



August 27, 2018

To: Members of the Board of Directors

From: Darrell E. 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, 2018.

Recommendation

Authorize the Chief Executive Officer to negotiate and execute Purchase Order No. A40164, in the amount of \$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, 2018 to October 1, 2019.

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, 2017 to October 1, 2018) 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 \$0.3895 per \$100 of payroll, for a premium of \$399,732. 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. 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 2018-19 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 the Board authorize the Chief Executive Officer to negotiate and execute Purchase Order No. A40164, in the amount of \$500,000, to Marsh to purchase excess workers' compensation insurance on behalf OCTA for the policy period of October 1, 2018 to October 1, 2019.

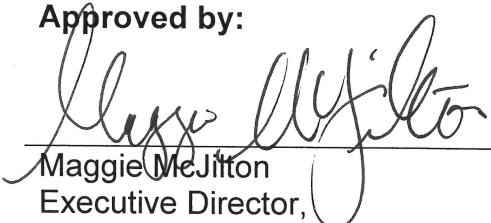
Attachment

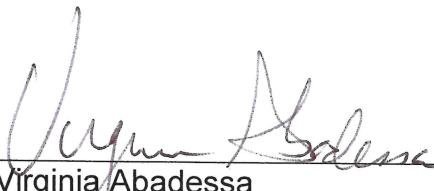
None.

Prepared by:


Al Gorski
Department Manager
Risk Management
714-560-5817

Approved by:


Maggie McJilton
Executive Director,
Human Resources & Organizational
Development Division
714-560-5824


Virginia Abadessa
Director, Contracts Administration and
Materials Management
714-560-5623