

# Text Comparison

## Documents Compared

Insurance & Risk Management I.pdf

Insurance & Risk Management II.pdf

## Summary

112 word(s) added

144 word(s) deleted

6509 word(s) matched

24 block(s) matched

To see where the changes are, scroll down.

# Insurance and Risk Management

## Overview

Until 2006, the City had an Insurance Risk Management Department that was a part of City Administration; it reported directly to the Business Administrator. The Department was staffed as follows:

- Risk Manager: In 2004, the position was eliminated; a consultant was then hired to assist the City with the procurement of insurance and to serve as a liaison between the City's insurance brokers and the City.
- Loss Control/Safety Representative: In 2006, the position was eliminated. This position/function is now being addressed on an ad hoc basis.
- Administrative Assistant: In 2006, ~~the position was eliminated. In 2011, the function was incorporated into the Bureau of Human Resources (HR) as part of an HR Generalist's job duties~~ to work closely with the City's Finance Director, Solicitor, Insurance Consultant and Insurance Brokers. The HR Generalist is also responsible for the oversight of City's Workers' Compensation and Property Claims reporting and recovery.

Having eliminated the Risk Management Department, the City retained a consultant to assist with its insurance and risk management program; this self-employed consultant is the City's former Insurance Manager. The consultant serves as a general resource to the City with regard to insurance questions and issues. The consultant's defined responsibility is to manage the procurement of insurance. This includes the following:

- Developing coverage specifications for each line of coverage being renewed;
- Developing renewal goals and objectives;
- Developing a renewal time line;
- Providing assistance to City personnel and the insurance brokers representing the City;
- Evaluating renewal offerings; and
- Setting forth objective recommendations in the best interest of the City.

Because the City's in force insurance program is not written through direct writers, the City must utilize the services of an intermediary to access and to place the coverage with insurers that comprise the world insurance market.

The City currently utilizes the services of two intermediaries or brokers: Marsh USA, Inc. (Marsh) and American Insurance Administrators, Inc. (AIA). Marsh had been the City's insurance broker prior to 2008. In mid-2008, the City elected to change its insurance broker and gave a Broker of Record Letter to AIA, which in effect transferred responsibility for managing the City's insurance program from Marsh to AIA. AIA managed the City's insurance program for the 2008-2009 and 2009-2010 terms (i.e., October 1-September 30).

In mid-2010, the City developed through its consultant a Request for Proposal (RFP). The RFP was presented to three competing brokerage firms: Marsh, Wells Fargo and Arthur J. Gallagher. The competing firms were all assigned specific markets they would be allowed to approach to solicit an insurance offering for the City in connection with the 2010-2011 term. According to the consultant, the City was facing the real possibility of not receiving a renewal offering that could result in the loss of insurance coverage. Therefore, the consultant recommended brokers that had significant

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- Loss Control/Safety Representative: In 2006, the position was eliminated. This position/function is now being addressed on an ad hoc basis.
- Administrative Assistant: In 2006, the position was eliminated from being within the Insurance and Risk Management Department and the person that had assumed this position was transferred as a Special Assistant to the Deputy, Business Administration Department where this function was handled from 2007-2009. In 2009, the person responsible for this function was transferred to the Bureau of Human Resources as an HR Generalist. The job duties of this position are to work closely with the City's Finance Director, Solicitor, Insurance Consultant and Insurance Brokers. The HR Generalist is also responsible for the oversight of City's Workers' Compensation and Property Claims reporting and recovery.

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experience in the public sector market and who could therefore leverage their relationships to the benefit of the City.

## Assessment

There were four contracts that were not included within the RFP, such as the Excess Workers' Compensation policy, the Flood Policies that were issued through the National Flood Insurance Program, the Fiduciary Liability policy issued for the Police Pension Fund and the Employee Dishonesty Bond issued for the aforementioned pension fund in compliance with Employee Retirement Income Security Act (ERISA) requirements. It is the Act 47 Coordinator's understanding from speaking with the City's consultant that the City made a conscious decision to allow AIA to continue to manage these contracts as opposed to transferring all contracts to Marsh.

From an administrative perspective, it would be more efficient to have these contracts managed by the same broker managing the balance of the City's insurance program. For example, AIA places the Excess Workers' Compensation policy, while Marsh places the City's Umbrella Liability policy, which must list the Excess Workers' Compensation policy as an underlying primary policy since the Umbrella policy provides coverage in excess of the Employers' Liability coverage that the Excess Workers' Compensation policy provides. As another example, Marsh provides the City with its property insurance needs and yet AIA places the Flood Insurance. Typically, the same broker provides both types of coverage because frequently the property program provides flood coverage in excess of any available flood coverage provided through the National Flood Insurance Program (NFIP). In order for Marsh to properly negotiate flood coverage under the property policy, they must have a complete understanding of what properties have been provided with flood coverage and what the limits are as provided through the NFIP. ~~It is also unclear why AIA would provide an ERISA bond to the Police Pension Fund, when Marsh provides the Crime coverage, which can be amended to include ERISA coverage.~~

There is no specific number of brokers the City should use that would be considered optimal. The number of brokers a city utilizes is dependent upon the expertise, cost and experience of the account service team(s) the broker has on staff and has assigned to service the city's insurance program. It certainly is possible for a single broker to possess the requisite skills, experience and understanding to service all of a city's insurance needs. Other cities have relied on two brokers in which one manages the city's first party property insurance needs while a second broker manages the city's third party liability or casualty insurance needs.

Appointed broker(s) must operate under an executed Brokerage Engagement Letter that clearly sets forth roles and responsibilities, service level expectations, termination criteria, indemnity requirements and others. The City has executed an Engagement Letter (Letter) with Marsh, effective October 1, 2010 for a one year term. There is no Engagement Letter in place between the City and AIA.

Several sections of the Marsh Letter should be amended at renewal if Marsh is to be reappointed. They are as follows:

- Section 1. Services – Services related to Marsh placements, Paragraph (o) – The paragraph makes reference to Marsh's minimum financial guidelines. The minimum financial guidelines must be stated and no insurer that is participating in underwriting the City insurance program should have a rating that falls below an A.M. Best rating of A- (XII). Under the sub-heading "Pre Marketing Services" a paragraph (d) must be inserted that sets forth a requirement for a

the City was facing the real possibility of not receiving a renewal offering that could result in the loss of insurance coverage. Therefore, the consultant recommended brokers that had significant experience in the public sector market and who could therefore leverage their relationships to the benefit of the City.

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Renewal Time Line to be provided. A paragraph (e) should be inserted that sets forth a requirement to develop renewal goals and objectives.

- Section 2. Compensation – This section states that “any commissions collected by Marsh or its affiliates shall be considered fully earned at the time of placement.” If [the City were] to terminate its policy before it expires, Marsh would retain the commission it has collected except that, if Marsh places the replacement policy, Marsh will return any unearned commission.” This section must be amended such that if a policy is terminated prior to the expiration of the policy, any unearned commission will be returned to the City based on a pro rata formula.
- Section 4. Taxes and Fees – The Letter must be amended to state that Marsh will always specifically identify the applicable taxes and fees for which the City will be liable as part of their insurance offerings, directly below the insurer’s premium. Further, whenever summarizing insurance costs, taxes and fees must be included as a separate line item in order for the City to obtain a complete summary of its insurance costs and related taxes and fees.
- Section 7. Disclaimers; Limitation of Liability – Marsh limits its liability to \$10 million. It is reasonable to assume that the Insurance Agent & Brokers Professional Liability insurance program being maintained by Marsh is significantly higher. Hence, the section should be amended such that the limitation is either \$10 million or the total limit Marsh maintains with regard to the Insurance Agent & Brokers Professional Liability insurance program it maintains, whichever is greater.

### **Brokerage Compensation**

There are several ways in which brokers can be compensated. One way is traditional commission, or percentage basis, in which the broker receives a percentage of the policy’s gross annual premium, with commissions ranging from 5% to 7% on Workers’ Compensation policies and 10% to 30% on all other lines of coverage. A commission or percentage based compensation arrangement places any insurance broker in a perceived conflict of interest position, since the lower the insurance premium, the lower the commission earned. Such a compensation methodology also fails to equate time spent in delivering client service to compensation earned. The alternative to commission compensation is to negotiate a fee for service in lieu of commission. A fixed fee provides the broker with a fair, negotiated level of compensation for work performed. Therefore, the lower the insurance premiums, the higher the ratio the insurance broker has earned for a fee. It also allows for separating the cost of risk transfer from the cost of placement and follow-up service. In separating the expense, the City can establish a fee that is commensurate with the time and value of the service being provided. Often on large placements, the negotiated fee is less than what the commission would have been, hence reducing placement expense.

In Section 2 – Compensation of the March Letter, Marsh receives commission income on all lines of coverage placed on the City’s behalf. When questioned about the commission rates being received on the lines of coverage they place on the City’s behalf, Marsh had negotiated with Travelers’ to accept a lower commission rate (i.e., 10% vs. 15% or 12.5%) in exchange for more favorable terms to be provided to the City. The following table is an accounting of Marsh’s compensation based on their representation that they are receiving 10% on all lines.

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Line	Premium October 1, 2010 - 2011	Commission Percentage	Brokerage Compensation
Commercial Property	\$228,622	10%	\$22,862
Fine Arts	\$17,858	10%	\$1,786
Inland Marine	\$13,824	10%	\$1,382
Crime	\$4,769	10%	\$477
General Liability	\$166,600	10%	\$16,660
Liquor Liability	\$736	10%	\$74
Employee Benefit Plan Liability	\$428	10%	\$43
Automobile Liability	\$188,171	10%	\$18,817
Auto Physical Damage	\$43,367	10%	\$4,337
Cyber Liability	\$3,241	10%	\$324
Umbrella Liability	\$67,310	10%	\$6,731
Law Enforcement Liability	\$285,091	10%	\$28,509
Public Entity Management Liability	\$19,803	10%	\$1,980
Public Entity Employment Practices Liability	\$110,670	10%	\$11,067
<b>Totals:</b>	<b>\$1,150,490</b>		<b>\$115,049<sup>22</sup></b>

Marsh's Insurance Program is as follows:

Line	Insurer	Limit	Retention	Premium
Property	Travelers	\$231,409,420	\$25,000	\$228,622
Inland Marine	Travelers	Varies	Varies	\$13,824
Fine Arts	Ace American	\$25,000,000	N/A	\$17,858
General Liability	Travelers	\$1,000,000	\$0	\$166,600
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Public Entity Employment Practices Liability	Travelers	\$2,000,000	N/A	\$110,670
Automobile Liability	Travelers	\$1,000,000		\$188,171
Automobile Physical Damage	Travelers	Actual Cash Value	\$1,000 (except Fire Trucks = \$3,000)	\$43,367
Cyber Liability	Travelers	\$1,000,000		\$3,241
Umbrella Liability	Travelers	\$5,000,000		\$67,310
<b>Aggregate Annual Insurance Premium Expense</b>				<b>\$1,150,490</b>

AIA's compensation is also based on the traditional percentage commission means of compensation. A projection of AIA's annual compensation is shown in the table below.

<sup>22</sup> Subject to the City's approval, should the City request Marsh to provide Flood Zone Determinations, Marsh has the right as per the terms of the Letter to charge an additional fee of \$8.75 per Determination. However, Marsh has agreed to waive this fee for the current term only (i.e., October 1, 2010-September 30, 2011) for any Determinations delivered by Marsh as requested by the City.

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Line	Premium January 1, 2011 - 2012	Commission Percentage	Brokerage Compensation
Police Pension Bond	\$5,595	15%	\$839
Fiduciary Liability	\$25,500	15%	\$3,825
Excess Workers Compensation	\$73,972	15%	\$11,096
National Flood	\$115,155	15%	\$17,273
<b>Totals:</b>	<b>\$220,222</b>		<b>\$33,033</b>

Costs of AIA's insurance program are shown in the table below.

Line	Insurer	Limit	Retention	Premium
ERISA Bond	Travelers	\$5,000,000	\$50,000	\$5,595
Fiduciary Liability	Chubb	\$5,000,000	\$5,000	\$25,500
Excess Workers Compensation	Safety National	Statutory	\$500,000 Self Insured Retainer	\$73,972
Flood	National Flood Insurance Program	Varies	Varies	\$115,155
<b>Aggregate Annual Insurance Premium Expense</b>				<b>\$220,222</b>

To market the City's program, multiple markets were approached by Marsh and the other two brokers that participated in the RFP process. One can reasonably assume that the program that is in force is the most competitive offering presented. The Act 47 Coordinator has been informed, however, that while Travelers may have had the most competitive offering, the market is concerned that with the City being in financial distress, claims management and loss control/safety programs will be abandoned that could cause an increase in general liability and automobile liability incidents. Further, if City employees continue to be laid off, there may be a spike in Workers' Compensation claims.

AIA attempted to remarket the Excess Workers' Compensation policy and had approached multiple markets. However, the only offer received was from Safety National, the incumbent.

Set forth in the sections below are the lines of coverage in which there are opportunities for improvement and/or items that impact cost in which the City either has or does not have the ability to control.

#### ***Workers' Compensation and Employer's Liability***

Details of the City's Worker's Compensation program are as follows:

- Primary: Qualified Self-Insurer
- Retention: \$500,000 All Employees
- Excess: Safety National Group
- A.M. Best Rating: A (X)
- Excess Coverage Term: January 1, 2011 - 2012

#### ***Financing***

The City is a qualified self-insurer for Workers' Compensation benefits and has received approval from the Department of Labor and Industry, Bureau of Workers' Compensation for the Commonwealth of Pennsylvania to be exempt from the necessity of insuring its liability to pay

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compensation as provided under the Workers' Compensation Act; such exemption is commonly referred to as becoming a qualified self-insurer.

As required by 24 PA. Code, Chapter 125, excess insurance covering self-insurance liability is required for granting self-insurance status. The City has purchased an Excess Workers' Compensation policy underwritten by Safety National.

Prior to the 2011 policy term, the City had a retention of \$450,000 per claim for all City employees, except police officers where the retention was \$500,000 per claim. At renewal, the City was offered two options: to maintain the expiring retention levels or increase the retention to \$500,000, applicable to all City employees. ~~For reasons which are unknown, AIA which places the excess coverage was specifically told not to provide a recommendation on which of the two options they felt was in the best interest of the City.~~ The option that was selected was the latter, which increased the retention to \$500,000 per claim for all City employees. The cost difference between the two options was \$9,352 (i.e., \$93,519 vs. \$84,167).

Further, the City is required to maintain a trust fund in which a balance is maintained that equates to the City's ultimate financial liability in connection with all open claims and those that have been "incurred but not reported," commonly referred to as IBNR. The amount of this liability is determined annually by the Department of Labor and Industry, Bureau of Workers' Compensation for the Commonwealth based on an actuarial analysis of the City's loss experience. Based on the information provided, the Bureau, using staff casualty actuaries, estimated the outstanding liability for claims incurred; the City was required to make a deposit to its Workers' Compensation Security Fund based on this analysis. As of January 31, 2011, the City maintained a balance of \$1,157,424 that is on deposit with Wells Fargo.

#### *Heart and Lung Act*

Like any City employee, when police officers and fire fighters suffer an injury, they too are entitled to Workers' Compensation benefits. However, before benefits are paid under Workers' Compensation, wage loss benefits are first paid under the Heart and Lung Act (the Act).

The Act covers temporary injuries suffered by a police officer or firefighter while in the act of performing their job duties. Fractures, broken bones, burns and injuries inflicted by suspects or prisoners are among the injuries covered, if they are of a temporary nature. Injuries resulting in permanent disability are covered by the Workers' Compensation system. There is no defined benefit period. The Act dictates benefits are to be paid for as long as the employee is found to be temporality disabled. Only when the disability is determined to be permanent can wage benefits under the Act be terminated in accordance with due process; in that instance, wage loss handled under Workers' Compensation. The disabled employee under the Act is entitled to 100% of their wage, unlike under Workers' Compensation where the weekly benefit is subject to 66.66% of the employee's average weekly wage from the preceding 12 months. While the benefits under the Act bring a significant higher cost to the City than what the Workers' Compensation benefit may have been, there is nothing the City can do as the Act governs how injured police officers and firefighters are to be paid in the event of a work related disability.

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As required by 24 PA. Code, Chapter 125, excess insurance covering self-insurance liability is required for granting self-insurance status. The City has purchased an Excess Workers' Compensation policy underwritten by Safety National.

Prior to the 2011 policy term, the City had a retention of \$450,000 per claim for all City employees, except police officers where the retention was \$500,000 per claim. At renewal, the City was offered two options: to maintain the expiring retention levels or increase the retention to \$500,000, applicable to all City employees. The option that was selected was the latter, which increased the retention to \$500,000 per claim for all City employees. The cost difference between the two options was \$9,352 (i.e., \$93,519 vs. \$84,167).

Further, the City is required to maintain a trust fund in which a balance is maintained that equates to the City's ultimate financial liability in connection with all open claims and those that have been "incurred but not reported," commonly referred to as IBNR. The amount of this liability is determined annually by the Department of Labor and Industry, Bureau of Workers' Compensation for the Commonwealth based on an actuarial analysis of the City's loss experience. Based on the information provided, the Bureau, using staff casualty actuaries, estimated the outstanding liability for claims incurred; the City was required to make a deposit to its Workers' Compensation Security Fund based on this analysis. As of January 31, 2011, the City maintained a balance of \$1,157,424 that is on deposit with Wells Fargo.

#### *Heart and Lung Act*

Like any City employee, when police officers and fire fighters suffer an injury, they too are entitled to Workers' Compensation benefits. However, before benefits are paid under Workers' Compensation, wage loss benefits are first paid under the Heart and Lung Act (the Act).

The Act covers temporary injuries suffered by a police officer or firefighter while in the act of performing their job duties. Fractures, broken bones, burns and injuries inflicted by suspects or prisoners are among the injuries covered, if they are of a temporary nature. Injuries resulting in permanent disability are covered by the Workers' Compensation system. There is no defined benefit period. The Act dictates benefits are to be paid for as long as the employee is found to be temporality disabled. Only when the disability is determined to be permanent can wage benefits under the Act be terminated in accordance with due process; in that instance, wage loss handled under Workers' Compensation. The disabled employee under the Act is entitled to 100% of their wage, unlike under Workers' Compensation where the weekly benefit is subject to 66.66% of the employee's average weekly wage from the preceding 12 months. While the benefits under the Act bring a significant higher cost to the City than what the Workers' Compensation benefit may have been, there is nothing the City can do as the Act governs how injured police officers and firefighters are to be paid in the event of a work related disability.

### Claims Management

The City has contracted with Inservco Insurance Services (Inservco) as a third party claims administrator to process its self-insured Workers' Compensation claims. Inservco has been the City's Claims Administrator since 2000.

As the City sought to solicit competitive bids for the 2011 term, Inservco agreed to extend the expiration date of their contract from December 31, 2010 to March 1, 2011 in order to allow the City time to develop an RFP and to solicit competing bids. The City ~~required that the bidder have a business presence within the City; only two firms were able to meet this requirement.~~ They were PMA and Inservco. The most competitive bid was from Inservco. As a result of the competitive process, the renewal rates offered by Inservco were reduced. As the City sought to maintain a calendar year contract, Inservco's current contract was written for the term March 1, 2011 through December 31, 2011. Set forth below is a comparative analysis of the Inservco rates in 2010 and the rates for 2011 as a result of the competitive bidding.

	Min Fee	Max Fee	Medical Only Fee	Indemnity Fee
<b>2010</b>	\$31,195	\$40,989	\$129.10	\$647.73
<b>2011</b>	\$20,000	\$35,000	\$125.00	\$595.00
<b>Difference</b>	(\$11,195)	(\$5,989)	(\$4.10)	(\$52.73)

Clearly the competitive bidding process has allowed the City to reduce its Workers' Compensation claims management expense. The City was also presented with another option to consider (Option II). That was a Cost per Claim (regardless of Type) expense option in which the cost would be \$230 per claim. As for which option was the more cost effective option, claim count data by claim type for each of the past three years (i.e., 2008, 2009 and 2010) follows:

Year	Claim Type	No. of Claims	2011 Rates	Cost
<b>2008</b>				
<b>Option I</b>	Medical Only	90	\$125	\$11,250
	Indemnity	30	\$595	\$17,850
	<b>Total</b>	<b>120</b>		<b>\$29,100</b>
<b>Option II</b>	<b>Total</b>	<b>120</b>	<b>\$230</b>	<b>\$27,600</b>
<b>2009</b>				
<b>Option I</b>	Medical Only	110	\$125	\$13,750
	Indemnity	19	\$595	\$11,305
	<b>Total</b>	<b>129</b>		<b>\$25,055</b>
<b>Option II</b>	<b>Total</b>	<b>129</b>	<b>\$230</b>	<b>\$29,670</b>
<b>2010</b>				
<b>Option I</b>	Medical Only	80	\$125	\$10,000
	Indemnity	26	\$595	\$15,470
	<b>Total</b>	<b>106</b>		<b>\$25,470</b>
<b>Option II</b>	<b>Total</b>	<b>106</b>	<b>\$230</b>	<b>\$23,380</b>
<b>Three Year Average</b>				
<b>Option I</b>	Medical Only	93.3	\$125	\$11,663
	Indemnity	25	\$595	\$14,875
	<b>Total</b>	<b>118.3</b>		<b>\$26,538</b>
<b>Option II</b>	<b>Total</b>	<b>118.3</b>	<b>\$230</b>	<b>\$27,209</b>

It would appear that based upon the City's claim history over the last three years, there is no one option that is substantially better than the other from a cost perspective. Hence, either alternative at this time would appear equally viable from a cost containment perspective.

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### *Large / Problem Claim Notification - Management*

The City manages its claims through an ad hoc committee that meets every other month. The committee is comprised of two representatives from the City's Bureau of Human Resources (one of which is the Director of Human Resources), the City Solicitor and outside legal counsel. When cases involve Police or Fire Bureau personnel, the Chiefs of these departments are invited to attend the meetings. It appears the City manages claims that have the potential to be problematic or have a large case reserve. The City, like any employer, from time to time is presented with a large claim. However, the City has been fortunate that problematic or large cases are the exception as opposed to the norm.

In regard to the manner in which the City is managing its Workers' Compensation claims, it would appear that the City takes an aggressive approach to investigate and manage these claims. The challenge the City faces, as does any employer, is that once the employee files a claim and it is accepted, the system tends to be employee friendly in regard to the termination of a claim. Based on the information examined, the City and its Claims Administrator are aggressively managing their respective responsibilities.

### *Light Duty Program*

One primary tool to minimize loss experience is to return injured employees to work as soon as possible by offering light duty or modified duty assignments if they cannot return to full duty work. A light duty or modified duty job must be approved in writing by the employee's doctor before the light duty job offer is made. Light duty, modified duty and transitional work are all similar in that the goals of each are the same – return the injured employee to work as soon as possible. The earlier a person returns to work, the lower the claim costs.

The City's use of Light Duty is as follows:

- **Firefighters:** According to staff, their collective bargaining agreement (CBA) requires that five positions in the department must be used for Light Duty assignments for injured firefighters who are medically able to assume Light Duty assignments. Further, the CBA does not permit injured firefighters to be assigned to a Light Duty position anywhere else within City government, hence injured firefighters can only be employed within the Fire Bureau.

When asked what would happen if the five positions were occupied and additional firefighters were injured and eligible for Light Duty, staff indicated that in all likelihood the newly injured workers would not return to work, as the CBA only requires five positions to be used for Light Duty assignments.

While the Department has agreed to Light Duty assignments, it is recommended that a specific number of agreed upon positions should be eliminated. Further, if the Fire Department does not have a light duty position that can accommodate an injured firefighter, then as an employee of the City, the firefighter should be permitted to be assigned anywhere else in City government where a need exists that takes into account the injured firefighter's medical limitations.

- **Police:** According to staff, the CBA does not make any reference to the participation in a Light Duty program. The support and cooperation given by the Police Bureau to place disabled police officers in Light Duty positions is positive and the Police Chief is to be commended for his tenacious support of Light Duty assignments. In 2009, the Police Bureau incurred approximately \$200,000 annually in Injured on Duty costs. By bringing back injured

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police officers and placing them in open Light Duty positions, in 2010 the annual cost was reduced to \$110,000.

- **Non-Uniform or AFSCME Workers:** A Light Duty program is practiced with success as it relates to non-uniform employees of City government. The City aggressively employs such a program.

### ***Automobile Liability and Physical Damage***

Details of the City's program are as follows:

- Insurer: Travelers Companies, Inc.
- A.M. Best Rating: A+(XV)
- Limit: 1,000,000
- Retention (Liability): \$0
- Deductible (Phys. Damage)
  - All Vehicles \$1,000
  - Fire Trucks \$3,000

The City owns approximately 320 vehicles, plus 43 trailers, licensed for road use, all of which are insured under a policy provided by Travelers Insurance Company. There is no deductible as it relates to third party liability claims, while the deductible for Physical Damage (i.e., collision and comprehensive) claims involving City owned vehicles is \$1,000 per accident with the exception of fire trucks where the deductible is \$3,000 per accident.

### ***Fleet Safety***

The City should undertake Fleet Management and Fleet Safety programs. There are no formal guidelines developed to deal with employees who have at fault accidents or moving violations.

### ***Physical Damage Self Funding***

The policy provides coverage for physical damage (i.e., collision and comprehensive) to the City's entire fleet of vehicles. This typically is one area that an organization with a large fleet of vehicles will find more cost effective to self-insure (depending upon the number of vehicles, physical damage premium and loss experience). While the Act 47 Coordinator is not aware as to the premium applicable to physical damage coverage, with 320 vehicles and 43 trailers making up the City's fleet, it would appear to be economically viable to self-insure the physical damage exposure.

### ***Physical Damage Subrogation***

A \$1,000 deductible is applicable to all physical damage losses to a City vehicle, with a deductible of \$3,000 for fire trucks. Where a City vehicle is damaged and the repair costs are less than the deductible, the City, through its Purchasing Department, pursues recovery against the responsible third party or their insurer. If the City elects to self-insure its physical damage exposure, this is one area that will need to be aggressively managed in terms of fairly and accurately appraising the cost of repairs to a damaged vehicle and the need to pursue subrogation against the responsible third party or their insurer.

### ***Underinsured (1) and Uninsured (2) Motorist Coverage***

The limit applicable to Underinsured Motorist Coverage is \$1 million and the limit applicable to Uninsured Motorist Coverage is also \$1 million. Each is described below:

- (1) An "Underinsured Motorist Clause" provides coverage to a party for property damage and bodily injury caused by another motorist whose coverage is insufficient to cover the damages that they caused. The clause allows the policy to compensate the

police officers and placing them in open Light Duty positions, in 2010 the annual cost was reduced to \$110,000.

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injured party for the difference between the injury suffered and the liability covered by the insurance of the driver at fault.

(2) An "Uninsured Motorist Clause" provides for a driver to receive damages for any injury they receive from an uninsured, negligent driver.

The Commonwealth of Pennsylvania requires that all commercial vehicles maintain a minimum limit of \$35,000. While it is not uncommon to carry limits greater than the statutory minimum, it comes at a cost.

### ***Property Insurance***

The City's property insurance program is as follows:

- Insurer: Travelers Companies, Inc.
- A.M. Best Rating: A+ (XV)
- Limit: \$231,409,420
- Deductible: \$25,000

The City insures its property with the Travelers Insurance Company. The projected aggregate replacement cost for all City facilities and contents is \$231,409,420. The policy is subject to a \$25,000 deductible. At issue is potential damage done to City property by third parties in which the repair cost is less than \$25,000. As with auto physical damage subrogation, it appears that recovery is pursued, hence, the City, through its Bureau of Human Resources, is recovering incurred costs.

### ***Law Enforcement Liability***

The City's law enforcement liability coverage is as follows:

- Insurer: Travelers Indemnity Insurance Company
- A.M. Best Rating: A+ (XV)
- Limit: \$1,000,000
- Retention: Nil

The City insures against third party liability arising from Law Enforcement Liability through a policy underwritten by Travelers Indemnity Insurance Company.

### ***Umbrella Excess Liability***

The City's umbrella excess liability coverage is as follows:

- Insurer: Travelers
- A.M. Best Rating: A+ (XV)
- Limit: \$5,000,000 in excess of underlying primary General Liability, Automobile Liability and Employers Liability

The Excess Liability policy captioned above is designed to provide catastrophe protection in excess of the primary casualty policies in force such as the General Liability, Automobile Liability and Employers Liability. As the first two each provide a limit of \$1 million per occurrence, the City has an aggregate level of protection in connection with general liability or tort claims and automobile liability claims of \$5 million.

While the City is protected by governmental immunity by statute, claims can still be made against the City for gross negligence in tort and claims involving auto liability.

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## Initiatives

<b>IRM01.</b>	<b>Fund Risk Management Services</b>	
	<b>Target outcome:</b>	Improved risk management
	<b>Five year financial impact:</b>	(\$116,483)
	<b>Responsible party:</b>	Business Administrator and Director of Financial Management

The City shall employ a full time Risk Manager or contract for these services. A full time Risk Manager will not only assume all of the current consultant's responsibilities, but will be responsible for all claim reporting, management and implementation of a City-wide Safety Program. With the implementation of a proactive Safety Program, the added cost to fund a full time Risk Manager position will more than be offset by the benefits associated with a proactive safety program and proactive claims management. If the hiring of a full time Risk Manager is not financially viable at this time, then it is recommended that the City solicit competing offers for the services the consultant currently provides. The annual fee of \$54,900 that the City has been paying its consultant can be reduced through the competitive bidding process, perhaps by as much as half the cost, which would be a savings of \$27,450.

### Financial Impact

2011	2012	2013	2014	2015	Total
(\$6,683)	(\$27,450)	(\$27,450)	(\$27,450)	(\$27,450)	(\$116,483)

<b>IRM02.</b>	<b>Revise terms of brokerage service agreement</b>	
	<b>Target outcome:</b>	Cost reduction
	<b>Five year financial impact:</b>	\$87,474
	<b>Responsible party:</b>	Risk Manager and Director of Financial Management

At time of renewal the City shall move away from the traditional commission methodology of brokerage compensation and establish a negotiated fee for service, resulting in all paid premiums at renewal being net of commission.

A formal RFP process shall be undertaken for brokerage services. Firms that are well known in the government sector should be invited to present their qualifications, experience and proposed service offering. Further, brokerage compensation shall be based on a negotiated fee; all participating brokers should be informed that premiums must be net of commission and that they are to set forth their fee expectations for the 2011-2012, 2012-2013 and 2013-2014 terms. The reason for a three-year term is that any broker assuming an account will typically invest significant time getting to know the account in the first year. A multi-year relationship allows the participating brokers to set their fee

## Initiatives

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	<b>Five year financial impact:</b>	(\$116,483)
	<b>Responsible party:</b>	<u>Chief of Staff</u> /Business Administrator and Director of Financial Management

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requirements at levels that may be less than the aggregate \$127,500 that should be paid to the two incumbent brokers if they were to be transitioned to a negotiated fee.

The City shall develop a comprehensive Brokerage Services Agreement to be agreed to and executed by the broker appointed to represent the City. Such an agreement shall clearly set forth the brokers' roles and responsibilities, the City's service level expectations, broker compensation, termination criteria, indemnification and insurance requirements to be imposed on the broker and other terms.

The projected \$115,049 in annual commission compensation received by Marsh for the services to be provided as outlined in the Engagement Letter is slightly outside the range of a reasonable fee. An annual fee should be in the range of \$100,000. The City could realize a savings of \$15,049 annually in placement related expenses. AIA's compensation should be based on a negotiated annual fee. An annual fee in the range of \$27,500 should be negotiated in which the City would realize an annual savings of \$5,533. All insurance contracts that are placed by either Marsh or AIA should be placed by one broker.

### Financial Impact

2011	2012	2013	2014	2015	Total
\$5,146	\$20,582	\$20,582	\$20,582	\$20,582	\$87,474

<b>IRM03.</b>	<b>Remarket all lines of insurance</b>	
	<b>Target outcome:</b>	Cost reduction
	<b>Five year financial impact:</b>	Not available
	<b>Responsible party:</b>	Risk Manager and Director of Financial Management

The City shall remarket its entire insurance program this year. Subsequently, the City shall remarket all the lines of insurance every two to three years. Competition can either lower premium costs or control premium increases. As the market for distressed governmental entities appears to be limited, by appointing one broker and giving that broker access to the entire market, the City will be able to leverage not only one market against another, but will also be able to package lines of coverage that are less likely to have claims with those that have claim frequency with the net result to lower the aggregate cost of insurance. It is estimated that the City would achieve savings of \$37,500 to \$50,000 over the next five years.

requirements at levels that may be less than the aggregate \$127,500 that should be paid to the two incumbent brokers if they were to be transitioned to a negotiated fee.

The City shall develop a comprehensive Brokerage Services Agreement to be agreed to and executed by the broker appointed to represent the City. Such an agreement shall clearly set forth the brokers' roles and responsibilities, the City's service level expectations, broker compensation, termination criteria, indemnification and insurance requirements to be imposed on the broker and other terms.

The projected \$115,049 in annual commission compensation received by Marsh for the services to be provided as outlined in the Engagement Letter is slightly outside the range of a reasonable fee. An annual fee should be in the range of \$100,000. The City could realize a savings of \$15,049 annually in placement related expenses. AIA's compensation should be based on a negotiated annual fee. An annual fee in the range of \$27,500 should be negotiated in which the City would realize an annual savings of \$5,533. All insurance contracts that are placed by either Marsh or AIA should be placed by one broker.

### Financial Impact

2011	2012	2013	2014	2015	Total
\$5,146	\$20,582	\$20,582	\$20,582	\$20,582	\$87,474

<b>IRM03.</b>	<b>Remarket all lines of insurance</b>	
	<b>Target outcome:</b>	Cost reduction
	<b>Five year financial impact:</b>	Not available
	<b>Responsible party:</b>	Risk Manager and Director of Financial Management

The City shall remarket its entire insurance program this year. Subsequently, the City shall remarket all the lines of insurance every two to three years. Competition can either lower premium costs or control premium increases. As the market for distressed governmental entities appears to be limited, by appointing one broker and giving that broker access to the entire market, the City will be able to leverage not only one market against another, but will also be able to package lines of coverage that are less likely to have claims with those that have claim frequency with the net result to lower the aggregate cost of insurance. It is estimated that the City would achieve savings of \$37,500 to \$50,000 over the next five years.

<b>IRM04.</b>	<b>Engage an actuarial firm to perform an independent and objective evaluation of the City's ultimate liability and projected payments for the forthcoming fiscal period using the City's own loss experience as opposed to industry data</b>	
	<b>Target outcome:</b>	Improved accountability
	<b>Five year financial impact:</b>	Not available
	<b>Responsible party:</b>	Risk Manager and Director of Financial Management

The City shall engage an actuarial firm to perform a calculation independent of the Bureau of Workers' Compensation for the Commonwealth of Pennsylvania to determine the appropriateness of the Bureau's assumptions and calculations. Further, actuaries will typically use industry development factors in their calculations. Given that the City has been a qualified self-insurer for at least 10 years, the development factors can be calculated using the City's own loss experience, which will result in calculations that have greater credibility.

<b>IRM05.</b>	<b>Seek competitive bids for Workers' Compensation Claims Management Services</b>	
	<b>Target outcome:</b>	Cost reduction
	<b>Five year financial impact:</b>	Not available; subject to competitive bidding
	<b>Responsible party:</b>	Risk Manager and Director of Financial Management

The City shall seek competitive bids for Workers' Compensation Claims Management Services. The City shall allow bidders who do not maintain a presence within the City to offer competing proposals. Increased competition tends to drive down costs.

<b>IRM06.</b>	<b>Revise collective bargaining agreements to allow for flexible Light Duty Program</b>	
	<b>Target outcome:</b>	Cost reduction
	<b>Five year financial impact:</b>	Not available
	<b>Responsible party:</b>	Risk Manager, Director of Financial Management and City Solicitor

The City shall negotiate changes to its CBAs to allow for the formal implementation of a Light Duty Program in both the Police and Fire Bureaus.

Any such program shall be aggressively and consistently applied in instances in which a City employee is disabled with regard to their assigned position, but is able to return to work subject to medical limitations. If a City employee is disabled, regardless if the benefits are being paid under Heart and Lung or Workers' Compensation, in order to maximize the effectiveness of the program, employees shall be permitted to be placed anywhere within City government where the City could realize a benefit, if the position is temporary, and is within the medical limitations as set forth by the employee's treating physician. Savings can be realized in having such a program.

<b>IRM04.</b>	<b>Engage an actuarial firm to perform an independent and objective evaluation of the City's ultimate liability and projected payments for the forthcoming fiscal period using the City's own loss experience as opposed to industry data</b>	
	<b>Target outcome:</b>	Improved accountability
	<b>Five year financial impact:</b>	Not available
	<b>Responsible party:</b>	Risk Manager and Director of Financial Management

The City shall engage an actuarial firm to perform a calculation independent of the Bureau of Workers' Compensation for the Commonwealth of Pennsylvania to determine the appropriateness of the Bureau's assumptions and calculations. Further, actuaries will typically use industry development factors in their calculations. Given that the City has been a qualified self-insurer for at least 10 years, the development factors can be calculated using the City's own loss experience, which will result in calculations that have greater credibility.

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	<b>Five year financial impact:</b>	Not available; subject to competitive bidding
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In the event an AFSCME worker is collecting Workers' Compensation benefits, his/her position must remain open for 18 months at which time if the employee is not able to return to work, the position can be filled. Keeping a position open this long has an impact on City services, overtime and incurs costs associated with pension accruals and employee benefit costs that continue to be provided to the injured employee at the City's expense. The City must have the right to fill the injured employee's position and, if necessary, terminate employment.

Injured police officers and firefighters are reclassified from being temporarily disabled to permanently disabled, at which point the employee is then given a disability retirement. After six months of continued disability, the City should be given the right to fill the injured employee's position.

<b>IRM07.</b>	<b>Create a Safety Program to manage risk of vehicle liabilities</b>	
	<b>Target outcome:</b>	Cost and risk reduction
	<b>Five year financial impact:</b>	Not available
	<b>Responsible party:</b>	Risk Manager and Director of Financial Management

The City shall create a Safety Program to manage the City's liability risk. Not having a formal safety program and allowing employees to continue to operate a City vehicle exposes the City to extraordinary risk of loss in connection with more frequent automobile liability claims and damage to City owned vehicles. Further, policies and procedures need to be developed with regard to an ongoing review of the motor vehicle records of current City employees along with a review of all accidents involving City owned vehicles and what number of preventable accidents and/or moving violations or any combination thereof will be cause for termination or revocation of the privilege to operate a City vehicle. These guidelines shall be uniformly and consistently applied throughout City government, inclusive of the Police and Fire Bureaus. Apparently disciplinary or remedial actions that are taken vary from one department supervisor to another. This lends itself to discriminatory practices within City government.

<b>IRM08.</b>	<b>Conduct a cost-benefit analysis of self-insurance versus purchasing insurance for physical damage coverage</b>	
	<b>Target outcome:</b>	Cost reduction
	<b>Five year financial impact:</b>	Not available
	<b>Responsible party:</b>	Risk Manager and Director of Financial Management

The City shall undertake an analysis to confirm that self-insuring the physical damage exposure is more cost effective then purchasing physical damage coverage under its current policy.

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	<b>Five year financial impact:</b>	Not available
	<b>Responsible party:</b>	Risk Manager and Director of Financial Management

The City shall undertake an analysis to confirm that self-insuring the physical damage exposure is more cost effective than purchasing physical damage coverage under its current policy.

<b>IRM09.</b>	<b>Conduct a cost-benefit analysis to determine adequate Umbrella Excess Liability coverage</b>	
	<b>Target outcome:</b>	Cost and risk reduction
	<b>Five year financial impact:</b>	Not available
	<b>Responsible party:</b>	Risk Manager and Director of Financial Management

The City is underinsured in connection with its Umbrella Excess Liability coverage. Therefore, the City shall conduct a cost benefit analysis associated with increasing the Excess Liability limit to \$10 million. The City's greatest exposure results from automobile liability. Without a Safety Management Program in place, along with juries' propensity to award high dollar verdicts when the defendant is a municipality, it would be prudent to increase the limit under Excess Liability.

<b>IRM09.</b>	<b>Conduct a cost-benefit analysis to determine adequate Umbrella Excess Liability coverage</b>	
	<b>Target outcome:</b>	Cost and risk reduction
	<b>Five year financial impact:</b>	Not available
	<b>Responsible party:</b>	Risk Manager and Director of Financial Management

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