



September 13, 2017

To: Finance and Administration Committee
From: Darrell Johnson, Chief Executive Officer
Subject: Excess Workers' Compensation Insurance Policy

Overview

The Orange County Transportation Authority currently has an excess workers' compensation insurance policy with Arch Insurance Company. This policy will expire on October 1, 2017.

Recommendation

Authorize the Chief Executive Officer to negotiate and execute Purchase Order No. A38038, not to exceed \$500,000, to Marsh Risk and Insurance Services Inc., to purchase excess workers' compensation insurance on behalf of the Orange County Transportation Authority for the policy period of October 1, 2017 to October 1, 2018.

Discussion

Workers' compensation coverage is designed to provide medical, temporary disability, and permanent disability benefits to injured workers. Employer's liability is an additional coverage provided as part of the excess workers' compensation insurance policy. Employer's liability insurance covers claims presented to an employer on behalf of employees seeking damages caused by job-related activities that result in bodily injury or disease. For example, if a claim was filed against the Orange County Transportation Authority (OCTA) due to a serious and willful action resulting from an uncorrected yet known safety hazard that caused injury to an employee, OCTA may be liable for the costs of the claim as it would fall outside of the normal workers' compensation coverage. The employer's liability coverage would pay for the cost of legal defense for these types of claims. Fortunately, OCTA has not had any claims that would trigger the employer's liability coverage. However, retention of employer's liability insurance remains a prudent risk mitigation action.

OCTA's current excess workers' compensation insurance policy (October 1, 2016 to October 1, 2017) with Arch Insurance Company has an aggregate self-insured retention (SIR) of \$750,000 per claim or occurrence, as well as coverage to statutory limits, with a rate of \$0.3933 per \$100 of payroll, for a premium of \$368,185. OCTA's approved budget for this renewal exceeds the current premium, but OCTA's Broker of Record, Marsh Risk and Insurance Services, Inc. (Marsh), has informed OCTA that California workers' compensation premium rates have increased between ten and 25 percent, due to higher medical costs and increased claims activity to maintain the current \$750,000 SIR. Additional funding is included to allow opportunities to review different programs that may decrease the SIR and increase the premium, if it is more advantageous to OCTA. Therefore, staff is requesting the Board of Directors' (Board) approval to renew this policy for a negotiated amount, not to exceed \$500,000.

Marsh will provide marketing services and will purchase the excess workers' compensation insurance coverage on behalf of OCTA for this renewal. Marsh is paid a flat fee of \$100,000 for marketing and placing all property and casualty insurance per Agreement No. C-7-1585, approved by the Board on May 22, 2017. This flat fee paid to Marsh is not part of the premium OCTA anticipates paying to the selected insurers for the renewal of this policy. By agreement, Marsh does not earn any additional compensation or commission for its services. The contract further requires that any commissions offered by insurers will offset OCTA's premiums.

OCTA will pursue two possible goals for this policy renewal:

- Highlight OCTA's Workers Compensation successful program results to minimize a potential rate increase and obtain competitive quotes
- Provide options for alternative SIR levels or retention levels based upon job classification

Fiscal Impact

This project was approved in OCTA's Fiscal Year 2017-18 Budget, Human Resources and Organizational Development Division, Risk Management Department, Account 0041-7552-A2311-DSG, and is funded through the Workers' Compensation Internal Service Fund.

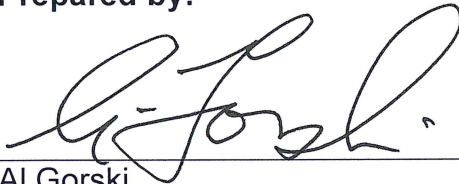
Summary

Based on the information provided, staff recommends authorizing the Chief Executive Officer to negotiate and execute Purchase Order No. A38038 for the renewal of the excess workers' compensation insurance, for an annual premium not to exceed \$500,000, for the policy period of October 1, 2017 to October 1, 2018.

Attachment

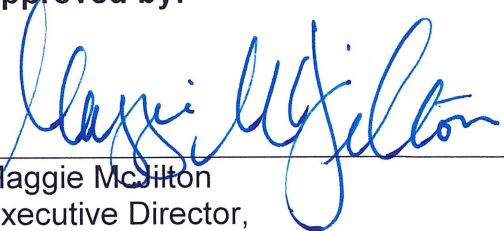
None.

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