



# CITY OF SAN MATEO

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## Agenda Report

Agenda Number: 3

Section Name: {{section.name}}

Account Number: 87-2314

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**TO:** City Council  
**FROM:** Drew Corbett, City Manager  
**PREPARED BY:** Human Resources Department  
**MEETING DATE:** December 05, 2022

**SUBJECT:**

Excess Workers' Compensation Insurance Policy for Calendar Year 2023 – Purchase

**RECOMMENDATION:**

Approve the purchase of excess workers' compensation insurance from Safety National in an amount projected to be \$226,224 for the one-year period commencing January 1, 2023 and ending December 31, 2023.

**BACKGROUND:**

The City has been insured for excess workers' compensation coverage with Safety National since 2009. In 2021, we requested that our benefits broker, Newfront (formerly ABD Insurance & Financial Services), issue a bid request for coverage. The market for excess coverage in California is quite limited. Of the carriers contacted during the renewal process last year, only Safety National submitted a quote. Another carrier, Arch Insurance Co., indicated that they might be interested, but the premium they mentioned is significantly higher (\$299,399) for the same level of self-insured retention. According to Newfront, this year there are even fewer carriers due to some mergers that took place this year. Municipal Code 3.60.050(c) provides that the City can forgo the competitive bidding process related to the placement of insurance coverage.

Based on the information provided by Newfront, Safety National is not offering a two-year policy this year. Our current policy provides workers' compensation liability limits of \$25 million with a \$2 million employer liability limit and a self-insured retention (SIR) of \$1 million for each occurrence. It was our plan to continue to be insured with the same limits and retention for 2023. However, Safety National is not offering the same SIR option for the City in 2023. One reason is that in 2021 there was one claim that pierced (exceeded) the City's SIR level, and as a result Safety National is now fully financially responsible for this case. This case involved an injury qualified as "presumptive" under Labor Code Sections 3212 through 3213.

Initially, Safety National proposed to raise SIR for "presumptive" cases to \$2,000,000 and keep the premium at a flat rate of \$217,567. Because we were able to provide additional information regarding our investigation process for "presumptive" injuries, they agreed to provide two additional quotes. Option 2 is with SIR at the current level of \$1,000,000 for all cases, including "presumptive" ones. This option will include Corridor Deductible (see attached endorsement), and the premium is \$226,224 (4% rate increase). Option 3 is with SIR for "presumptive" cases at \$1,500,000 and premium at \$235,802 (8% rate increase).

1/1/2023-1/1/2024	Option 1: flat rate	Option 2: + 4%	Option 3: +8%
<b>Payroll</b>	\$62,880,626	\$62,880,626	\$62,880,626
<b>SIR: Presumptive Loss</b>	\$2,000,000	\$1,000,000	\$1,500,000
<b>SIR: All Other</b>	\$1,000,000	\$1,000,000	\$1,000,000
<b>Corridor Deductible: 1x</b>	N/A	\$500,000	N/A
<b>Premium</b>	\$217,567	\$226,224	\$235,802

Option 2 allows the City to project the financial outcome of the worst-case scenario, where regardless of the number of “presumptive” cases that exceed \$1,000,000.00 SIR level during the policy period, the City will only be liable for up to \$500,000 in addition to the liability within SIR level. With Option 3, the City would be liable for up to \$1,500,000 SIR level on every “presumptive” case during the policy period. In Option 1, the City would be liable for up to \$2,000,000 SIR level on every “presumptive” case during the policy period. Therefore, it is our recommendation, with the agreement of our broker Newfront, that we select Option 2 for 2023.

#### **BUDGET IMPACT:**

The premium quoted by Safety National for 2023 for Option 2 is calculated at a rate of \$0.3598 per \$100 of covered estimated payroll, which results in an expected expenditure of \$226,224 over the next year. This rate is a 4% increase from our 2022 annual premium of \$217,567 at a rate of \$0.3460 per \$100 of covered estimated payroll.

According to our broker, it would be most beneficial for the City to utilize Option 2, and it is recommended that the City remain at the current SIR level of \$1,000,000 for all cases because this option has a predictable worst outcome with a very modest rate increase of 4% (\$8,657). There are sufficient funds budgeted in the Workers' Compensation Fund for this expense.

#### **ENVIRONMENTAL DETERMINATION:**

This agreement is not a project subject to CEQA, because it is an organizational or administrative activity that will not result in direct or indirect physical changes in the environment. (CEQA Guidelines Section 15378(b)(5).)

#### **NOTICE PROVIDED**

All meeting noticing requirements were met.

#### **ATTACHMENTS**

Att 1 – Insurance Quotation

#### **STAFF CONTACT**

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