


Memorandum

TO: Finance and Administration Committee

FROM:  Mike Geisel, City Administrator

DATE: March 7, 2018

RE: INSURANCE RENEWALS



You may remember a lengthy discussion regarding D&O insurance last year during a regular meeting of the Finance and Administration Committee. The meeting coincided with the annual renewal of the City's D&O insurance and happened to be scheduled within a couple of weeks of the City's notification that we were denied defense coverage for the Energy Marketing litigation. There was, and remains, substantial confusion about annual insurance renewals and Council's role related to such renewals.

The City of Chesterfield elected, by Resolution #39 10/17/1988, to be a member of the St. Louis Area Insurance Trust (SLAIT). The SLAIT was initially formed to provide workers compensation and liability coverage for municipalities, especially for those who had police and fire departments, as these coverages had become extremely costly and difficult to obtain individually. SLAIT is a self-insurance pool managed by a Board of Directors who act as agents for the collective member agencies. They act as insurance brokers for SLAIT members, negotiating coverages for the entire group, not individual cities. The City's participation expanded in 2009 when SLAIT added medical insurance to its menu of available coverages. It is critically important to understand that SLAIT member agencies all have the same policies and coverages as determined by the SLAIT Board and **as negotiated and priced by their designated broker, Daniel and Henry. Annual renewals are routine and administrative. There is no legislative action required unless the member agency elects to withdraw from SLAIT.**

Members of SLAIT are, at a minimum, are mandated to maintain Workers Compensation and General Liability coverage through SLAIT. Many agencies, including the City of Chesterfield, have utilized SLAIT, who contracts with Daniel and Henry as broker, to review and negotiate the full spectrum of insurance coverages. In essence, they act as the City's agent or as an adjunct employee resource for the City. If desired, any city can choose to independently procure insurance coverage in these other areas, but few do as the benefits are readily observed and few have the internal resources to continuously review, renew, market and analyze insurance policies. To choose procuring these coverages independently requires substantial professional competency and understanding of the insurance industry. Further, independent procurement substantially reduces the "buying

power” and insurable population which typically results increased costs, large pricing fluctuations and potential inadequate insurance coverage. In short, using SLAIT’s resources to negotiate coverages and pricing on an annual basis provides the City the best coverage, pricing, and supplements each city’s knowledge base. ***Daniel and Henry acts in the capacity of broker for SLAIT. They also act as insurance brokers on behalf of SLAIT member agencies for other insurance policies, e.g. Public Officials and Employment Practices, Property, Cyber liability, Fiduciary, PEBB, Flood, Notary E & O. In essence, Daniel and Henry acts as a “cooperative” on behalf of the SLAIT membership, using the buying power of several municipalities to obtain and price these policies. As is the case with mandated insurance participation for SLAIT, each participating agency’s policies have identical coverage. These are not individually negotiated and are not subject to alteration by individual participating agencies. Likewise, members can take advantage of the policies negotiated by Daniel and Henry, or choose not to in these non-mandated coverage areas.***

It should be evident that Daniel and Henry’s efforts to negotiate the ancillary non-SLAIT MANDATED insurance policies, are in my opinion, a significant benefit to the City. Daniel and Henry is in the business of brokering insurance policies, a significant regional entity, and has the benefit of representing a large population of insurance consumers. They know the insurance business and are acting on behalf of the member agencies. If we elected to not use Daniel and Henry and attempted to obtain and negotiate these policies individually, ***we certainly do not have the staff and expertise in-house to do so effectively.***

Accordingly, ***it has been the City’s practice since 1988, to annually renew these policies administratively, in the same manner as we have with the SLAIT policies. As members of SLAIT, since SLAIT is acting to independently negotiate these policies, they are not individually bid and would not therefore require annual review or approval by our elected body. Absent a significant or notable change, they are simply approved as an administrative function of our SLAIT membership.***

I understand that some elected officials have requested early notification of insurance renewals such that they could be reviewed prior to any action. Frankly, at that juncture I was not in a position to communicate the full scope of our relationship with SLAIT and what level of formal commitment the City had established for them to act on our behalf. Since that time, we have had the opportunity to review the history and prior actions of Council related thereto. As such, ***I request that Council affirm the City’s almost 30 year practice of using SLAIT and Daniel and Henry for brokerage and negotiation of these non-SLAIT mandated coverages, continuing our practice of annual renewals as an administrative function without requirement of individual Council action.***

If Council elects to discontinue this practice and to individually seek and negotiate these policies independently, Staff will be required to investigate and report back as to what additional resources might be associated with this effort.

I would be remiss if I did not state that in my opinion, the public's financial interests are best represented if we continue to rely on our SLAIT benefits to provide skills, competency and buying power for all insurance coverages. It would be both naive and potentially costly to believe that the City possesses the insurance competency and buying power that is afforded to us through our SLAIT membership. Using SLAIT for this purpose, as an insurance "cooperative" makes sense and is fiscally sound. While insurance is a much more complex subject and requires substantial more competency, it is not unlike the Deicing salt cooperative that the City manages on behalf of its member agencies. Those agencies entrust the City of Chesterfield to obtain pricing and select providers on their behalf.

As you already are aware, in 2009 SLAIT added medical insurance to the optional coverages available to members. SLAIT has been incredibly successful and member Cities have benefitted substantially over the last eight years. In fact, in both 2016 and 2017, Cities that participated in SLAIT medical coverage received "refunds" of premiums paid in 2009 and 2010 respectively. In 2016 the City of Chesterfield received a refund of \$104,141 and in 2017 received a refund of \$130,681. In each year, the refund exceeded the increased premiums paid by the City, avoiding the increased expenses that would have otherwise been incurred. Also, because it is a self-insurance pool, SLAIT medical coverage premiums have increased at a rate well below the industry rate since its inception.

I have attached a matrix which describes the various insurance policies for which the City contracts through SLAIT and Daniel & Henry. The City expends a significant amount of public money on the various insurance coverages required for the City business functions. Insurance is a very complex and nuanced industry. It is subject to rapid changes and mistakes can be devastating. Accordingly, I cannot emphasize enough, how important it is that the City have a reliable and consistent advocate. ***I strongly recommend that the City continue to rely on SLAIT and its brokerage vendor to negotiate all of the municipal coverages, and that City Council affirm the administrative function of the annual renewal of these policies.***

RESOLUTION

Resolution No. 39
By: COUNCILMEMBER NEIDER

RESOLUTION OF THE MAYOR AND CITY COUNCIL OF THE CITY OF CHESTERFIELD, MISSOURI, TO PARTICIPATE IN JOINING AN INSURANCE TRUST PLAN WITH OTHER MUNICIPALITIES IN ST. LOUIS COUNTY, MISSOURI.

WHEREAS, representatives of certain municipalities in St. Louis County, Missouri, have investigated the feasibility of establishing an insurance trust to serve participating St. Louis County municipalities; and

WHEREAS, the City of Chesterfield has determined that it would be to the City's benefit to participate in joining such an insurance trust plan.

NOW, THEREFORE, BE IT RESOLVED BY THE COUNCIL OF THE CITY OF CHESTERFIELD, MISSOURI, AS FOLLOWS:

Section 1. Participation in joining an insurance trust plan with other municipalities in St. Louis County, Missouri, is hereby authorized.

Section 2. The City Administrator is hereby authorized and instructed to communicate the City's support of, and intent to participate in joining a St. Louis area insurance trust.

PASSED THIS 17th DAY OF OCTOBER, 1988.

APPROVED THIS 17th DAY OF OCTOBER, 1988.

Judith M. Stensrud
Mayor

ATTEST:

Michael S. Downing
City Clerk



CITY OF CHESTERFIELD POLICY LIST

			Effective Date	Expiration Date	Coverage Limit	Deductible
General liability, Police liability, and Auto liability General liability Police Liability Auto Liability	SLAIT	GLO21-17	7/1/2017	7/1/2018	\$3,000,000	\$500
		ALO21-17				\$2,500 \$500
Workers Compensation	SLAIT	2017-004	7/1/2017	7/1/2018	Statutory \$1,000,000	\$0 \$0
Property	CHUBB	3583-42-09	7/1/2017	7/1/2018	Building/ contents \$64,809,250	\$1,000
					Auto \$5,380,535	\$2,500
					Earthquake \$25,000,000	
					Misc. Property \$450,000	2%
					Computers \$900,000	\$1,000
					Fine Arts \$427,000	\$1,000
					Flood \$15,000,000	Varies
Public Officials and Employment practices Public Officials Employment Practices	XL CATLIN	PO0950504	7/1/2017	7/1/2018	\$2,000,000	\$5,000 \$15,000
Cyber liability	BCS/LLOYDS	RPS-P-0396418M	7/1/2017	7/1/2018	\$1,000,000	\$5,000
Fiduciary	TRAVELERS	106194272	11/3/2017	11/3/2018	\$1,000,000	\$0
PEBB	TRAVELERS	105670987	9/9/2017	9/9/2018	\$100,000	\$2,500
Flood for PW Building	AMERICAN BANKERS	7505778026-2018	1/5/2018	1/5/2019	B \$500,000	\$1,250
					C \$500,000	\$1,250
Flood for Maint. Build.	AMERICAN BANKERS	6004232416-2017	5/30/2017	5/20/2018	B \$500,000	\$1,250
					C \$500,000	\$1,250
Flood for Conc. Stand #2	AMERICAN BANKERS	7505786455-2017	5/30/2017	5/20/2018	B \$500,000	\$1,250
					C \$500,000	\$1,250
Flood for Conc. Stand #1	AMERICAN BANKERS	7505786548-2017	5/30/2017	5/20/2018	B \$500,000	\$1,250
					C \$500,000	\$1,250
Notary E & O.	C.N.A.	71098596	4/21/2017	4/21/2018	\$25,000	\$0



Finance Director
636-537-4726

M E M O

DATE: May 4, 2017
TO: Mike O. Geisel, City Administrator
FROM: Craig D. White, Finance Director *CDW*
RE: Health Insurance Costs

Health insurance is the City's third largest General Fund expenditure, only exceeded by salaries and debt service. The City recently received notification of premium increases for the 2017-18 plan year and a premium reimbursement representing a plan surplus from the 2010-2011 plan year. In light of this and the ongoing compensation and benefits study, now seems like the appropriate time to revisit the City's health insurance plan/expenditures.

St. Louis Area Insurance Trust (SLAIT)

Since 2009, the City of Chesterfield has been a member of the St. Louis Area Insurance Trust (SLAIT) health insurance pool. The pool is currently made up of approximately twenty (20) professionally-managed cities and subdivisions which includes 4,500 employees/dependents who are insured by the "pool". The size of the pool gives the City significant protection from any sort of catastrophic loss, which would otherwise cause our rates to climb sharply.

SLAIT's Board regularly bids the health insurance provider and recently shifted from "United-Healthcare" to "Anthem Blue Cross/Blue Shield". The Board views its role as an "insurance broker" and is not bound to any individual insurance company. When making any such change, the Board works to minimize costs, maintain insurance benefits and doctor/hospital availability/access, for the participating City's employees and their families.

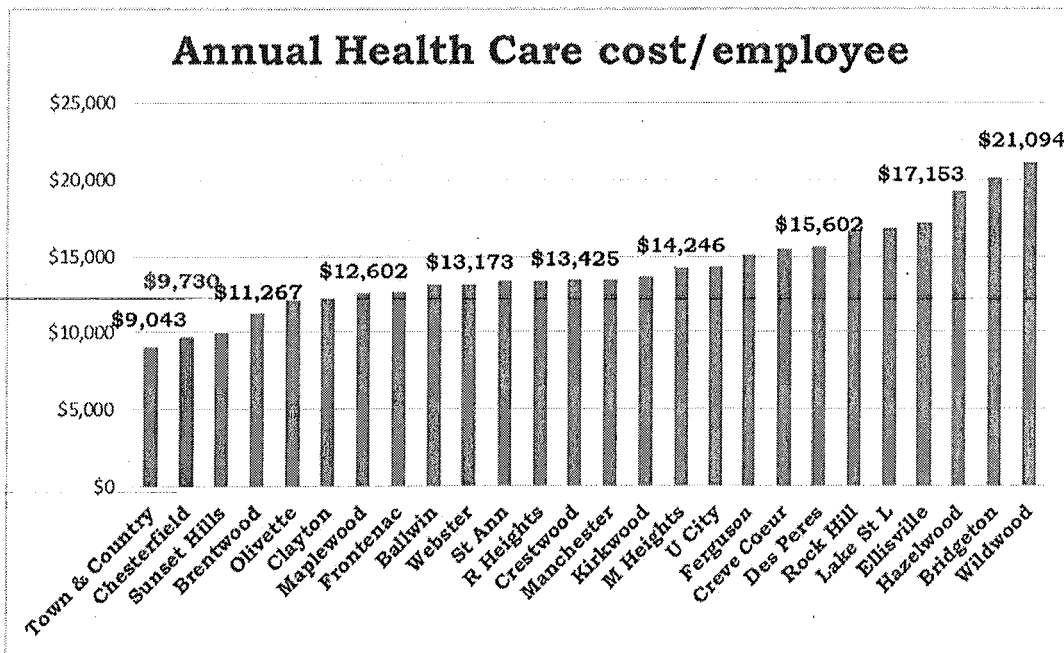
Each year, the member cities are independently rated based on their prior claims experience. Based on Chesterfield's superior claims experience from July 2014 - February 2017, the City will experience only a 2% rate increase during the 2017-18 plan year (see attached memo from SLAIT). The very favorable rate increase of only 2% represents an estimated \$29,780 increase in premiums which is shared by the City and its employees.

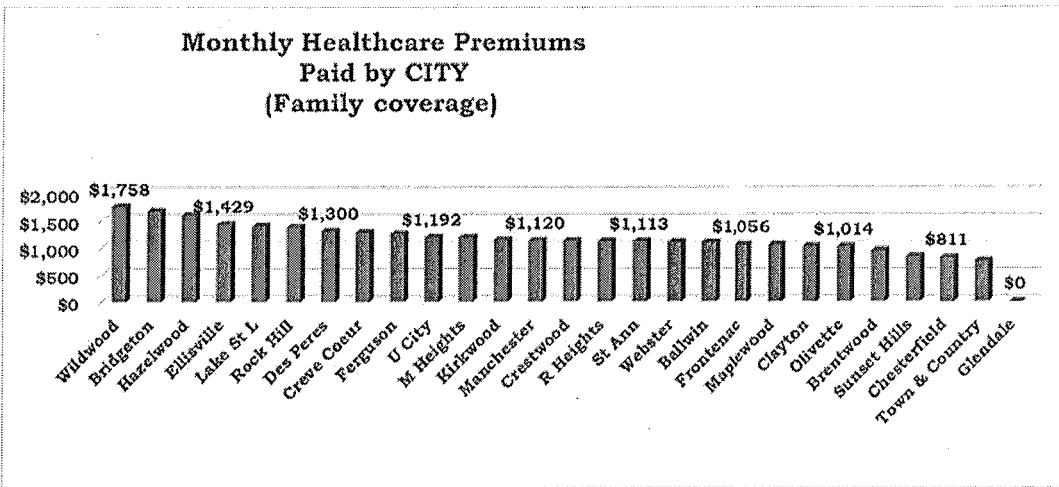
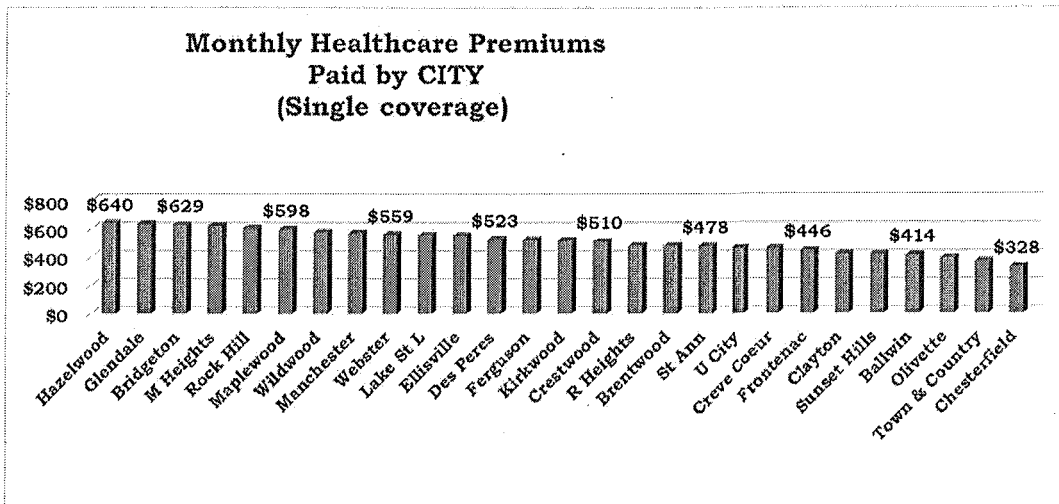
Healthcare Insurance Premiums

During 2016, the City’s health insurance expenditures totaled \$1,489,971. This represents the City’s annual portion of the premiums which are paid by both the City and City employees. For the 2016/17 plan year, this split was \$328.02/\$100.00 employee for the single plan and \$810.83/\$382.80 employee for the family plan. On an annual basis, this amounts to \$3,936.24/\$1,200 for single and \$9,729.96/\$4,593.60 for the family plan. There are currently 96 employees on the single plan and 115 on the family plan (211 total).

Cost Comparison to Other Area Municipalities

The City’s health insurance plan has many moving components including type (single/family), cost (city/employee), deductibles, deductible reimbursements, network, premiums, etc. When analyzing the plan from a management standpoint, I focus on the total cost to the City. **The average annual cost of the City’s family health insurance plan is \$10,204 (premium plus average HRA cost). Of the 27 cities in the referenced study, the City of Chesterfield’s cost for the annual family premium under Chesterfield’s coverage is the second lowest at \$9,730 (the average is \$14,180 and highest, Wildwood, is \$21,094).** The following graphs depict the City’s contributions for employee healthcare as compared to 27 metro communities. Please note that this information comes from a healthcare cost study completed by the City of Des Peres earlier this year.





As evidenced by the graphs provided and the data tables provided as appendices, the City of Chesterfield contributes the least or near the least of the 27 surveyed cities for employee healthcare even with the Healthcare Reimbursement Account included.

Premium Surplus Redistribution

In each of the last two years, 2016 and 2017, the SLAIT Board approved a reimbursement of prior years' surplus premiums which had not been paid out for healthcare claims. This was made on a pro-rata basis to members that participated in the Plan during the 2010-2011 policy year which was closed out. Chesterfield will receive a payment of \$130,681 (coded to "other revenues" per accounting rules). It should be noted that the premiums paid to SLAIT for healthcare insurance is a cost that is paid by both the City and the employee.

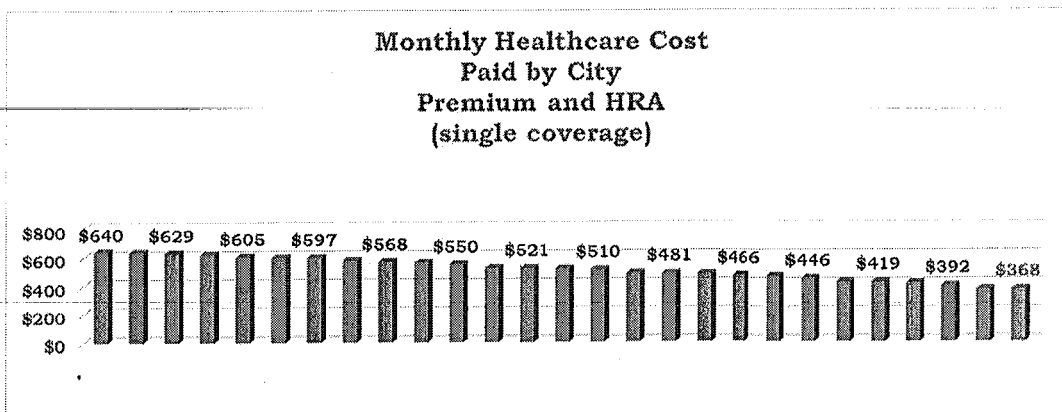
Of the \$130,681 reimbursement, we estimate that \$31,616 (24%) of this amount represents premiums paid by employees, while \$99,065 (66%) reflects premiums paid by the City. If the City were not a member of SLAIT, there would be no distribution of prior year premiums as such excess payments resulting from superior claims experience would simply be captured as profit by the private provider.

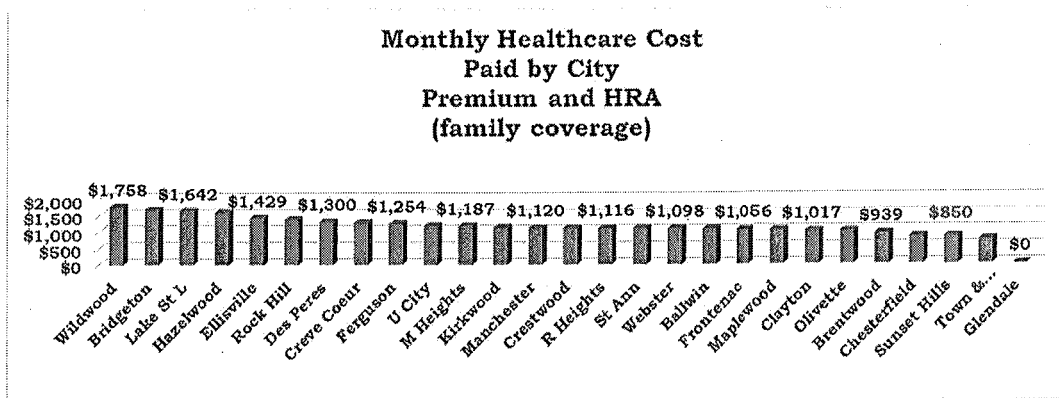
Healthcare Insurance Deductibles

The City's in-network family deductibles are slightly higher than the average of the 27 area municipalities that participated in a recent study (\$3,000 vs \$2,889). The City moved from a low deductible to high deductible plan several years ago, to slow the rapidly rising premium costs, and implemented a health reimbursement (HRA) plan. The savings from the high deductible plan exceeded the City's HRA cost, which has remained approximately \$100,000/year since its implementation.

Healthcare Reimbursement Arrangement (HRA) Plan

The City's HRA plan reimburses employees up to 100% of their deductible payments. In essence, it is a \$3,000 dollar benefit to the employee (\$1,500 for single coverage). **17 out of the 27 municipalities that participated in the previously mentioned study offer an HRA plan**, 6 of which cover 100%. Chesterfield has 211 fulltime employees that utilize the City's health insurance plan. The City's actual cost of this benefit is not the full \$3,000 or \$1,500 but rather depends on the eligible deductibles incurred and submitted during a given year. This total cost has been approximately \$100,000 since the plan was adopted and is budgeted at \$100,000 for 2017. This means that the City can offer a \$1,500/\$3,000 benefit to employees at a cost of \$474/employee (\$100,000/211 participating employees).





Premium Allocation – 2017-2018 Plan Year

The City has been notified that our premiums for the 2017-2018 plan year will increase by 2%. Historically, the City Administrator has determined the allocation of premium costs, between the City and employee, using the following model:

Single Plan

- Employee cost = **\$100/mo** - \$1,200/year
- City cost = **remaining premium** (\$328.02/mo - \$4,593.66/year)

Family Plan

- Employee Cost = Total Family Premium Less Employee Cost Less one-half of remaining premium
- City Cost = remaining premium
 - o Said another way, **the City pays the full premium of insuring the employee plus one-half the cost of insuring the family**

	2016-17
Family	\$ 14,323.56
Single	\$ 5,136.24 (1) City covers
	\$ 9,187.32 Remaining split
50%	\$ 4,593.66 (2) Employee cost - family
(1)	\$ 5,136.24
(2)	\$ 4,593.66
	\$ 9,729.90 City cost - family insurance

Accordingly, Staff recommends that the City renew the current healthcare plan benefits for the 2017-2018 plan year. Further, we recommend that the City take advantage of the \$130,681 premium reimbursements to fully offset the increase in premiums and fully fund the HRA plan for the 2018 fiscal year. In doing so, the City will eliminate 2% cost of increased health premiums and eliminate the budgeted expense for the HRA plan for the 2017-18 plan year.

TOTAL MONTHLY INSURANCE PREMIUMS

Monthly Premium paid by City - Family Coverage

Wildwood	\$1,758
Bridgeton	\$1,672
Hazelwood	\$1,599
Ellisville	\$1,429
Lake St L	\$1,398
Rock Hill	\$1,383
Des Peres	\$1,300
Creve Coeur	\$1,283
Ferguson	\$1,254
U City	\$1,192
M Heights	\$1,187
Kirkwood	\$1,135
Manchester	\$1,120
Crestwood	\$1,119
R Heights	\$1,116
St Ann	\$1,113
Webster	\$1,098
Ballwin	\$1,094
Frontenac	\$1,056
Maplewood	\$1,050
Clayton	\$1,017
Olivette	\$1,014
Brentwood	\$939
Sunset Hills	\$833
Chesterfield	\$811
Town & Country	\$754
Glendale	\$0

Monthly Premium paid by City - Single Coverage

Hazelwood	\$640
Glendale	\$635
Bridgeton	\$629
M Heights	\$622
Rock Hill	\$605
Maplewood	\$598
Wildwood	\$577
Manchester	\$568
Webster	\$559
Lake St L	\$554
Ellisville	\$550
Des Peres	\$523
Ferguson	\$521
Kirkwood	\$517
Crestwood	\$510
R Heights	\$483
Brentwood	\$481
St Ann	\$478
U City	\$466
Creve Coeur	\$460
Frontenac	\$446
Clayton	\$421
Sunset Hills	\$419
Ballwin	\$414
Olivette	\$392
Town & Country	\$368
Chesterfield	\$328

**TOTAL MONTHLY INSURANCE PREMIUMS
(INCLUDING CHESTERFIELD HRA CONTRIBUTION)**

Monthly Premium paid by City - Family Coverage (includes Chesterfield HRA expense only)		Monthly Premium paid by City - Single Coverage (includes Chesterfield HRA expense only)	
*** Wildwood	\$1,758	Hazelwood	\$640
*** Bridgeton	\$1,672	*** Glendale	\$635
Lake St L	\$1,642	*** Bridgeton	\$629
Hazelwood	\$1,599	M Heights	\$622
*** Ellisville	\$1,429	*** Rock Hill	\$605
*** Rock Hill	\$1,383	*** Maplewood	\$598
*** Des Peres	\$1,300	Lake St L	\$597
*** Creve Coeur	\$1,283	*** Wildwood	\$577
Ferguson	\$1,254	*** Manchester	\$568
U City	\$1,192	Webster	\$559
M Heights	\$1,187	*** Ellisville	\$550
Kirkwood	\$1,135	*** Des Peres	\$523
*** Manchester	\$1,120	Ferguson	\$521
*** Crestwood	\$1,119	Kirkwood	\$517
R Heights	\$1,116	*** Crestwood	\$510
St Ann	\$1,113	R Heights	\$483
Webster	\$1,098	*** Brentwood	\$481
*** Ballwin	\$1,094	St Ann	\$478
*** Frontenac	\$1,056	U City	\$466
*** Maplewood	\$1,050	*** Creve Coeur	\$460
*** Clayton	\$1,017	*** Frontenac	\$446
Olivette	\$1,014	*** Clayton	\$421
*** Brentwood	\$939	*** Sunset Hills	\$419
Chesterfield	\$850	*** Ballwin	\$414
*** Sunset Hills	\$833	Olivette	\$392
*** Town & Country	\$754	*** Town &	\$368
*** Glendale	\$0	*** Country	\$368
		Chesterfield	\$368

*** These communities have HRA reimbursement but the actual values are not disclosed and are not therefore included. The HRA reimbursement IS included in the Chesterfield value.