

Council Meeting of
June 19, 2012

Honorable Mayor and Members
Of the City Council
City Hall
Torrance, California

Members of the Council

SUBJECT: Finance – Approve purchase of excess workers’ compensation insurance. Expenditure: \$147,260

RECOMMENDATION

Recommendation of the Finance Director that City Council approve the renewal purchase of excess workers’ compensation insurance from County Supervisors Association of California (CSAC) Excess Insurance Authority, through Alliant Insurance Services, at a premium of \$147,260 for the period of July 1, 2012 to July 1, 2013.

Funding

Funding is available in the FY 2012/13 Self-Insurance Fund Budget.

BACKGROUND

State law requires that employers provide workers’ compensation benefits to all employees. Many public agencies and large corporations are largely self-insured due in part to the high cost and limited availability of coverage. However excess insurance is usually purchased as protection against high exposure losses.

Since July 1, 2002 the City has been a member of the CSAC Excess Insurance Authority. Prior to that date the City purchased excess insurance from private sector insurance companies. However, due to turmoil that existed in the California workers’ compensation insurance market the City switched to the CSAC governmental insurance pool and has enjoyed stable & comparatively low premiums. (ATTACHMENT A provides coverage history since FY 2007/08)

The City recently received a renewal proposal from CSAC Excess Insurance Authority. CSAC offers unlimited coverage limits, excess of a \$2,000,000 self-insured retention, at a premium of \$147,260, which is \$8,258 (6%) higher than expiring policy premium of \$139,002. The increase in premium represents an increase in workers’ compensation costs statewide and its effect on the workers’ compensation insurance market. The cost to purchase coverage with a \$1,000,000 self-insured retention instead of the \$2,000,000 retention is \$246,000, an additional \$98,740.

In addition to obtaining a proposal from CSAC through Alliant, the City also contacted a competing insurance pool for a proposal. The other pool, the Independent Cities Risk Management Association (ICRMA), advised that the cost of such coverage would be higher. There are several commercial insurance companies offering excess workers' compensation insurance, but all charge higher rates and most do not offer unlimited coverage.

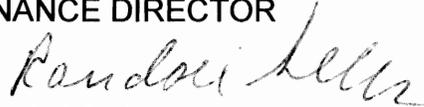
ANALYSIS

CSAC insures most counties, and many cities and special districts within California. The pool self-insures losses up to \$5,000,000 per occurrence, and insures losses above \$5,000,000 through several large re-insurers. As CSAC is an insurance pool, pool members can be assessed additional premiums should the pool suffer heavy losses. Pool members can receive rebates if pool losses are low. CSAC also provides partial reimbursement for actuarial studies and safety consulting, for which the City has obtained past reimbursements

CSAC Excess Insurance Authority is offering unlimited coverage limits at a premium slightly higher than the expiring policy. Staff recommends the purchase of insurance from CSAC with the \$2,000,000 self-insured retention. The purchase with the \$1,000,000 self-insured retention is not recommended due to the rarity of claims above \$1,000,000 compared with the additional \$98,740 cost.

Respectfully Submitted,

ERIC E. TSAO
FINANCE DIRECTOR



By Randall Sellers
Risk Manager

CONCUR:



Eric E. Tsao, Finance Director



LeRoy J. Jackson
City Manager

ATTACHMENT A: Coverage History

ATTACHMENT A

COVERAGE HISTORY

| POLICY PERIOD | INSURER | RETENTION | LIMITS | PREMIUM |
|-----------------------------|---------|-------------|--------------------------|-----------|
| <i>Proposed 2012/13</i> | CSAC | \$2,000,000 | Unlimited (statutory) | \$147,260 |
| 2011/12 | CSAC | \$2,000,000 | Unlimited (statutory) | \$139,002 |
| 2010/11 | CSAC | \$2,000,000 | Unlimited (statutory) | \$136,164 |
| 2009/10 | CSAC | \$2,000,000 | Unlimited (statutory) | \$125,934 |
| 2008/09 | CSAC | \$2,000,000 | Unlimited (statutory) | \$129,839 |
| 2007/08 | CSAC | \$2,000,000 | \$298,000,000 | \$144,162 |

The above premium amounts include assessments paid and credits received.