

April 15, 2003

Honorable Mayor and Members of
The Hermosa Beach City Council

City Council Meeting of
April 22, 2003

**Participation in the Independent Cities Risk Management Authority (ICMRA)
Self-Insured Workers' Compensation Program**

Recommendation

Staff recommends that the City Council adopt the attached resolution authorizing participation in the ICRMA Self-Insured Workers' Compensation Program.

Background

ICRMA is a joint powers agency with 28 member cities throughout southern California. It has provided the City of Hermosa Beach with public entity liability coverage above a self-insured retention level since 1985. The City has enjoyed the benefits of pooling risk with other member cities, including:

- Ability to mitigate the impact of changing insurance markets,
- Risk management and loss control services,
- Claims and litigation management,
- Return of premiums when program costs are lower than projected, and
- Lower cost of excess insurance due to economies of scale.

Analysis

The City has historically procured coverage for excess workers' compensation on a group purchase basis through ICRMA until this year. In June 2002 member cities of ICRMA were hit with the realities of the insurance crisis upon receipt of their workers' comp. renewal quotes for the policy year beginning July 1, 2002. The quotations for all ICRMA member cities were dramatically higher than the previous year, some with rate increases five to six times greater, and all at higher self-insured retentions. The City of Hermosa Beach was required to increase the self-insured retention level from \$325,000 to \$500,000 as coverage was not available at any lower retention level.

ICRMA members were faced with few options, as little time was available to renew coverage and there were very few commercial insurance markets willing to underwrite municipal risks. As reported in July of 2002, there was a small group of cities, including Hermosa Beach, which jointly purchased their excess workers' comp insurance for the 02/03 fiscal year.

Because of the negative budgetary consequences of these increases the ICRMA Board approved the exploration of a self-funded excess Workers Compensation Program. An ad hoc committee was formed, the Program Development Committee, consisting of members

from all of the ICRMA standing committees, and the President and Vice-President of ICRMA (nine members total).

The Committee met frequently and developed a self-insured program for the ICRMA Board's consideration. The ICRMA Board met on November 19, 2002, and approved the establishment of this program. The new program allowed for two enrollment periods: one between January 1 and March 1, 2003, and then a second one on July 1, 2003. The program became operational in March and has reached the minimum participation level established by the ICRMA Board.

The analysis developed for the initial 18-month period indicates significant savings to most member cities and the program has been established to allow members cities to select from four self-insured retention levels between \$350,000 and \$1 million. Some member cities were in a position to consider participating effective January 1, 2003, with the remaining member cities participating effective July 1, 2003, due to the current contractual arrangements with the member cities' current excess carrier.

Participation in the program requires a minimum three commitment from each participating city. Staff recommends that the City of Hermosa Beach join the program with a self-insured retention level of \$350,000. The result is a slightly lower cost (approximately \$4,000) at a lower level of loss exposure.

Staff has reviewed the program provisions, terms of coverage, and financial implications of the program and bases its recommendations on:

A desire to participate in a self-funded program similar to the liability program,
Concern over further rate increases to rates due to the worsening conditions of the insurance market and new legislation beginning January 1, 2003 (AB 749),
Enhanced ability to provide loss control measures, and increased oversight of our claim administrator.

In order to participate in the program, the attached resolution must be approved and signed.

Attached for your reference are:

Resolution for participation
Premium Indications at Various SIR Levels
Executive Summary provided by ICRMA
Governing Documents

Respectfully Submitted:

Concur:

Michael Earl
Personnel & Risk Management Director

Stephen Burrell
City Manager

ICRMA WORKERS COMPENSATION PROGRAM

EXECUTIVE SUMMARY

BACKGROUND

The member cities of ICRMA were hit with the realities of the insurance crisis upon receipt of their workers' compensation (W.C.) renewal quotes for the policy year beginning July 1, 2002. The quotations provided by the incumbent insurer, Continental Casualty (Wexford), dramatically increased from the previous year, some at rates five to six times higher. In addition, in order to minimize these increases, the members elected to raise their self-insured retention levels, the impact of which will not be known for years.

The members were faced with few options, as little time was available to renew coverage. As such ICRMA decided that each member would be afforded the opportunity to negotiate its own placement - a rare and unfortunate occurrence for a group joined for the benefit of each other. The result was only nine members renewed with Wexford and the other 19 cities secured less expensive coverage outside the ICRMA group placement.

At the August 14, 2002, ICRMA Board meeting, the Board approved the exploration of a self-funded Workers Compensation Program (WCP). Following, an ad hoc committee was formed, the Program Development Committee (PDC), consisting of members from all of the ICRMA standing committees, and the President and Vice-President of ICRMA (nine members total). The Committee has met four times and has spent considerable time reviewing and revising the numerous documents necessary to establish a WCP.

On November 4, 2002, the PDC met and approved the following WCP for the ICRMA Board's consideration, with a projected adoption date of January 1, 2003. The analysis developed for the initial 18-month period indicates significant savings to many member cities. The PDC anticipates that only those member cities that did not place their W.C. coverage with Hartford Company would be in a position to consider participating effective January 1, 2003, with the remaining member cities participating effective July 1, 2003.

Workers Compensation Program – ICRMA

General – the WCP has been designed similar to the successful liability program offered by ICRMA. The premise of the program is that the members will have greater control of their WC costs, loss control efforts, claims management, and the flexibility to enhance the program in anticipation of changes in the insurance market and general economic conditions.

Summary of WCP Details:

Implementation – open enrollment to begin contingent upon ICRMA Board approval on November 19, 2002. Estimated start-date to be January 1, 2003, up to March 1, 2003, pending applications by members sufficient to achieve \$1 million in annual premiums.

Governing Documents – the WCP requires the approval of: (1) resolutions by ICRMA to self-insure and by the member cities' councils to participate in the WCP, (2) the WCP Bylaws, and (3) the Memorandum and Coverage.

Participation - interested member cities will be required to participate in the WCP for a minimum of three years.

Program Features - The following are the basic program features of the WCP:

1. Participants will be allowed to select their own SIRs of \$350,000, \$500,000, \$750,000, or \$1 million, for each policy year.
2. The initial period will be an 18-month policy year beginning January 1, 2002 through June 30, 2004.
3. The limit of self-insured coverage for the initial period will be \$1 million, subject to annual review.
4. The excess coverage will be provided by California Public Entity Insurance Authority (CPEIA), with per occurrence limits of \$50 million (final rates subject to determination of participants).
5. The participants will be subject to experience modification factors applied to premiums to adjust for loss experience (favorable and unfavorable) and varying exposures (weighted payroll by classification).
6. Dividend and assessment provisions will be included.
7. Coverage includes a provision for Labor Code Section 4850 for the self-insured layer.
8. W.C. manager will oversee the program, administer the excess claims, and monitor the third party administrators (TPAs).
9. TPA performance standards will be required for all member TPAs.

Next Steps – In order to start the WCP, ICRMA needs to receive from each interested member city a completed and signed resolution, and indication of its desired level of SIR. Once ICRMA receives sufficient resolutions that generate at least \$ 1 million in annual premiums the excess carrier will be contacted to obtain final rates (based on actual participation) and to begin coverage. Following this, the ICRMA WCP will become operational. It is critical that the signing of resolutions be processed as soon as possible.

Questions – Please contact the ICRMA General Manager, John E. Chaquica, at 1.800.410.9150 if you have questions or need additional information.

RESOLUTION NO. _____

**RESOLUTION OF THE CITY COUNCIL OF THE CITY OF _____
APPROVING PARTICIPATION IN THE
WORKERS' COMPENSATION PROGRAM OF THE
INDEPENDENT CITIES RISK MANAGEMENT AUTHORITY**

WHEREAS, the City of _____, ("City"), is a member in good standing of the Independent Cities Risk Management Authority ("Authority"); and

WHEREAS, the Authority is establishing a Workers' Compensation Program ("Program") through which member cities, including this City, may secure workers' compensation coverage; and

WHEREAS, the Authority offers various self-insured retentions (SIRs) and coverage limits as determined by its Governing Board; and

WHEREAS, the City has received and reviewed a copy of the Program Bylaws, Memorandum of Coverage, and other related documents; and

WHEREAS, it is expressly understood that a commitment by a participant in the Program must be for a period of no less than three (3) full program years; and

WHEREAS, it appears to be in the best interest of the City that it participate in said Program.

NOW, THEREFORE, BE IT RESOLVED that the City Council of the City of _____ does hereby find, determine, and declare as follows:

1. The City hereby elects to join and remain a member of the Program for a period of not less than three (3) full program years, provided the minimum participation requirements in the Program are met.
2. The City hereby requests that, commencing on _____, 2003, the City's industrial injury claims be covered by the Program.
3. The City approves the Program Bylaws and Memorandum of Coverage and other related documents.
4. The City's designee is hereby authorized and directed to execute such documents as may be required to bind the City to the terms and covenants of the Program.

5. The City shall maintain a Certificate of Consent to Self-Insure for workers' compensation liabilities from the Director of Industrial Relations, State of California, and shall immediately advise the Authority if there is any revocation or change in said Certificate.

6. The City Clerk of the City is hereby directed to certify a copy of the resolution and forward same promptly, by mail, to the Authority at the following address:

5777 West Century Blvd., Suite 665, Los Angeles, CA 90045

PASSED, APPROVED, AND ADOPTED THIS ____ DAY OF _____, 2003.

The foregoing resolution was passed and adopted on _____ by the following vote:

AYES	_____
NAES	_____
ABSENT	_____
ABSTAIN	_____

APPROVED:

Mayor of the City of _____

ATTEST:

City Clerk