

- **Board of Directors**  
**Budget, Finance, Investment and Insurance Committee**

May 10, 2005 Board Meeting

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9-2

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**Subject**

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Renewal status of Metropolitan's Casualty and Property Insurance Program

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**Description**

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Pursuant to Metropolitan's Administrative Code, this letter reviews the current status of Metropolitan's insurance coverages and anticipated changes for next fiscal year. The existing Casualty and Property Insurance Program consists of the following lines of insurance and coverage amounts expiring June 2005:

1. Aircraft liability: \$25 million
2. Crime coverage: \$5 million
3. Excess general liability: \$35 million
  - Excess fiduciary and employer benefits: \$20 million
  - Public officials directors and officers liability: \$25 million
  - Following form excess general liability: \$40 million
4. Excess workers' compensation and employers liability: \$25 million

Metropolitan's casualty and property insurance policy renewals are generally expected to experience increases of approximately 5 - 15 percent by line of insurance coverage for this fiscal year. **Attachment 1** compares the current coverages and premiums to those proposed for fiscal year 2005/06. Though market conditions have been improving, premiums remain high because of the same lingering economic conditions and post 9/11 risk environment that led to the price escalation over the last four years. The premium for excess workers' compensation coverage, more affected by this condition than most types of insurance, may rise by 10 - 15 percent. This premium has risen dramatically over the last three years due to the overall risk environment, and the specific exposures arising from Metropolitan's Headquarters Building's high occupancy and its proximity to Union Station.

Metropolitan currently has workers' compensation insurance coverage of \$25 million with a \$2 million self-insured retention. The self-insured retention level was increased last year from \$1.5 million to \$2 million. Metropolitan has experienced only one workers' compensation claim with costs exceeding the self-insured retention for any recent year during the last ten years. With this favorable claims experience and an already high retention level, the excess workers' compensation policy is appropriately considered to be catastrophic coverage. In that light, the annual actuarial review indicates that Metropolitan may be able to further increase the self-insured retention without incurring significant exposure. This calculation uses a conservative best practices model, and concludes that by purchasing the coverage at the higher SIR of \$5 million, instead of the current \$2 million SIR, the premium saved over ten years would offset the risk that one year in ten a claim would have costs exceeding the current \$2 million SIR up to the proposed \$5 million retention level. By increasing the retention to \$5 million, the expected premium cost would drop approximately 57 percent from \$249,000 paid last year, to an estimated \$106,000, a decrease of \$143,000. The cost to retain the \$2 million retention level is estimated to be \$280,000. Based on the claims experience and actuarial forecast, staff recommends increasing the SIR to \$5 million.

Metropolitan's other excess and special coverages will also experience small to moderate premium cost increases. The current aircraft liability policy premium is \$98,000. The anticipated cost to obtain similar coverage is estimated to be approximately \$108,000. The cost for the current crime policy is \$19,900. Similar coverage for fiscal year 2005/06 is anticipated to be \$22,000. The excess general liability premiums are anticipated to increase

from the current aggregate cost of \$866,000 to approximately \$953,000. To complete the renewal for fiscal year 2005/06 with similar limits and retentions, staff anticipates costs of approximately \$1.36 million compared with the \$1.27 million expended in fiscal year 2004/05. If Metropolitan increases the self-insured retention level for workers' compensation coverage from the existing \$2 million to \$5 million, the total insurance premium cost is anticipated to be approximately \$1.19 million.

**Policy**

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Metropolitan Water District Administrative Code § 6413: Insurance Program; requires the Chief Executive Officer to review any changes to the insurance program.

Metropolitan Water District Administrative Code § 9101: Risk Retention and Procurements of Insurance; requires the procurement of insurance for losses in excess of reserve (\$25 million) as specified in Administrative Code Section 5202.

**Fiscal Impact**

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The total insurance premium cost is expected to range from about \$1.19 million if Metropolitan elects to have a \$5 million self-insured retention for workers' compensation, and approximately \$1.36 million if the current \$2 million retention is continued.

  
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Brian G. Thomas  
Chief Financial Officer  
4/14/2005  
Date

  
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Dennis B. Underwood  
CEO/General Manager  
4/19/2005  
Date

**Attachment 1 – Insurance Premium Comparison**

BLA #3479

**Metropolitan's Casualty and Property Insurance Program  
Insurance Premium Comparison  
In Dollars**

Insurance Policy Type	2004-2005 Actual Insurance Premium	2005-2006 Estimated Insurance Premium	Insurance Premium Cost Change	Insurance Premium % Change
Excess General Liability	387,925	427,000	39,075	10%
Crime	19,877	22,000	2,123	11%
Excess General Liability Following Form	332,806	366,000	33,194	10%
Fiduciary and Employer Benefits Liability	13,294	15,000	1,706	13%
Public Officials Directors and Officers Liability	131,890	145,000	13,110	10%
Excess Workers' Compensation with a \$2 million SIR <sup>1</sup>	249,010	280,000	30,990	12%
Excess Workers' Compensation with a \$5 million SIR <sup>2</sup>	NA	106,000	(143,010)	(58%)
Special Contingency <sup>3</sup>	7,800	NA	NA	NA
Travel Accident <sup>3</sup>	31,835	NA	NA	NA
Aircraft Liability and Hull	97,750	108,000	10,250	5%
<b>Total A - Workers' Compensation with a \$2 million SIR</b>	<b>1,272,187</b>	<b>1,365,125</b>	<b>92,938</b>	<b>7%</b>
<b>Total B - Workers' Compensation with a \$5 million SIR</b>	<b>NA</b>	<b>1,191,125</b>	<b>(81,062)</b>	<b>(7%)</b>

<sup>1</sup> SIR – Self Insured Retention

<sup>2</sup> Cost and % change if increase to \$5 million SIR

<sup>3</sup> Insurance Premium covers a three-year period; July 1, 2004 – June 30, 2007