Office of Superintendent of Schools
Board Meeting of June14, 2006

May 31, 2006

Business Operations
Ofelia San Pedro, Deputy Superintendent

SUBJECT: **RENEWAL OF SPECIFIC EXCESS WORKERS' COMPENSATION COVERAGE**

COMMITTEE: **INNOVATION, EFFICIENCY & GOVERNMENTAL RELATIONS**

At the Board meeting of June 15, 2005, the Board authorized renewal of its specific workers' compensation coverage with Wexford Underwriters/Continental Casualty Company (CNA)(A.M. Best AXV), through Arthur J. Gallagher & Co., with a self insured retention of $1 million per claim. This renewal reflected an increase in the district's self insured retention which was increased at this renewal from $750,000 per claim to $1 million per claim.

Rates for excess workers' compensation coverage began to skyrocket following the terrorist events of September 11, 2001, and have yet to stabilize. The market is driven by the ever present risk of terrorist events, as well as the fact that medical and indemnity claims severity continues to escalate, with medical and pharmaceutical costs being driven by both medical inflation and increased utilization of services.

As a result of very progressive claims management ideas being instituted over the past ten years, the district's workers' compensation claim frequency has continued to decline in recent years. Significant steps have also been implemented to control severity. Staff is presently analyzing several different management approaches to bolster the management of workers' compensation claims.

Because of the difficult nature of the excess workers' compensation insurance marketplace, staff instructed Arthur J. Gallagher & Co. to not only seek renewal terms from the incumbent, Wexford/CNA, but to also explore other markets which may be more aggressive, based upon renewal terms which have been provided to other school districts within the State of Florida.

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Wexford Underwriters/Continental Casualty Company (CNA)(A.M. Best AXV), the current carrier, was not willing to provide a renewal keeping the current self insured retention (SIR) at $1 million per occurrence. Because the district has increased its SIR over the past couple of years, staff felt strongly that unless there was a significant rate reduction to increase the SIR accordingly, the exposure of expanding the amount of self insurance was not appropriate.

Liberty Mutual Insurance Company (Liberty Mutual) has recently begun writing specific excess coverage with aggressive rates, terms and conditions. Upon reviewing the quotations Liberty Mutual recently provided Broward County School Board, staff sought quotations on this coverage through Arthur J. Gallagher & Co. The results of the negotiations and Liberty Mutual's review of the Miami-Dade County School Board's self insured workers' compensation program structure has lead to them providing the district a very aggressive quotation on this volatile coverage, inclusive of a three year commitment, which is virtually impossible to receive.

The expiring rate from CNA is .1127/$100 payroll. Liberty Mutual's quotation is based upon specific excess workers' compensation coverage, subject to the current $1 million per claim SIR, at a rate for the 06-07 policy year of .1089 per $100 of payroll. Because the actual annual premium is based upon actual incurred payrolls for the coverage year, the premium which is paid up front is a deposit premium, which is auditable, based upon the actual incurred payroll at fiscal year end. The expiring premium and recommended premium for coverage effective July 1, 2006 to July 1, 2007 are as follows:

EXPIRING PREMIUM
2005-2006 Estimated Premium based upon 2004-2005 actual incurred payrolls and subject to 2005-2006 actual payrolls - $2,068,416

RECOMMENDED PROGRAM PREMIUM
2006-2007 Deposit Premium based upon 2004-2005 actual incurred payrolls, and subject to 2006-2007 actual payrolls - $1,998,674

The terms of the proposal includes a three year agreement, inclusive of a range of rate changes representing rate decreases or increases, as determined by incurred claims during the 2006-2007 and 2007-2008 policy years. Staff is recommending that the Board take advantage of this very aggressive proposal effective July 1, 2006 for a three year term. Because the rates for 2006-2007 and 2007-2008 policy years will be dependent upon incurred claims and premiums for Federal TRIA, as determined by the Federal Government, individual recommendation for these renewals will be brought to the Board prior to policy renewal dates, outlining the actual rates and premiums to be paid for the following fiscal year.

Because the district's cost for excess coverage will more now than ever be subject to achieving positive outcomes, staff has been reviewing opportunities to enhance its ability to manage the district's self insured workers' compensation program. These opportunities include;

- Expansion of the current Workers' Education, Rehabilitation and Education (WERC) program for injured workers' to continue working in alternative work settings if they cannot return to their pre-injury worksite

- Providing incentives to worksites which accept previously injured workers who possess the physical capabilities to perform open positions; and

- Developing a strategic provider network for injured employees consisting of physicians, hospitals, physical therapy centers, pharmacies and other medical providers, subject to an outcome driven approach, in conjunction with Miami-Dade County as a component of the school district/county compact agreement.

RECOMMENDED: That The School Board of Miami-Dade County, Florida:

1. authorize purchase of its specific excess workers' compensation coverage with Liberty Mutual Insurance Company (A.M. Best A XV), through Arthur J. Gallagher & Co., effective July 1, 2006 for a year term, subject to a self insured retention of $1,000,000 per occurrence, Statutory benefits for workers' compensation and $3,000,000 per occurrence/annual aggregate for Employers Liability coverage at a rate of .1089/100 payroll, with a deposit premium for 2006-2007 coverage of $1,998,674;

2. authorize the Superintendent to negotiate rate renewals of 2007-2008 and 2008-2009, subject to future Board approval, and re-rate as determined by incurred claims, as well as premiums for Terrorism Risk Act Endorsement (TRIA), based upon estimated payroll of $1,835,329,496, with final premiums subject to audit of actual incurred payrolls for fiscal years 2006-2007; 2007-2008; and 2008-2009.

OSP:sbc