

Memo

To: Dave Plyman, City Manager
From: Lynette D. Fischer, HR/Risk Manager
Date: November 26, 2012 Council Meeting
Re: IMLRMA Min/Max Contribution Rates for 2013

I. Background Information

The City of Rochelle's Risk Insurance Plan Year expires on December 31 annually. The City has participated in the IMLRMA risk pool for many years and specifically in the Minimum/Maximum Program for the past eleven (11) years.

For the upcoming plan year, Staff attempted to solicit proposals to determine if alternate options were available that would potentially limit the increases in the overall cost of the City's risk insurance plan. To that end, two (2) new agencies asked to submit proposals: Rochelle Insurance and A.J. Gallagher.

At the beginning of the process, the agencies were given the same set of data, including past claims histories and current year claims in process, as well as updated asset listings for all insured property, vehicles, and portable mobile equipment. These listings are updated as assets are put into and taken out of service, and are fully reviewed for accuracy and depreciation purposes annually. A wide range of markets were available through the brokers (***please see Attachment 1***). Additionally, the brokers were asked to provide any recommendations they felt might assist in terms of deductible changes, claims investigation, regulatory awareness, etc...

Staff expected that the past two (2) years of claims history (i.e.: 2010 and 2011) would work against us on the open market, as they have been the most severe and costly to date, as follows:

- In 2010, the severity of 2 specific claims caused us to exceed the Maximum Loss Fund for the first time since the City's entry into the Min/Max Program.

- 2011 actually saw the number of claims drop to 71% of the 2010 number (from 31 to 22), but the severity and associated cost potential doubled (from a total experience** of about \$413,000 to \$835,000).

** "Total Experience" = (Total claims \$ paid) + (Total \$ still held in reserves for open claims)

Both new agencies declined to submit proposals for the 2013 plan year. The complexity of our operations, specifically our Electric utility, coupled with our claims experience were cited by the agencies as hurdles that were more difficult to clear than originally anticipated.

As anticipated, our incumbent agency, IMLRMA, submitted two (2) renewal options: the "standard" renewal option and the option to continue in the Minimum/Maximum Program.

II. Analysis

Because the sole proposal presented came from the incumbent agency, Staff evaluated the 2 options presented. For the Minimum/Maximum Program option, **Attachment 2** provides a comparison between 2012 and 2013 for the overall contribution breakdown and the values upon which the contributions are based. The 2013 premium is an increase of 7.45%, while overall values (represented by property values plus payroll costs plus risk factors associated with the categories of jobs in each dept) increased by 9.01%.

Despite the significant increase in Workers Compensation claims \$ paid out and still held in reserves for 2010 and 2011, the percent of total premium increase attributed to Workers Comp for 2013 is 35% (i.e.: \$12,000 of \$34,000). This is a decrease from almost half of 2012's total increase attributed to Workers Comp costs. As in past years, a portion of the increase continues to be driven by the statewide issue tied to employer-unfriendly statutes, and a national issue tied to the rapidly rising cost of medical care itself. 42% of the total dollar increase for 2013 (i.e.: \$14,000 of \$34,000) is attributed to a 20% increase in property premium. This is largely due to a re-evaluation of property contents City-wide, and specifically the amount and cost of electronics and communications equipment housed in each department.

In **Attachment 3**, a comparison of "Standard Plan" premiums to "Min/Max Program" premiums plus actual/potential costs is provided for the 11 years' participation in the Min/Max option. Even if "Total Experience" is realized for open claims, the City will still have recognized a savings of almost \$90,000 over "Standard Plan" participation. [It is worth noting that the reserves levels are projected at a conservatively higher level than expected to represent "worst-case" losses.]

Staff met with Eric Little of IMLRMA about possible changes to the plan design, and learned that the League does not offer alternative deductible structures. The \$500 deductible for property/general liability and "zero-dollar deductible" for Workers Compensation is applied across the board.

III. Recommendation

After reviewing the specifics of our renewal quote with Julia Reynolds, IMLRMA Program Coordinator/Underwriter, Staff believes that it continues to be in the City's best interests to continue its participation in the Min/Max program with a set premium cost of \$499,437.

Additionally, the League re-instituted its "Early Pay Discount" this year, which reduces the premium by 1.5% if paid in full by Nov. 30, for a total cost of \$491,945.45. I have discussed the timing of payment with Finance Manager Chris Frye, and with her concurrence recommend that the City take advantage of the discount for a reduction in payment by \$7,500.

The alternative is to opt out of the Min/Max program and instead enter the "Standard Plan," with a cost of \$559,437 (which amounts to \$ 551,045 with the 1.5% "Early Pay Discount" taken), which is \$60,000 higher than the Min/Max premium.

Finally, Staff recommends preparing for future additional loss costs under the Min/Max Program by budgeting for the "Standard Plan" premium and reserving the additional \$60,000 for said purpose.

Should you have any questions, please don't hesitate to contact me at 561-2054.

Attachment 1

Markets Available to Proposing Agencies

- ❖ Houston Casualty
- ❖ Travelers
- ❖ The Hartford
- ❖ Trident
- ❖ Illinois Public Risk Fund
- ❖ AWAC
- ❖ CAN
- ❖ American Alternative
- ❖ Scottsdale
- ❖ Brit/Lloyds of London
- ❖ Bliss McKnight
- ❖ Philadelphia
- ❖ One Beacon

ATTACHMENT 2

Comparison of 2013 to 2012 Contribution Breakdown and Values

	WC	AL/CGL	IM	APD	Prop	Total	Total w/Discount
2013 Premium Breakdown	\$231,770	\$171,380	\$3,133	\$9,352	\$83,822	\$499,437	\$491,945
2012 Premium Breakdown	\$219,931	\$164,044	\$2,468	\$8,828	\$69,548	\$464,819	
% change from 2012 to 2013	5.38%	4.47%	26.94%	5.94%	20.52%	7.45%	5.84%

	Payroll	Manual Prem	IM Values	APD Values	Prop Values	Total
2013 Values Breakdown	\$7,539,495	\$376,415	\$3,041,378	\$2,980,532	\$71,926,157	\$85,863,977
2012 Values Breakdown	\$7,162,245	\$359,409	\$2,564,725	\$2,874,165	\$65,804,753	\$78,765,297
% change from 2012 to 2013	5.27%	4.73%	18.58%	3.70%	9.30%	9.01%

ATTACHMENT 3

CITY OF ROCHELLE

MINIMUM / MAXIMUM COMPARISON							
#1	#2	#3	#4	#5	#6	#7	#8
CONTRIBUTION							
YEAR	NORMAL ANNUAL CONTRIBUTION	EXCESS & ADMINISTRATION COSTS (28% of normal annual contribution starting in 2004; 28.5% of normal contribution starting in 2008)	NORMAL CLAIM LOSS FUND (#2 minus #3)	MINIMUM CONTRIBUTION (80% of normal loss fund plus excess & admin costs; 85% starting in 2011)	MAXIMUM CONTRIBUTION (120% of normal loss fund plus excess & admin costs; 130% starting in 2011)	POSSIBLE SAVINGS (#2 minus #5)	POSSIBLE ADDITIONAL COST (#6 minus #2)
2002	252,469	64,380	188,089	214,851	290,087	37,618	37,618
2003	276,873	70,603	206,270	235,619	318,127	41,254	41,254
2004	301,823	84,510	217,313	258,360	345,286	43,463	43,463
2005	328,832	92,073	236,759	281,480	376,184	47,352	47,352
2006	333,501	93,380	240,121	285,477	381,525	48,024	48,024
2007	364,679	102,110	262,569	312,165	417,193	52,514	52,514
2008	398,147	113,472	284,675	341,212	455,082	56,935	56,935
2009	411,886	117,388	294,498	352,986	470,786	58,900	58,900
2010	459,078	130,837	328,241	393,430	524,726	65,648	65,648
2011	496,642	141,543	355,099	443,377	603,172	53,265	106,530
2012	520,660	148,388	372,272	464,819	632,342	55,841	111,682

The following claims history shows the status of Rochelle's Min/Max experience as of 11/20/2012.

CLAIMS HISTORY

YEAR	# CLAIMS	PAID CLAIMS	OUTSTANDING RESERVES	TOTAL EXPERIENCE	MINIMUM LOSS FUND	MAXIMUM LOSS FUND	EST. SAVINGS or (ADDITIONAL COST)
2002	29	109,077	0	109,077	150,472	225,707	\$37,618
2003	23	66,415	0	66,415	165,016	247,524	\$41,254
2004	29	51,564	0	51,564	173,850	260,775	\$43,463
2005	32	151,271	0	151,271	189,407	284,111	\$47,352
2006	33	133,093	91,914	225,007	192,097	288,145	\$15,114
2007	31	239,553	0	239,553	210,055	315,083	\$23,016
2008	33	82,966	0	82,966	227,740	341,610	\$56,935
2009	38	278,900	152,509	431,409	235,599	353,398	(\$58,900)
2010	31	394,666	18,718	413,384	262,593	393,889	(\$65,648)
2011	22	161,007	674,137	835,144	301,834	461,629	(\$106,530)
2012	19	29,910	37,315	67,225	316,431	483,953	\$55,841
		\$1,698,422	\$974,593	\$2,673,015			

Overall 11 Years Savings =

\$89,514