

COUNCIL ACTION FORM

SUBJECT: EXCESS WORKERS' COMPENSATION INSURANCE

BACKGROUND:

The City purchases excess Workers' Compensation insurance coverage through Safety National to cover catastrophic events that result in either extremely severe work related injuries or involve injuries to multiple employees. Our current policy expires on 7/1/2011.

Safety National's renewal quotation is based on annual payroll and on a review of our loss runs during 2010/2011. Because the City's payroll is up from \$1.1 million to \$1.3 million, we are seeing a slight increase in the annual premium. The options in the rates shown below reflect a difference in the per occurrence retention amount. The first option has a higher rate per \$100 of payroll but retains the retention amount at \$450,000 per occurrence. The second option keeps the rate per \$100 per payroll the same as the expiring policy, but increases the retention amount to \$475,000 per occurrence.

| <u>Rate per \$100 of Payroll</u> | <u>Insured's Retention</u> | <u>Annual Premium</u> |
|----------------------------------|----------------------------|-----------------------|
| \$0.161 (Current) | \$450,000 (Current) | \$53,042 (Current) |
| \$0.1706 | \$450,000 | \$57,818 |
| \$0.161 | \$475,000 | \$54,564 |

Safety National has an A.M. Best rating of A-x (Excellent) and is also recommended to staff by our Workers' Compensation Claims processor, EMC Risk Services.

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

ALTERNATIVES:

1. Accept the quote from Safety National with a \$475,000 retention and an annual premium of \$54,564.
2. Accept the quote from Safety National with a \$450,000 retention and an annual premium of \$57,818.
3. Reject both options and direct staff to search for other alternatives.

MANAGER'S RECOMMENDED ACTION:

While the City's long-term workers compensation claims experience has been favorable, the possibility exists that a catastrophic accident could severely injure one or more employees. Should that occur, the costs would need to be borne from the City's operating budget. Purchasing excess Workers Compensation coverage protects our taxpayers and utility customers from this risk.

Therefore, it is the recommendation of the City Manager that the City Council adopt Alternative #1, thereby accepting the quote from Safety National with \$475,000 retention and an annual premium of \$54,564.

You will note that the retention limit per occurrence is recommended to be increased from \$450,000 to \$475,000. Should a catastrophic accident occur, it is impossible to predict how much such a claim could cost the City. Financially, the City could absorb a \$475,000 claim, but not the million dollar claim. This option gives the city a lower rate per \$100 in payroll and a smaller total premium amount while still providing the protection we seek.