

**INSURANCE ADVISORY BOARD
 100 NORTH ANDREWS AVENUE
 8TH FLOOR CONFERENCE ROOM
 FORT LAUDERDALE, FL 33301
 WEDNESDAY, OCTOBER 5, 2011, 2011 – 8:00 a.m.**

MEMBERS	ATTENDANCE	CUMULATIVE	
		PRESENT	ABSENT
Joseph Cobo, Chair	P	8	1
Mark Schwartz, Vice Chair	P	9	0
Joe Piechura, Sr.	P	7	2
Jim Drake	P	9	0
Charles Grimsley (arr. 8:09 a.m.)	P	8	1
Steve Botkin (arr. 8:07 a.m.)	P	7	2
Jonathan Macy	P	8	1

Staff

Guy Hine, Risk Manager
 Matthew Cobb, Risk Management Coordinator
 Dennis Stone, Employee Benefits Coordinator
 Alan Florez, Executive Vice President, PRIA (by telephone)
 Amanda Lebofsky, Prototype, Inc., Recording Secretary

Communications to City Commission

None.

1. Roll Call (including number of appointed members and quorum)

As of this date there were 7 appointed members to the Board, which means that 4 would constitute a quorum.

Chair Cobo called the meeting to order at 8:02 a.m. Roll was called and it was determined a quorum was present.

2. Approve Minutes of September 7, 2011

Motion by Mr. Macy, seconded by Mr. Piechura, to approve the minutes of the September 7, 2011, meeting. In a voice vote, the motion passed unanimously.

3. Communications to City Commission

None.

4. Unfinished Business

- **Update on open enrollment activities**

Mr. Stone informed the Board that this year's Benefit Open Enrollment is completely electronic. The benefits staff has been busy updating the City's self-service system and meeting with department heads to resolve language issues for employees. They are setting up a call center that will have four representatives and three staff members to take phone calls. The system will go live October 18.

Mr. Stone said they are projecting about 1,200 Biometric screenings, and will be rewarding people with \$25 gift cards for those who take the test. He commented that both Broward County and the City of Chicago penalize employees who do not take biometric screenings by increasing their premiums by \$20-50 per month.

He pointed out that a sample benefit statement was in the Board packet, similar to the one that employees will receive during the next week. Dependents will be verified through birth certificates and marriage licenses, and then after verification and making enrollment selections, employees will receive a second confirmation statement.

Mr. Piechura was curious if CIGNA had done everything they promised, and Mr. Stone replied that they have. He added that they had eight CIGNA people on the phone line for their weekly call earlier this week. Mr. Stone remarked that he has been very impressed so far.

5. New Business

- **Discussion on property insurance**

Mr. Hine stated that this was intended to be a preliminary discussion to go over last year's policy. The actual motion regarding carrier negotiation will occur at next month's meeting. He added that Commissioner DuBose had wanted to attend this meeting, but was unable to do so, and Mr. Hine will provide him with a set of minutes.

Mr. Hine relayed that Mr. Florez' preference was that they negotiate with the underlying layers (Lexington and Lloyd's), rather than move from them. Regarding the other layers, it is not unusual to market those on a regular basis.

Mr. Hine continued that there are two programs – the utility and non-utility. He said if there is a major hurricane, they are in good shape. In addition, \$8M is already set aside in the Property & Casualty Fund and the Division will probably come in under budget during this year. Staff intends to go to the City Commission and set aside \$10M.

Mr. Florez (via phone) reported they did well during the last year. He pointed out that some items mentioned in the summary started to occur in February/March, but did not impact insurance rates until after April. This year, he expects a more challenging

renewal, because the major players (Lloyd's and Lexington) have increased their rates as a result of RMS11. Many counterparts across the state have seen increases of 5-25%. Mr. Florez believed that Fort Lauderdale is looking at a 5-10% increase.

He continued that they should begin taking certain actions at this time:

- Attempt to negotiate an early renewal with the incumbent carriers. Pros of this action are:
 - This might be effective on their part to not have to negotiate up until the renewal date.
 - It has worked with other clients.
 - The carrier receives security that the deal is done, and they are not being competed against.
 - The City gets a stable rate as possible.
- Raise the deductible. He explained that the reason he mentioned higher deductibles is that it is worth discussing, but probably not desirable. He made that assumption based on conversations with Mr. Hine and Mr. Cobb regarding the fact that going up to \$5M on both towers (utility and non-utility) is essentially an aggregate deductible of \$10M, as high as can be sustained.
- Boost the lower limit. The major structural changes at the City's disposal have already been utilized (obtaining a favorable rate based on splitting the two towers and reducing the rate last year). He felt the main accomplishment was that not only was the rate reduced but they were able to offset the cost of the substantial total insured values increase.

As far as being able to meaningfully affect the rate and mitigate against a probable 5-10% premium increase for this renewal, there are not many tools left. He mentioned that the coverages, terms and conditions are always important. He noted the coverage has continued to improve.

Regarding RMS11, Mr. Florez stated that it sent "shock waves" through the insurance market, particularly in the public arena. The model was restructured because it was felt that the modeling was not accurate in depicting the level of exposure that a carrier's portfolio may have. The new model increased exposure for some carriers' portfolios from 25-100% or more. This necessitated changes by the carriers in adjusting their capacity and their target as where to sell it and for how much. Between April and June, Lexington looked for anywhere between 10-20% increases. In some cases, they acquiesced. Lloyd's, however, acquiesced less than Lexington.

Mr. Florez continued that the new RMS11 model will soon be applied to all carriers. This will make it more difficult to find lower premiums. In addition, re-insurance has become more expensive.

Mr. Grimsley thought the most significant impact of RMS11 was in the interior areas of the state, where prior models did not “properly recognize” the potential damage from major hurricanes. Consequently, he wondered how that would affect the City of Fort Lauderdale. Mr. Florez answered that it affects the overall portfolio. He further explained that over the last three years, the property market had reduced and become more competitive. Essentially, that competitiveness on high catastrophe exposed areas like Tri-County created a negative impact on the portfolio. The capacity has been reduced and that affects pricing, and so the insured gets less for their money.

Mr. Peichura asked Mr. Florez how many years that the City had been in the current structure, and Mr. Florez answered that this renewal would be year three. If the City renews with the current structure for FY 2012-13, that would be the third year that the City would have two towers (utility and non-utility), and the second year of the flat deductible (\$5M).

Mr. Piechura confirmed that the City had not paid any claims since Wilma.

Mr. Hine commented, however, that there was a water loss claim perhaps in 2008 for \$148K (for a broken water pipe in City Hall). Mr. Florez clarified that even though the City went to two towers (utility and non-utility) in the 2009-10 year, the carriers remained the same. He added that the loss of \$148K would apply to the carriers on the non-utility tower.

Mr. Piechura was curious when the early renewal would be, and Mr. Florez replied that they will try to do it before Christmas.

Mr. Grimsley wondered how flexible the market is to structuring the program regarding hard structures, such as parking garages. Mr. Florez commented that he had demonstrated to this Board during the last year how garages do not model well. They contributed significantly (\$200K-\$500K) to the annual average loss of \$1M. He stated that the reason they have been able to reduce rates has been because of the two towers (utility and non-utility) and the \$5M deductible on each for windstorm losses.

Mr. Hine summarized that while the market seems to be hardening somewhat, it is not a “hard market” at this point. Mr. Piechura believed the market will harden more. He said the availability should be there, but it will probably be more expensive.

Mr. Hine said that if the rates increase by only 10% (and since raising deductibles is not an option he would be interested in), lowering of the limits may not be necessary or desirable this renewal. He added that if they lower the limits now, they would not have them as an option to adjust when the market is really tight.

Mr. Florez stated that his information is vague at this point because the deadline is so far away. He continued that by the November meeting, he could start to tighten up the

details. In the meantime, he will try to determine if there are viable competitors amongst the carriers who provide service to public entities in Florida.

Mr. Botkin asked if April was a good time of year to renew the policy. Mr. Florez responded that it continues to be preferable because it is out of the hurricane season. He said sometimes they have extended a policy to 18 months to re-establish a renewal date outside of hurricane season.

Mr. Hine reviewed that Mr. Florez' recommendation will be to negotiate with the primary layers (Lexington and Lloyd's) and potentially market the excess layers. Mr. Florez added that they should make that decision at the November meeting so as to keep all options available.

- **Discussion on RFP for PBM**

Mr. Stone explained they are in the midst of an "emergency RFP process" for a prescription drug vendor. He explained that about a month ago, Walgreen's reached an impasse with the PBM (pharmacy benefit manager) the City uses (Express Scripts). Express Scripts is in the process of merging with MedCo, and it will be the largest PBM in the country.

Express Scripts has announced that they will not process any Walgreen's prescriptions. About 53% of the City's prescription drugs will not be able to be filled at Walgreen's as of December 31.

Mr. Stone said that the City Manager's office has directed staff to go out to bid. He said the actual results will not be available in time for the November meeting, but the City has to move in November in order to have a vendor in place by December 31st.

Mr. Stone said that the City uses a PBM auditing consultant who has said that many large employers are staying with ESI (Express Scripts) and telling employees there will be "no more Walgreen's" as of January 1, 2012. Other employers are going out to bid.

He added that the RFP calls for meeting or beating the current rates and rebates, in addition to a full network to include Walgreen's and CVS. Another condition of the RFP is that there could be a breach of contract if there is a loss of more than 10% of the PBM's pharmacy network during the contract period.

6. Open Discussion – Old/New Business

None.

7. Schedule Next Meeting – November 2, 2011

8. Adjourn

Motion by Mr. Piechura, seconded by Mr. Botkin, to adjourn the meeting at 8:37 a.m.

[Minutes prepared by J. Rubin, Prototype, Inc.]