

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 excess coverage, which is provided by Midwest Employers Casualty Company (MWECC), will expire on June 30, 2021. MWECC provided a renewal quotation through Holmes Murphy. 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. Excess Workers Compensation rates are typically affected by past claims experience and national trends of overall claims experience and medical cost inflation.

The City's current policy includes a per-claim threshold of \$500,000. The per-claim threshold is the amount an individual claim must exceed before the excess insurance provides coverage. All individual claims below the per-claim threshold are paid entirely by the City in a self-insured manner.

Holmes Murphy received a quote from the incumbent carrier (MWECC) as well as Safety National.

Safety National required a \$750,000 per-claim threshold on municipal employees and a \$1,000,000 per-claim threshold on Electric, Police and Fire Fighters. Even with these increased thresholds, Safety National's quote was \$150,000.

The incumbent provider, (MWECC), has quoted a premium of \$121,601, which is 4.8% increase over the current coverage. Unfortunately, MWECC has also proposed an increase to the per claim threshold, but only for police, fire, and electric workers. **Because no carrier will write coverage for the existing threshold amounts, the City's only choice is to accept a higher exposure in the event of major police, fire, or electric claims.**

A detailed outline of the current coverage and the quoted coverage from MWECC for next

fiscal year follows below:

	FY 2020/21 Current	FY 2021/22 Quote
Plan Feature	Self-insured and insured amounts	Self-insured and insured amounts
Per claim self- insured threshold	\$500,000	\$500,000
Per claim self-insured threshold for Electric, Police, and Firefighters	\$500,000	\$750,000
Aggregate Layer	\$2,000,000	\$2,000,000
PREMIUM COST	\$115,950	\$121,601

The City’s budget for FY 2021/22 includes \$127,545 in funding for this coverage. The budget and quoted costs are based on the City’s estimated FY 2021/22 payroll. The actual amount billed will be based on reconciliation audits reflecting the City’s actual employment numbers across various employee classifications throughout the year.

ALTERNATIVES:

1. Accept the quote from Holmes Murphy & Associates, for coverage with Midwest Employers Casualty Company (MWECC), at a renewal premium of \$121,601.
2. Reject the quote and direct staff to search for other alternatives.
3. 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.