



500 West Big Beaver  
Troy, MI 48084  
troymi.gov

**CITY COUNCIL AGENDA ITEM**

Date: April 30, 2019

To: Mark F. Miller, City Manager

From: MaryBeth Murz, Purchasing Manager  
Tom Darling, Director of Financial Services  
Lisa Burnham, Accounting Manager  
Jeanette Menig, Human Resources Director

Subject: Award Standard Purchasing Resolution 3 – Exercise Renewal Option - Workers' Compensation Renewal

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**History**

- The Michigan Municipal League (MML) Workers' Compensation Fund currently provides Workers' Compensation coverage to the City. The MML began providing this coverage for the City of Troy in 1986.
- The City of Troy is one of the largest Members of the MML Workers' Compensation Fund.
- The 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 provide coverage for police and fire and the rates were incredibly high.
- The MML Workers' Compensation Fund's Pay Lag was an average of 8 days for calendar year 2017 compared to the 16-day average for all of Michigan's 31 Group workers' compensation funds. This is the lowest average number of days of any of the Michigan Group funds. It shows the responsiveness of the MML Workers' Compensation Fund.
- The MML Workers' Compensation Fund is audited annually by the State of Michigan and continues to comply with all State requirements.
- The MML Workers' Compensation Fund audited Financial report can be found at [http://www.mml.org/insurance/fund/pdf/06\\_30\\_2018.pdf](http://www.mml.org/insurance/fund/pdf/06_30_2018.pdf)
- 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 (provided by the MML Workers' Compensation Fund's service provider) Meadowbrook is of high quality.
- The State of Michigan requires the City of Troy to provide workers' disability compensation under Public Act 317 of 1969.



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### History (continued)

- The MML Workers' Compensation Fund in conjunction with Meadowbrook as the Third-Party Administrator continues to consistently provide:
  - Legal expertise, defense and related expenses
  - Loss control consultation and expertise
  - Claims handling services which are very specific to municipalities and specific to the City of Troy
  - Medical Bill Review that mitigates medical expenses.
  - Timely customer service to City management and injured employees
  - Responsive services that assist City staff communications with employees, administration and others
  - 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; most years have had an Experience Modifier less than 1.00, which is a positive indicator and rating which nets the City a discount. A detailed historical chart is below.
- The Experience Modifier is calculated based on 3.5 years of claims and payroll history by classification code. Claim detail is attached.
- This year's Declaration Page, which is attached shows the City's Experience Modifier at 1.23.
- The Experience Modifier increased because of the increased claim costs.
- Note that the Experience Modifier is calculated on a 3.5-year basis. Eight large 2015 claims will fall off next year.
- The City of Troy continues to benefit from the expertise of the 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, current dividends would be frozen for a minimum of 2-3 years.
- A different carrier would necessitate City management to work with multiple Third-Party Administrators. New claims would be determined by the new insurance company and existing claims would still be handled by the MML.

### Financial

- The City is in receipt of the renewal package from the MML Workers' Compensation Fund which includes a dividend credit attributable to Fund members overall.
- The City will receive a dividend credit of \$158,680.



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### Financial (continued)

- The renewal premium for FY 2019-2020 is \$652,806 (net of dividend credit). Premium history is detailed below:

|                              | 2013/2014  | 2014/2015  | 2015/2016  | 2016/2017  | 2017/2018  | 2018/2019  | 2019/2020  |
|------------------------------|------------|------------|------------|------------|------------|------------|------------|
| Total Standard Premium       | \$542,786  | \$569,964  | \$625,360  | \$629,141  | \$678,559  | \$718,126  | \$711,458  |
| Payroll:                     | Audited    | Audited    | Audited    | Audited    | Audited    | Estimated  | Estimated  |
| Experience Modifier          | 0.97       | 0.86       | 0.85       | 1.01       | 0.81       | 1.01       | 1.23       |
| Experience Modifier Credit   | -\$16,284  | -\$79,795  | -\$93,804  | \$6,291    | -\$128,926 | \$7,181    | \$163,635  |
| Size of Premium Credit       | -\$37,613  | -\$34,888  | -\$37,992  | -\$45,782  | -\$39,347  | -\$52,523  | -\$63,757  |
| Expense Constant             | \$150      | \$150      | \$150      | \$150      | \$150      | \$150      | \$150      |
| Total Estimated Premium      | \$489,039  | \$455,431  | \$493,714  | \$589,800  | \$510,436  | \$672,934  | \$811,486  |
| Dividend Credit              | -\$222,443 | -\$158,002 | -\$156,292 | -\$136,036 | -\$147,682 | -\$147,004 | -\$158,680 |
| Net Estimated Annual Premium | \$266,596  | \$297,429  | \$337,422  | \$453,764  | \$362,754  | \$525,930  | \$652,806  |

- Rates change annually, but the MML Workers' Compensation Fund works to maintain rate stability from year to year. For 2019/2020, average rates are down by approximately 0.47%.
- Premium cost fluctuates predicated upon the City's payroll by classification code. There is a greater change in premium when employees are added or reduced 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 programs and overall safety training and performance.
- \$536,450 is budgeted for the 2019-2020 premium cost.



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### **Recommendation**

City management recommends it is in the City's best interest to waive the bid process and 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 \$652,806 as detailed in the attached Michigan Municipal League Workers' Compensation Fund Declaration Page for the Fiscal Year 2019/2020.

**Michigan Municipal League Workers' Compensation Fund**

03/28/2019

Declaration Page

5000410-19

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

Coverage Period 7/1/2019 to 6/30/2020

RENEWAL

| Class Code | Class Description                     | Estimated Annual Payroll | Rate per \$100 of Payroll | Estimated Annual Premium |
|------------|---------------------------------------|--------------------------|---------------------------|--------------------------|
| 5509-00    | Street Operations                     | 1,465,544                | 7.23                      | 105,959                  |
| 7382-00    | Transit Authority/Dial-A-Ride Drivers | 144,768                  | 4.44                      | 6,428                    |
| 7520-00    | Water Operations                      | 1,567,689                | 3.67                      | 57,534                   |
| 7704-01    | Firefighters                          | 927,493                  | 4.35                      | 40,346                   |
| 7704-02    | Volunteer/On-Call Firefighters        | 79,000                   | 7.70                      | 6,083                    |
| 7720-01    | Police Officers                       | 11,812,886               | 2.77                      | 327,217                  |
| 8395-00    | Garage Operations                     | 796,210                  | 3.31                      | 26,355                   |
| 8810-01    | Clerical-Office                       | 6,663,024                | 0.44                      | 29,317                   |
| 8810-02    | Elected Officials                     | 36,400                   | 0.23                      | 84                       |
| 8810-03    | Libraries & Museums: Prof/Clerical    | 1,735,021                | 0.30                      | 5,205                    |
| 8820-00    | Attorneys/Judges                      | 418,783                  | 0.31                      | 1,298                    |
| 9015-00    | Building Operations                   | 578,154                  | 4.36                      | 25,208                   |
| 9102-00    | Parks & Recreation                    | 1,968,082                | 2.95                      | 58,058                   |
| 9103-00    | Crossing Guards                       | 36,976                   | 3.78                      | 1,398                    |
| 9104-00    | Lifeguards                            | 235,891                  | 1.75                      | 4,128                    |
| 9410-00    | Municipal Employee                    | 2,053,677                | 0.82                      | 16,840                   |
|            | <b>Totals:</b>                        | <b>\$30,519,598</b>      |                           | <b>\$711,458</b>         |

|  |                                     |                    |
|--|-------------------------------------|--------------------|
| <u>Coverage Amount</u>                                 |                                     |                    |
| Employers Liability: \$2,000,000                       |                                     |                    |
| Workers' Compensation: STATUTORY                       |                                     |                    |
| <b>Premium To Be Billed on Installments:</b> \$652,806 |                                     |                    |
|  | Total Standard Premium              | \$711,458          |
|  | Experience Modifier: 1.23           | \$163,635          |
|  | Modified Premium                    | = \$875,093        |
|  | Size of Premium Credit              | (\$63,757)         |
|  | Expense Constant                    | \$150              |
|  | Total Estimated Premium             | = \$811,486        |
|  | (Dividend Credit)                   | (\$158,680)        |
|  | <b>NET ESTIMATED ANNUAL PREMIUM</b> | <b>= \$652,806</b> |