

Agenda Report

May 15, 2000

TO: City Council
FROM: City Manager
SUBJECT: Purchase of Workers' Compensation Insurance

RECOMMENDATIONS:

It is recommended that the City Council authorize the City Manager to purchase workers' compensation insurance under a joint purchase program established by the City's broker of record, Robert F. Driver Company, in an amount not to exceed \$83,355 for the policy term, May 1, 2000 to July 1, 2001.

BACKGROUND:

The City is self-insured for worker's compensation for the first \$500,000 of each worker's compensation claim. Insurance, providing full statutory limits, is purchased for catastrophic losses above this amount.

At its meeting of May 23, 1994, City Council approved the purchase of worker's compensation insurance under a Joint Purchase Group (CAMEX) organized by the City's broker of record, Robert F. Driver Company, Inc. CAMEX combines the purchasing power of numerous California public agencies to obtain coverage at rates below those available individually. CAMEX has grown from 20 members to more than 150 members. Premium amounts must be agreed to and paid annually in advance of the policy term.

Coverage was underwritten by Reliance National Indemnity Company last year at the rate of \$48,926 annual premium. [In 1998, CNA provided the City with coverage for \$95,880, with a three year rate guarantee. CNA did not insist on the rate guaranty on renewal, but agreed to reduce the premium rate, resulting in the approximately 20% premium reduction of \$17,769. Also, coverage was increased with a cash flow protection clause. In 1999, the purchasing group moved its business to Reliance to obtain the low premium made available by a very soft market. The workers' compensation insurance market has hardened this year, and

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continues to deteriorate, explaining the jump in premium back to the 1998 levels. A major primary workers' compensation company has recently come under control of the State, and underwriters believe the legislature will increase workers' compensation benefit levels during its next session.] Reliance has the Best's rating of A-, Excellent, Class 15. (Reliance Insurance Group, parent of Reliance National Indemnity Company, is under review by Bests because of a sale of its surety business to Travelers; it is anticipated that Reliance will retain its A-rating when the review is completed.)

AFFIRMATIVE ACTION:

Insurance contracts are exempt from Affirmative Action per Resolution No. 4373.

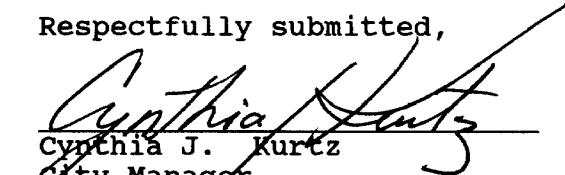
COMPETITIVE BIDDING:

This contract is exempt from competitive bidding per Charter Section No. 1002F, Professional Services. The Broker obtained other bids: CNA was 23% higher and refused a cash flow endorsement and 4850 benefits; Employers Re was 250% higher; two companies demanded a \$1 million self insured retention with all claims processed through one single third party administrator for all participating public entities; and, AIG declined to quote at all.


FISCAL IMPACT:

Funds for this insurance are available in the Workers' Compensation Fund. The Fund is reimbursed from each department's operating budget. The level of contribution is determined by past experience rating.

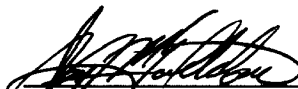
Respectfully submitted,


Cynthia J. Kurtz
City Manager

Prepared by:


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Approved by:


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