

Meeting Date (?) 09/27/2016

Subject Matter* (?) Consider approval of FY2017 extension of City's excess workers' compensation insurance
This must match rolling agenda entry

Department of Origin* RISK MANAGEMENT

Submitted By* Cindy Kirk

Type of Meeting* BCD Special Regular

Classification* Public Hearing Consent Statutory Regular

Ordinance* None First Read Second Read First & Only Read

Strategic Initiative* Public Safety Service
 Economic Development Infrastructure
 Quality of Life

Agenda Item Description* Consider approving the Fiscal Year 2017 extension of the City's Excess Workers' Compensation insurance to Midwest Employers Casualty in the annual amount of \$188,193.

Summary Statement*

The City of Bryan is self-insured for liability and workers' compensation claims and purchases excess insurance to protect against catastrophic losses. This Council Action Form (CAF) is for consideration of the Excess Workers' Compensation insurance program. Consideration of the Excess Liability is in a separate Council Action Form.

In previous years, the City of Bryan was able to purchase an Excess Public Entity Liability insurance policy, a 'package' policy, which included excess coverage for general liability, auto liability, law enforcement liability, public official liability, employee benefits liability, and workers' compensation. However, the City's Excess Public Entity Liability insurance carrier notified the City in July 2014 it would not renew the excess 'package' policy effective October 1, 2014. City staff and the City's Sole Broker of Record conducted a competitive Request for Proposals (RFP) for excess liability and excess workers' compensation programs. The City did not receive 'package' policy proposals, only stand-alone proposals, requiring the City to purchase separate policies for excess liability and excess workers' compensation at a cost greater than the 'package' policy premium.

Of the six (6) global workers' compensation insurance markets approached, Midwest Employers provided the sole proposal. The workers' compensation market conditions for entities with police and fire employees and the City's multiple large workers' compensation losses significantly impacted the response to the RFP. The City had four (4) large workers' compensation losses occur in the five (5) year loss review period considered in the RFP response. The City experienced an additional large workers' compensation claim in FY2015.

The City's claims and premium history for the past ten (10) years and current year is attached. The current Excess Workers' Compensation insurance policy was awarded by the City Council to Midwest Employers Casualty for the period beginning October 1, 2014, and ending September 30, 2015 (FY2015), with the option to renew for three (3) additional years. Workers' Compensation premiums are based on payroll, with a payroll audit conducted at the end of policy term to verify the actual "earned" premium. Audit results could result in additional premiums due or premiums be refunded to the City. The policy provides a \$20,000,000 Specific Loss Limit (per occurrence) with a \$2,500,000 per occurrence/disease self-insured retention. The Specific Loss Limit is not expected to impact the City as the City has not incurred an occurrence loss greater than \$13,000,000.

The policy period beginning October 1, 2016, and ending September 30, 2017, is the second of three renewal options for this policy. The FY2017 renewal premium is \$.3446 per \$100 of payroll, for a projected annual premium of \$188,193. The City's current rate (FY2016) is \$.3346 per \$100 of payroll for a projected annual premium of \$173,528. Policy terms and coverage remain unchanged. The increase in the estimated annual premium is due to a slight premium increase (3%) and an increase in payroll. Nationally, Workers' Compensation insurance rates are constantly rising with the ever increasing cost of medical care and more states moving towards presumption laws for public safety employees. These market conditions are driving rate increases to between 5% and 8% for those without extensive losses.

Midwest provided the sole response to the Request for Proposals for FY2015. The City's prior catastrophic losses remain an underwriting concern for insurance carriers, but continued positive loss experience may provide an opportunity for improved coverage terms in two (2) more years when the City is scheduled to request proposals for FY2019.

When the City requested proposals for Excess Workers' Compensation insurance it was the intent to consider extending the policy for three (3) additional years with direct negotiation of renewal terms and pricing. Firms may bid on the City's insurance policy(ies) with the expectation of a four (4) year commitment, although it is not in the policy nor does the City make such a guarantee. If the City bids each year or does not renew extensions, the City may develop a reputation of an annual contract city, which could result in inflated prices.

Side Note: The City contracts for Sole Broker of Record for its property and casualty programs. The City's Sole Broker of Record is paid on a fee basis by the City— rather than by insurance carrier commissions — to review, market, and negotiate insurance programs on the City's behalf. By using a Sole Broker of Record, the City is independently represented to the property/casualty insurance market worldwide, which maximizes obtaining the most favorable coverage and price for the City of Bryan.

Staff Analysis & Recommendation*

Staff respectfully recommends the City Council approve the second renewal for Excess Workers' Compensation insurance at a premium rate of \$.3446 per \$100 of payroll, a projected annual premium of \$188,193 to Midwest Employers Casualty for the policy period beginning October 1, 2016, and ending September 30, 2017. The policy continues to provide \$20,000,000 Specific Loss limit (per occurrence) with a self-insured retention limit at \$2,500,000 per occurrence/disease. The City's prior catastrophic losses remain an underwriting concern for insurance carriers, but continued positive loss experience may provide an opportunity for improved coverage terms in future years.

The City purchases Excess Workers' Compensation insurance to provide coverage in excess of its self-insured retention for workers' compensation. This insurance reduces the City's financial exposure.

Options*

(In Suggested Order of Staff Preference)

Note: Except for Option #1, options may require consideration at a future City Council meeting. The current policy will expire on October 1, 2016.

1. Approve the second of three renewal options for Excess Workers' Compensation insurance to Midwest Employers Casualty for a premium rate of \$.3446 per \$100 payroll for a projected annual premium of \$188,193 for the policy period beginning October 1, 2016, and ending September 30, 2017. Policy terms and coverage remain unchanged; the rate increases approximately three percent (3%).

2. Do not approve the second of three renewal options for Excess Workers' Compensation insurance and require staff to request proposals for Excess Workers' Compensation insurance. The term of the current policy ends September 30, 2016. Requests for proposals were issued for FY2015 and only one proposal, Midwest Employers Casualty, was received. Rejecting this renewal option could leave the City without excess workers' compensation insurance coverage.

3. Do not approve the renewal and provide direction to staff.

Funding Source*

FY2017 Budget – Self-Insurance Fund

Attachments

Workers' Comp Premium History.docx

17.3KB

Please detail attachments and note attachments available for viewing in City Secretary's Office:

1. Excess Workers' Comp Premium History

Dept. Head Signature



Cynthia Kirk

Deputy City Manager Signature



Hugh R. Walker

City Manager Signature



City Attorney Signature



Janis K. Hampton