Annual Insurance Program Review

Staff Report

OCTA

May 19, 2010

To: Finance and Administration Committee

From: Will Kempton, Chief Executive Officer

Subject: Annual Insurance Program Review

Overview

The Orange County Transportation Authority purchases various insurance coverages such as workers' compensation, liability, property, terrorism, business interruption, life, health, dental, vision, as well as short-term and long-term disability insurance. The Orange County Transportation Authority contracts with insurance brokers for the marketing and placement of these coverages.

Recommendation

Receive and file as an information item.

Background

Marsh Risk and Insurance Services (Marsh) works concurrently with the Risk Management Department as the Broker of Record for the Orange County Transportation Authority (OCTA) for the marketing and placement of the property and casualty coverage while the Human Resources Department works with Mercer for the marketing and placement of health and disability coverages.

On November 8, 2006, the Finance and Administration Committee directed staff to follow a five-point process in the procurement of the insurance coverages, which included an annual review of all insurance coverages by the Finance and Administration Committee. This report will include renewal dates, areas of liability, coverage amounts, and insurance carrier information. This report is to be presented at the second Finance and Administration Committee meeting in May each year.

Discussion

The OCTA purchases various insurance coverages such as workers' compensation, liability, property, terrorism, business interruption, life, health, dental, vision, as well as short and long-term disability insurance.

Workers' Compensation

Workers' compensation coverage is designed to provide medical, temporary disability, and permanent disability benefits to injured workers. Employer's liability is an additional coverage provided as part of the excess workers' compensation insurance policy. Employer's liability insurance covers claims against an employer on behalf of employees seeking damages because of job-related activities involving bodily injury or disease to employees. For example, if a claim was filed against OCTA due to a serious and willful action resulting from an uncorrected yet known safety hazard that caused injury to an employee, OCTA may be liable for the costs of the claim as it would fall outside of the normal workers' compensation coverage. The employer's liability coverage would pay for the cost of legal defense for these types of claims. Fortunately, to date, OCTA has not had any claims that would trigger the employer's liability coverage.

The excess workers' compensation insurance policy from October 1, 2008 through October 1, 2009, with ACE American Insurance Company (ACE), had an aggregate self-insured retention (SIR) of $500,000 per claim or occurrence and coverage to statutory limits. This was the second year of the policy with a rate of $0.43 per $100 of payroll for a premium of $521,730. As a result of market negotiations in 2007, ACE had agreed to guarantee this rate for two years, provided that OCTA's loss experience continued to trend favorably, no new business ventures would be acquired, and OCTA would not market this coverage with other insurance competitors. As directed by the Finance and Administration Committee, OCTA agreed to the multi-year terms and renewed the policy.

For the October 1, 2009 through October 1, 2010, policy renewal, staff directed Marsh to approach ACE to discuss the potential of renewing the policy again with a SIR of $500,000 for the same guaranteed rate of $0.43. ACE agreed to the $500,000 SIR and again guaranteed this rate for two years, with the same multi-year conditions that OCTA's loss experience would need to continue to trend favorably, no new business ventures would be acquired, and OCTA would not market this coverage with other insurance competitors.

As directed by the Finance and Administration Committee, OCTA agreed to the multi-year terms and renewed the policy with ACE at the $0.43 guaranteed rate at statutory limits with a $500,000 SIR for an annual premium of $466,170, based on an estimated payroll of $108,411,543 for the policy period of October 1, 2009 through October 1, 2010.

Excess Liability

The OCTA is also self-insured for liability claims. However, OCTA purchases excess liability insurance to provide financial protection against potential high-exposure liability losses. It protects against liability claims for bodily injury and property damage arising out of premises, all operations including the 91 Express Lanes, products, and completed operations, advertising and personal injury liability; errors and omissions liability (including public official's coverage); employment practices and employee benefit liability.

Last year's policy period included a primary excess liability policy for $10 million in coverage with Everest National Insurance Company (Everest) for a premium of $309,060, as well as a secondary excess liability insurance policy for $25 million through Great American Insurance Services (Great American) for a premium of $142,778. Collectively, these policies provided OCTA with $35 million of liability insurance in excess of the $4 million SIR for a total premium of $451,838.

At the time of the 2009 renewal for these policies, OCTA as well as other public transit organizations experienced a less favorable insurance market due to fewer insurance companies willing to write transportation risks. OCTA received three quotes out of 15 insurers marketed, but incumbents Everest and Great American provided OCTA with the most competitive quotes for the primary and secondary excess liability insurance policies. Everest quoted $346,800 for $10 million in primary liability protection in excess of a $4 million SIR and Great American quoted $170,000 for $25 million in secondary excess protection.

As directed by the Finance and Administration Committee, OCTA opted to renew the excess liability policies with Everest and Great American which provides combined insurance protection of $35 million above a $4 million SIR for a total premium of $516,800. This renewal maintains OCTA's insurance protection of $35 million, with a 13 percent or $64,962 increase in premium. Both of these excess liability policies are effective from November 1, 2009 to November 1, 2010.

Property

Aside from the 91 Express Lanes property, OCTA currently owns buildings, contents, and buses with an insurable value of $482,580,774. To protect property from accidental loss, OCTA purchases property insurance. The annual property insurance policy for OCTA renews on the first of December each year. Last year, OCTA was insured with Travelers Property Casualty Company of America (Travelers) for an annual premium of $379,390. This policy protected against broad property perils such as fire, flood protection, and property losses caused by earthquake.

Insurance companies determine property insurance quotes based upon current insurance market conditions affecting rates per $100 in property values and the total value of property to be insured. While OCTA planned to maintain the policy limit of $225,000,000, Marsh was directed to solicit quotes at various deductible levels to explore options for additional premium reductions. Travelers submitted the most competitive premium pricing with a quote of $353,337 for standard perils and flood coverage, and $5 million in earthquake coverage. This policy included an increase in deductible from $25,000 to $50,000 for a premium reduction of $10,046. As directed by the Finance and Administration Committee, OCTA opted to renew the property insurance policy with Travelers for the policy period of December 1, 2009 through December 1, 2010.

91 Express Lanes Property

The OCTA purchases property, earthquake, flood, and terrorism insurance for the roadway, structures, business personal property, and business interruption coverage for the 91 Express Lanes. The 91 Express Lanes insurance policy for the March 1, 2009 through March 1, 2010, policy period consisted of a primary property policy with AXIS Reinsurance Company (AXIS) and a primary difference-in-conditions (flood and earthquake) policy with Empire Indemnity Insurance Company (Empire). This policy period insured a total of $135,410,416 of 91 Express Lanes property for an annual premium of $390,153.

The total insurable property values increased from $135,410,416 to $137,099,810 for the March 1, 2010 policy renewal, largely due to projected changes in leasehold improvements, equipment and software. However, no changes were made to the $82,349,410 valuation for the roadway, paving, and structures as recommended by the Marshall & Swift Cost Index. The business interruption value was increased from $40 million to $44.5 million to reflect current traffic and revenue volumes. In addition, transponder inventory values decreased from $233,500 to $189,552 to reflect usual quantity on hand for distribution.

OCTA received two insurance company quotes for the primary property policy, and two quotes were received for renewing the earthquake policy. AXIS provided the most competitive quote of $123,390 for the primary property policy and Empire quoted $215,300 for the earthquake coverage.

As directed by the Finance and Administration Committee, OCTA opted to renew the property insurance policy with AXIS to include enhancements of the standard policy; and also renew with Empire for $35 million of earthquake coverage maintaining the current favorable fixed $1 million deductible. The $345,678 combined premium is a 13.3 percent or $53,096 decrease for these two policies from the preceding policy term. The current property insurance policy is effective from March 1, 2010 to March 1, 2011.

Health Insurance

The OCTA presently has agreements with various companies to provide medical, dental, vision, life insurance, and disability services for administrative employees (unrepresented) and employees represented by the Transportation Communications International Union (TCU).

Medical Providers

OCTA has offered three choices of medical plans to its employees and their families since 1981. On November 9, 2009, the Board approved an amendment to the agreement with Aetna to provide a health maintenance organization (HMO) plan as well as an open access managed choice (OAMC) plan for the period January 1, 2010 through December 31, 2010. In addition, the Board approved an amendment to the agreement with Kaiser Foundation Health Plan, Inc. (Kaiser) to provide a HMO plan for the period January 1, 2010 through December 31, 2010.

The Aetna plans were implemented on January 1, 2009. The renewal rate is based on the claims experience during the period of January 1, 2009 through May 31, 2009. Aetna offered a 15 percent renewal rate increase for an annual cost of $4.7 million and guaranteed that rate through December 31, 2010. Kaiser offered a 3.8 percent renewal rate increase for an annual cost of $1.4 million and guaranteed that rate through December 31, 2010.

Dental Providers

OCTA offers two choices of dental plans to its employees and their families. The preferred provider plan (PPO) is offered through MetLife. The HMO plan is offered through SmileSaver. On November 9, 2009, the Board approved an amendment to the agreement with MetLife to provide a PPO plan for the period January 1, 2010 through December 31, 2010.

In 2008, MetLife provided no rate increase over the previous year and guaranteed the rates through December 31, 2009. In January 2010, MetLife offered a 9.2 percent renewal rate increase for an annual cost of $662,000.

In 2009, SmileSaver offered a rate decrease of 5.6 percent with a two-year rate guarantee. Therefore, in January 2010 there was no rate change. The annual cost to provide the HMO dental plan is $22,000.

Vision Provider

Vision Service Plan (VSP) is offered to employees who select Aetna medical coverage since Kaiser medical also includes vision coverage. The vision plan provided was self-funded. Administrative and claims fees were paid on a monthly basis. For 2010, VSP provided an overall rate increase of 10.4 percent. Mercer requested VSP to provide a rate quote on the same plan but under a fully-insured contract. The rate increase for a fully-insured contract was 7.4 percent which was lower than the self-funded plan. The annual cost to provide the vision plan is $116,000. On November 9, 2009, the Board approved changing the VSP contract to a fully-insured plan. The premium rates are guaranteed for three years ending December 31, 2012.

Life and Disability Insurance

Group term life insurance and disability insurance are offered to employees through Lincoln Financial Group. The life insurance coverage amount is equal to two times the annual salary of the employee. Short and long-term disability is also offered to employees. Coverage would provide 67 percent income replacement in the event an employee was totally disabled through a non-work related illness or injury.

In 2009, Lincoln Financial Group offered a rate decrease over the previous year and guaranteed rates through December 31, 2010, with an estimated annual cost of $330,000. This includes an increase to the long-term disability monthly maximum benefit amount from $6,000 to $8,000 effective January 1, 2009.

Flexible Spending Account

OCTA offers employees a flexible spending account (FSA) for healthcare expenses of the employee, spouse, and dependents, as well as a separate FSA for dependent care expenses, through non-taxable reimbursements. Previously, the FSA was administered internally by the Human Resources Department. In an effort to protect employees' personal health information in addition to the cost benefit, the Board approved contracting with a third-party administrator, WageWorks (formerly Creative Benefits, Inc.), to review medical claims and receipts for reimbursing employees.

For 2010, OCTA directed Mercer to request proposals for FSA administration. The WageWorks proposal was accepted, with an annual cost of $15,000 and a three-year rate guarantee through December 31, 2012. As an additional benefit through WageWorks, OCTA employees can opt to use a payment card as a reimbursement method as opposed to submitting claims to WageWorks.

Summary

The Orange County Transportation Authority purchases various insurance coverages such as workers' compensation, liability, property, terrorism, business interruption, life, health, dental, vision, short-term and long-term disability insurance. The Orange County Transportation Authority contracts with insurance brokers for the marketing and placement of these coverages. All of the necessary insurance and purchased benefits were renewed on time and with Board of Directors approval within the approved budget.

The Risk Management and Human Resources staff will continue to work with Orange County Transportation Authority's brokers on strategies for future renewals in order to obtain the best possible insurance coverage at the lowest policy premium rates.

Attachment

None.

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