



CITY COUNCIL AGENDA ITEM

Date: June 3, 2016

To: Brian Kischnick, City Manager

From: Thomas Darling, Director of Financial Services
MaryBeth Murz, Purchasing Manager
Lisa Burnham, Accounting Manager
Jeanette Menig, Human Resources Director
Lynne Lambert, Human Resources Coordinator

Subject: Award Standard Purchasing Resolution 3 - Exercise Renewal Option – Workers' Compensation Insurance Renewal for Fiscal Year 2016/2017

History

- The Michigan Municipal League Workers' Compensation Fund currently provides Workers' Compensation coverage to the City. The Michigan Municipal League (MML) has provided this coverage since 1978.
- The City of Troy is among the MML Workers' Compensation Fund's largest Members but there are five Members with premiums larger than the City of Troy's premium.
- MML provides coverage to more than 900 *public* entities throughout Michigan. This non-profit group was started in 1977.
- The MML Workers' Compensation Fund was started because the standard market did not want to write workers' compensation coverage for police and fire and the rates were incredibly high. The rates of the MML Workers' Compensation Fund are less than half of those of the standard insurance carriers that write workers' compensation coverage.
- MML has an outstanding Pay Lag rating of 10 days as compared to the industry average which is 17 days.
- The Workers' Compensation Fund and Stop/Loss Analysis is audited annually by the State of Michigan.
- The Workers' Compensation Audit details can be found on the State of Michigan website; www.michigan.gov/wca.
- In 2003 city management in conjunction with insurance consultant Angelo J. Zervos conducted a study regarding Workers' Compensation Insurance and recommended subsequent annual renewal(s) with the MML Workers' Compensation fund based on the following reasons:
 - Comparison of historical costs demonstrate that the MML Workers' Compensation Fund was lower in cost than self-insurance.
 - The MML Workers' Compensation Fund has special expertise in governmental insurance.
 - Existing claim handling and loss control Meadowbrook Insurance is of high quality.



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History (continued)

- The MML Workers' Compensation Fund has returned (to Members) an average of 30% of premium dollars paid.
- The State of Michigan requires the City of Troy to provide workers' disability compensation under Public Act 317 of 1969.
- The MML in conjunction with Meadowbrook Insurance as the Third Party Administrator *continues* to consistently provide:
 - Legal expertise, Defense and related expenses
 - Loss Control Consultation and Expertise
 - Medical Bill Review that mitigates medical expenses. MML provides an average of 56-59% net savings below the billed amount due to its proactive bill review and pharmacy benefits programs.
 - Claims handling services which is very specific to municipalities and specific to the City of Troy
 - Timely customer service to City management and injured employees
 - Responsive services that assist City staff communication with employees, administration and Council.
 - Knowledge specific to the City of Troy claims including long-term claims
 - When in the City's best interest they actively monitor and initiate settlement on the City's behalf.

Purchasing

The bid process is waived for the following reasons:

- The City has over 30 years of claims history with the MML Workers' Compensation Fund; which *last* year resulted in a very low Experience Modifier of .85. An Experience Modifier less than 1.00 is a positive indicator and rating which nets the City a discount; as detailed by year below.
- The Experience Modifier is calculated based on 3.5 years of claims and payroll history by classification.
- This year's Declaration Page, which is attached details the City's Experience Modifier at 1.01.
- The Experience Modifier increased because of the cost increase in 2012 claims and also because of the 1.86% increase in payroll. Claim detail by year is attached.
- Note that since the Experience Modifier is calculated on a 3.5 year basis; the 2012 claims (that totaled over 56% of the total claims used to calculate the Experience Modification Factor for 2016) will fall off next year so the Experience Modifier should again be well below 1.0 next fiscal year.
- The City of Troy continues to benefit from the expertise of MML in the unique provisions of Workers' Compensation that specifically apply to Police Officers and Firefighters.
- If the City were to enroll with a different carrier the experience modifier would be reset which would result in an additional cost to the City. Current dividends would be frozen for a minimum of 2 - 3 years.



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Purchasing (continued)

- A different carrier would necessitate City management to work with multiple Third Party Administrators. New claims would be administered by the new insurance company and existing claims would still be handled by MML.

Financial

- The City is in receipt of the renewal package from the Michigan Municipal League Workers' Compensation Fund which includes a dividend credit attributable to Fund members overall.
- The City will receive a dividend credit of \$136,036.00.
- The renewal premium for FY 2016-2017 is \$474,659.00 (net of dividend credit). Premium history is detailed below:

	2011/2012	2012/2013	2013/2014	2014/2015	2015/2016	2016/2017
Total Standard Premium	\$535,492	\$494,519	\$530,876	\$576,039	\$616,527	\$651,507
Experience Modifier	1.01	1.02	0.97	0.86	0.85	1.01
Experience Modifier Credit	\$5,355	\$9,890	-\$15,926	-\$80,645	-\$92,479	\$6,515
Size of Premium Credit	-\$38,689	-\$35,956	-\$36,746	-\$35,280	-\$37,429	-\$47,477
Expense Constant	\$150	\$150	\$150	\$150	\$150	\$150
Total Estimated Premium	\$502,308	\$468,603	\$478,354	\$692,114	\$486,769	\$610,695
Dividend Credit	-\$165,959	-\$199,196	-\$222,443	-\$158,002	-\$156,292	-\$136,036
Net Estimated Annual Premium	\$336,349	\$269,407	\$255,911	\$302,262	\$330,477	\$474,659

- The annual rate changes every year but rates are stable from year to year.
- Premium cost fluctuates predicated upon the City payroll and employees by classification and employees by classification in the higher risk classes such as Street Operations, Fire, Police and Building Operations.
- The relevant indicator is the Experience Modifier which reflects the City's performance with loss/control, return to work program and overall safety training and performance. Note, the City's improvement over the past 3 years as indicated by the Experience Modifier and the Experience Modifier credit.
- Funds are available in the Workers' Compensation Fund. For FY 2016/2017, the City budgeted \$494,000.00 for the premium cost.



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Recommendation

City management recommends it is in the City's best interest to waive the bid process and to continue the relationship with the Michigan Municipal League Workers' Compensation Fund. It is recommended that City Council approve the renewal of the City's Workers' Compensation Fund for the net cost of \$474,659.00 as detailed in the attached Michigan Municipal League Workers' Compensation Fund Declaration Page for Fiscal Year 2016/2017.

City of Troy

Claim Year	Mod Year 2015	Mod Year 2016
2011	\$ 24,736	
2011	\$ 11,135	
	\$ 31,505	
	\$ 11,550	
	\$ 10,869	
	<u>\$ 89,795</u>	
2012	\$ 24,736	\$ 71,148
2012	\$ 18,869	\$ 18,869
	\$ 14,060	\$ 14,060
	\$ 25,336	\$ 25,336
	\$ 110,931	\$ 293,121
	\$ 25,220	\$ 25,220
	\$ 16,880	\$ 19,741
	\$ 10,920	\$ 10,920
	\$ 13,186	\$ 13,186
	<u>\$ 260,138</u>	<u>\$ 491,601</u>
2013	\$ 32,571	\$ 32,721
	\$ 42,093	\$ 39,726
	\$ 11,616	\$ 11,616
	\$ 13,103	\$ 13,103
	<u>\$ 99,383</u>	<u>\$ 97,166</u>
2014	\$ 34,401	\$ 32,486
	\$ 25,159	\$ 17,914
		\$ 46,577
	<u>\$ 59,560</u>	<u>\$ 96,977</u>
2015		\$ 28,176
		\$ 56,489
		\$ 29,987
		\$ 54,154
		\$ 19,843
		<u>\$ 188,649</u>
Total	<u>\$ 508,876</u>	<u>\$ 874,393</u>

Michigan Municipal League Workers' Compensation Fund

05/02/2016

Declaration Page

5000410-16

City of Troy
 Attn: Lisa Burnham
 500 W. Big Beaver
 Troy, MI 48084

Coverage Period 7/1/2016 to 6/30/2017
 RENEWAL

Class Code	Class Description	Estimated Annual Payroll	Rate per \$100 of Payroll	Estimated Annual Premium
5509-00	Street Operations	1,354,800	7.38	99,984
7520-00	Water Operations	1,568,800	3.74	58,673
7704-01	Firefighters	860,790	4.22	36,325
7704-02	Volunteer/On-Call Firefighters	61,600	7.85	4,836
7720-01	Police Officers	10,541,206	2.82	297,262
8395-00	Garage Operations	756,600	3.38	25,573
8810-01	Clerical-Office	6,235,800	0.45	28,061
8810-02	Elected Officials	36,400	0.24	87
8810-03	Libraries & Museums: Prof/Clerical	1,532,700	0.30	4,598
8820-00	Attorneys/Judges	392,000	0.32	1,254
9015-00	Building Operations	479,600	4.12	19,760
9102-00	Parks & Recreation	1,617,800	3.01	48,696
9103-00	Crossing Guards	29,600	3.76	1,113
9104-00	Lifeguards	313,600	1.89	5,927
9410-00	Municipal Employee	1,975,300	0.98	19,358
	Totals:	\$27,756,596		\$651,507

Coverage Amount

Employers Liability: \$500,000
 Workers' Compensation: STATUTORY

Premium To Be Billed on Installments: \$474,659

Total Standard Premium	\$651,507
Increased Employers Liability Limit	\$0
Experience Modifier: 1.01	\$6,515
Modified Premium	= \$658,022
Size of Premium Credit	(\$47,477)
Expense Constant	\$150
Total Estimated Premium	= \$610,695
(Dividend Credit)	(\$136,036)
NET ESTIMATED ANNUAL PREMIUM	= \$474,659