

Rudolph F. Crew, Ed.D, Superintendent of Schools

SUBJECT: RENEWAL OF SPECIFIC EXCESS WORKERS' COMPENSATION COVERAGE

COMMITTEE: INNOVATION, EFFICIENCY & GOVERNMENTAL RELATIONS

At the Board meeting of June 16, 2004, the Board authorized 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, 2004 to July 1, 2005, with a self insured retention of \$750,000 per occurrence. This renewal reflected the increase in the Board's self insured retention which was authorized by the Board at its meeting of June 18, 2003, at which time the retention was increased from \$500,000 per claim to \$750,000 per claim.

Rates for excess workers' compensation coverage began to skyrocket following the terrorist events of September 11, 2001, and have yet to stabilize. This inflationary 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 costs being driven by both medical inflation and increased utilization of services as technological advances influence treatment procedures.

The School Board's aggressive approach in handling workers' compensation claims has been beneficial in ameliorating some of the systemic increases. The School Board has engaged the services of Deloitte Consulting, LLP, as a result of a competitive bid which was issued three years ago, to conduct annual claims audits of the Board's self-insured workers' compensation and liability programs. The third year audit was recently conducted by Deloitte Consulting, LLP, specifically looking at claims reserve practices, and that final audit report is scheduled to be taken to the Board's Audit Committee Meeting in September, 2005.

The renewal rates, which were received from the Board's current carrier, Wexford Underwriting/CNA, reflected materially higher premiums for both the current self insured retention level of \$750,000 per claim, as well as an increased retention level of \$1 million per claim. At the direction of staff, the Board's broker, Arthur J. Gallagher & Co. sought additional quotations from other markets writing this type of coverage; however, their rates were even higher. The current and quoted rates for the Board's renewal specific excess workers' compensation coverage, including coverage for terrorism, are as follows:

2004-2005 Current Coverage	2005-2006 Coverage Option – Wexford/CNA	2005-2006 Coverage Option – AIG
<u>\$750,000 SIR</u> \$1,642,836	<u>\$750,000 SIR</u> \$2,781,999 Ann. Prem.	<u>\$750,000</u> N/A
Recommended Option	<u>\$1,000,000 SIR</u> \$1,964,988 Ann. Prem.	<u>\$1,000,000 SIR</u> \$3,873,489 Ann. Prem.
	<u>\$1,500,000 SIR</u> \$1,503,000 Annual Premium	<u>\$1,500,000 SIR</u> \$2,905,553 Ann. Prem.

All quotations are based upon an annual payroll figure of \$1,744,029,321, which was based upon incurred payrolls as of 6-30-04, submitted annually to the Florida Division of Workers' Compensation, and also include required coverage for Terrorism Risk Act Endorsement (TRIA).

Additional quotes for higher self insured retention were quoted, however, based upon an analysis of the Board's self insured actuarial report, the cost to the Board of taking higher retentions, far exceeded the premium savings.

Based upon the advice of the Board's risk management consulting firm, Siver Insurance Consultants, Inc. (Siver), after reviewing the most recent actuarial study, the Board would be best served to either stay at the current retention level of \$750,000, or increase the retention to \$1,000,000. This recommendation is based upon the additional amounts of money that the Board will spend in claim payments for higher retention levels, versus the increase in premiums.

Staff is recommending that the Board authorize renewal of its specific excess workers' compensation coverage, effective July 1, 2005, with a self insured retention level of \$1,000,000 per accident, Statutory benefits, Coverage A, and limits of \$3 million per occurrence/\$3 million annual aggregate for Employer's Liability, Coverage B, subject to a minimum and deposit premium of \$1,964,988, including terrorism coverage, with a rate of .1127/\$100 payroll, with the final premium subject to audit of actual incurred payrolls for fiscal year 2005-2006.

Although this coverage has become extremely expensive, staff and Siver strongly feel that the Board is assuming too much risk should an event result in multiple injured employees with unlimited medical expenditures, pursuant to Florida Statute, Chapter 440. Staff will continue to work diligently on initiatives to attempt to reduce both the frequency and severity of workers' compensation claims within the school district.

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 A XV), through Arthur J. Gallagher & Co., effective July 1, 2005 to July 1, 2006, with a self insured retention of \$1,000,000 per occurrence, Statutory benefits, Coverage A, for workers' compensation and \$3,000,000 per occurrence/annual aggregate, Coverage B, for Employer's Liability coverage, at an estimated rate of .1127/\$100 payroll, with a deposit premium of \$1,964,988, including required premium for Terrorism Risk Act Endorsement (TRIA), based on an estimated payroll of \$1,744,029,321, with final premium subject to audit of actual incurred payrolls for fiscal year 2005-2006.

The appropriation for this item will be included in the General Fund of the 2005-2006 Tentative Budget to be recommended for adoption in July, 2005.

RFC:sc