

Minutes

Risk Management Trust Board

May 24, 2021

Minutes of the Risk Management Trust Board meeting held virtually via Cisco Webex on May 24, 2021 at 5:00 p.m.

Board Members Present:

Robin Arredondo-Savage
Heather Bilodeau
Bill Goodman
Jerry Hart
Ken Jones

Board Members Absent:

None

City Staff Present:

Tom Duensing, Deputy Internal Services Director-Finance
Chris Hansen, Risk Manager
Nichole Martinez, Workers' Compensation Program Specialist
Susan Buck, Executive Assistant

Guests Present:

Chuck Halsey, Willis Towers Watson
Sharla Kissel, Willis Towers Watson
Kristina Meier, Willis Towers Watson

Agenda Item 1 – Call to Order:

Chair Ken Jones called the meeting to order at 5:00 p.m.

Agenda Item 2 – Approval of Board Meeting Minutes:

Motion by Robin Arredondo-Savage to approve the March 3, 2021 Board meeting minutes; second by Heather Bilodeau. Motion passed on a voice vote 5-0.

Ayes: Chair Jones, Boardmembers Arredondo-Savage, Bilodeau, Goodman and Hart

Nays: None

Absent: None

Agenda Item 3 – FY21-22 Insurance Renewal Program Update:

Deputy Internal Services Director-Finance Tom Duensing provided additional information pertaining to excess insurance for auto, Workers' Compensation, and general liability as requested at the May 19, 2021 meeting.

Auto

Mr. Duensing stated that the city historically had a self-insured retention (SIR) deductible of \$25,000 per incident, which was raised to \$75,000 in Fiscal Year (FY) 20-21 in an effort to manage premium rates. Mr. Duensing noted that in the past 10+ fiscal years the city has not exceeded the SIR. Mr. Duensing provided the Board with several options for deductibles and premium rates, noting that staff recommended Option 3, increasing the deductible to \$150,000, which will result in a 6.46% decrease in the premium rate for a total auto \$71,349 premium. The Board reviewed the options presented and Board consensus was to recommend Option 3.

Workers' Compensation

Mr. Duensing presented several options for SIR and premium rates for FY 21-22, followed by a brief overview of the amounts paid and reserves for Worker's Compensation claims in the past 10+ years that reached at least half of the SIR (and therefore were reported to the insurance company).

Workers' Compensation Program Specialist Nichole Martinez provided the Board with an overview of the Worker's Compensation claims process, noting that claims can stay open for years based on the award given at the time a claimant reaches maximum medical improvement (MMI). Ms. Martinez stated that if a claimant is given an award for a lifetime benefit for loss of earning capacity or a lifetime benefit for medical, the reserves will stay open until the claim is settled completely via a full and final settlement or the claim closes for other reasons. The Board generally discussed the Workers' Compensation claims process and the claims information presented.

Mr. Duensing presented an analysis of the SIR for non-public safety and noted that staff recommends an increase to \$750,000 SIR for non-public safety, as well as maintaining the SIR for public safety. Chair Jones stated that is Option 3 of the options presented to the Board, noting that with a \$750,000 SIR for both, the premium would increase by \$61,263 to \$352,759 (a 17.49% increase). Board consensus was to recommend Option 3.

General Liability

Mr. Duensing presented a brief recap of the preliminary quote previously provided to the Board at the May 19, 2021 meeting, noting that the overall general liability premium rate increased by roughly 229%, with a \$2 million SIR increase to \$5 million SIR for law enforcement, and a decrease in the total layered coverage from \$40 million down to \$30 million. Mr. Duensing stated that the current state of the insurance market for municipalities and internal factors specific to Tempe are the two main factors impacting the quote.

Sharla Kissel of Willis Towers Watson provided an overview of their process in obtaining quotes, noting that quotes were requested from 28 different carriers, as well as a wholesaler. Ms. Kissel stated that they provide a complete history of Tempe in order to obtain quotes. The history includes loss exposures, 10 years of loss runs, the insured vehicle list, as well as a synopsis on how Tempe is being proactive and how Tempe manages claims. The carriers then assess the information to determine if they want to provide a quote.

Ms. Kissel noted that *external* factors driving the quote include the current market situation, particularly the excess liability market, and the capacity each carrier is willing to provide, noting that now carriers are offering as little as \$2 million up to \$5 million on the entire tower. Other external factors include comparison to other cities regarding claim settlements and how claims are handled. Ms. Kissel stated that *internal* factors driving the quote include loss history, exposures, our policies and procedures, and how the city handles everything. Ms. Kissel noted that Tempe seems to be proactive not reactive by working with oversight committees and taking their recommendations, which the carriers are all aware of. Ms. Kissel stated that all carriers look at a 10-year loss history, with law enforcement claims primarily driving the increase in premiums.

Risk Manager Chris Hansen provided an overview of benchmark information received from neighboring cities. Mr. Hansen noted that the benchmarked cities have not experienced the same type or number of losses or litigation as Tempe. Mr. Hansen stated that his staff has monthly meetings with the City Attorney's Office, noting there are approximately 20 litigated cases plus an additional 40 claims that Risk Management staff has jurisdiction to adjust. Mr. Hansen summarized, stating that everyone he spoke with is familiar with the current state of the market and are concerned about their renewals.

Chair Jones stated that it was the Board's responsibility to advise City Council on these types of factors, so they have appropriate data to make decisions. Chair Jones noted that the Board needs to be able to

indicate to City Council if some portion of the premium increase is related to a hard market or if some portion of it is related to internal factors regarding the number of claims, how much the city has paid out, and how many open claims we have. Chair Jones inquired if it would be possible to reach out to the other cities' carriers to get quotes, specifically City of Chandler.

Kristina Meier of Willis Towers Watson stated that the public entity marketplace is comprised of only eight to ten carriers that will cover law enforcement, legal and public official liability. Ms. Meier noted that those markets have shrunk their capacity because of the increase of public entity claims across the United States, which is driving the increase in SIRs and premiums. Ms. Meier noted that internal claims experience is primary when underwriting a renewal. Ms. Meier provided an overview of her role as a broker in the quote process.

Boardmember Robin Arredondo-Savage stated that she would be interested to see who the carriers are for other valley cities. Boardmember Arredondo-Savage noted that it would also be good to see a trend history of claims over the past 10 years, including how many were filed, how many are open/closed, the settlement amount, and how that data benchmarks to comparable cities. She stated that it is important to relay to City Council how Tempe's practices and settlement of claims compares to what other cities do in order to show how it impacts our premiums.

Chair Jones concurred, stating that the Board is trying go to City Council with a recommendation that includes information about how we can improve the premiums in the future. Chair Jones noted that is why it is important to ask what the exact elements are that led to increased premium quotes, whether it is the number of outstanding claims or the fact that we haven't pierced the SIR, but we have settled a lot of claims. The Board generally discussed the claims settlement process and the impact on premium rates.

Ms. Meier stated that the feedback they are getting from the market indicates that specific types of claims are driving some of the premium changes due to social inflation, noting that wrongful death and law enforcement claims are impacting the quotes. Ms. Meier stated that the types of claims and payouts all impact the underwriting analytics and models. The Board generally discussed how claims impact a quote.

Mr. Duensing provided a high-level overview of the general liability claims history over the past 10 years, noting that the only time the city pierced the SIR was in 2012. Mr. Duensing summarized discussions on the auto, Workers' Compensation and general liability coverage, noting that we are still waiting on a hard quote for general liability.

Ms. Meier stated that Willis Towers Watson is partnering with a wholesaler to obtain quotes for the full \$40 million tower that the city has now. Ms. Meier provided a brief overview of options for structuring the general liability coverage, noting that the \$5 million SIR will continue. Ms. Meier stated that they will follow-up to provide claims experiences and how the different options would work. Chair Jones requested a quote for a \$30 million option. Ms. Meier noted that the markets are fluid and the carriers will change their positions based on what we are asking for as a limit for the total coverage tower. Ms. Meier stated that she hoped to have quotes for two options by the end of the week. The Board discussed some of the coverage options available and their financial impact. Chair Jones requested that we reach out to the carrier providing a quote for City of Chandler to obtain a quote from them.

Boardmember Arredondo-Savage reiterated that as a councilmember trying to make a decision it is important to have background information, including identifying the city's practices regarding settlement of claims, how that impacts premiums, and what the city may want to change for better premium rates.

Mr. Duensing stated that the next Board meeting is scheduled for June 1, 2021. Ms. Kissel noted that due to the Memorial Day holiday, they may not have quotes back in time for that meeting. Mr. Duensing stated that staff would schedule an additional meeting in order to make sure that the Board has time to review the

quote in time for staff to submit a recommendation to City Council by the June 10 submittal deadline (for the June 24, 2021 City Council meeting). Mr. Duensing stated that any Board meetings not needed would be cancelled.

Agenda Item 5 - Board Member and Staff Announcements

There were no announcements.

Agenda Item 6 – Public Appearances

There were no public appearances.

Chair Jones adjourned the meeting at 6:02 p.m.

Minutes prepared by: Susan Buck

Minutes reviewed by: Chris Hansen and Tom Duensing