

Office of Superintendent of Schools  
Board Meeting of June 18, 2003

June 12, 2003

Financial Affairs  
George M. Burgess, Chief Financial Officer

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

**COMMITTEE: BUSINESS AND FINANCIAL SERVICES**

At the Board meeting of June 19, 2002 authorization was received to renew the Board's specific excess workers' compensation coverage with Wexford Underwriters/Continental Casualty Company (CNA), A.M. Best A XV, through Arthur J. Gallagher & Co. The premium increase for this renewal was steep. The premium for existing coverage with a per occurrence self insured retention (SIR) of \$500,000 increased from \$320,703, which was the audited premium for policy period July 1, 2001 to June 30, 2002, to the present program, which had a deposit premium of \$1,870,823, subject to audit of actual payrolls for the period July 1, 2002 through June 30, 2003.

In November, 2002, an article on the state of the excess workers' compensation insurance market reported the following:

*the excess workers' compensation market has firmed dramatically and continues in that direction. Underwriters of this coverage are more conservative in pricing, retention, and type of risk. Poor underwriting results, the cost of reinsurance and the decline in the number of markets writing this line of coverage contribute to the increased pricing. From a pricing standpoint, premium increases are prevalent, regardless of experience or risk. Factors such as low retention, high risk exposure, or adverse loss experience lead to a greater impact on the rate.*

Workers' compensation provides wage replacement and unlimited medical benefits to workers injured in the course of their employment. In the event of the death of a covered employee, it 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 this coverage, its 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.

**REPLACEMENT  
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The Board has had a self insurance program for workers' compensation 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 SIR since July 1, 1990. With workers' compensation costs rising for all employers, especially in the State of Florida, the ability to control costs has become a larger and larger challenge.

During the most recent special session of the Florida Legislature, SB 50A was passed, as one of the most sweeping workers' compensation reform bills in recent years. Incorporated in the bill are many changes to how benefits will be calculated, how much medical providers can charge, how individual claimants are deemed permanently and totally disabled under the law, all of which should have a positive impact on the Board's workers' compensation costs. Staff is currently spending a great deal of time reviewing the specifics of the bill with outside defense counsel, in conjunction with its third party claims administrator and managed care vendor, to develop a claims management strategy to maximize the impact of the bill, which will be brought back to the Board at a subsequent Board meeting.

Staff has been working with Wexford Underwriters/Continental Casualty Company to receive renewal options for its excess workers' compensation coverage. Workers' compensation claims are looked at for their frequency and severity for purposes of properly underwriting workers' compensation coverages, and while the Board's costs continue to rise, its frequency and severity, except in a few occasions in fiscal years 94-95 and 99-00 have remained relatively stable. A ten year and twenty year history comparing the number of employees, claims frequency and claims severity is being sent to the Board under separate cover.

A cost/benefit analysis of assuming higher self-insured retentions (SIR), thus allowing for a savings of premium dollars, for this renewal has been completed. This analysis was also completed last year, however, based upon the relatively low savings in premium dollars, the cost of assuming additional risk by moving from a \$500,000 per claim SIR to a \$750,000 per claim SIR, was not cost effective.

The following analysis reflects the current program, options presented at the existing SIR, along with quotations from the current carrier to move to an SIR of \$750,000 per claim, and an SIR of \$1,000,000, which would result in premium savings of \$884,102, and \$1,076,923, respectively :

	<u>CURRENT</u>	<u>OPTION 1</u>	<u>OPTION 2</u>	<u>OPTION 3</u>
Insurer	Continental	Continental	Continental	Continental
WC Limit	Statutory	Statutory	Statutory	Statutory
SIR	\$500,000	\$500,000	\$750,000	\$1,000,000
EL Limit	\$3 Mil/\$3 Mil	\$3 Mil/\$3 Mil	\$3 Mil/\$3 Mil	\$3 Mil/\$3 Mil
Premium:	\$1,870,823*	\$2,410,256*	\$1,526,154*	\$1,333,333*
Rate - \$100/Payroll	.1110	.1390	.0880	.0654

\*subject to annual audit

The Board's actuary AMI Risk Consultants, Inc., have determined that over the long run, the ultimate cost of assuming the higher \$750,000 SIR as opposed to keeping the current \$500,000 SIR could be as high as \$1.6 million. This possible additional expenditure, taken over a number of future year of claim payments must now be compared to an immediate premium savings of \$884,102. Both staff and the Board's insurance consultants, Siver Insurance Consultants, Inc., feel that it is in the Board's best interest to increase its SIR from the current \$500,000 to \$750,000, taking advantage of the immediate premium savings of \$884,102 for fiscal year 2003-2004. Because claim payments are made over a period of time, the Board would not incur immediate fiscal liability for an increase in the SIR. For comparison purposes, the most recent payments made on claims which have exceeded the Board's current SIR of \$500,000 have been made on a claim which occurred during the 94-95 fiscal year.

In order to minimize the long term fiscal impact of assuming the higher SIR, staff, and Siver, are recommending that a small portion of that savings be re-invested in the management of the Board's self-insured claims management program, the specifics of which will come back to the Board, following receipt of the Board-authorized audit of the self-insured casualty claims conducted by Deloitte & Touche, LLP. The SIR option of \$1,000,000, which would only provide an additional premium savings of \$192,821, while significantly increasing the Board's liability was not felt to be a cost effective option.

The recommended option also provides \$3,000,000 per occurrence/aggregate limits for Employers Liability coverage, as is provided by the current program.

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

1. authorize renewal of its specific excess workers' compensation coverage with Wexford Underwriters / Continental Casualty Company (CNA)(A.M. Best A XV), through Arthur J. Gallagher & Co., effective July 1, 2003 to July 1, 2004, with a self-insured retention of \$750,000, Statutory benefits for workers' compensation and \$3,000,000 per occurrence/annual aggregate for Employer's Liability coverage, at an estimated rate of .0880/\$100 of payroll, with a deposit premium of \$1,526,154, based on an estimated annual payroll of \$1,733,529,790, final premium subject to audit of actual payrolls incurred as of July 1, 2003 through June 30, 2004; and
2. authorize the Superintendent to determine what steps can be taken to control costs and strengthen the Board's current workers' compensation claims administration, including review of the final audit report from Deloitte & Touche, LLP, regarding its self-insured casualty claims program, with recommendations for management techniques and cost controls, including, but not limited to investing some of the premium savings for the 2003-2004 excess workers' compensation insurance to develop such programs, to come back to the Board at a subsequent Board meeting.

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