THE METROPOLITAN WATER DISTRICT
OF SOUTHERN CALIFORNIA

BOARD ACTION

- Board of Directors
  Finance and Insurance Committee

6/14/2011 Board Meeting

7-1

Subject

Approve up to $1.085 million to purchase insurance coverage for Metropolitan's Property and Casualty Insurance Program

Description

The existing Property and Casualty Insurance Program consists of the following lines of insurance coverage and amounts expiring in June 2011:

1. $25 million Aircraft Liability coverage; 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. $50 million Workers' Compensation, and $1 million Employers Liability coverage, in excess of a $5 million self-insured retention; statutory coverage for Washington, D.C. employees
7. $25 million Property Damage coverage for stated value of stored property and identified locations

Metropolitan's property and casualty insurance policy premiums for fiscal year 2011/12 will decrease by approximately 3.8 percent from $1.128 million for the current fiscal year to approximately $1.085 million. The premium decrease was achieved despite insurance market volatility caused by rising inflation, a perceived worsening economy, and global catastrophic property losses in Japan, New Zealand, and Australia. In addition, Metropolitan's Special Contingency and Travel Accident Policies, both three years in duration, were renewed last year and will not be up for renewal until fiscal year 2013/14. **Attachment 1** compares the current coverage and premium costs to those proposed for fiscal year 2011/12.

Self Insured Retention and Excess Limits

Staff periodically reviews the self-insured retention levels and excess coverage limits to ensure that coverage is adequate, and to control premium costs. This is completed with the services of actuarial consultants, input from Metropolitan's risk and insurance broker, and comparisons with other like agencies. In fiscal year 2009/10 a formal actuarial report on the status of Metropolitan's self-insured retentions was completed, and it was determined that the retention levels and excess coverage limits were satisfactory for Metropolitan. The report also suggested that a higher self-insured retention could be used for the Workers' Compensation Program if cost-effective. The cost savings was not worth the added risk of raising the retention at that time. Metropolitan did take advantage of lower premiums by raising the policy limit on the Excess Workers' Compensation coverage to $50 million in fiscal year 2010/11. The $50 million coverage amount, achieved without a cost increase compared with the previous year, was more appropriate for the risk profile of Metropolitan. Because premiums are fairly stable for this coverage, staff is recommending maintaining the same $5 million self-insured retention and $50 million coverage limit obtained last year. There are no staff recommended changes to the retention levels, or insurance limits for fiscal year 2011/12; however, a cost comparison and coverage option is offered in the body of this letter.

Each of the different lines of insurance coverage is described below:

General Liability – The Excess General Liability and General Liability Umbrella policies, Fiduciary and Employee Benefits Liability, and Public Officials, Directors and Officers Liability excess policies, provide catastrophic coverage for claims in excess of Metropolitan's $25 million self-insured retention. The aggregate premium for these coverages has decreased by about 1.1 percent, from $953,364 in the current year, to about $942,898 for fiscal year 2011/12. Staff initially reviewed the option of raising the self-insured retention from $25 million to $35 million for the first layer of Excess General Liability coverage in an effort to reduce costs because there have been no potential covered losses nearing the $25 million retention level, and risk exposures have remained mostly unchanged. However, the excess general liability carriers did not quote at this higher retention.

For fiscal year 2011/12, the Excess General Liability Policy premium with Associated Electric & Gas (AEGIS) is $400,900, about 9.2 percent below the $441,424 paid for the expiring coverage. For fiscal year 2011/12, the carrier has capped the general aggregate on the coverage to double the policy limit ($70 million) from having no cap previously. This change means that if Metropolitan suffered multiple excess general liability claims in the same year, there would only be $70 million total for all general liability claims despite the $35 million per claim limit. To maintain the same protection as in prior years, Metropolitan's secondary excess General Liability provider, Energy Insurance Mutual (EIM), will provide a drop down endorsement to extend the limits beyond the $40 million if AEGIS cannot meet the $35 million limit in the event of multiple claims. The policy from EIM will cost $370,861 for fiscal year 2011/12, an increase of about 4.2 percent from the $356,014 paid in the current year. To date, Metropolitan has not experienced a covered claim loss up to or above the $25 million retention level, and staff will continue to evaluate retention levels and coverage limits as the insurance market reacts to catastrophic losses and economic cycles.

Workers' Compensation – Excess Workers' Compensation insurance protects Metropolitan for workplace injury and illness claims. This coverage is designed to handle a catastrophic event such as multiple injuries occurring at the Headquarters facility, for example, due to a major disaster. Metropolitan is self-insured for the first $5 million in losses, after which the $50 million policy limit goes into effect. During the first few years after the 9/11 terrorist attack, staff looked to increase the self-insured retention to contain premium costs, which rose due to that and other global events. In the last few years, premiums have leveled, and even declined during fiscal year 2010/11. Consequently, Metropolitan took advantage of the premium reduction, and increased the coverage limit from $25 million to $50 million last year. Metropolitan's total excess Workers' Compensation premium cost also includes a first dollar policy covering Washington D.C. based employees. Attempting to take advantage of a flat or down-market for excess workers' compensation coverage, staff reviewed the option of reducing the self-insured retention from $5 million to $2.5 million, while maintaining the $50 million excess coverage. To lower the retention to $2.5 million, the premium cost would increase over $131,000 from $95,642 paid during the current year, to nearly $227,000. The cost of a policy maintaining the $5 million retention $50 million coverage limit would be $95,559 a slight decrease of $83 from fiscal year 2010/11.

Because of Metropolitan's stable claims history and risk profile, it would not be cost effective to purchase excess coverage with a lower retention at this time. Consequently staff recommends keeping the current self-insured retentions and insurance limits.

Specialty Coverages – Metropolitan also carries Aircraft Liability and Hull, Crime, Property Damage, Travel Accident, and Special Contingency Policies to complete its insurance portfolio. The Aircraft Liability and Hull policy provides $25 million Aircraft Liability, and Hull coverage based on the assessed value of the planes. In fiscal year 2010/11, a policy covering Metropolitan's two planes cost $25,876. The cost to replace that policy with identical coverage for fiscal year 2011/12 will not change. The Crime Policy provides $5 million in coverage to protect against losses such as fraud, public employee dishonesty and forgery. The cost of the current Crime Policy is $12,097, and the premium for this policy will also remain unchanged for fiscal year 2011/12. The Property Damage policy covering specific sites damaged by the Fall 2009 fires, and ozone equipment stored offsite cost $7,385 in the current year. For fiscal year 2011/12 it will increase by about 4.2 percent to $7,692. Metropolitan's Special Contingency and Travel Accident policies, both three years in duration and renewed last year, are not up for renewal.

To complete the insurance renewal for fiscal year 2011/12, with similar limits and retentions, and maintain the coverage limit for workers' compensation at $50 million, with coverage for the Washington, D.C. employees, the cost is expected to be approximately $1.085 million compared with the $1.128 million expended in fiscal year 2010/11.

Policy

Metropolitan Water District Administrative Code Section 5202: Fund Parameters

Metropolitan Water District Administrative Code Section 6413: Insurance Program

Metropolitan Water District Administrative Code Section 9101: Risk Retention and Procurements of Insurance

California Environmental Quality Act (CEQA)

CEQA determination for Options #1 and #2:

The proposed actions are not defined as a project under CEQA because they involve continuing administrative activities, such as general policy and procedure making (Section 15378(b)(2) of the State CEQA Guidelines). In addition, the proposed actions are not subject to CEQA because they involve other government fiscal activities, which do not involve any commitment to any specific project, which may result in a potentially significant physical impact on the environment (Section 15378(b)(4) of the State CEQA Guidelines).

The CEQA determination is: Determine that the proposed actions are not subject to CEQA pursuant to Sections 15378(b)(2) and 15378(b)(4) of the State CEQA Guidelines

Board Options

Option #1

Adopt the CEQA determination and approve up to $1.085 million to renew or replace the Aircraft Liability, Crime, Property Damage, Excess General Liability Policies, and Excess Workers' Compensation Policy maintaining the existing $5 million self-insured retention, coverage limits of $50 million; and obtain coverage for the employees in Washington, D.C.

Fiscal Impact: The anticipated $1.085 million, within the $1.35 million budget, to obtain coverage would result in an approximate $43,000 decrease compared with the premium cost for fiscal year 2010/11.

Business Analysis: Metropolitan's financial position against risk of catastrophic loss

Option #2

Adopt the CEQA determination and approve up to $1.216 million to renew or replace the Aircraft Liability, Crime, Property Damage, Excess General Liability Policies, and Excess Workers' Compensation Policy with a reduced self-insured retention of $2.5 million, coverage limits of $50 million; and obtain coverage for the employees in Washington, D.C.

Fiscal Impact: The anticipated $1.216 million, within the $1.35 million budget, to obtain coverage would result in an approximate $88,000 increase compared with the premium cost for fiscal year 2010/11.

Business Analysis: Protects Metropolitan's financial position against risk of catastrophic loss

Staff Recommendation

Option #1

	5/31/2011
Fidencio M. Mares	*Date*
Director of Human Resources	
	6/2/2011
Jeffrey Kightlinger	*Date*
General Manager	

Attachment 1 – Insurance Premium Comparison

Ref# hr12611169

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

Insurance Policy Type	2010/11 Actual Insurance Premium	2011/12 Quoted Insurance Premium	Insurance Premium Cost Change	Insurance Premium % Change
Excess General Liability - $35 million excess of $25 million SIR	441,424	400,900	(40,524)	(9.2%)
Excess Liability Umbrella■	356,014	370,861	14,847	4.2%
Fiduciary and Employee Benefits Liability - $35 million excess of $25 million SIR	17,036	21,063	4,027	23.6%
Public Officials Directors and Officers Liability - $25 million excess of $25 million SIR	138,890	150,074	11,184	8.1%
Crime - $150,000 deductible	12,097	12,097	0	0%
Excess Workers' Compensation (Option 1) - $5 million SIR; $50 million limits and first dollar policy for Washington, D.C. employees	95,642	95,559	(83)	(1%)
Excess Workers' Compensation (Option 2) - $2.5 million SIR; $50 million limits and first dollar policy for Washington, D.C. employees	NA	227,000	131,358	138%
Aircraft Liability and Hull	25,876	25,876	0	0%
Property Damage	7,385	7,692	307	4.2%
Special Contingency *	5,959	NA	NA	NA
Travel Accident *	27,586	NA	NA	NA
Total Premiums FY 2010/11	**1,127,909**			
Total Expected Premiums FY 2011/12 – (Option 1)		**1,084,122**	**(43,787)**	**(3.8%)**
Total Expected Premiums FY 2011/12 – (Option 2)		**1,215,563**	**87,654**	**7.8%**

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

* Insurance premiums expiring June 2013 three-year of coverage purchased in July 2010.