



● **Board of Directors**
Business and Finance Committee

May 12, 2009 Board Meeting

9-2

Subject

Renewal status of Metropolitan's Property and Casualty Insurance Program

Description

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 premium estimates are expected costs, but not actual quotes. These expected costs are derived from Metropolitan's broker's experience with market conditions while securing estimates and actual binding quotes for other clients during recent months. The insurance carriers may provide indications to the broker and client as to what to expect regarding capacity for coverage limits, and expected premium rates for the coming year. Actual binding quotes are received once the carriers have completed their review of Metropolitan's underwriting and risk profile information. In June, staff will present a board letter to request authority to purchase insurance based on the quoted premiums for the various lines of coverage. The existing Casualty and Property Insurance Program consists of the following lines of insurance coverage amounts expiring June 2009:

1. \$25 million Aircraft Liability; Aircraft Hull coverage for assessed value
2. \$5 million Crime coverage for exposures such as fraud, theft, faithful performance and employee dishonesty in excess of a \$150,000 deductible
3. \$75 million General Liability coverage in excess of a \$25 million self-insured retention
4. \$60 million Fiduciary and Employee Benefits Liability coverage in excess of a \$25-million self-insured retention
5. \$65 million Public Officials, Directors and Officers Liability coverage in excess of a \$25-million self-insured retention
6. \$25 million Workers' Compensation, and \$1 million Employers Liability coverage, in excess of a \$5-million self-insured retention

Metropolitan's property and casualty insurance policy renewal premiums are generally expected to experience increases of up to 10 percent due to insurance industry investment losses, increased exposures arising from the current economic condition, and payroll growth. The Workers' Compensation excess premium will increase by up to 43 percent. The majority of the increase is due to inclusion of previously excluded fringe benefits and pay categories which caused an under-reporting of payroll resulting in a lower premium rate, and a 10 percent increase due to expected payroll growth and inflation. [Attachment 1](#) compares the current coverages and premiums to those anticipated for fiscal year 2009/10.

Premiums for excess liability coverage, the largest portion of Metropolitan's casualty insurance budget, are expected to rise about 10 percent, from the current aggregate of \$911,735 to about \$1,002,200. As noted above, the premium for excess Workers' Compensation coverage is expected to rise about \$43,000 from \$100,806 for the current policy, to about \$144,000 for fiscal year 2009/10. From fiscal years 2002/03 to 2005/06, the self-insured retention for workers' compensation coverage was raised from \$1 million to \$5 million in response to terror-risk-related premium spikes in that line of coverage. The rationale to increase the self-insured retention has been that the premium saved over a ten-year period would offset the financial risk of a "once in a decade" claim that would

exceed the self-insurance coverage in that particular year. That analysis was based on calculations derived from the annual actuarial study. Now that premiums have stabilized, staff is again evaluating the self-insured retention level for this coverage. If premiums are favorable and changes are indicated by the actuarial study, there may be opportunities to decrease the self-insured retention and maintain the coverage limit, or increase the self-insured retention and increase the coverage limit from the current \$25 million level purchased last year. In addition, staff continues to evaluate the viability of obtaining other lines of coverage such as fire and flood property coverage, and employment practices liability insurance. In past years it has not been financially favorable to insure these risks with commercial coverage.

Premium costs for other excess and specialty policies will vary by line of coverage. The aircraft liability and hull policy premium is expected to increase 5 to 10 percent due to both inflationary and exposure growth. The cost of the current crime policy is \$14,452. The cost for similar coverage for fiscal year 2009/10 is also expected to increase by about 7 percent. The fiduciary liability premium is expected to increase by as much as 10 percent from \$15,272 up to about \$16,800 for this fiscal year. To complete the insurance renewal for fiscal year 2009/10 with similar limits and retentions, and without adding new coverages, staff anticipates renewal costs of approximately \$1.191 million compared with \$1.054 million expended in fiscal year 2008/09.

Policy

Metropolitan Water District Administrative Code Section 6413: Insurance Program requires the General Manager to review any changes to the insurance program.

Metropolitan Water District Administrative Code Section 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

The total premium is anticipated to increase from \$1.054 million to about \$1.191 million for fiscal year 2009/10.



Fidencio M. Mares
Director of Human Resources

4/23/2009
Date



Jeffrey Kightlinger
General Manager

4/23/2009
Date

Attachment 1 – Insurance Premium Comparison

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

Insurance Policy Type	2008/09 Actual Insurance Premium	2009/10 Estimated Insurance Premium	Estimated Insurance Premium Cost Change	Estimated Insurance Premium % Change
Excess General Liability - \$35 million excess of \$25 million SIR	402,019	442,200	40,181	10%
Excess Liability Umbrella [■]	346,292	380,900	34,608	10%
Fiduciary and Employee Benefits Liability - \$35 million excess of \$25 million SIR	15,272	16,800	1,528	10%
Public Officials Directors and Officers Liability - \$25 million excess of \$25 million SIR	133,700	147,100	13,400	10%
Crime - \$150,000 deductible	14,452	15,400	948	7%
Excess Workers' Compensation - \$5 million SIR	100,806	144,000	43,194	43%
Aircraft Liability and Hull	41,867	44,200	2,333	6%
Special Contingency *	-	-	-	0%
Travel Accident *	-	-	-	0%
Total Expected Premiums	1,054,408	1,190,600	136,192	13%

■ Total SIR (self-insured retention) and excess insurance coverage equaling \$100 million General Liability, \$85 million Fiduciary and \$90 million Directors & Officers.

* Insurance premiums of \$7,809 and \$27,586 for Special Contingency and Travel Accident for 3 years of coverage were purchased in 2007.