

**COUNCIL ACTION FORM**

**SUBJECT:**           **EXCESS WORKER’S COMPENSATION INSURANCE RENEWAL**

**BACKGROUND:**

The City began purchasing Excess Workers' Compensation Insurance coverage brokered by Holmes Murphy on July 1, 2010, to reduce the financial risk of catastrophic self-insured worker's compensation claims. This coverage limits the City's financial exposure for self-insured worker's 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, 2020. MWECC provided a renewal quotation through Holmes Murphy for the same level of coverages, as well as options for the City to increase the per claim self-insured threshold from \$500,000 per claim to \$550,000 or 600,000.

Increasing this threshold would increase the City's potential exposure; however, the premium quotes are lower, since the underwriter takes on less risk. In the time the City has had a relationship with its current broker (10 years), the City has never had a single claim reach the \$500,000 mark. However, a catastrophic incident could conceivably generate one or more individual claims approaching this amount.

Quotes for the three different options were received as follows:

	FY 2019/20 Expiring	FY 2020/21 QUOTES		
		\$500,000 Retention	\$550,000 Retention	\$600,000 Retention
Plan Feature	Self-insured and insured amounts	Self-insured and insured amounts	Self-insured and insured amounts	Self-insured and insured amounts
Per claim self-insured threshold	\$500,000	\$500,000	\$550,000	\$600,000
Aggregate Layer	\$2,000,000	\$2,000,000	\$2,000,000	\$2,000,000
<b>PREMIUM COST</b>	\$104,765	\$115,950	\$111,128	\$105,102

The cost is based on the City's estimated FY 2020/21 payroll. Excess Workers Compensation rates are typically affected by past claims experience and national trends of overall claims experience and medical cost inflation. Increased payroll is responsible for the increase in premium. **In analyzing the options, staff believes the reduced premium costs for taking on a higher self-insured threshold are not sufficient to outweigh the increased risk.**

**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 \$115,950.
2. Select the quote from MWECC with the \$550,000 retention at the premium of \$111,128.
3. Select the quote with the \$600,000 retention through MWECC at the premium of \$105,102.
4. Reject the quotes and direct staff to search for other alternatives.
5. Decline to purchase Excess Workers Compensation Insurance and self-insure 100% of all employee injury claims that are incurred.

**CITY 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 and electric distribution employees. The 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 limit catastrophic injury claims costs for the City of Ames.

Therefore, it is the recommendation of the City Manager that the City Council adopt Alternative No. 1 as described above.