layer of aggregate protection for multiple large claims exceeding a specified amount.

This excess coverage, which is provided by Midwest Employers Casualty Company (MWECC), will expire on June 30, 2023. Together, the individual claim and aggregate layer coverages protect the City against unlimited financial exposure for both large individual claims and catastrophic events where there are multiple injuries. Excess Workers Compensation rates are typically affected by past claims experience and national trends of overall claims experience and medical cost inflation.

The City's current policy includes a per-claim threshold of \$750,000. The per-claim threshold is the amount an individual claim must exceed before the excess insurance provides coverage. All individual claims below the per-claim threshold are paid entirely by the City in a self-insured manner.

Holmes Murphy received two quotes from the incumbent carrier MWECC. The first quote was for a 2% increase in the premium per \$100 of payroll for one year of coverage. Due to the expected increase in payroll this results in an overall increase in cost of 5% over FY 2022/23. **The quote for one year is \$142,698.**

MWECC also provided a quote for a two-year guaranteed rate. **This quote was also for a 2% increase of premium per \$100 of payroll but results in a slightly higher yearly cost of \$144,014.** The overall increase for this year would be 6%. This is due to the increase in payroll for FY 2023/24 and expected increase in payroll for FY 2024/25.

A detailed outline of the current coverage and the quoted coverage from MWECC for next fiscal year(s) follows below:

	Current FY 2022/23	Quote 1 (1 year option) FY 2023/24	Quote 2 (2 year option) FY 2023/24 and FY2024/25
Plan Feature	Self-insured and insured amounts	Self-insured and insured amounts	Self-insured and insured amounts
Per claim self- insured threshold	\$750,000	\$750,000	\$750,000
Per claim self-insured threshold for Electric, Police, and Firefighters	\$750,000	\$750,000	\$750,000
Aggregate Layer	\$2,915,677	\$2,873,502	\$5,172,149
PREMIUM COST	\$135,175	\$142,698	<u>\$144,014 per FY</u> \$288,028 total

Staff has analyzed the pros and cons of the one- and two-year quote options. The two-year quote provides the City a guaranteed rate in the second year. In the last three years, the City's renewals were for 8% (FY 2020/21), 5% (FY 2021/22) and 8% (FY 2022/23) increase in premium per \$100 of payroll. **Therefore, even with a slightly higher total premium in the first year, the two-year proposal is expected to provide savings in the second year that will offset that difference.** It should be noted that the two-year quote is for two, separate one-year policies. Should the City decide to change its workers' compensation program, it is able to decline coverage for year two.

The FY 2023/24 City Budget includes \$148,693 for this coverage. The budget and quoted costs are based on the City's estimated FY 2023/24 payroll. The actual amount billed will be based on reconciliation audits reflecting the City's actual employment numbers across various employee classifications throughout the year.

ALTERNATIVES:

1. Accept quote #2 from Holmes Murphy & Associates, for two years of coverage with Midwest Employers Casualty Company, to be paid in two installments of \$144,014 each on July 1, 2023 and July 1, 2024.
2. Accept quote #1 from Holmes Murphy & Associates, for one year of coverage with Midwest Employers Casualty Company, at a renewal premium of \$142,698
3. Reject the quote and direct staff to search for other alternatives.
4. Decline to purchase Excess Workers Compensation Insurance and self-insure 100% of all employee injury claims that are incurred.

CITY MANAGER’S RECOMMENDED ACTION:

City staff has evaluated the above quotes. As the excess insurance market is subject to volatility, guaranteeing a rate for two years is advantageous. Doing so ensures that the City will not see a large increase in premium per \$100 of payroll for two years. The second year of coverage can be declined at a later date if the City decides not to proceed with the coverage for FY 2024/25. Therefore, it is the recommendation of the City Manager that the City Council adopt Alternative No. 1.