



City Council Report

Date: December 1, 2022
To: City Council
Through: Christopher J. Brady – City Manager
Teri Overbey-Brown – Human Resources Director
From: Nitra Hawkins – Safety Administrator

SUBJECT: FY 22/23 Excess Workers' Compensation Insurance and Self-Insurance Surety Bond Purchase

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, 2022*. The renewal date for the workers' compensation self-insurance surety bond is *January 01, 2023*.

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

- Excess Workers' Compensation Insurance Policy – \$550,000 insurance premium.
- Surety Bond Rate – \$12.00 per every \$1,000 dollars of unpaid losses/liabilities.

BACKGROUND

The City of Mesa is authorized under Arizona Revised Statutes, Section 23-961, Article 2, the authority to establish a self-insurance program for the management and administration of workers' compensation benefits by the Industrial Commission of Arizona. The Workers' Compensation Trust fund was established pursuant to the City of Mesa Resolution Number 5076 for this self-insurance program. The Workers' Compensation trust is funded by allocations from the general, enterprise, special revenue funds and investment earnings. From the Workers' Compensation Trust fund, the City pays for workers' compensation claims related expenses which include, medical treatment expenses and lost wages, for employees who are injured during the course and scope of their employment, legal costs, excess workers' compensation insurance premiums, surety bond premiums, and state special and administrative taxes.

DISCUSSION – EXCESS WORKERS’ COMPENSATION INSURANCE

The City of Mesa, as a self-insured municipality, is required by the Arizona Administrative Code, R20-5-1109, to purchase excess workers’ compensation insurance. 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 of Mesa currently has a self-insured retention (SIR) of \$1.25 million per Accident/Injury/Illness and an SIR of \$2 million per statutory Presumptive Illness.

For each compensable workers’ compensation claim (industrial injury or illness), the City of Mesa is responsible for payment up to \$1.25 million and \$2 million for statutory presumptive illness. The City’s excess workers’ compensation insurance carrier will reimburse the City for workers’ compensation claim costs exceeding the \$1.25 million and \$2 million dollars respectively.

The below table highlights the City’s excess insurance premium history.

EXCESS WORKERS’ COMPENSATION INSURANCE: 2012 – 2022		
Coverage Period	Self-Insured Retention (SIR)	Premium
FY 12/13	\$1,000,000	\$266,104
FY 13/14	\$1,000,000	\$300,290
FY 14/15	\$1,000,000	\$314,582
FY 15/16	\$1,000,000	\$320,386
FY 16/17	\$1,000,000	\$320,375
FY 17/18	\$1,000,000	\$321,218
FY 18/19	\$1,000,000	\$311,609
FY 19/20	\$1,000,000	\$311,609
FY 20/21	\$1,250,000 \$2,000,000	\$388,981
FY 21/22	\$1,250,000 \$2,000,000	\$439,650
FY 22/23	\$1,250,000 \$2,000,000	\$550,000

The insurance markets continue to deteriorate for the workers’ compensation line of business. Nationwide, with pandemic claims saturating the market, insurance carriers continue to be challenged with presumptive legislation in other states requiring insurance carriers to pay for these pandemic claims. What happens in other states ultimately affects Arizona, as these are the same insurance carriers that are paying the benefits and taking significant losses. Arizona’s presumptive cancer statute for First Responders has also diminished the workers’ compensation marketplace and introduces another challenge for excess workers’ compensation insurance carriers to underwrite excess insurance policies in Arizona.

ALTERNATIVES

The City of Mesa's Insurance Broker received competitive insurance rates from current incumbent, Safety National Casualty Corporation, and other insurance carriers to provide the City's excess workers' compensation insurance coverage. Based on the current insurance market and the City's claims loss experience, the City's Insurance Broker has secured an excess insurance policy with a premium rate of \$550,000.

Recommendation:

Purchase the Workers' Compensation Excess Insurance Policy for \$550,000.

- SIR \$1,250,000 million per Accident/Injury/Illness
- SIR \$2,000,000 million per Presumptive Loss

WORKERS' COMPENSATION SELF – INSURANCE SURETY BOND

To retain self-insurance authority, the City of Mesa must provide a security deposit based on the total unpaid losses of all 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 \$12.00 per every \$1,000 dollars of total unpaid losses and liabilities.

Recommendation:

- Purchase the Workers' Compensation Self-Insurance Surety Bond for the bond rate of \$12.00 per every \$1,000 dollars of unpaid losses and liabilities.

The 2023 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 01, 2021. In comparison, the City's total unpaid losses/ liabilities for January 01, 2022 was \$27,843,450 which cost the City \$153,139 to purchase a self-insurance surety bond.

FISCAL IMPACT OF INSURANCE/BOND PURCHASED

Excess Workers' Compensation Insurance / Self-Insurance Surety Bond

With City Council's approval of staff's recommendations: 1) The excess workers' compensation insurance premium cost for the FY 22/23 will be \$550,000; and 2) The self-insurance surety bond premium will be calculated utilizing the bond rate of \$12.00 per every \$1,000 dollars of unpaid losses and liabilities from the Workers' Compensation Liability form filed with the Industrial Commission of Arizona on December 01, 2022.