



Property/Casualty, Workers' Compensation & Health

Budget Forecast

2022 Renewals



Dear Council Members, City Manager and Risk Manager:

This information has been generated to assist your Municipality with projected insurance premiums as you prepare your operating budget for adoption in June 2022. *Your Municipality's individual claims frequency and severity of losses will play a key role in the final equation for your potential increases or decreases of premiums.*

General Observations

These last couple years have been challenging for every organization due to the ongoing COVID-19 pandemic. Optimistically, we are reaching the end of a pandemic and moving into a disease that is endemic within a highly protected society. Most, if not all, establishments are open and have resumed relatively normal operations. That is to say, the public is allowed back in your buildings, you are renting facilities, and conducting routine operations. The challenges have included personnel shortages, supply chain delays, whipsawing rules, and not least, the loss of loved ones. One of the biggest challenges has been hiring and retaining people. Call them personnel, labor, staff, or human resources. But unlike your vehicles, buildings, and equipment, people have minds and they have made them up. They are burned out from the politicized animus in the workplace. They are tired of the long hours, perhaps covering for other people that are out sick or for long-vacant positions you have been unable to fill. They are tired of the public versus their Board or Council, the Board or Council versus your organization's leadership, and the peer-to-peer tension. People are leaving their jobs in droves and organizations are struggling to hire. This is forcing organizations to re-think how they operate and their expectations of their people. Many organizations want to return to Business-as-Usual with all employees in the building and working normal hours. However, many people have not only grown accustomed to the flexibility of working from home but have come to rely on it as daycare is unavailable, schools change schedules and intermittently close, and inflation has driven up all the costs of working including clothing, fuel, insurance, daycare, and vehicles. Your "human resources" have made up their mind and most are saying, "let me continue working flexibly in both time and location or else." And the challenges are not just at the entry and middle levels. We are seeing record leadership departures due to these challenges and conflicts. Certainly, many of your employees must be present to perform hands-on jobs in many of your departments.

The challenges for organizations to recruit and retain talented people stresses your ability for continuity of operations and to be resilient. WHA offers trainings to address the morale in your organization and improve the workplace culture. We encourage your organization to be thoughtful and inclusive in your deliberations of how to balance in-person, hybrid, and remote work options.

Property

This was another record year for insured losses from natural catastrophes. Reaching \$120 billion which was the 4th highest on record. Contributing to this was Hurricane Ida (\$36 bln), Texas Freeze (\$15 bln), and flash floods in Europe (\$13 bln). Additional factors affecting affordability of insurance are inflation, increased claims costs, rising construction costs, tight labor market, and supply chain challenges. The upside of rising interest rates is the ability for insurance carriers to offset these costs with their investments. We strongly recommend including your insurance agent as you plan construction and remodeling projects. We can assist with discussing the effects of location and construction type such as flood and wildfire risks, costs, and benefits of builders' risk coverage, Crime Prevention Through Environmental Design, and Prevention Through Design for safe workplaces.

Cyber

This threat is exponentially growing and affecting any type and all organizations. Public entities are a primary focus of these criminal efforts. Hackers have many paths to disrupt your organization including ransomware, phishing, directed denial of service (DDOS), and so much more. The primary way they gain access is through an employee clicking on a link, opening an infected communication, or otherwise divulging information that compromises your security. Some of the best ways to address this risk are through aggressive prevention measures both with hardware and software as well as with employee training and penetration testing. We strongly recommend enlisting a cyber security firm to conduct a thorough risk assessment and then prioritizing the work and budget to address their recommendations. We see insurance markets declining to offer coverage to Public Entities regardless of their clean loss runs and top-notch practices. Your best practice is to implement prevention strategies.

Liability

Public records requests from citizens have skyrocketed this last year as a political action tool to bully organizations by swamping them with records requests. You have certainly heard of citizens using boilerplate letters to request public officials' bonds information, crime policy information, and more. Rest assured that your insurance pool (CIS, SDIS, and PACE) all include public official coverage in the Crime policy. These groups threaten claims directly to the public official in an effort to get organizations to act contrary to the law in dropping mask and vaccine requirements. This has put many leaders in a tight spot when their Board or Council is directing actions contrary to law. Remember that your organization has some coverage for legal defense related to COVID-19 only when you are in compliance with laws. If your organization is considering making any changes, we strongly recommend you contact your carrier's pre-loss legal counsel as well as your own retained counsel. WHA can discuss how changes affect your coverage.

Auto Physical Damage

Catalytic converter thefts skyrocketed this last year. The State of Oregon's legislature is considering legislation that will make it more challenging for criminals to recycle these items for cash. Criminals have already adapted to stealing components from Air Handling Units on the roofs of buildings. Again, WHA's Public Entities team have experts in Crime Prevention Through Environmental Design that can assist you in reducing your exposure.

Preparedness Breeds Resilience

WHA has one primary message because of all the challenges in Property, Liability, Cyber, and Auto. That is to improve your Resilience. Conduct a thorough Risk Assessment and improve your Resilience through proactive measures. Ensure you can continue operations when an event occurs. Lean on your neighboring and partner organizations such as COGs, ESDs. Consider contracting ahead of time for disaster recovery services to have them available when emergencies occur.

| Property

Early indications suggest that property rates will increase in 2022. We expect to **see property rates to increase 10%**. WHA expects **property values to be trended 10%** due to high real estate normal inflation. It is possible that some high-value properties could see a larger increase as carriers continue to fear catastrophic losses from a single event. This fear was sadly realized in our 2020 wildfires. Our suggestion is to review deductible options that align with your risk appetite. Evaluate the City's Personal Property and Mobile Equipment to reflect new acquisitions and upgrades. It may be actuarially sound next renewal to explore increasing your deductibles, which could balance out or reduce the overall rate increase.

If your City has added any new vehicles or adjusted vehicle values, buildings, equipment, or other property exposures, you will need to take those into account when anticipating premiums for your budgeting purposes.

One of the best actions a policyholder can take to control your rate increases is to prevent and mitigate your property and equipment losses. WHA Risk Management personnel will consult with you to harden your property against wildfires, to deter criminal behavior (CPTED), and to identify the best preventive maintenance practices to prevent water damage and other easily avoidable losses.

| Liability

Liability (Casualty) premiums are based on budgets, payroll, and past losses. Therefore, if the City's budgeted income or payrolls are projected to increase, plan on proportional increases for the premium. Additionally, you may want to budget for a **12% to 15% increase in your general liability rates**. Liability exposures from employee relations and sexual abuse and molestation have drastically increased the costs of this insurance with re-insurers assessing higher premiums to staunch their losses.

If your City has increased Budgeted Personal Services, Budgeted Materials and Supplies, and Budgeted Contingencies, or any other liability exposures, you will need to take those into account when anticipating premiums for your budgeting purposes.

TOTAL PACKAGE INCREASE

After careful consideration and discussions with CIS, we tentatively anticipate a rate increase higher than the one we experienced for the 2021 CIS Package renewal.

Our recommendation is to err on the side of caution and budget for an overall increase of at least 17% to 20% for the CIS package policy. Individual rates will vary.

Workers' Compensation

In September of 2021, Oregon Department of Consumer and Business Services approved 2022 pure rates submitted by NCCI with an average 5.8% reduction from 2021 and **an overall decline of 51% during the 2013-2022 period**. The NCCI's (National Council on Compensation Insurance) pure rate is the starting point for each class code and is multiplied by the carrier's rate load (operating costs) to obtain the cost per \$100 of payroll for each class code. The City's claims for the three full years prior to the most recently completed year are factored into an equation to give an experience modifier based on your claims experience. The **formula used to calculate the experience modifier caps each individual primary loss point at \$18,500 for 2022; the single claim limit remains at \$200,500**. Your experience modifier (1.0 is the average for each industry) further adjusts the premium for the Workers' Compensation coverage.

In the next few months, those Citys that have opted for reimbursement of non-disabling claims will be given the option to pay back small claims, removing them from the experience modifier calculation. Part of our continuing service is to assist your City with the review of those claims and provide you with a Cost Benefit Analysis.

Important Notes for the Coming Year of Workers' Compensation:

- The cents-per-hour assessment for the Workers Benefit Fund will remain at 2.2 cents per hour
- The non-disabling claims reimbursement limit remains at \$2,300
- DCBS Assessment increased to 9.8% effective 1/1/2022. For public-sector self-insured employer groups, the DCBS Assessment is 9.9%
- Effective 1/1/21, new and renewing, qualifying COVID-19 Claims will not be considered in the number of claims in the rating period

Please note Pure Rate changes in the following common Class Codes*:

CODE	Description	'21	'22	% Chg
9102	Park: All Employees - Noc	1.77	1.69	-4.52%
7720	Police Officers & Drivers	1.83	1.58	-13.66%
7520	Waterworks Operations	1.38	1.29	-6.52%
9410	Building Inspectors	0.77	0.72	-6.49%
7539	Electric Power Company: NOC	1.03	0.97	-5.83%

**Please let us know if there are other Class Codes you'd like to see*

| Health Benefits

Over the past year, we have seen an increase in COVID-19 claims across the board. In addition, as services continue to re-open, we have also seen an uptick in elective procedures and dental services. While the industry average is still around 8-10% for Medical and 3-5% for Dental we did have a couple of new legislative changes effective January 1, 2022, that could potentially impact future claims.

One is the No Surprises Act that, as of January 1, 2022, gives consumers new billing protections when getting emergency care, non-emergency care from out-of-network providers at in-network facilities, and air ambulance services from out-of-network providers. Through new rules aimed to protect consumers, excessive out-of-pocket costs are restricted, and emergency services must continue to be covered without any prior authorization, and regardless of whether or not a provider or facility is in-network.

The second is a change to acupuncture and spinal manipulation, moving from a dollar limit to a visit limit. Benefit can vary, but the Benchmark is a 12-visit annual limit for acupuncture and a 20-visit annual limit for spinal manipulation.

Since SDIS is a self-funded program, SDIS will be able to provide a better estimate to the SDIS group at the SDAO conference in February. However, we have heard that claim experience has improved over the past 12 months, so we anticipate the overall increase for 2022 to be lower than 2021.

If you have any question or would like to discuss your specific group, please contact Rich Allm at rallm@whainsurance.com or Kim Nicholsen at knicholsen@whainsurance.com with any benefits questions.

| Bond/Crime Coverage

The City should avoid having more than one carrier for your Bond and/or Crime coverage to avoid potential reduction of coverage. Our recommendation to protect the City is that Blanket Bonds or Crime Coverage should be written to cover full faithful performance of duties for all employees.

The rates with most companies will remain flat from the prior year. Recent claims against public entities suggest the need to evaluate accounting policies and procedures, as well as consider updating the limits to reflect your current exposure. While the State of Oregon's minimum requirement for the smallest City is \$10,000, most Citys should consider a minimum \$100,000 limit. Implementing more non-cost bearing internal controls and security systems is also recommended to reduce potential claims.

| Specialty Markets Builders' Risk, Cyber, Excess Liability, Earthquake & Flood

Specialty markets have been significantly impacted by the events of the last year. Civil unrest, riots, theft, arson, malicious mischief, and vandalism all contribute to increase risk for carriers. New construction projects are an attractive nuisance anytime and even more so now. Expect to see carriers that offer Builders' Risk to increase contingencies (coverage requirements) such as 24-hour surveillance, 100% fenced projects, or onsite physical security. The record-breaking wildfire season in the Northwest in addition to the many other disasters are contributing to very high rates for Builders' Risk coverage. The Special Citys pool continues to be the most competitive option for construction projects valued up to \$2,000,000.

Cyber coverage has been somewhat included by Oregon's pools including Special Cities for PACE and SDIS and CIS for cities and counties. Due to the increased frequency and high cost of claims expect to see these coverages change significantly. None of the pools' coverages are as comprehensive as a stand-alone Cyber policy. However, this has been somewhat mitigated by having the Crime coverage under the same policy. Expect to see continued changes to their cyber coverage. We strongly recommend working with your WHA agent to secure stand-alone comprehensive Cyber coverage.

Excess Liability: A new recommendation from WHA is for our clients to strongly consider purchasing excess liability policies that can provide not just excess coverage but also drop-down coverage that can fill in gaps and add coverage to sublimits in your primary layer of coverage. As the insurance market hardens and carriers add exclusions, raise deductibles, and narrow definitions, an excess policy can fill those gaps and provide excess limits in the event of severe claims.

Earthquake & Flood. The pools limit total coverage under earthquake and flood. WHA recommends working with your agent to identify the most at-risk properties and crafting a plan to protect them. Earthquake and flood policies can be used to cover specific individual properties.

Marketing

WHA monitors carriers and programs in the marketplace to fulfill our duty of due diligence for the most comprehensive coverage and policy forms, competitive premiums, efficient claims adjustors and loss control services. As we work with you, we will continue to approach the general insurance industry to provide a thorough market analysis.

WHA is a full-service safety and risk management insurance agency. Our team is available to aid with your ongoing insurance and risk management efforts. If you have any questions or would like assistance, please contact us at 800-852-6140 or email your question to Jeff Griffin at jgriffin@whainsurance.com, or Nathan Cortez at ncortez@whainsurance.com.

Best Regards,



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