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DEPARTMENT OF
FINANCE

RISK MANAGEMENT &
INSURANCE DIVISION

CITY OF SACRAMENTO
CALIFORNIA

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WILLIAM REDMOND
MANAGER

June 16, 1992
RM:92040:WR/pc

APPROVED
BY THE CITY COUNCIL

JUN 16 1992

OFFICE OF THE
CITY CLERK

City Council
Sacramento, California

Honorable Members in Session:

SUBJECT: RENEWAL OF THE CITY OF SACRAMENTO'S EXCESS
WORKERS' COMPENSATION AND EMPLOYER'S LIABILITY
INSURANCE COVERAGE

LOCATION/COUNCIL DISTRICT

City-wide.

SUMMARY

This report recommends that the City Council authorize the purchase of \$5,000,000 Excess Workers' Compensation Insurance Policy with a self-insured retention of \$1,000,000.

STAFF RECOMMENDATION

It is recommended that the Council approve the attached resolution authorizing and directing the City Manager to accept the offer of Employers Reinsurance Company to provide the City with a \$5 million excess of \$1 million SIR Workers' Compensation excess insurance policy coverage.

BACKGROUND

Prior to 1953 the City of Sacramento was uninsured for this exposure. From January 1953 through July 1971 the City was fully insured through the State Compensation Insurance Fund, the only underwriter authorized to provide public entities Workers' Compensation coverage in California. Increasing costs of the insured program led into self-insuring this exposure in August of 1971, assuming all losses up to \$100,000 per occurrence, purchasing

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excess insurance coverage limits of \$5 million excess the \$100,000 retention, and contracting for administrative services. In August of 1977, the City elected to become fully self-insured, discounting its excess coverage due to a premium renewal increase of approximately 114%.

Presumption for safety personnel claims increased medical costs, increased benefits, and Workers' Compensation Appeal Board decisions in favor of employees, resulted in spiraling costs which in turn increased premiums and made the excess Workers' Compensation market non-competitive, especially during the period following August 1977 at which point the City decided to self-insure its entire Workers' Compensation exposure. Exhibit I describes the coverage and history of the City's Excess Workers' Compensation coverage for the period 8/1/72 through 6/30/92.

Legislation since 1977 has increased the cost of Workers' Compensation every year. In late 1982 the Governor signed the legislation AB 684, which increased overall self-insured Workers' Compensation costs approximately 31% by 1/1/84.

The Margolin-Bill Green Workers' Compensation Reform Act of 1989 was signed into law by the Governor in September, 1989. It was the culmination of four years of effort by employers, the insurance industry, labor organizations, and a variety of special interest groups to increase benefit levels and improve their delivery to injured workers. Most elements of the bill were effective on January 1, 1990, although some provisions were delayed until January 1, 1991.

Self-insuring the Workers' Compensation exposure has resulted in a savings in excess of approximately \$9.0 million when compared with a fully insured program. The City's loss experience has been one of high frequency (large number of claims) as opposed to severity (high dollar claims).

In view of the accelerating Workers' Compensation benefit costs, and the potential for catastrophic losses; Willis Corroon Insurance Company, Frank B. Hall, and the Robert Driver Insurance Company were requested to secure quotes for the renewal of the Workers' Compensation and Employer's Liability coverage for the period of July 1, 1991 through June 30, 1992. The best premium quoted was through Employers Reinsurance Company at a flat rate of \$57,500.00 for both 1991-92 and 1992-93 budget years. This is an outstanding quote based on the increasing cost of the latest state approved legislation effective January, 1991.

The Risk Management Committee reviewed the subject area and after careful evaluation of the alternatives, recommended the purchase of a \$5 million Excess Workers' Compensation policy with a SIR of \$1 million. This recommendation was based on the renewal quotation for the excellent coverage offered, considering price and level of coverage. The Risk Management Committee is composed of staff from the Personnel, Public Works Community Services, City Attorney's office and Finance departments. With the spiraling

departments. With the spiraling costs of claims, the potential for a catastrophic loss and the City's current financial position, this level of excess insurance is considered necessary at this time.

FINANCIAL DATA

Funding to pay the \$57,500.00 is in the 1992-93 Risk Management Budget.

POLICY CONSIDERATION

This is consistent with the second year renewal for the flat rated three year policy.

MBE/WBE EFFORTS

Every reasonable effort will be made to encourage MBE/WBE participation.

Respectfully submitted,

William Redmond
WILLIAM REDMOND
Risk Manager

Recommendation Approved:

Walter J. Slupe
Walter J. Slupe
City Manager

Approved:

Betty Masuoka
BETTY MASUOKA
Director of Finance

All Districts
June 16, 1992

Contact Person to
Answer Questions:

William Redmond, Risk Manager
264-5556

Attachments

cc: Risk Management Committee
Robert Driver Insurance Co.
Margaret Allen, Workers' Compensation

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CITY OF SACRAMENTO
WORKERS' COMPENSATION
EXCESS COVERAGE AND PREMIUM HISTORY

PERIOD	Limits of Liability	Premiums	Rate/\$100 Payroll
08/01/71-72	\$5 million excess \$100M retention	\$ 12,120	.0376
08/01/72-73	\$5 million excess \$100M retention	13,039	.0376
08/01/73-74	\$5 million excess \$100M retention	16,859	.0376
08/01/74-75	\$10 million excess \$100M retention	22,299	.0511
08/31/75-76	\$10 million excess \$150M retention	31,240	.0710
08/31/76-77	\$5 million excess \$250M retention	56,240	.1121
08/31/77 to 11/04/82	No excess coverage purchased	-0-	-0-
11/04/82-83	\$10 million excess \$1,000M retention	11,150	.018
11/04/83-84	\$10 million excess \$1,000M retention	14,500	.019
11/04/84-85	\$10 million excess \$1,000M retention	15,750	.019
11/04/85-86	\$5 million excess \$1,000M retention	35,976	.038
11/04/86-87	\$5 million excess \$1,000M retention	49,476	.048
11/04/87-88	\$5 million excess \$1,000M retention	70,169	.066
11/04/88 to 07/01/89	\$5 million excess \$1,000M retention (Note period of 8 months)	50,474	.068
07/01/89-90	\$5 million excess \$1,000M retention	58,273	.0453
07/01/90-91	\$5 million excess \$1,000M retention	60,219 *	.0442 **
07/01/91-92	\$5 million excess \$1,000M retention	57,500 *	.0384
07/01/92-93 Proposed	\$5 million excess \$1,000M retention	57,500 *	.0368

* Flat annual premium

**Equivalent rate calculation

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CURRENT INSURANCE QUOTATION COMPARISON

	<u>Quote #1</u> Employers Re:	<u>New Quote #2</u> General Re:	<u>New Quote #3</u> National Union
Re Ins. Co.	Ins. Co.	Ins. Co.	Ins. Co.
Annual Premium	\$57,500.00 *	\$70,350 *	\$109,545 **
Est. Rate/\$100 Payroll	\$.0384 ***	\$.04754 ***	\$.07999 **

* Flat rate quotation. For three years.

** Annual Premium Quote #3 (National Union) is based on estimated 1990/91 payroll of \$136,265,000.

*** Equivalent calculated rate for Employer's Re and General Re is based on 1991/92 payroll of \$149,740,000.

NOTE: All three quotes above were made in June 1991.

RESOLUTION NO. 92-435

ADOPTED BY THE SACRAMENTO CITY COUNCIL

ON DATE OF _____

RESOLUTION AUTHORIZING PURCHASE THROUGH ROBERT DRIVER INSURANCE COMPANY EXCESS WORKERS' COMPENSATION AND EMPLOYER'S LIABILITY INSURANCE COVERAGE FOR THE CITY OF SACRAMENTO

BE IT RESOLVED BY THE COUNCIL OF THE CITY OF SACRAMENTO:

1. That the City Manager is hereby authorized and directed to obtain from Robert Driver Insurance Company, Excess Workers' Compensation coverage of \$5 million excess of \$1 million SIR, from Employers Reinsurance Company, for the period 7/1/92 through 6/30/93 with a premium of \$57,500.00; and
2. That the Department of Finance is authorized and directed to pay the premium for said coverage from the Risk Management & Insurance Program Budget 4-21-110-1152-4295.

MAYOR

ATTEST:

CITY CLERK

APPROVED
BY THE CITY COUNCIL

JUN 16 1992

OFFICE OF THE
CITY CLERK

FOR CITY CLERK USE ONLY

RESOLUTION NO.: _____

DATE ADOPTED: _____

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