



CITY OF SACRAMENTO

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DEPARTMENT OF GENERAL SERVICES

Risk Management & Insurance Division

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Suite 4 Telephone (916) 449-5556

October 21, 1982

City Council
Sacramento, California

APPROVED
BY THE CITY COUNCIL

Honorable Members in Session:

NOV - 3 1982

SUBJECT: EXCESS WORKERS' COMPENSATION AND EMPLOYERS' LIABILITY COVERAGE

OFFICE OF THE
CITY CLERK

SUMMARY

This report recommends that the City Council approve the attached Resolution authorizing the purchase of \$10,000,000 Excess Workers' Compensation Insurance policy with a self-insured retention of \$1,000,000 for an annual premium of \$11,150.

BACKGROUND INFORMATION

Prior to 1953 the City of Sacramento was uninsured for this exposure. From January 1953 thru 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 excess insurance coverage limits of \$5 million excess the \$100,000 retention, and contracting for administrative services. In August of 1977, City elected to become fully self-insured, discontinuing 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 thru 8/31/77.

Legislation since 1977 has increased the cost of Workers' Compensation every year. Recently the Governor signed the latest legislation AB 684, which is expected to increase overall self-insured Workers' Compensation costs approximately 31% by 1/1/84.

Self-insuring this exposure has resulted in a savings in excess of approximately \$7.4 million when compared with a fully insured program. The City's loss experience has been one of frequency (large number of claims) as opposed to severity (high

dollar claims). The only claim experienced by the City of Sacramento over \$1 million dates back to 1967 which was covered by the State Compensation Insurance Fund.

In view of the accelerating Workers' Compensation benefit costs, the potential for catastrophic losses, and the soft insurance market, the City's broker, Corroon & Black/James Burpo Insurance, was requested to test the excess Workers' Compensation market.

Exhibit II provides quotations for excess Workers' Compensation at levels of \$1 million, \$5 million and \$10 million, with self-insured retentions of \$250,000, \$500,000, and \$1,000,000.

ALTERNATIVES

There are three alternatives for treating the Workers' Compensation exposure: 1) obtain excess insurance coverage and retain a level of SIR; 2) continue to self-insure the entire exposure; or 3) become fully insured.

DISCUSSION


The Risk Management and Insurance Committee met on October 15, 1982, and after careful evaluation of the alternatives, recommended the purchase of a \$10,000,000 Excess Workers' Compensation policy with a SIR of \$1,000,000. This recommendation was based on: 1) the City's Risk Management Consultant's recommendation; and 2) the extremely favorable quotation for the excellent coverage offered. 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.

FUNDING

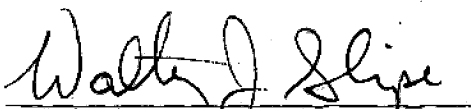
The FY 82-83 Risk Management Program budget provides funding for this coverage.

RECOMMENDATION

It is requested that the Council approve the attached resolution authorizing and directing the City Manager to accept the offer of Twin City Fire Insurance Company to provide the City with a \$10 million excess of \$1 million SIR Workers' Compensation excess insurance policy coverage.

Respectfully submitted,

William Redmond
Risk Manager

RECOMMENDATION APPROVED:


Walter J. Slive, City Manager

November 3, 1982
All Districts

Attachment

cc: Risk Management Committee
Corroon & Black/James Burpo

John Ford, Workers' Compensation
Warren, McVeigh & Griffin

EXHIBIT I

WORKERS' COMPENSATION
EXCESS COVERAGE AND PREMIUM HISTORY

<u>Period</u>	<u>Limit of Liability</u>	<u>Premiums</u>	<u>Rate/\$100 Payroll</u>
8/1/71-72	\$5 million excess \$100M retention	\$12,120	.0376
8/1/72-73	\$5 million excess \$100M retention	13,039	.0376
8/1/73-74	\$5 million excess \$100M retention	16,859	.0376
8/1/74-75	\$10 million excess \$100M retention	22,299	.0511
8/31/75-76	\$10 million excess \$150M retention	31,240	.0710
8/31/76-77	\$5 million excess \$250M retention	56,240	.1121

The renewal quotations for FY 77-78, \$5 million excess of retention level are summarized below —

<u>Retention</u>	<u>Estimated Premium</u>	<u>Rate/\$100 Payroll</u>	<u>% Increase (Decrease) over Current Rate</u>
\$ 250,000	\$127,532	.2397	114%
500,000	89,277	.1678	50%
1,000,000	55,505	.1043	(7%)

EXCESS WORKERS' COMPENSATION QUOTES
 BASED ON ESTIMATED PAYROLL \$72,000,000

	<u>\$250,000</u>		<u>\$500,000</u>		<u>\$1,000,000</u>	
	<u>Rate/\$100 Payroll</u>	<u>Estimated Annual Premium</u>	<u>Rate/\$100 Payroll</u>	<u>Estimated Annual Premium</u>	<u>Rate/\$100 Payroll</u>	<u>Estimated Annual Premium</u>
<u>\$1,000,000</u>						
<u>Excess Insurance</u>						
Twin City Fire Insurance	.0292	\$21,000	.0153	\$11,000	.0109	\$ 7,850
Employers Reinsurance	.0549	39,500	.0328	23,600	.0208	15,000
American Home Insurance	.0750	54,000	.0556	40,000	.0431	31,000
<u>\$5,000,000</u>						
<u>Excess Insurance</u>						
Twin City Fire Insurance	.0313	\$22,550	.0174	\$12,550	.0131	\$ 9,400
Employers Reinsurance	.0604	43,500	.0369	26,600	.0250	18,000
American Home Insurance	.0889	64,000	.0694	50,000	.0569	41,000
<u>\$10,000,000</u>						
<u>Excess Insurance</u>						
Twin City Fire Insurance	.0338	\$24,300	.0199	\$14,300	.0155	\$11,150*
Employers Reinsurance	.0632	45,500	.0397	28,600	.0292	21,000
American Home Insurance	.0941	67,750	.0747	53,750	.0622	44,750

*Recommended quote

RESOLUTION NO. 82-772

ADOPTED BY THE SACRAMENTO CITY COUNCIL ON DATE OF

RESOLUTION AUTHORIZING EXECUTION OF AN AGREEMENT WITH CORROON & BLACK/JAMES BURPO INSURANCE SERVICES FOR CITY'S EXCESS WORKERS' COMPENSATION AND EMPLOYER'S LIABILITY EXPOSURE

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

1. That the City Manager is hereby authorized and directed to obtain from Corroon & Black/James Burpo Insurance Services, through Derek Ware Insurance Brokers, Excess Workers' Compensation coverage of \$10 million excess of \$1 million SIR, from Twin City Insurance Company, for the period 11/2/82 through 11/2/83 with a premium of \$11,150; 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 4-21-1452-0000-4291.

MAYOR

ATTEST:

CITY CLERK

APPROVED
BY THE CITY COUNCIL

NOV - 3 1982

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CITY CLERK