

INSURANCE ADVISORY BOARD MINUTES
City of Fort Lauderdale
100 North Andrews Avenue
8th Floor Conference Room
Wednesday, September 1, 2010– 8:00 a.m.

Board Members	Meeting Attendance	1/10 – 12/10 Cumulative Attendance	
		P	A
Joseph Cobo, Chair	P	8	0
Mark Schwartz, Vice Chair	P	5	3
Joe Piechura, Sr.	P	7	1
Jim Drake	P	6	2
Charles Grimsley	P	8	0
Steve Botkin	P	6	2

Staff and Guest

Matthew Cobb, Risk Management Coordinator
Denny Stone, Employee Benefits Coordinator
Guy Hine, Risk Manager
Michael Walker, Procurement & Contracts Manager
Alan Florez, Vice President, PRIA

As of this date, there are 6 members of this Board, and all 6 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

Nothing to report.

Approval of Minutes

Motion made by Mr. Grimsley and seconded by Mr. Piechura to approve the minutes of the August 4, 2010 meeting. Board unanimously approved.

Unfinished Business

Workers' Compensation

Mr. Hine provided an update regarding various rates staff had recently received.

Mr. Schwartz asked if rates were promulgated using NCCI criteria. Mr. Florez stated that the State used NCCI rules to promulgate the rates.

Mr. Hine stated the City's experience modification factor did not directly correspond to the City's excess premium quote, but was a good indication to where the program was headed.

Informational graphs were provided to the Board showing total claims and their status, along with defense fees, etc.

Mr. Schwartz asked if the defense fees included outside counsel costs, and in-house legal staff time. Mr. Hine stated the costs were only for outside counsel, and should end up being lower than the fees paid last year.

Mr. Hine also provided information regarding workers' compensation claims. He advised there had been some difficulty in settling claims because carriers were holding onto their money. Information regarding audit premiums was also provided.

Mr. Botkin entered the meeting at this time.

Mr. Florez stated the market is very competitive at this time. He advised that Star lowered the retention, New York Marine is being aggressive, and Chartis is competitive. The agencies differed regarding the \$1.5 million retention because Star is more aggressive. He stated they needed to decide what is better for the program and the City in the long term. One option is to pay more than the lowest quote received for the excess compensation policy, thereby reducing the retention by \$500,000. He stated the \$500,000 reduction in exposure would have a positive impact on the program for the long term. Actuarially, there is an impact because they are looking at a lower retention. The incumbent market, Arch, was the least competitive in this arena.

Mr. Florez explained that other important factors about the marketing process was that it yielded better terms and price. The policy would also not be auditable, and therefore, would be flat. This is a good feature because staff would have less to deal with on a yearly basis. They want to negotiate further with Star regarding the current terms being offered of no more than a 3% increase over the next three years with a maximum of 6%. This means the price would not increase above \$40,000 over the next three years. Their desire is to get closer to the true flat rate guarantee than what they are presently at with Star. He added that Star also includes auto and general liability excess coverage as part of their standard policy. He proceeded to list some of the terms of the policy.

Mr. Hine advised of the quotes provided by New York Marine and National Union.

Mr. Florez touched on the issue of endorsements. He proceeded to explain what applied and did not apply to public entities. He explained that workers' compensation claims that happen to occur on boats were settled per (Florida) Statute 440, and not by the Jones Act for public entities in PRIA's opinion. They are going to make sure that Star did not have an issue with this segment.

Mr. Grimsley asked how many years they were going to commit to on this policy. Mr. Florez explained it is a one-year policy.

Mr. Hine referred back to the graphs distributed and how rates had been lowered over the last few years. He felt if they continue to move in the right direction with the program, they would not have to take on an increase on future policy premiums.

Mr. Cobo encouraged staff to speak with the existing carrier regarding the closing of claims. He believed they should mention the term "bad faith" in their discussions.

Mr. Florez stated that an interesting item regarding that dilemma is that Arch is disconnected from the groups paying the pending excess claims and proceeded to provide some examples. Mr. Hine added that some of the claims were very old. He believed that the carriers wanted to hang on to their money due to the present state of the economy.

Mr. Florez suggested that staff check with the City Attorney regarding their interpretation of the Jones Act.

Motion made by Mr. Schwartz and seconded by Mr. Botkin that the Board accept the \$1.5 million lower retention with Star Insurance Company with the understanding that further negotiations will continue regarding future price guarantees. Also, on whether Star would accept the endorsement of the Jones Act onto the policy. Board unanimously approved.

Purchase of Public Officials/Employment Practice Insurance

Mr. Hine provided graphs of information regarding the Public Officials/Employment Practice Insurance. In the past, there were two separate policies which recently had been combined into one. Previously, the Board directed staff to negotiate with the current vendor, National Union, who is supposedly one of the best in the business for this type of policy.

Mr. Florez stated that they were still negotiating, but want to provide a not-to-exceed number from the carrier so staff could move forward. They want to improve on the terms and conditions. Fortunately, Chartis decided that their latest forms and endorsements would be included. More detail would be provided in the future, but at a minimum the non-monetary limit would go from \$100,000 to \$1 million which is very crucial especially for the City Commissioners. He advised that 18 additional endorsements were being included in the new policy. There would also be a 6% reduction in the premium based upon the not-to-exceed number.

Motion made by Mr. Schwartz and seconded by Mr. Botkin that the City accept the policy proposed for Public Officials/Employment Practice Insurance. Board unanimously approved.

New Business

Future of Health Plan

Mr. Hine stated that there were some challenges with the current health plan and costs rising.

Mr. Stone explained these challenges as highlighted in charts of the fund balance that were provided to the Board. This balance had begun back in 2003/2004 with a deficit of \$15 million. The City funded the \$15 million, along with a surcharge that was paid by all employees. He stated that a 10% increase was applied to all premiums beginning in

April of this fiscal year, along with changes in co-pays. Therefore, only half-a-year of the increased revenues were picked up. Claims have been extremely high for fiscal year 2010 and the Fund Balance will be down \$2.3 million, but they still have a \$9 million balance.

Mr. Stone proceeded to explain the Fund Balance. He stated there were some reserve requirements such as the IBNR which consists of outstanding claims that have not yet been paid. The other reserve is the State Office of Insurance Regulation that requires a 60-day minimum reserve. Combined between the two, the City must retain a \$6.1 million reserve. Since expenses and claims are exceeding revenues and premiums, the City needs to be cautious entering the new year. They are reviewing various models. City claims are presently running at a 12% inflationary trend which is typical of Southeast Florida. The national average is running at a 10% trend.

Mr. Stone stated they wanted to bring the expenses more in line with revenues next year through increased premiums and co-pays. They need to decide whether to catch up quickly and have a surplus or just cover the reserves. He explained how the comparisons were run, and proceeded to explain some of the information provided on the charts. He explained that any changes would be provided to the Board for their review.

Mr. Stone advised they could not go for more than one year for their stop-loss insurance carrier. Stop-loss rates for 2011 will not be locked in for another month so claims history is being watched closely. Looking at the overall picture for the last several years, expenses were catching up with revenues and expenses did surpass revenues last year. The stop-loss carrier, US Fire, exceeded premiums of \$807,000 by \$1.6 million last year.

Mr. Stone stated that since changes would be made January 1, 2011, they would not pick up additional revenues for the first quarter of the next fiscal year, but would pick up the other three quarters. He added that the President's plans are beginning to affect everyone. He highlighted new regulations including colonoscopy preventive care for individuals over 50 and mammograms will be covered free-of-charge for participants over 40. He explained the reimbursements for as much as \$250,000 that the City has filed in Washington for retirees between the ages of 55 and 65.

Mr. Stone stated there could be issues regarding increases in co-pays if management employees are not receiving an increase in salary. One alternative would be to have employees who are using the plan more, pay some of these increased costs through higher copays.

Property Appraisals

Mr. Hine stated appraisals had not been done on City properties for some time.

Mr. Cobo stated that this item had been raised at a previous meeting, and he asked why nothing had been done in this regard. Mr. Hine stated the Budget Advisory Board recently raised the issue of increased costs for this work, and this is why he was bringing it back to the Board. He stated there is an idea from PRIA regarding a phasing of the project. The cost is approximately \$30,000 which was budgeted for the 2010/2011 year.

Mr. Botkin asked if the Board is being tasked to make sure they were properly covered. Mr. Hine confirmed.

Mr. Florez stated that values could increase since appraisals had not been done since 1999. Trending in regard to appraisal values is that labor costs are presently lower. Some entities are not immediately changing the values on properties once appraisals are received, but are phasing the values in over time. Therefore, the hit on a per year basis would not have such a great impact on premiums. He explained it would be up to the Board to accept or not to accept the values shown on the appraisals, and the determination of whether to choose a phasing route would depend on the values that would be coming in on those updated appraisals.

Mr. Schwartz stated that without appraisals they would be making a decision without facts. The appraisals are necessary and if a good base line appraisal is received, they could use it for a long time by adding on a percentage for inflation.

Mr. Hine stated this might be a good time to do the appraisals, but premiums are based on rates and values. If values rise substantially, he is concerned about rising costs on the property insurance policy.

It was asked if every property had been appraised in the past. Staff stated that all properties had been appraised, but buildings had been added since that time. Construction costs were used for the newer buildings.

Mr. Schwartz suggested that a subcommittee be created to evaluate what buildings should be updated.

Motion made by Mr. Schwartz to form a subcommittee to determine what buildings need to be updated through an appraisal.

Mr. Florez believed all the appraisals could be done for less than \$20,000. There were approximately 160 locations that needed to have appraisals completed.

Mr. Hine asked if they would be obligated to increase the values on the buildings once the appraisals had been completed.

Mr. Schwartz stated they would have to wait and see what values were assigned.

The Board believed that all buildings should be appraised.

Mr. Grimsley seconded the motion. Board unanimously approved.

Unfinished Business

WC/TPA RFP

Mr. Hine stated things regarding this issue did not go as well as planned because there were some concerns by the Commission regarding the timing of the SAS 70 Report. The City Commission voted to grant another year using the same terms and conditions with Gallagher instead of approving the new recommended contract. This means that staff

would put out another RFP next year for a TPA vendor. He is concerned about getting two dedicated adjusters on the account. The company protesting was \$400,000 less than Gallagher, the incumbent, which had been selected. It is important to have the correct program in place to handle the City's claims. Commissioner DuBose had provided examples at the meeting of what could happen if the wrong company was chosen to handle the claims.

Mr. Walker stated that Commissioner Romney Rogers appeared to be in support of using a start-up company if it would result in lower costs. Mr. Hine stated that he disagreed with that approach for these professional type contracts. He believed this contract was one of the most important to the Risk Management Division. He advised the Board that he would provide them with the technical specifications for the RFP being put out next year for their review. He is concerned whether the companies bidding totally understand the program requirements based upon their pricing quotes.

Mr. Grimsley stated he had not anticipated how things went down, and felt that most of the Commissioners did not understand that \$400,000 was not a lot in comparison to the millions that could be lost if the program was mishandled.

Mr. Piechura stated that NCCI has filed for an 8% rate increase for workers' compensation. The down trend is over.

Scheduled Board Meetings

The next scheduled Board meeting is October 6, 2010 at 8:00 a.m.

There being no other business to come before the Board, the meeting was adjourned at approximately 9:03 a.m.

Respectfully submitted,

Margaret A. Muhl
Recording Secretary