



City Council Report

Date: November 04, 2019
To: City Council
Through: John Pombier – Assistant City Manager
From: Teri Overbey-Brown – Interim Human Resources Director
Nitra Hawkins – Safety Administrator

SUBJECT: FY19/20 Excess Workers' Compensation 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, 2019. The renewal date for the workers' compensation self-insurance surety bond is January 01, 2020.

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

- Excess Workers' Compensation Insurance Policy – \$311,609 insurance premium.
- Surety Bond Rate – \$6.00 per every \$1,000 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 and other funds. From the Workers' Compensation Trust fund, the City pays for workers' compensation claims (medical expenses and lost wages) for employees who are injured arising out of and in the course of employment; 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), the City of Mesa is responsible for payment up to \$1 million dollars. The City's excess workers' compensation insurance carrier will reimburse the City for workers' compensation claim costs exceeding the \$1 million dollars.

The City of Mesa's Insurance Broker received a competitive 2-year insurance policy quote from current incumbent, Safety National Casualty Corporation, which was approved by the City Council in November of 2018. As a reminder, the City of Mesa's Insurance Broker received competitive bids from New York Marine and General Insurance Company to provide excess workers' compensation insurance coverage. Arch Insurance Company, CHUBB Limited and US Specialty Underwriter (USSU)/State National excess insurance carriers also responded to the solicitation request, but the insurance quotes were not competitive. Based on the previously approved 2-year excess insurance policy, the City of Mesa's premium cost for excess insurance coverage is \$311,609; *the same rate as FY 18/19 and a premium cost decrease of \$9,609 from FY 17/18.*

Recommendation:

- Purchase the second (2nd) and final policy renewal for Excess Workers' Compensation Insurance from current incumbent, Safety National Casualty Corporation, with a self-insured retention (SIR) of \$1 million per accident/injury/illness policy limit for \$311,609.

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 of Mesa 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 Insurance Broker has secured a bond rate of \$6.00 per every \$1,000 dollars of total unpaid losses/liabilities.

Recommendation:

- Purchase the Workers' Compensation Self-Insurance Surety Bond through Travelers Casualty and Surety Co. of America for the bond rate of \$6.00 per every \$1,000 dollars of unpaid losses/ liabilities.

The 2020 surety 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 02, 2019. The City's total unpaid losses/ liabilities for January 01, 2019 was \$22,545,570.58; which cost the City \$124,001 to purchase a surety bond.

FISCAL IMPACT OF INSURANCE PURCHASED

Excess Workers' Compensation Insurance / Self-Insurance Surety Bond

If City Council accepts and approves staff's recommendations: 1) The overall premium cost for excess workers' compensation insurance coverage for the FY 19/20 will be \$311,609; *the same rate as FY 18/19 and a premium cost decrease of \$9,609 from FY 17/18*; and 2) The self-insurance surety bond premium will be calculated utilizing the bond rate of \$6.00 per every \$1,000 dollars of unpaid losses/liabilities from the Workers' Compensation Liability form filed with the Industrial Commission of Arizona on December 02, 2019.