



City Council Report

Date: November 16, 2020
To: City Council
Through: John Pombier – Assistant City Manager
From: Teri Overbey-Brown – Human Resources Director
Nitra Hawkins – Safety Administrator

SUBJECT: FY 20/21 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, 2020. The renewal date for the workers' compensation self-insurance surety bond is January 01, 2021.

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

- Excess Workers' Compensation Insurance Policy – \$443,981 insurance premium.
- Surety Bond Rate – \$8.00 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 enterprise funds. From the Workers' Compensation Trust fund, the City pays for workers' compensation claims (medical expenses and lost wages) for employees who are injured during the course and scope 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 below table highlights the City's 10-year excess insurance premium history.

EXCESS WORKERS' COMPENSATION INSURANCE: 2010 – 2020		
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
FY 17/18	\$1 M	\$321,218
FY 18/19	\$1 M	\$311,609
FY 19/20	\$1 M	\$311,609

The City of Mesa is coming out of a 2-year policy term. Over the past 2 years the markets have deteriorated for the workers' compensation line of business. Nationwide, with pandemic claims saturating the market as employees start to return to work, insurance carriers are challenged with presumptive legislation in other states requiring 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 the losses. Arizona's presumptive cancer statute for First Responders has also diminished the workers' compensation marketplace and introduces another challenge for insurance carriers to underwrite insurance policies in Arizona.

Recommendation:

- Based on the current insurance market and Mesa's claims loss history, the City's Insurance Broker recommends that the City of Mesa purchase an Excess Workers' Compensation Insurance Policy from current incumbent, Safety National Casualty Corporation.

Excess Insurance Policy Premium – \$443,981

- SIR \$1,250,000 million per Accident/Injury/Illness, *except*
 - SIR \$2,000,000 million per Presumptive Loss
 - SIR \$1,000,000 million per Employee Wildland Firefighter

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 \$8.00 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 \$8.00 per every \$1,000 dollars of unpaid losses/ liabilities.

The 2021 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, 2020. The City's total unpaid losses/ liabilities for January 01, 2020 was \$24,198,463, which cost the City \$133,092 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 excess workers' compensation insurance premium cost for the FY 20/21 will be \$443,981; and 2) The self-insurance surety bond premium will be calculated utilizing the bond rate of \$8.00 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, 2020.