

LEON COUNTY BOARD OF COUNTY COMMISSIONERS

QUOTATION COMPARISION

Effective: 10/1/2008 – 10/1/2009

Presented By:

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Property					
	Expiring	PGIT	League of Cities	Travelers/Landmark	Travelers With Windstorm Sublimit
Program Limit - Per Occurrence	\$125,000,000	\$125,000,000	\$150,000,000	\$100,000,000	\$100,000,000
	Shared	Shared	Shared	Not Shared	Not Shared
Wind Limit - Per Occurrence	\$125,000,000	\$125,000,000	\$150,000,000	\$100,000,000	Option A \$25,000,000 Option B \$50,000,000
Flood Limit - Per Occurrence	\$5,000,000	\$5,000,000	\$4,500,000	\$1,000,000 Zone A \$25,000,000 All Other	\$1,000,000 Zone A \$25,000,000 All Other
Wind Deductible	5% Named	5% Named	3% Named	3% Named Wind Subject To \$100,000 Minimum \$25,000 All Other Wind	3% Named Wind Subject To \$100,000 Minimum \$25,000 All Other Wind
All Other Perils Deductible	\$25,000	\$25,000	\$25,000	\$25,000	\$25,000
Flood Deductible	\$25,000	\$25,000	\$25,000	\$100,000	\$100,000
Financial Rating	Various "A" Rated	Various "A" Rated	Various "A" Rated	A+ 15	A+ 15
Premium	\$1,413,371.00	\$758,833.00	\$754,583.00	\$1,169,860.00	Option A \$726,093.00 Option B \$894,860.00

Options:	Expiring	PGIT	League of Cities	Travelers/Landmark	Travelers
3% Wind/\$100,000 AOP Ded.	N/A	N/A	\$754,583.00	N/A	\$707,000.00
5% Wind/\$100,000 AOP Ded.	N/A	\$751,352.00	N/A	N/A	N/A
10% Wind / \$100,000 AOP Ded.	N/A	N/A	\$704,277.00	N/A	N/A
10% Wind Deductible/\$25k AOP	N/A	N/A	\$786,024.00	N/A	N/A

PROPERTY / INLAND MARINE

Leon County's expiring Property program is written with the Preferred Governmental Insurance Trust (PGIT). Leon County shares a \$125,000,000, per occurrence, property limit with the other members of the PGIT trust. The program carries a 5% Named Storm wind deductible along with a \$25,000 all other peril deductible. The expiring annual premium is \$1,413,371. Quotes for Property coverage were received from PGIT, League of Cities, and Travelers; presented two options. The PGIT and League offerings are both shared limit programs and Travelers is providing quotes on a limit of coverage for Leon County on its own.

Shared Limit Program (PGIT and League of Cities): A Shared Limit program is exactly that. Leon County shares a per occurrence property limit with other members of the Trust. The PGIT program carries a \$125 million per occurrence limit while the League of Cities has indicated their limit is \$150 million. This is the most common method of purchasing property coverage for Municipalities in Florida. The Trust provides a limit of insurance to the group based on underwriting, spread of risk, wind modeling results, and loss control data. As the limit is provided on a per occurrence basis, there is no risk to sharing limits on fire losses as a fire, at each member location, would be deemed a separate occurrence and the full limit would be available to the member (this is assuming that the member is not exposed to a fire loss that exceeds the occurrence limit; Leon County's single largest location is valued at \$87 million). The risk in Shared Limit programs comes from potential windstorm loss that could affect multiple members. PGIT uses the latest wind modeling software to determine what the potential loss to the Trust members could be in a 250, 500, and 1000 year windstorm. For example, when we run the Leon County property schedule through the wind modeling software, the projected wind loss in the 250 year storm is \$2,498,083, the 500 year storm is \$4,001,648, and 1000 year storm is \$5,619,400. While these models are based on sophisticated computer software, I prefer to address actual loss data for the Trust. In the 2004 and 2005 hurricane seasons (the most active Florida has ever seen), PGIT carriers paid total losses for all seven named storms- Charlie, Frances, Ivan, Jean, David, Katrina, and Wilma- of less than \$45 Million. It is important to note that the \$125 million per occurrence limit would have been available for each named storm as each is considered a separate occurrence. While statistics and real loss data support the group purchasing arrangement, it is not without risk. There is still potential for a devastating, category 5, storm that lands in a heavily populated area and causes catastrophic damage to multiple Trust members. If that were to occur, and the loss exceeded the limit purchased by the trust, claims would be paid on a pro-rata basis. For example: Using the PGIT program limit of \$125 million, if a single occurrence created a wind loss of \$150 million for the trust, and the loss to Leon County was \$120 million, the County would collect based on the following formula: $\$120 \text{ million} / \$150 \text{ million} \times \$125 \text{ million} = \$100 \text{ million paid loss}$. It is expected that

FEMA would play a major role in one of these catastrophic events and would provide assistance to Leon County. The pricing is as follows:

PGIT: \$758,833
League of Cities: \$754,583

Stand Alone Program (Travelers/Landmark and Travelers): The two options offered by Travelers are Stand Alone or non-shared limit programs. In other words, Leon County would be purchasing their own insurance limit, not to be shared with any other entity. This option has presented itself this year due to a marked improvement in the commercial property insurance market in Florida. This gives Leon County the freedom to design their property insurance to fit their specific needs and adjust the windstorm coverage to reflect the expected exposure. These programs are normally purchased with a per occurrence limit based on the largest expected fire loss (largest valued location on the property schedule) and a sub limit for windstorm coverage is added based on the wind modeling results, comfort level, and budget constraints of the entity. The wind modeling results for the specific insured play a large part in determining how much coverage is purchased. The two options are as follows:

Travelers/Landmark: This option provides a \$100 million per occurrence limit that includes \$100 million in windstorm coverage. As noted earlier, the highest valued location on the property schedule is \$87 million so our limit would be sufficient for a total fire loss to this location. The previously mentioned wind modeling tells us that in the 100 year storm, the expected wind loss is \$5,619,400. This coupled along with windstorm loss history in Tallahassee should give the County a comfort level with the \$100 million limit. Travelers would provide the primary \$50 million in coverage and Landmark would add an excess layer of \$50 million. This would be considered a conservative option.

The premium for this option is: \$1,174,859

Travelers: This option provides a \$100 million per occurrence limit with a \$25 million or \$50 million per occurrence sub limit for windstorm. The \$100 million limit is based on the purchase of fire insurance to exceed the value of our single largest location (Courthouse). We then add wind coverage at a lower limit to better reflect the exposure based on the wind models and historical loss data. We are free to set this wind limit at any level we are comfortable with (from \$1 million to \$50 million) but we have chosen to offer quotations at \$25 million and \$50 million wind limits. By structuring the property insurance program in this way, we save premium dollars with a program that better reflects the exposure Leon County faces. Remember, the wind models we ran show the wind loss exposure for Leon County, in the 250 year storm (Katrina), at \$2,498,083. The 1000 year storm generates a modeling loss of \$5,619,400. Both figures are well below the \$25 or \$50 million we would purchase with this option. Large municipal entity's, that don't qualify for the Trust programs due to their size, purchase their property insurance in this manner.

The Premiums for the Wind Sub limit Program are:
Option A (\$25 million Wind Sub limit): \$726,093
Option B (\$50 million Wind Sub limit): \$894,860

Please refer to the attached spreadsheet for deductible comparisons, financial ratings, and sub limits. We have also included a \$100,000 AOP Deductible option from PGIT and the League of Cities. In conclusion, Leon County has several good options to choose from.

The Travelers option, with a \$25 million sub limit for wind, should be considered due to its pricing, wind deductibles, and ability to deliver Leon County a limit they will not have to share. In Addition, wind models referenced earlier show that the windstorm loss in a "Katrina like" storm would be \$2,498,083. This loss would be well below the \$25 million wind limit offered by this program.

Based on premium and windstorm deductible comparisons the League of Cities is the best option of the Trust programs at a premium of \$754,583. We are recommending the League of Cities based on their 3% Named Storm deductible (5% Named Storm offered by PGIT) and the four pay, interest-free payment plan. In addition, the League offers additional coverage enhancements such as: 110% margin clause, Named Insured status, and reverse condemnation coverage. All of the League of Cities reinsurance carriers are A- rated or above and Leon County will be a Named Insured on the working layers of the program.

Casualty--General Liability, Public Officials Liability, Employment Practices Liability, Auto Liability & Auto Physical Damage					
	Expiring	PGIT	League of Cities	Travelers	Fact
GL: \$3m/\$6m - 10K Deductible	\$350,000	\$262,146	\$221,721	\$196,717	\$502,230
POL: \$3m - \$25k Deductible	\$55,000	\$55,000	\$132,947	\$33,287	Included (\$1m Limit)
EPL: \$3m - \$25k Deductible	\$30,783	\$29,419	Included in POL	\$46,746	Included (\$1m Limit)
Auto Liability: \$3m - \$10K Deductible	58520	\$52,326	\$71,035	\$73,428	No Quote
Auto Physical Damage: Comp \$1,000 - Coll \$1,000	\$26,810	\$31,043	\$20,284	\$23,384	No Quote
Total Premium	\$521,113	\$429,934.00	\$445,987.00	\$373,562.00	\$502,230.00
POL Prior Acts Premium	N/A	N/A	N/A - Retro Date 10/1/05	N/A - Retro Date 10/1/98	N/A
Final Premium	\$521,113	\$429,934.00	\$445,987.00	\$373,562.00	\$502,230.00

Options:	Expiring	PGIT	League of Cities	Travelers	Fact
\$1m/\$2m - \$100k/\$200k SIR	N/A	\$204,538**	N/A	N/A	N/A
\$1m/\$2m - \$100k Deductible	N/A	\$241,288**	N/A	N/A	\$347,694**
\$3m/\$6m - \$100k/\$200k SIR	N/A	\$241,288**	N/A	N/A	N/A
\$3m/\$6m - \$100k Deductible	N/A	\$278,038**	\$423,916**	N/A	N/A

** Final Premium - All Lines With GL Deductible Option

Options:	Expiring	PGIT	League of Cities	Travelers	Fact
\$3m/\$6m - \$100k SIR/ GL/POL/EPL/Auto	N/A	N/A	N/A	\$211,061.00	N/A

** SIR applies to all lines of coverage shown above. Program requires a \$40,000 loss fund to be established upon binding.

CASUALTY

(General Liability, Public Officials Liability, Employment Practices Liability, Auto Liability, and Auto Physical Damage)

Leon County currently purchases a Casualty program that carries a \$3 million per occurrence limit for GL, POL, EPL, and Auto Liability coverage. The General and Auto Liability deductible is \$10,000 with POL/EPL set at a \$25,000 deductible. Coverage is placed with PGIT and expiring premium for all lines of coverage is \$521,113.

Quotes for all lines of Casualty insurance were received from PGIT, the League of Cities, and Travelers. The Florida Association of Counties Trust (FACT) offered quotations for General Liability, Public Officials Liability, and Employment Practices only. PGIT, the League of Cities, and Travelers all quoted at current deductible levels and PGIT and the League offered \$100,000 deductible and SIR options. FACT quoted a minimum \$25,000 deductible for all lines and offered options at \$50,000 and \$100,000.

All Carriers are offering programs designed specifically for Municipalities so while there may be minor coverage differences, the programs are comparable. I am unable to do a complete coverage comparison as there were no coverage enhancements included in the League or FACT proposals that I reviewed.

The League of Cities offers Public Officials Liability coverage on an Occurrence form. PGIT, Travelers, and FACT are all written on a Claims Made basis. On an Occurrence form, the occurrence of an event is the policy trigger. If a Public Official makes an error on August 8, 2008, the policy in place on that date would respond to the claim regardless of when the claim was filed. On a Claims Made policy, the filing of a claim is the coverage trigger. So, if the event on August 8, 2008 resulted in a claim filed on Aug 8, 2010, the policy in effect on Aug. 8, 2010 would respond. Claims made policies carry a Retroactive Date that determines when coverage begins on a particular policy. In some cases Claims Made policies offer full prior acts coverage which have no retro date and offer coverage for any event that may have occurred in the history of the insured. In order to move from a claims made policy (which Leon County currently has in place) an insured must make sure that these prior acts are covered as an occurrence policy will not provide coverage for an event that occurs outside of their coverage term. The League of Cities is offering prior acts coverage with a retro date of 10/1/05 for no additional premium. Travelers is offering a claims made policy that will provide coverage for any event that occurred after 10/1/1998 with no additional premium for prior acts. PGIT is offering a continuation of the current claims made policy and offers full prior acts. FACT is offering a claims made policy that provides prior acts coverage back to 10/1/2005 with no additional premium required for prior acts.

Based on a comparison of the four programs, Travelers appears to be a clear winner in both price and coverage (\$373,562) at the expiring deductible levels. PGIT has quoted

\$429,934, the League of Cities \$445,987, and Fact has quoted \$502,230. Please refer to the attached spreadsheet for the various quotations and options.

Three options (2 from PGIT, 1 from FACT) have been provided at a program limit of \$1million/\$2million with a \$100,000 deductible of self insured retention. There are also \$100,000 deductible and self insured retention options at the current limit of \$3million/\$6million. A deductible program would function similar to the current program with the Carrier handling all claims and billing the County for any deductible. If the County chooses to move to the \$100,000 retention level, you may want to consider moving to a self insured retention program. A TPA would be utilized to handle claims giving the County the ability to be involved in all negotiations. An SIR program gives the insured increased control over how claims are handled. By moving to a \$100,000 SIR, Leon County could save as much as \$162,501 but the increased deductible (from 10,000 to 100,000) could result in higher costs for the County. In 2003, Leon County sustained a total of \$565,601 in actual claims payouts. Of that \$565,601, under the \$10,000 deductible program, the County paid \$73,109 and the Insurance Carrier paid \$492,492. With a program that carries a \$100,000 SIR, the County would have paid \$392,226 and the Carrier would have paid \$173,375. In 2007, Leon County's best loss year, the County only sustained \$13,825 in GL claims and the \$100,000 SIR would have worked well.

Determining which deductible level to choose depends on one's appetite for risk. Leon County is offered quotations for the \$10,000 deductible because of your excellent loss experience. At a premium reduction of almost 40% over last year, the \$10,000 deductible option is appealing both in risk aversion and in price. We are recommending the Travelers program, at expiring deductibles, for a premium of \$373,562.

Workers' Compensation				
	Expiring	PGIT	League of Cities	Travelers
Limit	Statutory	Statutory	Statutory	Statutory
Employers Liability	\$1m/\$1m/\$1m	\$1m/\$1m/\$1m	\$1m/\$1m/\$1m	\$1m/\$1m/\$1m
Retention	\$350,000	\$350,000	\$350,000	\$350,000
Premium	\$414,141	\$282,330	\$276,405	No Quote
Third Party Administrator	\$54,075	\$54,075	\$60,000	N/A
TPA Conversion Fee	N/A	N/A	N/A	N/A
Final Premium	\$468,216	\$336,405	\$336,405	N/A

Options:	Expiring	PGIT	League of Cities	Travelers
\$400k SIR	N/A	N/A	\$288,473.00	N/A
\$450k SIR	N/A	\$326,761.00	N/A	N/A
\$500k SIR	N/A	\$318,240.00	\$208,701.00	N/A

WORKERS COMPENSATION

Leon County currently purchases a Workers Compensation program that carries a \$350,000 Self Insured Retention. The expiring premium for this line of coverage is \$414,141. Coverage is currently placed with the Preferred Governmental Insurance Trust (PGIT) and claims are handled by Preferred Governmental Claims Solutions (PGCS), a Third Party Administrator (TPA). Leon County pays an additional \$54,075 annually for the TPA services.

Quotes for Workers Compensation coverage were received from both PGIT and the League of Cities. Travelers and FACT declined to quote as they are not markets for large deductible, municipal Workers Compensation coverage. As Workers Compensation limits and benefits are statutory, there are no coverage differences between the two programs offered. Both quotations offer Employers Liability limits of \$1,000,000/\$1,000,000/\$1,000,000.

Third Party Administration quotations have been received from PGCS (on behalf of PGIT) and Unisource (on behalf of the League of Cities). Both TPA's offer services on a per claim or flat annual fee basis. Leon County is currently on an Annual Fee basis with PGCS so for the purposes of this comparison, I will refer to the annual quotations. For large municipalities with frequent claims activity, the flat fee arrangement tends to be most cost effective.

If Leon County intends to stay at the current retention level of \$350,000, PGIT has quoted a premium of \$336,405 (\$282,330 premium + \$54,075 in TPA expense). The League of Cities has quoted \$336,405 (\$276,405 premium + \$60,000 in TPA expense).

Optional quotes for a \$400,000, \$450,000, and \$500,000 retention were received from the Carriers.

At the \$400,000 retention level, the League of Cities offers a more competitive premium at \$288,473 (PGIT did not offer an option at this retention). At the \$500,000 retention level, the League of Cities is the clear price winner at \$208,701 (vs. PGIT at \$318,240). The TPA charges are included in those figures.

In Summary, the three best premium options (including annual TPA costs) are as follows:

- \$350,000 Retention: \$336,405 PGIT**
- \$400,000 Retention: \$288,473 League**
- \$500,000 Retention: \$208,701 League**

It is my recommendation, based on review of loss information, exposure, and premium savings that Leon County remains at the \$350,000 retention level. Most municipalities that have moved to the higher retention levels have done so as a mandatory requirement of their insurance Carrier (due to poor loss experience). Leon County has excellent loss experience and therefore has the preferred option to remain at the lower retention level.

For the past five years, Leon County has not had a claim that has gone beyond the \$350,000 retention. We provided loss data to Staff indicating that in the past five years, the County would have paid the identical claims amounts while carrying either a \$350,000 deductible or a \$500,000 deductible. This information could warrant a move to the higher deductible, thus saving \$127,704 in premium this year, but exposing the County to an additional \$150,000 in deductible on a per claim basis. There is no question that Leon County will sustain Workers Compensation claims this year. The question is what will the severity be and could the County sustain that large claim that triggers the additional deductible payment (thus negating the premium savings).

We are recommending that Leon County select the PGIT Workers Compensation program, at the \$350,000 retention level, for an annual premium of \$336,405. Staff has enjoyed an excellent relationship with PGCS (the PGIT Third Party Administrator) and this partnership has resulted in strong claims handling and reduced claims cost. These TPA services are a critical part of the Workers Compensation program and should not be taken lightly.

In addition we are recommending PGIT at the \$350,000 retention due to a pending Florida Supreme Court ruling that could greatly affect claims expense in the near future. The "Emma Murray" case is challenging the Attorney fee caps that were a result of 2003 tort reform. The decision, due in late fall, could mean increased claims cost on all future claims and any workers compensation claims dating back as far as 2003. PGIT has agreed, in writing, to allow the County to bind coverage at the \$350,000 retention and then adjust the program to a higher retention at the reduced premium should a favorable ruling occur.