

Council Meeting of
July 18, 2006

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

Members of the Council

SUBJECT: Recommendation to Purchase Excess Workers' Compensation Insurance

Expenditure: \$143,014

RECOMMENDATION

The Human Resources Director recommends that the City Council approve the purchase of excess workers' compensation insurance from CSAC Excess Insurance Authority/American Reinsurance, through Driver-Alliant Insurance Services, the City's insurance broker, at a premium not to exceed \$143,014. The policy period will be July 1, 2006 to July 1, 2007.

Funding

Funding is available in the FY 2006/07 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 often purchased as protection against high exposure losses.

The City recently obtained proposals for the renewal of the excess workers' compensation insurance. Several markets were contacted. The best proposal was again offered by CSAC Excess Insurance Authority, the current insurer. CSAC is offering coverage of \$198,000,000, excess of a \$2,000,000 self-insured retention, at a premium of \$143,014. The expiring policy by CSAC provided coverage limits of \$148,000,000 excess of a \$2,000,000 self-insured retention, at a premium of \$150,738. Therefore the coverage offered for this renewal provides much higher policy limits, at a comparable premium. ATTACHMENT A provides coverage history since FY 2000/01.

ANALYSIS

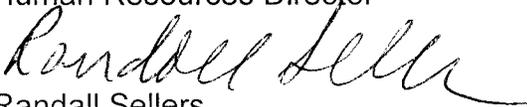
The lowest proposal was offered by CSAC Excess Insurance Authority. CSAC is offering insurance with significantly increased coverage limits at a comparable premium to last year. This year's premium of \$143,014 appears to be \$7,724 lower than last year's premium of \$150,738. However the current premium proposal does not include the broker's commission, as the broker is now being paid a flat fee under a contract approved by City Council on July 25, 2005. ATTACHMENT B provides the renewal proposal.

CSAC is an insurance pool insuring many counties, 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.

In summary, staff recommends the purchase of coverage from CSAC because it provides high coverage limits at the most reasonable cost.

Respectfully Submitted,

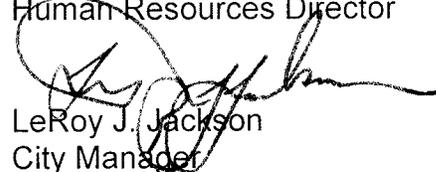
Elaine M. Winer
Human Resources Director

By 
Randall Sellers
Risk Manager

CONCUR:



Elaine M. Winer
Human Resources Director


LeRoy J. Jackson
City Manager

ATTACHMENTS A: Coverage History
B: Renewal Proposal

ATTACHMENT A

COVERAGE HISTORY

POLICY PERIOD	INSURER	RETENTION	LIMITS	PREMIUM
2006/07	CSAC	\$2,000,000	\$198,000,000	\$143,014**
2005/06	CSAC	\$2,000,000	\$148,000,000	\$150,738
2004/05	CSAC	\$2,000,000	\$ 98,000,000	\$154,920*
2003/04	CSAC	\$2,000,000	\$ 50,000,000	\$143,353
2002/03	CSAC	\$2,000,000	\$ 48,000,000	\$ 63,037
2001/02	CNA	\$ 750,000	Statutory	\$ 84,770
2000/01	Reliance	\$ 500,000	\$ 5,000,000	\$ 40,567

* Includes \$4,244 for member assessment

** Premium is net of commission

**CSAC EXCESS INSURANCE AUTHORITY (CSAC EIA)
EXCESS WORKERS' COMPENSATION PROGRAM**

PROPOSAL

COVERED PARTY: City of Torrance

COVERAGE PROVIDED BY: CSAC Excess Insurance Authority with Excess and Reinsurance layers provided by companies stated below

BEST'S GUIDE RATING*: **CSAC EIA:** Not Applicable
Renaissance Re: A, Excellent, Financial Size Category 13, \$1,250,000,000 to \$1,500,000,000
National Union Fire Insurance Co. of Pittsburg, PA: A+, Superior Financial Size Category 15; \$2,000,000,000 or more
Lloyd's of London: A, Excellent: Financial Size Category 15; \$2,000,000,000 or more.

STANDARD & POOR'S RATING:** **CSAC EIA:** Not applicable
Renaissance Re: A+, Stable
National Union Fire Insurance Co. of Pittsburg, PA: A++
Lloyd's of London: A, Strong

CALIFORNIA STATUS: **CSAC EIA:** Not applicable
Renaissance Re: Not applicable (reinsurance)
National Union Fire Insurance Co. of Pittsburg, PA: Admitted
Lloyd's of London: Not Applicable (reinsurance)

COVERAGE TERM: July 1, 2006 to July 1, 2007

COVERAGE: Coverage per the CSAC Excess Insurance Authority Excess Workers' Compensation Program Memorandum of Coverage

LIMITS OF LIABILITY: **Workers' Compensation Coverage:**
Pooled Retention
 \$ 5,000,000 Workers' Compensation and Employers Liability each occurrence (difference between \$5,000,000 and the Covered Party's SIR)

Excess Layers:
Layer 1:
 \$45,000,000 in excess \$5,000,000 Workers' Compensation each occurrence; reinsured By Renaissance Re (excluding Terror coverage)

Terror Coverage (including NBCR):

\$45,000,000 in excess of \$5,000,000 each occurrence, \$90,000,000 Annual Aggregate; reinsured by Lloyd's of London and other London / Bermuda reinsurers

Layer 2:
 \$150,000,000 in excess of \$50,000,000 Workers' Compensation each occurrence; excess insurance coverage provided by National Union Fire Insurance Co. of Pittsburg, PA (including Terror coverage)

NOTE: THIS PROPOSAL IS FOR INFORMATIONAL PURPOSES ONLY AND DOES NOT AMEND, EXTEND OR ALTER THE POLICY IN ANY WAY. PLEASE REFER TO THE POLICY FORM FOR COMPLETE COVERAGE AND EXCLUSION INFORMATION

**CSAC EXCESS INSURANCE AUTHORITY (CSAC EIA)
EXCESS WORKERS' COMPENSATION PROGRAM**

PROPOSAL

SELF INSURED RETENTION: \$2,000,000 SIR Per Occurrence

Self Insured Retention is eroded by allocated claims expense

MAJOR EXCLUSIONS: Per the CSAC Excess Insurance Authority Excess Workers' Compensation Program Memorandum of Coverage, including:

- L.C. 4850 benefits
- L.C. 4856 benefits
- Any payments in excess of the benefits regularly provided by the Workers' Compensation law

2006-2007 ESTIMATED ANNUAL PAYROLL: \$99,392,215

ESTIMATED ANNUAL DEPOSIT PREMIUM:	\$ 2,000,000 SIR	
	\$ 26,320	Pool Premium (Deposit)
	102,245	Reinsurance and Excess Premium (Deposit)
	13,806	EIA Administration Fee
	643	Public Entity Fee
	0	Broker Fee
	0	EIA One-Time Development Fee
	<u>\$ 143,014</u>	Total Estimated Annual Deposit Premium

TOTAL ESTIMATED ANNUAL DEPOSIT PROGRAM PREMIUM: \$64,152,589 as of June 26, 2006 includes pool, excess and reinsurance premiums and all fees

PREMIUM AUDIT: Premiums are auditable and adjustable at June 30, 2007 based on actual payroll

PROGRAM SERVICES:

- Premium includes a \$1,000 Annual Loss Prevention Subsidy (can accumulate up to a maximum of 5 years)
- Premium includes a \$2,000 Actuarial Subsidy
- Premium includes cost for claim audit requirement (Audit to include access to all files handled by TPA)

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**CSAC EXCESS INSURANCE AUTHORITY (CSAC EIA)
EXCESS WORKERS' COMPENSATION PROGRAM**

PROPOSAL

- PROGRAM CONDITIONS:**
- Premium subject to change.
 - Subject to:
 - Agreement to the terms of the Excess Worker's Compensation MOU as proposed for amendment, and agreement to execute the Excess Worker's Compensation MOU within 30 days of Final Amendment
 - Subject to:
 - Confirmation that appropriate loss prevention program is in place. A detailed description of the services to be provided is due to the EIA within 30 days of binding

BROKER: **DRIVER ALLIANT INSURANCE SERVICES INC.**
Rennetta Poncy - Vice President
Esther Ruvalcaba-Account Administrator

PROPOSAL DATE: June 29, 2006