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DEPARTMENT OF
FINANCE

RISK MANAGEMENT &
INSURANCE DIVISION

CITY OF SACRAMENTO
CALIFORNIA

June 27, 1989
RM: 89042MM:WR/eb

APPROVED
BY THE CITY COUNCIL

JUN 27 1989

OFFICE OF THE
CITY CLERK

CITY HALL
ROOM 14
915 I STREET
SACRAMENTO, CA
95814-2685

916-449-5556

WILLIAM REDMOND
MANAGER

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 FOR PERIOD ENDING JUNE 30, 1990

SUMMARY

This report recommends that the City Council approve the attached Resolution authorizing the purchase of \$5,000,000 Excess Workers' Compensation Insurance policy with a self-insured retention of \$1,000,000 for an annual premium rate of \$.0453 per \$100 payroll. This is a reduction of 33% from \$.068 paid for the previous policy year.

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 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, 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 6/30/89.

Legislation since 1977 has increased the cost of Workers' Compensation every year. In late 1982 the Governor signed the most recent legislation AB 684, which increased 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 \$8.0 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). 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, and the potential for catastrophic losses; Corroon & Black/James Burpo Insurance and the Robert Driver Insurance Company, were requested to secure a quote for the renewal of the Workers' Compensation and Employer's Liability coverage for the period of July 1, 1989, through June 30, 1990, the rates quoted are shown on Exhibit II. The best rate quoted was made by Employers Reinsurance Company at \$.0453 per \$100 payroll.

ALTERNATIVES

There are two alternatives for treating the Workers' Compensation exposure: 1) obtain excess insurance coverage and retain a level of SIR; or 2) self-insure the entire exposure.

DISCUSSION

The Risk Management and Insurance 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. 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 total estimated premium is \$56,593 and covers the period from July 1, 1989, through June 30, 1990. The proposed budget provides sufficient funding for renewal of the excess workers' compensation policy.

RECOMMENDATION

It is requested that the Council approve the attached resolution authorizing and directing the City Manager to accept the offer of

City Council

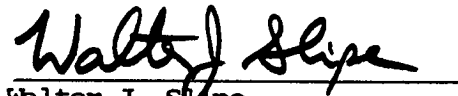
June 27, 1989

Employers Reinsurance Company to provide the City with a \$5 million excess of \$1 million SIR Workers' Compensation excess insurance policy coverage.

Respectfully submitted,


William Redmond
Risk Manager

RECOMMENDATION APPROVED:


Walter J. Slupe
City Manager

June 27, 1989
All Districts

Attachments

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

06/16/89 RM:DIV1H:L:89042L

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	32,500	.038
11/04/86-87	\$5 million excess \$1,000M retention	49,476	.048
11/04/87-88	\$5 million excess \$1,000M retention	62,500	.062
11/04/88 to 07/01/89	\$5 million excess \$1,000M retention	50,474	.068

EXHIBIT I
APPROVED
 BY THE CITY COUNCIL
 JUN 27 1989
 OFFICE OF THE
 CITY CLERK

CITY OF SACRAMENTO
 WORKERS' COMPENSATION
 EXCESS COVERAGE AND PREMIUM HISTORY

EXHIBIT II

CURRENT INSURANCE QUOTATION COMPARISON

APPROVED
BY THE CITY COUNCIL

JUN 27 1989

OFFICE OF THE
CITY CLERK

	Present Insurers <u>Proposal</u>	<u>New Quote #1</u>	<u>New Quote #2</u>
	GENERAL RE INS. CO.	EMPLOYERS RE INS. CO.	NATIONAL UNION INS. CO.
ANNUAL PREMIUM:	\$84,121*	\$56,593**	\$65,650
RATE/\$100 PAYROLL	\$.068*	\$.0453**	\$0525

* On June 7, 1989, Corroon & Black/James Burpo telephoned an updated quote from General Re at a lower rate. The new rate was \$.050/\$100 payroll or \$62,473.

** The recommended quotation is \$.0453 or \$56,593 from Employers Reinsurance Co. based on an estimated payroll of \$123,708,000.

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RESOLUTION NO. 89-511

APPROVED
BY THE CITY COUNCIL

ADOPTED BY THE SACRAMENTO CITY COUNCIL

JUN 27 1989

ON DATE OF _____

OFFICE OF THE
CITY CLERK

**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 7/1/89 through 6/30/90 with a premium of \$56,593; 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

FOR CITY CLERK USE ONLY

RESOLUTION NO.: _____

DATE ADOPTED: _____

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