

Memo

To: Dave Plyman, City Manager
From: Lynette D. Fischer, HR/Risk Manager
Date: December 9, 2013 Council Meeting
Re: 2014 Risk Insurance Policy

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 twelve (12) years.

Similar to last year, Staff solicited proposals from an alternate broker to determine if options were available that would potentially limit the increases in the overall cost of the City's risk insurance plan. Last year, no other agencies submitted proposals. This year, Query Insurance Agency partnered with Insurance Program Managers Group (IPMG) to present a proposal using Illinois Counties Risk Management Trust Insurance Program (ICRMT) as the carrier.

The range of markets that Query Insurance Agency considered is found in **Attachment 1**. Both the incumbent and newly bidding agency were asked to provide any recommendations they felt might assist in terms of deductible changes, claims investigation, regulatory awareness, etc...

Staff expected that the 2010 and 2011 claims years would continue to work against us on the open market, as they have been the most severe and costly to date. However, 2012 and 2013 to date have been "light" claims years, in terms of dollars spent. For 2012, claims costs total \$29,163 and 2 claims remain open. As of Sept. 30, 2013 YTD claims costs paid by the IMLRMA totaled \$21,147 and 2 claims also remain open.

II. Analysis

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. In the past, IMLRMA only offered one **deductible level (\$500)** for those lines that contained deductibles (Property, Auto Physical Damage, Inland Marine/Portable Mobile Equipment, and Crime). A new component for each of the two options is the addition of a **\$5,000 deductible level**, which would apply to **all** types of claims except for Workers Compensation. This adds potential for costs up to \$5,000 for each General Liability and Auto Liability claim, which the City does not bear with the \$500 deductible. This is in addition to up to \$4,500 more in costs for those claims we already pay the first \$500 on.

ICRMT presented a proposal whose deductibles vary by line of coverage. There is a \$1,000 deductible for Crime, and for General Liability claims (with the exception of Police Liability, where a \$10,000 deductible applies). Inland Marine/Portable Mobile Equipment deductibles and Auto Physical Damage are set at \$1,000, and Property Damage has a \$5,000 deductible. Auto Liability, however, carries no deductible. There is an additional cost to bond at the level the City feels is necessary, which is \$265. The total cost for this plan, therefore, is \$593,157.

A comparison of how the IMLRMA and the ICRMT options compare to one another in terms of cost, please ***see Attachment 2***. An analysis of the deductible change impact for each option was completed, using the past 2 full years and the current YTD to find a 3-year average additional cost. ** Please note that because we have had light claims for the past year and 9 months, this 3-year average additional cost is very low compared to previous trends in our claims experience.

III. Recommendation

.After reviewing the specifics of options offered by IMLRMA this year, Staff feels that the Standard Option (with the \$500 deductible) is the most prudent option offered by IMLRMA at this time. The City still has unmet, potential liability costs from previous years of participation in the Min/Max Program, which makes the prospect of taking on additional risk unpalatable.

When comparing this option to the ICRMT plan (with the known and estimated costs included), it is notable that the two are very similar. However, concerns exist with moving our coverage from IMLRMA to ICRMT that cannot be quantified. Please ***see Attachment 3*** for a summary outline of said concerns. Therefore, Staff believes that it continues to be in the City’s best interests to stay with IMLRMA and move to the standard plan, keeping the deductible at \$500, for **a cost of \$599,557**.

Additionally, the League offers an “Early Pay Discount” again this year, which reduces the premium by 1.5% if paid in full after this meeting, for a total cost of **\$590,563.64**. We have discussed the timing of payment with Finance Manager Chris Frye, and with her concurrence recommend that the City take full advantage of the discount for a reduction in payment almost \$9,000.

The alternative is to move to the \$5,000 deductible level within the Standard Plan, **for a cost of \$568,934**. The apparent ‘savings’ of roughly \$21,000 in premium could easily be eliminated by incurring just five (5) claims of any type (other than Worker’s Compensation) whose costs are in excess of \$5,000.

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

Attachment 1

Markets Considered by Query Insurance Agency

- ❖ HCC (Houston Casualty)
- ❖ Travelers
- ❖ Scottsdale Insurance
- ❖ ICRMT/IPMG
- ❖ Bliss McKnight
- ❖ St. Paul
- ❖ Britt Insurance

ATTACHMENT 2

Side-By-Side Comparison
IMLRMA options and ICRMT

	Standard Option \$500 deductible no addtl liability	Standard Option \$5,000 deductible no addtl liability	Min/Max Option \$500 deductible Future Liability	Min/Max Option \$5,000 deductible Future Liability	ICRMT - Single Option Various deductibles (see below) no addtl liability
Known (Premium) Cost	599,157	568,934	535,255	507,916	592,892
Bonding Cost at \$500k	0	0	0	0	265
Total Known (Premium Cost)	599,157	568,934	535,255	507,916	593,157
Excess (Unknown) Liability Cost - Maximum	0	0	192,907	183,054	0
Maximum Excess Liability (w/o Deductible Costs)	599,157	568,934	728,162	690,970	593,157
Addt. Deductible Costs above \$500 (3-yr Avg)	0	\$14,880	0	\$14,880	\$5,410
	599,157	583,814	728,162	705,850	
1.5% Early Pay Discount from Premium Cost	-8,993	-8,534	-8,028	-7,619	0
\$\$ Necessary to secure coverage	590,164	560,400	527,227	500,297	592,892

	<u>Deductible \$\$</u>	<u>Deductible \$\$</u>	<u>Deductible \$\$</u>
Property Damage	500	5,000	5,000
Inland Marine/Portable Mobile	500	5,000	1,000
General Liability	0	5,000	1,000
General Liability - Law Enforcement	same as GL	same as GL	10,000
Crime	500	5,000	1,000
Auto Liability	0	5,000	0
Auto Physical Damage	500	5,000	1,000

Attachment 3

Differences between IMLRMA and ICRMT Policies

1. **Work Comp payroll audits.**

- IMLRMA - Work Comp payroll audit is not subject to additional billing after the coverage period is over.
- ICRMT - Will bill the difference between your estimated payroll and actual payroll. OT can cause an expensive gap between the two.

2. **Building Replacement Cost**

- IMLRMA - No cap on Replacement Cost coverage, even if IMLRMA undervalues our property and/or market forces drive up construction costs significantly.
- ICRMT - 125% cap on building replacement cost.

3. **Timing of Claims for Coverage Purposes**

- IMLRMA – Occurrence-based coverages for Public Officials’ Liability and Employment Practices Liability. Occurrence coverage provides coverage for the act when it occurs – regardless of when it’s reported. Claim goes unreported in 2013 but reported in 2020; the claim is still covered even if the City has gone to another carrier by then.
- ICRMT – Claims Made-based coverages. Policy only provides coverage for claims made and reported in that policy period. (e.g. coverage only continues as long as you keep that policy in force for subsequent renewals.) Risk of unknown or unreported claim not being covered due to reporting of claim outside the coverage period.

City may need an Extended Reporting Period endorsement (ERP, or “tail coverage”) after a claims-made policy ends; coverage is of short duration and can exceed the expiring premium.

4. **Deductibles**

Biggest difference is \$10k deductible for “General Liab. – Law Enforcement” w/ICRMT. \$0 or \$5k w/IMLRMA Standard Options.