THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

BOARD ACTION

- Board of Directors
  Finance and Insurance Committee

6/10/2014 Board Meeting

8-2

Subject

Approve up to $1.149 million to purchase insurance coverage for Metropolitan's Property and Casualty Insurance Program

Executive Summary

The existing Property and Casualty Insurance Program consists of the following lines of insurance coverage and amounts expiring in June 2014:

1. $25 million Aircraft Liability coverage; Aircraft Hull coverage for assessed value of the planes
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 up to the stated property value

If Metropolitan maintains the same coverage limits and retentions, the property and casualty insurance policy premiums for fiscal year 2014/15 will increase by approximately .83 percent from $1.139 million for the current fiscal year to approximately $1.149 million. This premium increase of about $10,000 is lower than initially anticipated, and was achieved despite insurance market volatility caused by poor industry investment performance, continuing rising workers' compensation claim costs, and mild inflation. **Attachment 1** compares the current coverage and premium costs to those proposed for fiscal year 2014/15.

Details

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 insurance broker, and comparisons with other like agencies. During fiscal year 2012/13, a formal actuarial report to review both the adequacy of Metropolitan's self-insured reserves as well as its retention levels relative to loss experience was completed. It concluded that reserves were adequate, and that the retention levels and excess coverage limits were appropriate for Metropolitan. The report did suggest that Metropolitan could take advantage of additional savings by going completely self-insured for Workers' Compensation given that with the current $5 million retention, the likelihood of that dollar value ever being pierced in a single event is remote.

The loss adjusted savings of being completely self-insured is estimated at about $40,000 per year. However, Metropolitan's broker believes that this may be optimistic given minimum premium thresholds in effect. At $40,000 saved per year, or even using the approximately $100,000 premium cost saved without adjusting for future losses, staff does not believe that such savings warrant the acceptance of the additional financial risk Metropolitan would assume from a catastrophic event. If Metropolitan were completely self-insured for Workers' Compensation, it would be exposed to an additional $50 million Workers' Compensation liability which is currently covered.

Metropolitan did take advantage of obtaining a lower premium rate in fiscal year 2011/12 by raising the policy limit on the Excess Workers' Compensation coverage to $50 million from $25 million. The $50 million coverage amount, achieved without a cost increase compared with the previous year, was considered appropriate for Metropolitan's risk profile. While some California public entities carry statutory limits on their excess Workers' Compensation coverage, it is not a good option for Metropolitan due to excessive premium costs. Because costs are fairly stable with only moderate increases for this coverage, staff is recommending maintaining the same $5 million self-insured retention and $50 million coverage limit obtained last year. While there are no staff recommended changes to the retention levels or insurance limits for fiscal year 2014/15, 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 increased by $33,417, about 3.5 percent, from $965,726 in the current year, to about $999,143 for fiscal year 2014/15. Staff has 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 stable. However, the excess general liability carriers did not quote at this higher retention. Staff will continue to evaluate retention levels and coverage limits for value opportunities as the insurance market reacts to catastrophic losses and economic cycles.

Workers' Compensation – Excess Workers' Compensation insurance protects Metropolitan against the financial exposure of 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 increased the self-insured retention to contain premium costs, which rose due to that and other global events. In the last few years, premiums have continued to level, and even declined during fiscal year 2011/12. Consequently, Metropolitan took advantage of the premium reduction, and increased the coverage limit from $25 million to $50 million. Metropolitan's total excess Workers' Compensation premium cost also includes a first dollar policy covering Washington D.C.-based employees. Because premium costs have risen during the past year, there is no advantage of reducing the self-insured retention from $5 million to $2.5 million, while maintaining the $50 million excess coverage. The cost of a policy to reduce the retention to $2.5 million with the same coverage limits is about $260,000, an increase of over $159,000 compared with the $100,811 for the current year. The cost for the Excess Workers' Compensation policy maintaining the $5 million retention with a $50 million coverage limit, and for the policy covering Washington D.C. employees would be about $110,107 ($109,123 for the excess policy and $984 for the policy covering Washington D.C. employees), an increase of $8,414 from fiscal year 2013/14. Based on Metropolitan's stable claims history and risk profile, and the current relative premium stability, staff recommends keeping the current self-insured retention and insurance coverage limit.

Property Insurance – The property insurance policy covering specific sites damaged by the fall 2009 fires cost $1,803 in the current year. For fiscal year 2014/15 the premium cost will decrease to $1,677.

Specialty Coverages – Metropolitan also carries Aircraft Liability and Hull coverage, 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 2013/14, a policy covering Metropolitan's two planes cost $24,609. There is no price change for the upcoming fiscal year. The Crime Policy provides $5 million in coverage with a $150,000 deductible, to protect against losses such as fraud, public employee dishonesty and forgery. The cost of the current Crime policy is $12,893. The premium for this policy will increase to $12,981 for 2014/15. Metropolitan's Special Contingency and Travel Accident policies, both three years in duration and last purchased in 2013/14, are not up for renewal until 2016/17.

The insurance renewal for fiscal year 2014/15, with similar limits and retentions, and maintaining the $5 million retention with $50 million in coverage limits for workers' compensation, is expected to cost $1.149 million compared with the approximately $1.139 million expended in fiscal year 2013/14.

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 action is not defined as a project under CEQA because it involves continuing administrative activities, such as general policy and procedure making (Section 15378(b)(2) of the State CEQA Guidelines). In addition, the proposed action is not subject to CEQA because it involves 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 action is not defined as a project and is 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 that the proposed action is not defined as a project and is not subject to CEQA, and approve up to $1.149 million to renew the expiring excess liability and specialty insurance policies, and maintain the same retentions and coverage limits.
Fiscal Impact: The anticipated $1.149 million, within the $1.3 million budget, to renew the expiring policies would result in an approximate $10,000 increase compared with the premium cost for fiscal year 2013/14.
Business Analysis: Protects Metropolitan's financial position against risk of catastrophic loss

Option #2

Adopt the CEQA determination and approve up to $1.3 million to renew the expiring excess liability and specialty insurance policies, and lower the self-insured retention for excess workers' compensation to $2.5 million.
Fiscal Impact: The anticipated $1.3 million, at the $1.3 million budget amount, to renew the expiring policies would result in an approximate $160,600 increase compared with the premium cost for fiscal year 2013/14.
Business Analysis: Protects Metropolitan's financial position against risk of catastrophic loss

Staff Recommendation

Option #1

5/20/2014

Fidencio M. Mares *Date*
Director of Human Resources

5/27/2014

Jeffrey Kightlinger *Date*
General Manager

Attachment 1 – Insurance Premium Comparison

Ref# hr12629527

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

Insurance Policy Type	Self-Insured Retention (SIR)	Coverage Limits	2013/14 Insurance Premiums	2014/15 Estimated Insurance Premium Cost	2014/15 Insurance Premium Cost Change	2014/15 Insurance Premium % Change
Excess General Liability	25 million	35 million	435,262	444,556	9,264	2.1%
Excess Liability Umbrella ▪	AEGIS layer	40 million	375,235	376,567	1,332	.35%
Fiduciary and Employee Benefits Liability	25 million	35 million	25,800	30,960	5,160	20%
Public Officials Directors and Officers Liability	25 million	25 million	129,429	147,060	17,631	11.3%
Crime	150,000	5 million	12,893	12,981	88	.6%
Aircraft Liability and Hull	1,000	25 million	24,609	24,609	0	0%
Excess Workers' Compensation, CA – **Option 1**	5 million	50 million	100,811	109,123	8,312	8.2%
Excess Workers' Compensation, CA – **Option 2**	2.5 million	50 million	-	260,000	159,189	158%
Excess Workers' Compensation, D.C.	0	Statutory	882	984	102	11.6%
Property	0	Asset value	1,803	1,677	(126)	(7.0)%
Special Contingency *	0	5 million	4,489	-	-	-
Travel Accident *	0	250,000	27,856	-	-	-
Total Premiums – Option 1	**-**	**-**	**1,138,800**	**1,148,517**	**9,717**	**.83%**
Total Premiums – Option 2	**-**	**-**	**-**	**1,299,394**	**160,594**	**12.2%**

▪ 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 2016, three-year coverage purchased July 2013.