

COUNCIL ACTION FORM

SUBJECT: EXCESS WORKERS' COMPENSATION INSURANCE

BACKGROUND:

The City currently does not have excess Workers' Compensation insurance coverage. Most of the larger municipalities in the State do carry this type of insurance. Workers' Compensation Excess coverage is purchased to cover catastrophic events that result in either extremely severe work related injuries or involve injuries to multiple employees.

Realizing that many of the insurers will not deal directly with City of Ames staff, a Request For Qualifications (RFQ) was sent out on September 24, 2009, in order to obtain the services of an agent that could approach insurers on our behalf. As a result of the RFQ process, Holmes Murphy Agency of Des Moines was selected by staff as the agent of record for the City.

Through the efforts of Holmes Murphy, the City has now received quotations for Workers' Compensation Excess Insurance from three insurers, the results of which are detailed below. The retention amounts shown are on a "per claim" basis. A claim could involve one employee or multiple employees (e.g., a building collapse that injures several people). Under these coverages, the City would pay up to the retention amount for claim expenses, after which the insurance company would pick up all additional expenses. Coverage under each of these quotes would be effective July 1, 2010.

<u>Name of Company</u>	<u>Insured's Retention</u>	<u>Annual Premium</u>
Safety National	\$400,000	\$60,949
Safety National	\$450,000	\$53,042
Midwest Employers Casualty	\$400,000	\$81,309
Midwest Employers Casualty	\$450,000	\$71,294
Employers Mutual	\$250,000	\$112,604
Employers Mutual	\$350,000	\$ 90,223

Safety National has an A.M. Best rating of A-x (Excellent) and has also been recommended to staff by our Workers' Compensation Claims processor, EMC Risk Services. Safety National has quoted the lowest premium for the amount of risk that the City is willing to undertake, which staff recommends be \$450,000.

In addition to the "per occurrence" coverage, Safety National can also provide aggregate insurance with a \$1 million retention for an additional annual premium of \$9,000. This

coverage would take effect after the City spent \$1,000,000 on claims in a given year. Given the very low likelihood of our reaching this claims level, staff is recommending that the City not purchase this aggregate insurance.

On May 25, 2010, the City Council tabled any action regarding this issue and directed staff to research (1) the possibility of purchasing aggregate insurance without the per occurrence coverage, and (2) benchmark data from other, similar-sized cities regarding their experience with catastrophic claims.

Feedback received from our agent, Holmes Murphy, indicated that none of the three insurance carriers that submitted quotes to the City of Ames (Safety National, Employers Mutual and Midwest Employers Casualty) will provide “aggregate-only” coverage. It appears from their conversations that the underwriters are concerned that one catastrophic loss could exceed the aggregate and then the insurer would be responsible for paying the remaining qualified claims for the rest of the policy term.

Staff is still working to obtain benchmark data from other cities, and hopes to have that information available for the June 8 Council meeting.

Payment of the premium will be made from the Risk Management fund. That expense will then be allocated to departmental budgets based on the probability of a catastrophic workers compensation event and upon loss history.

ALTERNATIVES:

1. Accept the quote from Safety National with \$450,000 retention and an annual premium of \$53,402 for “per occurrence” excess insurance coverage.
2. Accept the quote from Safety National as stated in Alternative #1, and add the aggregate coverage with an annual \$1,000,000 for an additional annual premium of \$9,000 effective.
3. Select an alternative offer from the other quotes received.
4. Reject all offers and elect not to purchase excess Workers’ Compensation insurance. This is the City’s current practice.

MANAGER'S COMMENTS:

The City’s long-standing practice has been to not obtain excess workers comp insurance. Given the recent increase in the number of high cost settlements, Council directed staff to explore purchase of excess insurance coverage.

If the City Council does not feel comfortable with the current level of exposure to a catastrophic event that could cause major injury to one or more of our employees, then

Alternative #1 should be approved. However, this option would not have covered the City's recent workers comp settlements, because of the high deductible.

If the City Council is concerned that a number of catastrophic events can occur in any year, then Alternative #2 should be pursued.

If the City Council is comfortable with the current practice of self-insuring all costs associated with work-related injuries, then Alternative #4 should be supported. In the event of injury under this alternative, the costs would need to be borne from the Risk Management Fund or the City's operating budget.