

**COUNCIL ACTION FORM**

**SUBJECT:**    **EXCESS WORKERS' COMPENSATION INSURANCE**

**BACKGROUND:**

The City purchases excess Workers' Compensation insurance coverage from a broker, Holmes Murphy & Associates. This coverage limits the City's self-insured workers compensation claims (including police and firefighter 411 disability claims) to a maximum dollar amount per claim, above which Safety National pays 100% as the selected insurance provider.

The City's current policy with Safety National will expire on June 30, 2014. The renewal quotation is based on the City's estimated FY 2014/15 payroll (approximately \$38.47 million) divided by 100 and multiplied by the insurer's rate. **The City's 2014/15 Budget anticipated the renewal cost to be \$90,000, and the price quoted for 2014/15 is \$88,485.** The premium is charged to department budgets.

Excess Workers Compensation rates are affected by past claims experience and national trends of overall claims experience, as well as by medical cost inflation. According to the City's broker, Ames' rates are impacted more by national cost trends than the City's own experience, especially in the police and fire classifications. The 16.9% premium increase, as noted in the chart below, is a function of a rate increase resulting both from national trends and from payroll increases. The payroll portion of the increase is a combination of an underestimate of the prior year's renewal payroll and the estimated increase of the upcoming year's payroll.

Fiscal Year	Insurance Attachment Point per claim	Rate per \$100 Payroll	Rate Change 2014/15 vs. 2013/14	Annual Premium	Premium Change	Covered Payroll	Change in Covered Payroll
Expiring 2013/14	\$500,000	\$0.212		\$75,663		\$35,689,975	
Renewal Quote 2014/15	\$500,000	\$0.230	+8.5%	\$88,485	+16.9%	\$38,471,828	+7.8%

Each year the broker searches the limited U.S. marketplace for viable alternatives, but the marketplace for this type of coverage is very limited to only two or three insurance companies. **There were no other insurance companies that provided comparable rates or levels of coverage.**

Each workers compensation claim is fully covered by Safety National's excess coverage if it exceeds a \$500,000. This is the City's attachment point or retention.

**ALTERNATIVES:**

1. Accept the quote from Safety National with the same \$500,000 retention at an annual premium of \$88,845, based on estimated covered payroll.
2. Reject the quote from Safety National. This would entail self-insuring this risk, since there are no other viable marketplace alternatives for staff to explore.

**MANAGER'S RECOMMENDED ACTION:**

The City has significant financial exposure to long-term medical disability expenses from statutory 411 police and firefighter claims as well as from other job classifications, such as line workers, power plant workers, etc. This insurance is a risk financing technique for limiting the City's financial exposure to individual catastrophic injuries.

Safety National continues to provide acceptable excess workers compensation insurance to limit catastrophic injury costs for the City of Ames. Therefore, it is the recommendation of the City Manager that the City Council adopt Alternative No. 1, thereby approving the renewal of insurance coverage with Safety National at the \$500,000 Attachment Point, at an annual premium of \$88,845.