

City of Los Alamitos

Agenda Report Consent Calendar

April 18, 2016
Item No: 8G

To: Mayor Richard D. Murphy & Members of the City Council
Via: Bret M. Plumlee, City Manager
From: Jason Al-Imam, Administrative Services Director
Subject: Notice of Intent to Withdraw Membership from the California Joint Powers Insurance Authority

Summary: This report requests City Council approval to provide the California Joint Powers Insurance Authority with a Notice of Intent to Withdraw Membership in the General Liability Program.

Recommendation: Authorize the City Manager to Issue a Notice of Intent to Withdraw Membership from the California Joint Powers Insurance Authority (CJPIA) General Liability Program and request that CJPIA waive the 12-month noticing requirement.

Background

Since 2007 the City of Los Alamitos has been a member of the California Joint Powers Insurance Authority (CJPIA), which provides risk management, loss prevention and insurance to the City. Insurance coverage includes General Liability (which includes auto liability, police professional and employment practices), workers' compensation, property insurance and crime insurance. The annual premiums for general liability and workers' compensation were \$181,036 and \$235,217, respectively in the first year. The 2016/17 premiums for general liability and workers' compensation are \$387,293 and \$295,541, respectively, which excludes amounts owed on retrospective adjustments. Given that premiums have increased by \$266,581 (64%) since 2007, the City undertook a project to review the cost of coverage under alternative insurance programs. Based on the cost of coverage analysis, the City expects to save up to \$250,834. Article 24 of the Joint Powers Agreement with CJPIA requires that members provide a twelve-month notice of intent to withdraw. The City met with Jon Shull, Executive Director of CJPIA, on March 23, 2016 to discuss the twelve-month noticing requirement. Jon Shull indicated that the Executive Committee would likely waive the twelve-month noticing requirement if the City provided notice of its intent to withdraw to the Executive Committee at its meeting at the end of April. The planned date of withdraw would be effective July 1, 2016.

Discussion

Last year the City formed a Safety Committee comprised of staff from the City, CJPIA and the City's third-party administrator in order more closely monitor claim development and to contain claim costs and minimize risk. As a result, the City has seen improvement in its claim cost "experience". For example, in the last year there was a 33% decrease in the City's general liability normalized claim costs. However, the annual premiums have increased 27% (\$83,151) and 41% (\$86,429) for the general liability program and workers' compensation program, respectively over the past two fiscal years. Given the favorable loss experience and significant cost increases associated with membership in CJPIA, the City undertook a project to review the cost of coverage under alternative insurance programs.

Municipal entities have the option of either participating in a self-insurance pool or obtaining a non-pooled traditional insurance policy for the provision of general liability and workers' compensation insurance. In nearly all cases, pools offer more favorable coverage, terms, conditions, and limits tailored to the needs of their public entity participants. In the long term, pools are generally more cost-effective for pool members.

The CJPIA general liability and workers' compensation programs provide "first dollar coverage", which means that there is no self-insured retention (SIR) or deductible. Each member pays an annual contribution to cover estimated losses for the coverage period. Every claim, regardless of the anticipated value, is reported to the CJPIA, and the CJPIA pays for all costs associated with the processing of general liability and workers' compensation claims throughout the year and handles the administration of all claims.

CJPIA is unique in that they offer first dollar coverage. Alternative insurance programs would require a self-insured retention. The advantage to having a self-insured retention is that members can directly benefit from positive claim experience when claims costs are controlled. The disadvantage is that there is more exposure to the City especially in years when claim experience is unfavorable. However, staff believes that the risk exposure can be mitigated with a self-insured retention of \$100,000 to \$125,000 per occurrence.

CJPIA is also unique in that they handle the administration of all claims. Alternative insurance programs would require that the City play a more active role in the administration of claims. The advantage to handling claim administration in-house is that the City can play a more active role in managing claim costs. The disadvantage is that this responsibility would require more staff involvement in the claims process. However, the City believes that staff has the capacity to handle the duties since the bulk of the work can be done by a third party administrator.

The City sought quotes from other pools and the open market to review the cost of coverage under alternative insurance programs. Attached is a document titled

“Insurance Program Cost Analysis”, which summarizes three scenarios of coverage, self-insured retention limits, annual premiums and other costs. The three scenarios are based on quotes and cost analysis under the following scenarios:

1. Existing coverage with CJPIA
2. Coverage from a non-pooled traditional insurance policy
3. Coverage with the California State Association of Counties – Excess Insurance Authority (CSAC – EIA), which is one of the largest insurance pools in the U.S.

** The City also looked into other pool programs. However, those pools were not a suitable fit due to significantly higher self-insured retention limits.*

Based on the quotes and cost analysis (taking into account third party administrator costs, training costs, actuarial costs and estimated claims expense), the City could save up to \$250,834 if the City obtained coverage through CSAC-EIA. CSAC-EIA is a risk sharing pool of California public agencies. In 1979, 29 California counties came together to form a Joint Powers Authority (JPA) called the CSAC Excess Insurance Authority to pool their risk and provide a viable and cost effective solution for the counties’ insurance and risk management needs. Since then, the EIA’s membership has expanded to include 93% of the counties in California and nearly 61% of the cities (for at least one line of coverage), as well as numerous school districts, special districts, housing authorities, fire districts, and other Joint Powers Authorities.

If CJPIA agrees to waive the twelve-month noticing requirement, staff will return to the City Council with the “next steps” in order to move forward with the withdraw from CJPIA. The planned date of withdraw would be effective July 1, 2016.

Fiscal Impact

The costs savings from joining CSAC-EIA is \$206,793 for the general liability program and \$44,041 for the workers’ compensation program. Although, savings could be achieved if the City obtained coverage from CSAC-EIA for both general liability and workers’ compensation, the City believes that the CJPIA workers’ compensation program offers tremendous value given the training services and claim administration support associated with that program. Therefore, staff recommends that the City remain with CJPIA for workers’ compensation coverage and obtain coverage for general liability with CSAC-EIA. The CJPIA Executive Director indicated that the City could not remain with CJPIA for workers’ compensation coverage if the City did not have liability coverage through CJPIA based on an “unwritten policy” of CJPIA. The City asked if this requirement to remain in both programs at CJPIA could be waived and the Executive Director indicated that this issue will be discussed with the Executive Committee at a workshop at the end of April.

The current preliminary projected deficit for Fiscal Year 2016/17 is \$250,169. The savings associated with the proposed changes in insurance coverage would be achieved in Fiscal Year 2016/17 and would help to close the projected budget gap.

Submitted By:

Approved By:

Jason Al-Imam
Jason Al-Imam
Administrative Services Director

Bret M. Plumlee
Bret M. Plumlee
City Manager

Attachment: 1. Insurance Program Cost Analysis

INSURANCE PROGRAM COST ANALYSIS

General Liability Insurance Program Options

	California Joint Powers Insurance Authority (CJPIA)	Non-Pooled Traditional Insurance	CA. State Assoc. of Counties - Excess Insurance Authority
	CJPIA is an insurance authority where self-insured losses are pooled and shared . Each member pays an annual contribution to cover estimated losses for the coverage period. This initial funding is paid at the beginning of the coverage period. After the close of the coverage period, outstanding claims are valued. A retrospective deposit computation is then conducted annually thereafter and the subsequent cost re-allocation among members based on actual claim development can result in adjustments of either refunds or additional deposits required.	Stand-alone market quote obtained from Alliant National Municipal Liability Program (ANML). ANML is a group purchase program. Participants in ANML do not share risk . Each participating entity has its own limits of liability and a choice of self-insured retentions.	CSAC Excess Insurance Authority is a risk sharing pool of counties and public agencies. It is one of the largest insurance pools in the U.S. Pooled up to \$5 million.
Limits:	\$50 million per occurrence	\$20 million any one occurrence or any combination thereof	\$25 million any one occurrence or any combination thereof
Retention:	First dollar coverage up to \$5 million per occurrence	\$100,000 per occurrence	\$100,000 per occurrence
Premium:	\$387,293 Annual Premium	\$210,000 Annual Premium (including broker fee) Indication (not bindable)	\$74,000 Annual Premium (including broker fee) Not to exceed premium quote
All-Inclusive Cost	\$387,293 Insurance Premium included Third Party Administrator Costs included Training Costs included Actuarial Services <u>included</u> Claims Expense (excluding retrospectives) \$387,293	\$210,000 Insurance Premium 18,000 Third Party Administrator Costs 5,000 Training Costs 7,500 Actuarial Services <u>76,000</u> Estimated Claims Expense \$316,500 \$70,793 annual savings	\$74,000 Insurance Premium 18,000 Third Party Administrator Costs 5,000 Training Costs 7,500 Actuarial Services <u>76,000</u> Estimated Claims Expense \$180,500 \$206,793 annual savings

INSURANCE PROGRAM COST ANALYSIS

Workers' Compensation Insurance Program Options

	California Joint Powers Insurance Authority (CJPIA)	Non-Pooled Traditional Insurance	CA. State Assoc. of Counties - Excess Insurance Authority
	<p>CJPIA is an insurance authority where self-insured losses are pooled and shared. Each member pays an annual contribution to cover estimated losses for the coverage period. This initial funding is paid at the beginning of the coverage period. After the close of the coverage period, outstanding claims are valued. A retrospective deposit computation is then conducted annually thereafter and the subsequent cost re-allocation among members based on actual claim development can result in adjustments of either refunds or additional deposits required.</p>	<p>Layer 1 - Great American E&S Insurance Company Limit of \$900,000 excess of your \$100,000 retention Layer 1 has a 10 year sunset clause.</p> <p>Layer 2 - New York Marine & General Insurance Company Statutory WC limit with a \$1M Employers Liability Limit excess of the Great American policy</p>	<p>CSAC Excess Insurance Authority is a risk sharing pool of counties and public agencies. It is one of the largest insurance pools in the U.S. Pooled up to \$5 million.</p>
Limits:	Statutory Limit	Statutory Limit	Statutory Limit
Retention:	First dollar coverage	\$100,000 per occurrence	\$125,000 per occurrence
Premium:	\$295,541 Annual Premium	\$204,454 Annual Premium (including broker fee) Bindable quote	\$152,000 Annual Premium (including broker fee) Not to exceed premium quote
All-Inclusive Cost	<p>\$295,541 Insurance Premium included Third Party Administrator Costs included Training Costs included Actuarial Services <u>included</u> Claims Expense (excluding retrospectives) \$295,541</p>	<p>\$204,454 Insurance Premium 14,000 Third Party Administrator Costs 10,000 Training Costs 7,500 Actuarial Services <u>61,000</u> Estimated Claims Expense \$296,954</p> <p>\$1,413 annual cost</p>	<p>\$152,000 Insurance Premium 14,000 Third Party Administrator Costs 10,000 Training Costs 7,500 Actuarial Services <u>68,000</u> Estimated Claims Expense \$251,500</p> <p>\$44,041 annual savings</p>