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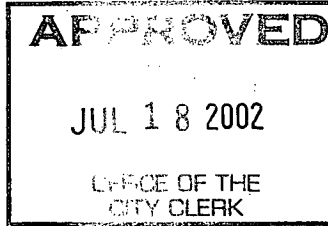
DEPARTMENT OF
ADMINISTRATIVE SERVICES
RISK MANAGEMENT DIVISION

CITY OF SACRAMENTO
CALIFORNIA

921 TENTH STREET
ROOM 700
SACRAMENTO, CA
95814-2713

July 8, 2002

City Council
Sacramento, California



PH 916-264-5278
FAX 916-264-5160

Honorable Members in Session:

**SUBJECT: RENEWAL OF EXCESS WORKERS' COMPENSATION
AND EMPLOYERS' LIABILITY INSURANCE COVERAGE**

LOCATION/COUNCIL DISTRICT: City.

STAFF RECOMMENDATION:

It is recommended that the City Council adopt the attached resolution authorizing the City Manager to secure excess workers' compensation insurance for 2002-2003 through our broker Driver Alliant Insurance Services.

CONTACT PERSON:

Margaret Ann Allen, Risk Manager, 264-5823

FOR COUNCIL MEETING OF:

July 18, 2002

SUMMARY:

On June 25, 2002 Council was advised that we had not received a renewal quote for excess workers' compensation. This was due to the extremely difficult insurance market worldwide. Our broker has identified a carrier willing to write this coverage for the City and this report recommends that the City Council authorize purchase of an Excess Workers' Compensation Insurance and Employers' Liability Policy with Statutory Limits and a Self-Insured Retention (SIR) of \$2,000,000.

COMMITTEE/COMMISSION ACTION: None.

BACKGROUND INFORMATION:

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 with Workers' Compensation coverage in California. Increasing costs of this insured program led the City into self-insuring this exposure in August of 1971. At that time our SIR was \$100,000 per occurrence, and we purchased excess insurance coverage with limits of \$5 million. We contracted with a third party administrator for comprehensive workers' compensation program 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%.

Presumptive clauses in the Labor Code for safety personnel, increased medical costs, increased benefit rates, and liberal Workers' Compensation Appeals Board decisions in favor of employees, resulted in skyrocketing workers' compensation costs. These factors collectively created an increase in premiums and made the Excess Workers' Compensation Insurance market non-competitive.

During the period following August 1977 the City decided to self-insure its entire Workers' Compensation exposure, until November 1982 when the market softened, and the City was able to purchase affordable insurance. **Exhibit I** describes the coverage history of the City's Excess Workers' Compensation program from inception to date.

The excess workers' compensation insurance marketplace continues to undergo deterioration. Our prior carrier, Employer's Reinsurance Corporation agreed to renew, with a \$2 Million SIR and a 724% rate increase. Midwest Casualty also bid with equal coverages, with a rate increase of 350%. **Exhibit II** outlines our current and proposed coverages.

FINANCIAL CONSIDERATIONS:

Funding to pay the \$396,067 premium to Midwest Casualty is in the 2002-2003 Risk Management Budget.

ENVIRONMENTAL CONSIDERATIONS:

The subject of this report does not involve a project that requires compliance with the California Environmental Quality Act (CEQA), inasmuch as it does not involve an activity that may cause a direct or indirect change in the environment (Public Resources Code Section 21065).

POLICY CONSIDERATIONS:

Acquisition of this insurance is consistent with the City's policy to purchase protection for the City against catastrophic losses.


ESBD CONSIDERATIONS:

Driver Alliant Insurance Services is committed to include small business partners in servicing the City of Sacramento account. Our insurance companies are multi-national companies owned by stockholders, and/or other insurance companies

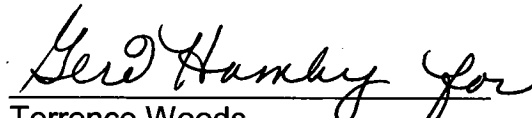
Respectfully submitted,


Margaret Ann Allen
Risk Manager

APPROVED:


Robert P. Thomas
City Manager

CONCURRENCE:


Terrence Woods
Director of Human Resources

**CITY OF SACRAMENTO WORKERS' COMPENSATION
EXCESS COVERAGE AND PREMIUM HISTORY**

PERIOD	LIMITS \$	SIR \$	PREMIUMS \$	RATE/\$100 PAYROLL
08/01/71-72	5 Million	100 Thousand	12,120	.0376
08/01/72-73	5 Million	100 Thousand	13,039	.0376
08/01/73-74	5 Million	100 Thousand	16,859	.0376
08/01/74-75	10 Million	100 Thousand	22,299	.0511
08/31/75-76	10 Million	150 Thousand	31,240	.0710
08/31/76-77	5 Million	250 Thousand	56,240	.1121
08/31/77-11/04/82	0	0	0	0
11/04/82-83	10 Million	1 Million	11,150	.018
11/04/83-84	10 Million	1 Million	14,500	.019
11/04/84-85	10 Million	1 Million	15,750	.019
11/04/85-86	5 Million	1 Million	35,976	.038
11/04/86-87	5 Million	1 Million	49,476	.048
11/04/87-88	5 Million	1 Million	70,169	.066
11/04/88-07/01/89	5 Million	1 Million	50,474	.068
07/01/89-90	5 Million	1 Million	58,273	.0453
07/01/90-91	5 Million	1 Million	60,219	.0442
07/01/91-92	5 Million	1 Million	57,500	.0384
07/01/92-93	5 Million	1 Million	57,500	.0368
07/01/93-94 Cancelled 05-94	5 Million	1 Million	53,500	.0374
05/01/94-95	5 Million	1 Million	41,466	.0282
05/01/95-96	STATUTORY	1 Million	39,437	.0275
05/01/96-97	STATUTORY	1 Million	36,723	.0262
05/01/97-98	STATUTORY	1 Million	31,444	.0249
05/01/98-06/30/98	STATUTORY	1 Million	4,114	.0150

**CITY OF SACRAMENTO WORKERS' COMPENSATION
EXCESS COVERAGE AND PREMIUM HISTORY**

PERIOD	LIMITS \$	SIR \$	PREMIUMS \$	RATE/\$100 PAYROLL
06/30/98-05/01/99	STATUTORY	500 Thousand	52,590	.0383
05/01/99-00	STATUTORY	500 Thousand	67,576	.0409
05/01/00-09/05/00 Cancelled	STATUTORY	500 Thousand	90,575	.0512
09/06/00-07/01/01	STATUTORY	1 Million	117,000	.0661
07/01/01-02	STATUTORY	1 Million	112,931	.0617
07/01/02-03	STATUTORY	2 Million	396,460	.1999

driver alliant INSURANCE SERVICES

EXCESS WORKERS' COMPENSATION COVERAGE
 July 1, 2002 to July 1, 2003
 INSURANCE PROPOSAL
 FOR
 CITY OF SACRAMENTO

INSURANCE COMPANY	EXPIRING – <i>Employers Reinsurance</i>	PROPOSED – <i>Employers Reinsurance</i>	PROPOSED – <i>Midwest Casualty</i>
BEST'S GUIDE RATING:	A++, Superior, Financial Size Category- XV (\$2,000,000,000 or more)	A++, Superior, Financial Size Category- XV (\$2,000,000,000 or more)	A, Excellent, Financial Size Category - X (\$500,000,000 to \$750,000,000)
STANDARD & POORS RATING:	AAA, Extremely Strong	AAA, Extremely Strong	Not Rated
CALIFORNIA STATUS:	Admitted	Admitted	Admitted
POLICY TERM:	July 1, 2001 to July 1, 2002	July 1, 2002 to July 1, 2003	July 1, 2002 to July 1, 2003
COVERAGE:	Excess Workers' Compensation and Employers' Liability coverage.	Excess Workers' Compensation and Employers' Liability coverage.	Excess Workers' Compensation and Employers' Liability coverage.
LIMITS:	Statutory - Workers' Compensation Each Accident \$ 5,000,000 - Employers' Liability Limit Each Accident	\$25,000,000 - Workers' Compensation Each Accident \$ 5,000,000 - Employers' Liability Limit Each Accident	Statutory - Workers' Compensation Each Accident \$2,000,000 - Employers' Liability Limit Each Accident
ESTIMATE ANNUAL PAYROLL:	\$ 182,953,252.	\$ 198,785,311 (Includes \$7,500 for each volunteer).	\$ 198,132,811
CONDITIONS AND EXCLUSIONS:	<ul style="list-style-type: none"> • Epidemic Disease – Included with single SIR • Federal Acts - Included • Voluntary Compensation – Coverage included for payments gratuitously made to officers and employees not subject to workers compensation law • Employee Practices Liability - Excluded • Unintentional Failure to Report – No penalty imposed. 	<ul style="list-style-type: none"> • Epidemic Disease – Included with single SIR • Federal Acts - Included • Voluntary Compensation – Coverage included for payments gratuitously made to officers and employees not subject to workers compensation law • Employee Practices Liability - Excluded • Unintentional Failure to Report – No penalty imposed. 	<ul style="list-style-type: none"> • Foreign Endemic Disease – Coverage included for endemic disease where exposure occurred outside the United States • Federal Acts covered if scheduled • Voluntary Compensation – Coverage included for payments gratuitously made to officers and employees not subject to workers compensation law • Employee Practices Liability - Excluded • Late Reporting Penalty – 15% if longer than 1 year 40% of longer than 3 years

NOTE: THIS PROPOSAL IS FOR INFORMATIONAL PURPOSES ONLY AND DOES NOT AMEND, EXTEND OR ALTER THE POLICY IN ANY WAY. PLEASE REFER TO THE POLICY FORM FOR COMPLETE COVERAGE AND EXCLUSION INFORMATION.

Driver Alliant Insurance Services, Inc.
 An Alliant Resources Group company
 4041 MacArthur Blvd. Suite 300, Newport Beach CA 92660-2511 ♦ 949-756-0271
 Lic #0C36861 ♦ www.driveralliant.com

driver•alliant INSURANCE SERVICES

EXCESS WORKERS' COMPENSATION COVERAGE

July 1, 2002 to July 1, 2003

INSURANCE PROPOSAL

FOR

CITY OF SACRAMENTO

INSURANCE COMPANY	EXPIRING – <i>Employers Reinsurance</i>	PROPOSED – <i>Employers Reinsurance</i>	PROPOSED – <i>Midwest Casualty</i>
	<ul style="list-style-type: none"> Waiver of Subrogation - Included 90 Day Notice of Cancellation No Payroll Assigned to Volunteers Broad Form All States - Included No Aircraft Exclusion Expenses Included in within the SIR 	<ul style="list-style-type: none"> Waiver of Subrogation - Included 90 Day Notice of Cancellation \$7,500 Payroll Assigned to Volunteers Broad Form All States - Included No Aircraft Exclusion Expenses Included in within the SIR 	<ul style="list-style-type: none"> Waiver of Subrogation – Not Automatically Included 30 Day Notice of Cancellation No payroll assigned to volunteers All States Covered for employees temporarily in other states Aircraft exposures must be scheduled in advance Expenses Included within the SIR Limited Repatriation Expenses – Coverage included for transportation expenses of an employee if injured while an employee travels outside the United States Signed MECC Application must be received prior to policy issuance. Must be notified of any aircraft changes occurring during the policy period
CONDITIONS TO BIND COVERAGE:			

Expiring Premium

Self Insured Retention - \$1,000,000 – All Employees with Cash Flow Endorsement

ESTIMATED ANNUAL AND DEPOSIT PREMIUM:	Annual Premium: \$112,931	Quote Pending	Not Offered
MINIMUM ANNUAL PREMIUM:	Minimum Premium: \$101,635		
RATE PER \$100 PAYROLL:	Rate Per \$100 of Payroll: \$.0617		
CASH FLOW ENDORSEMENT:	\$200,000 First Period		
	\$175,000 Second Period		
	\$150,000 Third Period		
	\$125,000 Each Subsequent Period		

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EXCESS WORKERS' COMPENSATION COVERAGE

July 1, 2002 to July 1, 2003

INSURANCE PROPOSAL

FOR

CITY OF SACRAMENTO

INSURANCE COMPANY	EXPIRING – <i>Employers Reinsurance</i>	PROPOSED – <i>Employers Reinsurance</i>	PROPOSED – <i>Midwest Casualty</i>
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OPTION 1

Self-Insured Retention - \$750,000 -All Employees without Cash Flow

ESTIMATED ANNUAL AND DEPOSIT PREMIUM:		Not Offered	\$1,170,371 (Statutory Limits)
MINIMUM ANNUAL PREMIUM:			\$1,053,371
RATE PER PAYROLL:			.5907

OPTION 2

Self-Insured Retention - \$1,000,000 -All Employees without Cash Flow

ESTIMATED ANNUAL AND DEPOSIT PREMIUM:		\$1,282,578	\$849,197 (Statutory Limits)
MINIMUM ANNUAL PREMIUM:		\$1,154,320	\$764,277
RATE PER PAYROLL:		.6473	.4286

OPTION 3

Self-Insured Retention - \$1,500,000 All Employees

ESTIMATED ANNUAL AND DEPOSIT PREMIUM:	Not Applicable	\$1,034,398	Not offered
MINIMUM ANNUAL PREMIUM:		\$ 930,950	
RATE PER PAYROLL:		.5221	

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EXCESS WORKERS' COMPENSATION COVERAGE
 July 1, 2002 to July 1, 2003
 INSURANCE PROPOSAL
 FOR
 CITY OF SACRAMENTO

INSURANCE COMPANY	EXPIRING – <i>Employers Reinsurance</i>	PROPOSED – <i>Employers Reinsurance</i>	PROPOSED – <i>Midwest Casualty</i>
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OPTION 4

Self Insured Retention - \$2,000,000 All Employees

ESTIMATED ANNUAL AND DEPOSIT PREMIUM:	Not Applicable	\$828,965	\$396,067 (Statutory Limits)
MINIMUM ANNUAL PREMIUM:		\$746,000	\$356,460
RATE PER PAYROLL:		.4184	.1999

Marketing Information:

Safety National:

Declined to quote due to California Cost of Living Adjustment Expense legislation that takes effect 1/1/2003.

Hartford Specialty Insurance:

Declined to quote due to unfamiliar Third Party Administrator

CNA Insurance Companies

Declined to quote due to perceived terrorism exposure

Insurance Corporation of Hannover

Declined to quote due to police and/or fire exposures.

Munich American Reinsurance/CPEIA

Offering Maximum limits \$30,000,000 to \$50,000,000 on any risk; quotation pending. No 4850 coverage for police & fire personnel

Hartford Alternative Risk

Writing only pooled risks.

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APPROVED

JUL 18 2002

OFFICE OF THE
CITY CLERK

RESOLUTION NO. 2002-484

ADOPTED BY THE SACRAMENTO CITY COUNCIL

ON DATE OF _____

**RESOLUTION AUTHORIZING PURCHASE THROUGH DRIVER ALLIANT
INSURANCE SERVICES 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 to obtain from Driver Alliant Insurance Services, Excess Workers' Compensation and Employer's Liability coverage with Statutory limits excess of \$2,000,000 SIR, from Midwest Casualty, for the period 7/1/02 through 7/1/03 with a premium of \$396,067; and
2. That the Department of Human Resources is authorized to pay the premium for said coverage from the Risk Management & Insurance Program Budget 423-150-1546-4295.

MAYOR

ATTEST:

CITY CLERK

FOR CITY CLERK USE ONLY

RESOLUTION NO.: _____ 4 _____

DATE ADOPTED: _____