

INSURANCE ADVISORY BOARD MINUTES
City of Fort Lauderdale
100 North Andrews Avenue
8th Floor Conference Room
Wednesday, August 12, 2009– 8:00 a.m.

Board Members	Meeting Attendance	1/09 – 12/09 Cumulative Attendance	
		P	A
Joseph Cobo, Chair	P	6	2
Mark Schwartz, Vice Chair	P	7	1
Christopher Prestera	A	5	3
Joe Piechura, Sr.	P	6	2
Jim Drake	P	6	2
Charles Grimsley	P	6	2
Steve Botkin	P	3	1

Staff and Guest

Denny Stone, Employee Benefits Coordinator
 Guy Hine, Risk Manager
 Michael Walker, Procurement & Contracts Manager
 Matthew Cobb, Risk Management Coordinator
 Jennifer Lindsey, Rutherford
 Lloyd Rhodes, Benefit Consultant
 Michael Kinneer, Finance Director

As of this date, there are 7 members of this Board, and all 7 are appointed, which means that 4 would constitute a quorum.

Roll Call

The meeting was called to order by Chair Joseph Cobo at approximately 8:00 a.m.

Communications to City Commission

- **Discussion of the P&C Brokerage Services Contract:** Mr. Hine asked if there were any issues regarding this matter that remain to be discussed. He feels the information forwarded was self-explanatory. There were no comments from the Board Members (see Unfinished Business).
- **Motion** made by Mr. Botkin and seconded by Mr. Schwartz to see if AIG would offer a 5% reduction, and if not, staff should approach ACE for a more competitive offer. Board unanimously approved. (See Unfinished Business - Recommendation of Purchase Method and Specifications For Renewal of EPL/Public Official Policy).

- **Motion** made by Mr. Schwartz and seconded by Mr. Grimsley to explore the opportunity of purchasing annuities in conjunction with life-time settlements. Board unanimously approved (see Utilization of Annuities).
- **Motion** made by Mr. Piechura and seconded by Mr. Drake to approve the RFP for PBM services as presented. Board unanimously approved (see Recommendation for PBM RFP).
- **Motion** made by Mr. Piechura and seconded by Mr. Grimsley to remain with ARCH for a rate reduction of 6%. The Board unanimously approved (see New Business - Approval of Excess WC Insurance Premium Quote).

Approval of Minutes – July 1, 2009

Motion made by Mr. Piechura and seconded by Mr. Drake to approve the minutes of the July 1, 2009 Board Meeting. Motion passed unanimously.

Unfinished Business

Discussion of the P&C Brokerage Services Contract

Mr. Hine asked if there were any issues regarding this matter that remain to be discussed. He feels the information forwarded was self-explanatory.

There were no comments from the Board Members.

Recommendation of Purchase Method (Market or Negotiate) and Specifications For Renewal of EPL/Public Official Policy

Mr. Hine stated that at the last meeting some information was missing regarding this matter.

Ms. Lindsey explained that the forms that had been run were AIG, and prior to this past year AIG had written the public officials and Zurich had written the employment practices. There was a combined form this past year.

Mr. Hine provided the amounts for this past year, and stated that the premium for the public official portion of the policy was about \$63,000 and employment practices was about \$163,000.

Mr. Piechura stated that if the City had layoffs, there would be claims. This was happening in the private sector.

Mr. Hine stated that the declaration page was attached, and there was a \$4 million aggregate which was for both of the policies. He proceeded to explain what had been available for the last two years.

Ms. Lindsey stated that AIG was anxious to secure an early renewal, but she was not sure of the amount of a rate reduction. She stated the market for public officials is flat, and employment practices was down. She believes they could get AIG to commit to a

5% rate reduction. She explained they were going to review the exclusions. They had compared the exclusions on other forms, and they had been similar. She stated that so far any public official claim had not been covered. Possibly, they might be able to get some of the exclusions amended. If AIG is not willing to offer a rate reduction, she suggests that they not do a full market. ACE has expressed an interest and has offered a quotation for the coverage. Last year, they offered a quote, but it was for two separate aggregate limits.

Mr. Hine stated if they could not negotiate with AIG, they would approach ACE while still using the negotiating method.

Motion made by Mr. Botkin and seconded by Mr. Schwartz to see if AIG would offer a 5% reduction, and if not, staff should approach ACE for a more competitive offer. Board unanimously approved.

Discuss Utilization of Annuities

Mr. Hine asked for the Board's opinions regarding the utilization of annuities to sell claims. Currently, the City is using annuities for MSAs, but staff would like to settle claims using annuities and transfer obligations on indemnity claims. The advantages of this would be:

1. Their exposure would be extinguished once they transfer obligation or settle the claim.
2. If an employee dies early, the City or the carrier gets a percentage refund.
3. If an employee lives past life expectancy, a life company would pay the rest.
4. Excess insurance premiums would decrease as future exposures decrease.
5. Actuaries projections decrease as future exposures decrease.

Mr. Hine further stated that this would allow the adjusters more time to work the active files.

Mr. Schwartz stated this was a common practice with most of the workers' compensation carriers. He asked if there was a down side to this.

Mr. Hine stated there were different ways to do this, but he did not see a down side.

Mr. Piechura stated that this could be a cost saving tool, particularly if someone outlives their life expectancy.

Mr. Hine asked if the philosophy of utilizing annuities would be acceptable by this Board. Mr. Schwartz confirmed.

Motion made by Mr. Schwartz and seconded by Mr. Grimsley to explore the opportunity of purchasing annuities in conjunction with life-time settlements. Board unanimously approved.

Recommendation on PBM RFP

Mr. Stone said they would continue the Board's discussion of the self-funded prescription drug program that they had had at their July meeting. The suggestion was to ask for both a traditional and transparent PBM price model in the upcoming Request-for-Proposal, and this needs the Board's approval before the issue goes to the City Commission.

Mr. Stone proceeded to explain some of the components. He explained there are three reasons to go to market. The City has had the current PBM for three years, and they feel that a lower cost in the marketplace might be available. They are also looking at a traditional and transparent price model. And finally, in the past, they were unable to audit whether the City was receiving its contracted discounts and rebates. In moving forward the audit process might need a subsequent RFP. The City passes through approximately \$3 million in claims, and the audit could cost between \$25,000 and \$30,000 which would have to be handled in a separate RFP.

Mr. Rhodes explained that the PBM marketplace has changed considerably over the last few years with the introduction of the transparency concept. Litigation occurred in the northeast. This is a complex pricing issue. Contracts have all sorts of confidentiality provisions which is no longer acceptable. The market has pushed for PBMs to do transparent modeling. A straight administrative fee is charged, which would be higher than what is presently being done, but at the same time they pass on the full ingredient cost subject to their cost. Under the transparency program, 100% of the rebates would come back to the City. Rebate checks currently total about \$18,000 a quarter, and the City feels that they could be increased.

Mr. Stone explained the PBM voluntarily informed the City about six months ago that the rebate could be doubled. The PBM currently shares the rebate with the City which at this time is difficult to audit.

Mr. Rhodes stated they would not know which approach was better until they get the proposals back. On one hand, the traditional modeling has a risk because the PBM sets the cost. However, administrative costs are included in the overall package. He explained under a transparent model, the administrative costs increase significantly, but claim costs decrease because these costs are passed directly to the City with no share taken by the PBM.

Mr. Stone stated they would come back to the Board in November and provide the RFP results for the traditional and transparency price models. Then, it would be up to the Board and the City Commission to select what type of plan they want.

Mr. Hine stated part of the challenge was that the Commission is concerned about transparencies. On the other hand, price is also an issue.

Mr. Stone referred to the schedule provided, and explained it would be presented to the City Commission in September.

Mr. Stone explained they were attempting to lock into a three-year deal. There would also be an additional one year renewal. Discussions were held with the Legal

Department regarding how and when to audit the plans, and an outside auditor would be needed.

Mr. Rhodes stated he had not pushed for any particular audit recommendation in the past. The cost of the audit is the same if they were a large or small group because the same process is used. The process requires a disclosure of information that is subject to a confidentiality agreement. Therefore, they have to make sure, in the RFP process, that the State of Florida's requirements are followed.

Mr. Stone provided some examples of trade secrets since it is difficult to go through an audit and obtain the real price.

Mr. Stone stated they were giving the PBMs 37,000 prescription drugs written last year. They want the PBMs to provide their costs.

Mr. Rhodes explained that last time they only ran the top 100 drugs, and now they want to include all of them. He stated it was important to know the relationship of the network displacements because it affects pricing. They have to be careful of the retirement population who do not have access to independent drugstores.

Chair Joseph Cobo asked if the program could mandate using the mail programs. Mr. Rhodes confirmed it could be done in connection with specific ongoing maintenance medications. He stated they had to be careful in the formula area so there would not be a lot of displacement.

Mr. Stone explained there had not been good communications regarding mail order programs, and stated better education would be done regarding the program at the time of enrollment. He further stated that drug co-pays are a separate issue.

Mr. Rhodes stated the present drug plan is more liberal, but at the same time is tighter than the previous plan that existed during the 2002 deficit. It could possibly be tightened more, but they would have to decide if it was worth the noise level dealt with during collective bargaining. He stated they were trying to squeeze the dollars in order to get better costs in terms of purchasing the drugs.

Motion made by Mr. Piechura and seconded by Mr. Drake to approve the RFP for PBM services as presented. Board unanimously approved.

New Business

Approval of Excess WC Insurance Premium Quote

Mr. Hine provided some history regarding this issue.

Ms. Lindsey advised that two carriers declined because she had given them pricing points, and they were unable to compete. It was not an underwriting issue.

Mr. Hine stated that last year all three of the carriers were close, but they went with the incumbent carrier. This was based on a \$140 million payroll. This year Ms. Lindsey spoke with ACE and National Union, and there is a potential decrease of 2 to 5% in rates. He advised that Ms. Lindsey was able to negotiate a 6% decrease with ARCH.

Ms. Lindsey proceeded to explain the premium. The payroll numbers were reduced because they did not know what the estimated payroll of \$140 million would look like, and whether there would be layoffs or job freezes. Plus, overtime is not being audited because it is difficult for the City to identify the dollar amount, by classification, allocated to overtime. She explained how they arrived at the present number.

Mr. Schwartz asked if the carrier would respond to a request of 80% minimum deposit, even though traditionally it is 100% minimum deposit. This could provide a cushion in case there was a further decrease in payroll. Ms. Lindsey stated that traditionally it has been her experience that it works like a balloon, and there would be an increase in the rate.

Mr. Hine reminded everyone there is no interest on the audit premium paid at the end of the year. He proceeded to provide an example. He stated that the annuities would help. Ms. Lindsey advised that over the last four years, the average paid was 7% less. It appeared to be 13%, but once the 5% commission was deducted, the actual rate was 7%.

Mr. Hine further explained that they would go before the City Commission in September and present the quote.

Motion made by Mr. Piechura and seconded by Mr. Grimsley to remain with ARCH for a rate reduction of 6%. The Board unanimously approved.

Mr. Walker stated that there might not be a September 1st meeting of the City Commission due to budget meetings being scheduled.

Ms. Lindsey proceeded to explain what would occur if the meetings are delayed.

Schedule Next Meeting

The next meeting of this Board would be held on September 9, 2009 at 8:00 a.m. The meeting for October would be held on the 7th at 8:00 a.m.

Motion was made and seconded to adjourn the meeting. Board unanimously agreed.

There being no other business to come before the Board, the meeting was adjourned at approximately 8:50 a.m.

Respectfully submitted,

Margaret A. Muhl
Recording Secretary