

COUNCIL ACTION FORM

SUBJECT: EXCESS WORKERS COMPENSATION INSURANCE RENEWAL

BACKGROUND:

In order to reduce the financial risk of catastrophic self-insured workers compensation claims, the City began purchasing Excess Workers' Compensation Insurance coverage brokered by Holmes Murphy on July 1, 2010. This coverage limits the City's financial exposure for self-insured workers 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 coverage, which is provided by Midwest Employers Casualty Company (MWECC), will expire on June 30, 2015. MWECC provided a renewal quotation through Holmes Murphy for the same level of coverages. The cost is based on the City's estimated FY 2016/17 payroll (approximately \$40.81 million) times the insurer's rate of \$0.2311 per \$100. 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.

QUOTATION RECAP

Council approval is requested for the shaded column

	FY 2016/17	FY 2015/16	
Plan Feature	Self-insured and insured amounts	Self-insured and insured amounts	City and Insurer responsibility
Per claim self-insured threshold	\$500,000	\$500,000	City pays 100% of each claim up to \$500,000
Aggregate Layer	\$2,000,000	\$2,000,000	MWECC pays all claims after the City has paid this amount
PREMIUM COST	\$99,599	\$94,124	The FY 2016/17 Budget is \$101,795

The City's premium quote for FY 2016/17 is an increase of 5.8% over the current premium. This increase is attributed to two primary factors: 1) the approximately 3% increase in City payroll, and 2) national trends and medical cost inflation.

MWECC has also provided an option for the City to increase the per claim self-insured threshold from \$500,000 per claim to \$550,000 per claim. This would increase the City's

potential exposure. However, the premium for FY 2016/17 would only increase to \$94,311. In the time the City has had a relationship with its current broker (6 years), the City has never had a single claim approach the \$500,000 mark. However, a catastrophic incident could conceivably generate one or more individual claims approaching this amount.

The Risk Management program's Workers Compensation budget for FY 2016/17 is \$101,795, which is enough to cover the premium under either the "status quo" option (\$99,599) or the option with an increased self-insured threshold (\$94,124).

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 \$99,599.
2. Accept the alternate quote for coverage with MWECC, with an increased per claim self-insured threshold of \$550,000, at a renewal premium of \$94,124.
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.

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, electric distribution employees and streets maintenance employees. The existing 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.

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 \$99,599.