COMMITTEE OF THE WHOLE – FEBRUARY 1, 2011

CONTRACT AWARD- COWAN ONTARIO PROVISION OF STOP LOSS INSURANCE FOR THE CITY OF VAUGHAN

Recommendation

The Commissioner of Legal and Administrative Services and City Solicitor and the Commissioner of Finance and City Treasurer in consultation with the Director of Human Resources and the Director of Purchasing Services recommend:

1. That the City enters into a five year contract with Cowan for the provision of "Excess Worker's Compensation Indemnity Insurance" or 'stop loss insurance' and that staff be authorized to negotiate premiums on a yearly basis.

2. That the Mayor and Clerk be authorized to sign the necessary documents.

Contribution to Sustainability

The City's ability to manage and sustain its financial obligations is enhanced through the purchase of "Worker's Compensation Indemnity Insurance".

Economic Impact

The annual cost of premiums for this type of insurance for 2011 is $149,468 plus PST. The cost will vary from year to year depending on the size of the City's assessable payroll. Funds are included in the base budget for 2011 to undertake the required purchase.

Communications Plan

Not applicable.

Purpose

To seek approval for the contract award and issuance of a purchase order to Cowan for the provision of "Excess Worker's Compensation Indemnity Insurance".

Background - Analysis and Options

Effective January 1, 2004, with the approval of City Council, the City changed its account status with the Workplace Safety and Insurance Board (WSIB) from a "collective liability" status to an "individual liability" or self-funded status. (Note Item 2, Report No. 65, of the Committee of the Whole (Working Session), which was adopted without amendment by the Council of the City of Vaughan on September 22, 2003.)

The same Council report referenced above approved the purchase of 'stop-loss' insurance to cover any catastrophic claims, including the potential for total loss.

The City has been purchasing stop loss insurance from 2004 to 2009 through the City's approved insurance broker Frank Cowan and Associates through 'Safety National Casualty Corporation'. In late 2009 we were informed by our broker that 'Safety National Casualty' was no longer providing 'stop loss' coverage. Our broker referred us to a sister company, Cowan, who was able to secure the coverage with Chubb Insurance. In 2010 the City purchased a stop loss policy from Cowan (through Chubb) to cover the cost of claims in excess of $500,000 up to $1 million.

In the summer of 2010 the Clerks department issued an RFP for all of the City's insurance products including 'stop loss'. There was only one proponent who submitted coverage for this type of product. The vendor is Chubb and the authorized broker is Cowan.

Noting the above we are seeking Council's approval to enter a five year contract with Cowan for the provision of 'stop loss' or "Excess Worker's Compensation Indemnity Insurance".

Relationship to Vaughan Vision 2020 / Strategic Plan

This report is consistent with the priorities previously set by Council and the necessary resources have been allocated and approved.

Regional Implications

None

Conclusion

Noting that Chubb, through Cowan, is the only vendor that responded and it is our understanding that they are the only provider of this product in the Canadian market, staff are seeking Council's approval to enter a five year agreement with Cowan for the provision of this type of insurance coverage.

Attachments

Item 2, Report No. 65, of the Committee of the Whole (Working Session), which was adopted without amendment by the Council of the City of Vaughan on September 22, 2003

Report prepared by:

Demetre Rigakos, Manager, Compensation/Benefits and Health and Safety

Janice Atwood-Petkovski,
Commissioner of Legal & Administrative Services & City Solicitor

Barbara Cribbett,
Commissioner of Finance and City Treasurer

Janet Ashfield,
Director of Human Resources

George Wilson,
Director of Purchasing Services

CITY OF VAUGHAN

EXTRACT FROM COUNCIL MEETING MINUTES OF SEPTEMBER 22, 2003

Item 2, Report No. 65, of the Committee of the Whole (Working Session), which was adopted without amendment by the Council of the City of Vaughan on September 22, 2003.

2 WORKPLACE SAFETY AND INSURANCE BOARD – SCHEDULE 2 TRANSFER

The Committee of the Whole (Working Session) recommends approval of the recommendation contained in the following report of the Commissioner of Finance and Corporate Services and the Director of Human Resources, dated September 9, 2003:

Recommendation

The Commissioner of Finance and Corporate Services and the Director of Human Resources in consultation with Sheikh Azaad, Disability Management Specialist and Susie Marcuz, Employee Services Co-ordinator recommend:

1. That the presentation be received;
2. The City of Vaughan transfer Workplace Safety & Insurance Board (Board) insurance from Schedule 1 to Schedule 2, effective January 1, 2004;
3. That the one-time exit fee of $362,000 be funded from the Employee Benefits Reserve;
4. The City purchase ‘stop-loss’ insurance based on consultations with the Clerks Department;
5. That a WSIB Claims Reserves in the amount of $75,000 annually, commencing in 2004, to be utilized to assist in funding possible high-cost claims up to the deductible of the ‘stop-loss’ insurance, and that the reserve earn interest; and
6. A continued commitment to invest in claims management and health & safety programs, including a budget of an additional $30,000 to manage earlier return-to-work initiatives.

Purpose

To apprise Council that the City would benefit from this transfer as a result of advancements in claims management and effective health and safety programs.

Background:

The effective management of health and safety and workplace injury claims has resulted in the continued decrease in workers’ compensation claims costs over the last eight years. Consequently it is not as advantageous for the City to continue with the insurance provisions offered under the Board’s Schedule 1 plan.

A transfer to the Board’s Schedule 2 insurance plan would result in the City being liable for the City of Vaughan’s actual claim costs rather than pooled costs. Moreover, given the success in controlling claims and their costs, a transfer to an individual liability scheme would reinforce sound Human Resources principles, while resulting in significant financial benefits to the organization.

Schedule 1 Firms:

The Board collectively insures Schedule 1 firms under pre-defined rate groups based on business activity. The Schedule 1 insurance plan is insured under the Board’s New Experimental Experience Rating (NEER) plan. NEER is based on the assessable portion of an employer’s payroll and a rebate/surcharge mechanism is utilized to reward/penalize firms for their accident records. NEER limits the City’s financial liability in two ways:

1) Firm Cost Limits protects a firm from total claim costs exceeding a pre-set amount. Costs beyond the pre-set amount are transferred to the entire rate group.

2) Claim Cost Limits protects the firm from a single claim exceeding a pre-established value. Where the cost of a single accident exceeds Claim Cost Limit (for example, $178,000 in 2002) the excess cost will be transferred to the entire rate group.

These mechanisms are designed to provide 'limited cost liability' to individual employers under the NEER plan. In exchange for the 'limited cost liability', however, an employer is tied to the rate group's performance and the structure of the NEER program.

To encourage a safer workplace and effective claims management, the NEER structure utilizes a Rebate/Surcharge formula to refund or increase annual premiums. Under this formula, if the employer's "Limited Claim Costs" (LCC) are over the WSIB "Expected Cost" provision, the employer is surcharged a percentage of the excess costs. However, if these costs are under the "Expected Cost", the employer is refunded a percentage of the premium paid.

The Limited Claim Costs is the charge issued by the WSIB on the employer's NEER account for the cost of each claim. The LCC comprises the cost of **actual benefits paid** in the claim, plus an **Overhead Charge** (53% in 2002) and a **Projected Future Cost** based on a calculation utilizing Reserves. Under this formula, in 2001 – 2002, the City LCC was on average six times higher than the actual benefits paid in the claim.

The disadvantages of being in the NEER program are the high ratio between the LCC and the actual benefits paid in the claim, and the inability of the rebate/surcharge mechanism to fully reward employers who effectively manage their accident in the workplace and implement proactive claims management processes.

Schedule 2 Firms:

Schedule 2 is an 'individual liability' scheme under which the employer assumes full liability for the **actual benefits paid** plus pays the WSIB a 19.5% **administration charge**. A very select group of employers are provided with the opportunity to transfer to Schedule 2, among them Provincial Crown, Board, Commissions, Agencies and Municipalities. Among other local municipalities in Schedule 2 are Richmond Hill, Brampton, Mississauga and Toronto.

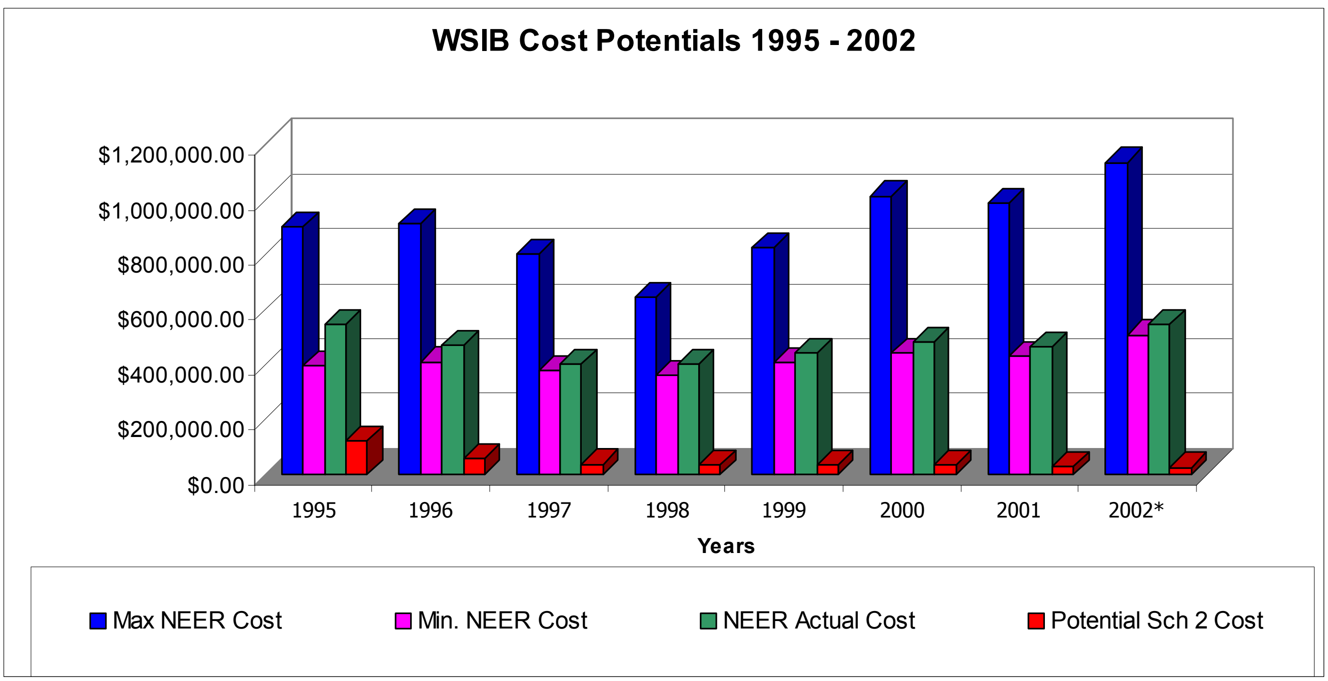
Employers insured under Schedule 2 do not have to pay a premium based on assessable payroll. Instead, under Schedule 2 the employer deposits funds with the Board to cover the actual cost of claims. Since the employer is charged the 'actual benefits paid' in the claim, there is no liability protection from high cost claims. This is the major disadvantage of the Schedule 2 program.

The primary advantage of Schedule 2 is that employers who are able to control their accident frequency and the cost of actual benefits paid realize a significant decrease in WSIB costs. It is advisable, however, that employers transferring to Schedule 2 obtain 'stop loss' insurance to limit the liability of potentially high-cost claims.

The City is currently insured under Rate Group 845, under the Schedule 1 plan, and pays $1.51 per $100 of payroll (2002) to the maximum insurable earning. Since 1995 the City has been in a 'rebate' position with the WSIB, and therefore has had portions of the WSIB premiums refunded. However, in spite of the NEER refunds achieved, the City was charged significantly more for WSIB costs than would have been charged if the City were under the Schedule 2 plan.

WSIB Cost Potentials: NEER v Schedule 2						
	Schedule 1 (NEER)			*Potential Schedule 2 Costs*		
	Potential Max NEER Cost	**Potential Min NEER Cost**	**Actual WSIB NET Cost Under NEER**	**Actual Benefits Paid-out by WSIB**	**Schedule 2 Admin Charge (19.5%)**	**Total Sch 2 Potential Claims Cost**
1995	$898,865.22	$394,083.78	**$543,832.39**	$98,536.01	$19,214.52	**$117,750.53**
1996	$910,048.46	$407,723.17	**$468,112.82**	$46,280.71	$9,024.74	**$55,305.45**
1997	$799,697.31	$376,491.63	**$401,673.68**	$29,875.33	$5,825.69	**$35,701.02**
1998	$645,393.78	$356,466.72	**$398,840.86**	$25,165.49	$4,907.27	**$30,072.76**
1999	$822,630.25	$405,360.55	**$439,002.42**	$27,397.64	$5,342.54	**$32,740.18**
2000	$1,013,550.70	$441,699.55	**$481,969.27**	$26,260.75	$5,120.85	**$31,381.60**
2001	$988,821.89	$430,460.29	**$460,791.99**	$22,448.50	$4,377.46	**$26,825.96**
2002	$1,135,858.14	$506,996.77	**$546,291.06**	$22,963.00	$4,477.78	**$27,440.78**
Totals over period:			**$3,740,514.49**			**$357,218.28**

In the period 1995 to 2002, inclusive, the City paid $ 3,740,514 in NEER costs to the WSIB. Had the City been under the Schedule 2 plan, the WSIB cost during the same period would have been $357,218 – a difference of approximately $3 million.



As demonstrated above, the cost of WSIB under the Schedule 2 plan would have been significantly less than that paid under the NEER (Schedule 1) plan on a consistent basis.

However, in determining future savings projection, a four-year average of claims cost vs. WSIB Schedule 1 premium has been utilized:

	Schedule 1	Potential Schedule 2 Costs:				
	Annual Gross NEER Premium[1]	Claims Benefit Cost[2]	Administration Cost	Stop Loss Cost[3]	Claims Reserves	Total
1999	$ 544,729.00	$47,397.00	$15,342.00	$75,000.00	$75,000.00	$212,739.00
2000	$ 632,316.00	$46,260.00	$15,120.00	$75,000.00	$75,000.00	$211,380.00
2001	$ 616,580.00	$42,448.00	$14,377.00	$75,000.00	$75,000.00	$206,825.00
2002	$ 716,617.00	$42,963.00	$14,477.00	$75,000.00	$75,000.00	$207,440.00
Average Annual NEER Cost:	$ 627,560.50		Average Projected Annual Schedule 2		Cost:	$209,596.00

Based on these calculations, it is projected that the City would realize a saving of approximately $420,000 annually; the difference between the WSIB annual premiums under Schedule 1 and the projected cost under Schedule 2 – including a Claims Reserves by the City.

Analysis:

Under the current NEER program the City has paid significant premiums to the WSIB. Utilizing the eight-year historical data presented in this report, it can be concluded that a transfer can significantly reduce the cost of WSIB.

The change in Schedule will result in direct savings of premium dollars paid to the WSIB. However, the City will have to purchase 'stop-loss' insurance to cover catastrophic claims, including potential total loss. The stop-loss insurance would cover the cost of claims over $500,000 up to $1 million. The cost of stop-loss insurance is estimated to range between $50,000 to $75,000 annually. The cost of the stop-loss insurance is an estimate pending a formal quote from the insurance company. At this time, the Corporation has been advised that a formal quote for the stop-loss will be valid for 30 days from the date of quote.

Additionally, it would be in the City's benefit to establish a Claims Reserves in the amount of $75,000 annually to assist in funding potential high-cost claims to the level of the 'stop-loss' insurance. Also, a budget of $30,000 annually will have to be available for the Human Resources Department to fund earlier return-to-work and claims management interventions.

---

1 The annual NEER premium is before the annual rebate which is credited to a reserve when received

2 Includes the WSIB 19.5% Administration Charge and an annual $30,000 budget to fund earlier Return to Work and Claims Management interventions

3 In the period 1995 to 2002, the City had 3 claims in which WSIB paid out benefits over $25,000. Based on this experience and the cost of stop-loss to other local area municipalities, 'stop-loss' insurance was estimated to range between $50,000 to $75,000 annually

Finally, the WSIB will require the City to pay an exit fee for leaving the NEER plan. This exit fee is calculated based on the employer's class portion of the Board's unfounded liability – in this case the Municipal Class. If the City becomes Schedule 2 insured as of December 31, 2003, the exit fee will be in the amount of $362,116.74. This fee is expected to dramatically increase after January 2004, since it will be calculated on the Board's entire unfunded liability, and not just the Municipal Class. It is purported that the change in calculation could result in a two-fold increase in the exit fee.

Conclusion

It is evident that the change to Schedule 2 will result in significant cost savings to the City. It is for this reason that many of Ontario's larger municipalities have pursued this option.

.../5

Given the benefits to be derived from a transfer to Schedule 2, it would be in the Corporation's interest to initiate this transfer. The Schedule 1 *Exit Fee* should be funded from the Employee Benefits Reserve.

The City should also purchase 'stop-loss' insurance to limit the liability to cost significant and catastrophic claims. Additionally, a reserve should be established and maintained to fund significant cost claims to the maximum of the 'stop-loss' insurance deductible, and a budget of an additional $30,000 be provided to the Human Resources Department to fund earlier Return to Work and Claims Management intervention.

Report Prepared By:

Sheikh Azaad, Disability Management Specialist
Susie Marcuz, Employee Services Co-ordinator