Office of Superintendent of Schools
Board Meeting of June 19, 2002

June 17, 2002

Financial Affairs
Richard H. Hinds, Chief Financial Officer

SUBJECT: REQUEST FOR AUTHORIZATION FOR RENEWAL OF SPECIFIC EXCESS WORKERS' COMPENSATION COVERAGE

At the Board meeting of November 14, 2001, the Board authorized the Superintendent to enter into negotiations with its current specific excess workers' compensation insurance carrier Wexford/CNA, through Arthur J. Gallagher & Co., for renewal terms and conditions to become effective July 1, 2002. This authorization was provided pursuant to the provisions of State Board of Education Rule 6A-1.012(11) wherein the Board can purchase insurance through negotiations.

As reported in earlier items, the insurance market subsequent to the tragic events of September 11, 2002 is in chaos. Besides the problems previously noted in the excess property insurance markets, the workers' compensation market has been adversely affected as well. One of the major causes of this is the terrorism exposure. A full outline of the current status of the marketplace entitled *Terrorism Insurance Coverage in the Aftermath of September 11th*, written by the Extreme Events Committee of the American Academy of Actuaries was previously provided to the Board.

Workers' compensation provides wage replacement and unlimited medical benefits to workers injured in the course of their employment. In the event of death of a covered employee, its provides a death benefit to the surviving spouse and dependent(s). These benefits are specific to the state laws and are tied to the employee's level of earnings. Workers' compensation also covers employers against some types of liability that allow employees to pursue actions against their employers.

Workers' compensation has no exclusion for either war or terrorism. Because of the statutory nature of the his coverage, it is virtually impossible for a company to alter its contract to exclude terrorism. It therefore exposes the issuing company to a large potential loss when the insured has a significant number of employees at any one location.

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The Board has had a self insured program for workers' compensation claims since 1974. Throughout these years, excess workers' compensation coverage has been carried at varying levels of self-insured retentions (SIR) (deductible type), with the excess carrier attaching once the claim gets beyond that attachment point. Because of the resources that the Board has put towards various workers' compensation programs to keep medical and indemnity costs in check, the excess market has been very stable, with the Board continuing to have a $500,000 per occurrence self-insured retention for over ten years. The current carrier, Continental Casualty (CNA)(A XV) has been insuring the Board since 1992, with the last re-marketing of this program occurring in 1996.

Following the authorization received from the Board in October, 2001, staff worked with the Board's broker, Arthur J. Gallagher & Co. to obtain competitive proposals from companies interested in writing the Board's coverage. All received quotations included premium increases of at least 500%, with restrictions in coverage, mostly due to the fact that all companies were writing coverage on a catastrophic loss basis. In order to recommend a somewhat reasonable proposal, various coverage options were explored.

The option of moving from Statutory coverage (determined by the State of Florida) was reviewed; however, the minimal premium savings did not outweigh the additional risk the Board would be assuming by capping the amount of coverage it was purchasing, especially in the event of a major disaster.

Additionally, the cost/benefit of moving to a self-insured retention higher than the current $500,000 was explored. Increasing the SIR from its current $500,000 per claim to $750,000 per claim would result in a premium savings of $464,219, but does expose the Board to possibly higher self-insured claims costs, estimated to be approximately $1.2 million. The following analysis reflects the current program, options presented at the existing SIR, along with the quotation from the current carrier to move to an SIR of $750,000 per claim:

	CURRENT	OPTION 1	OPTION 2	OPTION 3
Insurer	Continental	Continental	ACE-INA	Nat. Union/AIG
WC Limit	Statutory	Statutory	Statutory	Statutory
SIR	$500,000	$500,000	$500,000	$500,000
EL Limit	$5 Mil/$5Mil	$3Mil/$3Mil	$4.5Mil/$4.5 Mil	$2Mil/$2Mil
Premium	$294,507	$1,870,823	$1,889,000*	$2,028,861
App. Rate	.0185/$100 Payroll	.1110/$100 Payroll	.101/$100 Payroll	.12/$100 Payroll
ALT.SIR		$750,000		
Premium		$1,406,604		
Rate		.0832/$100 Payroll		

***EXCLUDES ALLOCATED LOSS EXPENSES**

The payroll base for the renewal policies is $1,690,717,122, and is subject to audit at the end of the policy year. The audited premium for 7-1-2000 - 6-30-2001 was $312,783.

Staff and the Board's insurance consultant, Siver Insurance Consultants, reviewed the various proposals, and the recommendation is being made to renew its coverage with Continental Casualty Insurance Company (CNA)(A. M. Best A XV) at the existing SIR of $500,000 per claim, resulting in a minimum premium of $1,870,823, with final premium dependent upon actual incurred payrolls for fiscal year 2002-2003.

This recommended option also provides $3,000,000 per occurrence/aggregate limits for Employers Liability coverage, down from last year's limit of $5,000,000 per occurrence/aggregate. While the limits for Employers Liability are being reduced, the exposure in this are is not significant enough to warrant the required additional expenditure required to retain the previously provided limit. Additionally, coverage under the federal Jones Act is limited to $2.5 million on an annual aggregate basis.

RECOMMENDED: That The School Board of Miami-Dade County, Florida authorize renewal of its specific excess workers' compensation coverage with Wexford Underwriters/Continental Casualty Company (CNA), A. M. Best Rated A XV, through Arthur J. Gallagher & Co., effective July 1, 2002, with a self-insured retention of $500,000, Statutory benefits for workers' compensation and $3,000,000 per occurrence/annual aggregate for Employers' Liability coverage at an estimated rate of .1110/$100 of payroll, with a deposit premium of $1,870,823, based on an estimated payroll of $1,690,717,122, final premium subject to audit of actual payrolls incurred as of July 1, 2002 through June 30, 2003.

Funds for this premium will be included in the General Fund of the 2002-2003 Adopted Budget.

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