

M E M O R A N D U M

TO: Chief Administrative Officer

FROM: City Comptroller

RE: City Insurance Renewal

DATE: November 15, 2002

Brief Description.

There is no action required on this item. This memo is written to inform the members of the City Council of changes concerning our insurance renewal. In order to save money, the City is accepting some additional risk. However, I believe that this level of risk is acceptable and manageable, given the potential savings.

The proposal to renew the city's current liability and excess worker's compensation insurance coverage with the same limits and deductibles would have increased the cost from \$334,050 to \$398,337, a 19.2% increase. There was no logical reason for this increase. Claims have not changed. I have been advised that similar increases could probably also be expected next year. Even before this proposed increase and for the last few years, I have been exploring different options. I have been dissatisfied that Urbana has experienced average insurance cost increases in the 12% range the last few years. Our claim history proves that the City should be able to accept more risk and save money. Accepting more risk is a concept that is employed by a number of cities in central Illinois. Champaign has self-insured its liability risk (paying the first \$250,000 of any claim) for many years. Recall, that the City began self-insuring worker's compensation risk 9 years ago. This program has been very successful in reducing workplace injuries and has saved approximately \$4 million over this time. The City received quotes from 5 different companies, encompassing approximately 11 different options. The accepted proposal was effective 11/01/02 and is as follows.

The City will pay the first \$100,000 of any liability claim up to a maximum of \$240,000 in any one year. The City will pay the entire cost for the repair of any of its vehicles. The City will increase its self-insured amount for worker compensation claims from \$350,000 to \$400,000 per claim. The current \$1,000 deductible on property claims would remain the same.

If future claims can be maintained at the 7 year average of \$66,521, the City will save an additional \$99,600 year. I believe that the City, with the help of our employees, can lower these claim costs and thus save more. This can be done by placing a renewed emphasis on driving more safely, and ensuring that the City follows current and professional policies and procedures. But there is no guarantee that the City will not incur an expensive liability claim in these next 12-24 months.

The City (like we did when we first started self-insuring worker's comp) will set aside any savings into a reserve fund for possible future claims, until \$750,000 has been saved. If the City did incur an unusual claim in this first year, I recommend that the amount be paid from the \$3 million workers comp. Reserve.