



City Council Report

Date: November 20, 2017
To: City Council
Through: John Pombier – Assistant City Manager
From: Gary Manning – Human Resources Director
Nitra Hawkins – Safety / Workers' Compensation Administrator

SUBJECT: 2017/2018 Workers' Compensation Excess Insurance and Self-Insurance Surety Bond

PURPOSE AND RECOMMENDATION

The purpose of this report is to seek approval for the purchase of excess workers' compensation insurance coverage and a workers' compensation self-insurance surety bond. The renewal date for the excess workers' compensation insurance coverage is December 01, 2017. The renewal date for the workers' compensation self-insurance surety bond is January 01, 2018.

This year's recommended insurance and surety bond purchases are:

- Workers' Compensation Excess Policy – \$321,218 insurance premium.
- Surety Bond Rate – \$5.50 per every \$1000 dollars of unpaid losses/liabilities.

BACKGROUND

The Workers' Compensation Trust fund was created on June 21, 1982, pursuant to the City of Mesa Resolution Number 5076. The Workers' Compensation Trust is funded through the General Fund. From the Workers' Compensation Trust fund, the City pays for industrial injury and illness workers' compensation claims (medical expenses and lost wages); legal costs, self-insurance surety bond premiums, special and administrative taxes and excess workers' compensation insurance premiums.

EXCESS WORKERS' COMPENSATION INSURANCE

The City of Mesa is required by the Arizona Administrative Code to purchase an excess workers' compensation insurance policy. The excess workers' compensation insurance coverage shields the City against excessive financial loss in the event that an employee suffers a catastrophic work-related injury or illness. The City currently has a self-insured retention (SIR) of \$1 million per accident/injury/illness.

For each compensable industrial injury or illness (workers' compensation claim), Mesa is responsible for payment up to \$1 Million dollars. The City's excess workers' compensation insurance carrier will reimburse the City for industrial injury/illness workers' compensation claim costs exceeding the \$1 Million dollars. Below is a chart showing the history of the excess workers' compensation insurance premiums for the City of Mesa.

EXCESS WORKERS' COMPENSATION INSURANCE: 2010 – 2017		
Coverage Period	Self-Insured Retention (SIR)	Premium
FY 10/11	\$1 M	\$194,401
FY 11/12	\$1 M	\$235,825
FY 12/13	\$1 M	\$266,104
FY 13/14	\$1 M	\$300,290
FY 14/15	\$1 M	\$314,582
FY 15/16	\$1 M	\$320,386
FY 16/17	\$1 M	\$320,375
Recommended FY 17/18	\$1 M	\$321,218

Mesa's broker received one (1) bid quote, from the current incumbent, Safety National Casualty Corporation, to provide excess workers' compensation insurance coverage. It should be noted that two (2) additional insurance carriers, Arch Insurance Company and Travelers, responded to the proposal request. Arch Insurance Company and Travelers declined to quote stating they could not compete with the current incumbent's pricing.

Recommendation:

- Purchase an Excess Workers' Compensation Insurance Policy from the current incumbent, Safety National Casualty Corporation, with a self-insured retention (SIR) of \$1 Million per accident/injury/illness policy limit.

Workers' compensation excess insurance premiums are primarily determined by the national insurance market. The workers' compensation claims history of the City of Mesa is an additional factor in determining premium costs. Based on the current insurance market, the City's claims history, and a \$1 Million SIR limit, if Council accepts this recommendation, the City of Mesa's excess insurance premium cost for this coverage is \$321,218; a premium cost increase of \$843.

WORKERS' COMPENSATION SELF – INSURANCE SURETY BOND

The City of Mesa is authorized under Arizona Revised Statutes, Section 23-961, Article 2, the authority to act as a self-insurer for the payment of workers' compensation benefits by the Industrial Commission of Arizona. To retain self-insurance authority, the City must provide a security deposit based on the total unpaid losses of open compensable workers' compensation claims. The City currently provides the required securities through the purchase of a surety bond. The surety bond provides a guarantee to the Industrial Commission of Arizona that the City of Mesa will meet its fiduciary obligations related to current and future workers' compensation costs as a self-insured municipality.

The City of Mesa's broker has secured a discounted bond rate of \$5.50 per every \$1000 dollars of total unpaid losses/liabilities, with the current incumbent, Travelers Casualty & Surety Co. of America.

Recommendation:

- Purchase the Workers' Compensation Self-Insurance Surety Bond through Travelers Casualty and Surety Co. of America for the rate of \$5.50 per every \$1,000 dollars of unpaid losses/liabilities.

The 2018 bond premium will be based on the total unpaid losses/liabilities of open compensable workers' compensation claims calculated on the Workers' Compensation Liability form filed with the Industrial Commission of Arizona on December 01, 2017. The surety bond amount for 2017 was \$23,066,986; which cost the City of Mesa \$138,402 to purchase.

FISCAL IMPACT OF INSURANCE PURCHASED

Workers' Compensation Excess Insurance / Self – Insurance Surety Bond

If Council accepts staff recommendations for the excess workers' compensation coverage line, the overall premium cost for excess insurance for the 2017/2018 will be \$321,218; a premium cost increase of \$843. The self-insurance surety bond premium will be calculated utilizing the discount rate of \$5.50 per every \$1000 dollars of unpaid losses/liabilities.