WHY DO I NEED COVERAGE?

RISK
The chance of loss

EXPOSURE
Being subject to loss

LOSS
Financial damage, the basis of a claim
HOW TO HANDLE RISK

1. Risk Avoidance
2. Risk Management
3. Risk Transfer or Sharing
4. Risk Retention

RISK TRANSFER AND RETENTION OPTIONS

- **Commercial Insurance**
  - Owned by stockholders
  - Annual premium
  - Standard policy form

- **Risk Retention Group/Pool**
  - Owned by member districts
  - Annual contribution
  - Specialized manuscript coverage form
  - Net asset return to members

- **Self Insured**
  - Deductibles
  - District determines level of Self Insured Retention (SIR)
  - Purchases stop loss/excess coverage
POLLING QUESTION

Which of the following Risk Transfer Options does your district utilize?

A. Commercial Insurance  
B. Risk Retention Group/Pool  
C. Self-Insurance  
D. Unknown

WHAT IS PROPERTY/CASUALTY INSURANCE?

1\textsuperscript{st} Party Coverage
- Property
- Boiler/Machinery
- Inland Marine
- Crime
- Auto Physical Damage

3\textsuperscript{rd} Party Coverage
- Commercial General Liability
- Errors & Omissions/School Board Legal Liability
- Auto Liability
- Environmental Liability
- Excess/Umbrella
### KEY DOCUMENTS

<table>
<thead>
<tr>
<th>Document Type</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Coverage Form/Insurance Policy</strong></td>
<td>• Legal contract that details what is covered and what is not covered</td>
</tr>
<tr>
<td><strong>Declarations Page</strong></td>
<td>• Requirements by both parties</td>
</tr>
<tr>
<td><strong>Declarations Page</strong></td>
<td>• Outlines specific limits for different coverages within the policy</td>
</tr>
<tr>
<td><strong>Declarations Page</strong></td>
<td>• Statement of Values and Vehicle Schedule</td>
</tr>
<tr>
<td><strong>Certificate of Insurance</strong></td>
<td>• Proof of coverage</td>
</tr>
<tr>
<td><strong>Invoice</strong></td>
<td>• Statement of the sum due for services</td>
</tr>
<tr>
<td><strong>Endorsements</strong></td>
<td>• Modifications to the declarations page</td>
</tr>
</tbody>
</table>
PROPERTY COVERAGE

• Specified locations
• Replacement Cost vs. Actual Cash Value
• Sub-limits displayed on Declarations Page
  o Valuable papers: $150,000
  o Business income/extra expense: $1,000,000
• Statement of Values
  o Buildings
  o Contents
  o Property in the open (PIO)
  o Total Insured Value

BOILER & MACHINERY

• 1st Party Property Coverage
• Exclusions in property form for pressure vessel exposures
  o Boilers, air conditioning units, refrigeration
• Sub-limits similar to Property Declarations
  o Spoilage
  o Ammonia contamination
INLAND MARINE

• “Floaters”
• Property that is moving or moveable
  • Athletic equipment
  • Grounds equipment
  • Musical instruments
• Deductible options
• Broader coverage
• Higher Premium

CRIME

• Covers money and securities from causes of loss
• Employee dishonesty
• Named position bond
• Money and securities
  • Inside (break-in, theft)
  • Outside (taking money to the bank)
• Forgery
COMMERCIAL GENERAL LIABILITY

- Liability to a 3rd party
  - Bodily injury and property damage
- Injury as a result of:
  - Premises
  - Business operations
  - Products
- Common Coverage:
  - Sexual misconduct
  - Personal and advertising injury
  - Employee benefits liability
  - Medical payments – students and visitors
- Must prove deliberate indifference

CGL – REALITY

- Participation guidelines
- Facility Use Agreements
- Certificates of Insurance
- Local Agents
ERRORS & OMISSIONS/SCHOOL BOARD LEGAL LIABILITY

• Wrongful acts
• Monetary coverages:
  o Employment-related practices: Harassment, discrimination, FMLA violation
• Non-monetary Coverage:
  o Individual education plan – due process hearing
  o Failure to educate
  o Equal Employment Opportunity commission
• Defense costs

AUTO COVERAGE

Auto Property Damage (APD)
• Deductible options
• Auto liability (AL)
  o Bodily injury
  o Property damage
• Michigan No-Fault
  o Personal Injury Protection (PIP)
• Hire/non-owned autos
• Uninsured/underinsured motorists
• Garage operations
AUTO COVERAGE

Michigan No-Fault Insurance Update:
• Order of priority changing
• If involved party does not have insurance, they automatically go to the assigned claim plan.
• Changes will likely increase the need for higher excess limits.
• Will want to review your district’s coverage and limits next spring once more details are released from the State.

EXCESS OR UMBRELLA

Increases limits for primary liability coverage

Claims example:
• Bus driver fails to stop at a stop sign and strikes and severely injures a pedestrian. Injured party is awarded $3.5 million.

Current limits:
• Auto liability: $1 million
• Excess liability: $3 million
• Total: $4 million
CYBER COVERAGE

• Framed to respond to various forms of attack on personal data.

• $1,000,000 limits to all members, regardless of past experience.

• SET SEG partners with Beazley, an international corporation with a digital forensics team capable of handling a cyber breach.

OTHER COVERAGES

Builders’ Risk
• New construction
• Renovations

Student Accident
• Broader coverage than Med pay
• Can cover athletic injuries

Storage Tank Liability
• Underground
• Above ground
WHAT IS WORKERS’ COMPENSATION?
A BRIEF HISTORY

Problem
Prior to 1912, workers injured on the job could sue employer in a tort action
• Difficult for workers to recover

Solution
A no-fault system that requires employer to compensate employee injured on the job regardless of the existence of any fault
• Limited amount worker can recover

WHAT IS WORKERS’ COMPENSATION?

Required insurance coverage which pays benefits to injured employees in the event of injury, disability or death resulting from occupational hazards

• Michigan Workers’ Compensation Agency
  o Responsible for overseeing Michigan’s workers’ compensation
• Provides coverage for:
  o Wage loss
  o Medical expenses
  o Vocational rehabilitation
  o Death benefits
WORKERS’ COMPENSATION OVERVIEW

When are workers covered?

Workers’ compensation is designed to cover only injuries which “arise out of and in the course of employment.”

“In the course of” refers to the connection of the event with the employment

“Arising out of” refers to what is often called the causal relationship between the event and disability

EXAMPLES

Custodian slips and falls on wet floor while mopping. Covered?

Reply YES or NO
EXAMPLES
Finance Director falls in parking lot of the party store on way back from MSBO conference. Covered?

Reply YES or NO

EXAMPLES
A school nurse is traveling from one of her schools to another and is in a car accident. Covered?

Reply YES or NO
EXAMPLES

A teacher walks down the school hall to the restroom and trips over his own feet – an idiopathic fall. Covered?

Reply YES or NO

WHAT BENEFITS ARE COVERED?

1. Wage Loss

2. Medical benefits

3. Rehabilitation benefits

4. Death benefit
WAGE LOSS BENEFITS

• Average weekly wage (AWW)
  o Highest 39 of 52 weeks

• Payment Timeline
  o Days 1-7 waiting period
  o Day 8 benefits begin
  o Day 14 (consecutive) waiting period waived

• Fringe benefits
  o If discontinued cash value added to AWW
    - Health care insurance
    - Employer contributions to a pension (MPSERS)
    - Vacation/Holiday pay

MEDICAL BENEFITS

• Reasonable and necessary medical care

• Treating physician
  o Day 1-28, employer directs care
  o After 28 days, employee elects physician of their choice

• Responsibility continues indefinitely as long as need for care is related to workers injury
VOCATIONAL REHABILITATION BENEFITS

- Difficult in challenging economy
- Allows payment for retraining or job placement
- Used on specific cases which would allow a return to work
- Workers’ Compensation wages cease if employee returns to a job at equal or greater pay

PRICING OF WORKERS’ COMPENSATION

- Rates filed with agency and approved by State Regulators
- Employers report estimated payroll to coverage provider
- Rates based upon employee classifications:
  - 8810 Clerical
  - 8868 Professional
  - 7380 Drivers
  - 9101 All Other
- Experience modification
- Payroll audit conducted after policy term
## SAMPLE INVOICE

Estimated Premium Statement for Fund Year _____ to _____

<table>
<thead>
<tr>
<th>CODE</th>
<th>CLASSIFICATION</th>
<th>ESTIMATED PAYROLL</th>
<th>RATE</th>
<th>ESTIMATED PREMIUM</th>
</tr>
</thead>
<tbody>
<tr>
<td>7380</td>
<td>Drivers, Garage Employees</td>
<td>$404,672</td>
<td>3.46</td>
<td>$14,001</td>
</tr>
<tr>
<td>8810</td>
<td>Clerical</td>
<td>$1,945,533</td>
<td>.42</td>
<td>$8,171</td>
</tr>
<tr>
<td>8868</td>
<td>Professional, Teachers</td>
<td>$12,986,103</td>
<td>.20</td>
<td>$25,972</td>
</tr>
<tr>
<td>9101</td>
<td>All Other Employees</td>
<td>$1,163,692</td>
<td>3.50</td>
<td>$40,729</td>
</tr>
<tr>
<td></td>
<td>SUBTOTALS</td>
<td>$16,500,000</td>
<td></td>
<td>$88,873</td>
</tr>
</tbody>
</table>

## IMPACT OF MOD FACTOR

Assume Schools A & B have the same payrolls:

<table>
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<tr>
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<td>$88,873</td>
</tr>
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</table>

Experience Modification Factor (School A) = 1.10
Experience Modification Factor (School B) = .87
Final Premium (School A) = 1.10 X $88,873 = $97,760
Final Premium (School B) = 0.87 X $63,491 = $56,449

Difference in premium = $97,760 - $56,449 = $21,311
INDIRECT COSTS FOR A SCHOOL TO CONSIDER

- Loss of injured workers’ productivity
- Cost to hire and train new employees (temporary or permanent)
- Wages of replacement employees to cover for injured worker
- Overtime costs
- Time investment of supervisors/managers to investigate the accident, complete necessary paperwork, and provide ongoing follow-up

POLL QUESTION:
Does your district currently have an assigned medical clinic to treat injured employees?

Can you name the facility?
BEST PRACTICES & KEY FUNCTIONS FOR SCHOOLS

- Timely reporting of claims
- Designate a clinic
- Communication with injured employee
- Communication with claims handler
- Return-to-Work program
- Medical cost savings

DISCLAIMER

The content in this presentation is based on proposed IRS guidelines. Information related to health care reform is rapidly changing.

Participants should consult with their legal counsel or benefits professional regarding situations specific to their organization.
STATE LEVEL REFORM

1. PA 106
2. PA 152
3. Transparency reporting

PA 106

School districts must “solicit” four or more bids for medical plans, one of which must be a VEBA...

- Every three years
- when looking at plan design options
- or when “establishing a new plan”

You do NOT need to sign an AOR letter to get this service completed.
PA 152

Limits public employers’ expenditure for employee medical benefit plans

• Statutorily-defined hard caps
  o PA 152 Caps
    - 1P: $6,344.80
    - 2P: $13,268.93
    - FF: $17,304.02

• 80/20 rule

TRANSPARENCY REPORTING

Districts must make information available regarding each healthcare benefits plan they offer to their employees.

• Including medical, dental, vision, disability, long-term care, or other benefits that would constitute healthcare services offered to district employees
ONGOING ACA TOPICS

• Measuring full-time employees
• Determining affordability
• IRS form filing deadline extension

WHAT’S SPECIAL ABOUT 2019

• First IRS form filings
• New employees qualifying as full-time (over 30 hours) – “newly eligibles”
• All large employers need to offer coverage to 95% of full-time employees
• IRS expected to send 2016 Employer Shared Responsibility notices
• Individual Mandate no longer applies
• Affordability threshold set to increase for 2019
Two types of employer assessments, both may only be imposed if at least one employee seeks and receives a Marketplace subsidy.

For 2016:
1. 4980H(a): $2,320 per full-time employee if employer does not offer coverage to 95% of full-time employees
2. 4980H(b): $3,480 per employee who is not offered affordable, minimum value coverage AND receives a Marketplace subsidy

This basic summary excludes important details that should be considered in practice.

95 PERCENT ASSESSMENT

Example:
District offering coverage to 88% of its 280 full-time employees

4980H(a) Assessment Calculation
280 – 30* = 250 X $2,320 = $580,000!

Regulations exclude first 30 employees from assessment
HIGHLIGHTS OF 95% REQUIREMENT

Employer must offer
- Does not need to contribute to cost
- Does not need employees to enroll

Employer must offer minimum essential coverage
- Does not need to be affordable
- Does not need to be “minimum value”

Employer will be liable...if at least one full-time employee receives the premium tax credit for purchasing coverage through the Marketplace.
HIGHLIGHTS OF 95% REQUIREMENT

What is “Minimum Essential Coverage?”

26 U.S. Code Section 5000A(f)(1)(B) lists “Coverage under an eligible employer-sponsored plan” as meeting the minimum essential coverage requirement.

26 U.S. Code Section 5000A(f)(2)(B) defines an “eligible employer-sponsored plan” as “any ... plan offered in the small or large group market within a state.”

29 CFR 2590.715-2713 requires that “a group health plan...must provide coverage for all of the following items and services, and may not impose any cost-sharing requirements (such as a copayment, coinsurance, or deductible) with respect to those items or services....”

STRATEGIES TO ATTAIN 95%

Five options to address “newly eligibles”

1. Do nothing – take the risk
2. Add them to existing plan offerings
3. Offer them minimum value, affordable coverage
4. Offer them minimum value, unaffordable coverage
5. Offer them “minimum essential coverage”
OPTION 1: DO NOTHING

Pros:
• Low immediate cost
• No new plans created

Cons:
• Exposure to $2,320/every employee penalty if one employee receives Marketplace subsidy
• Potential political implications

Financial risk and impact

Example:
District opting to not offer any coverage to more than 88 percent of its 280 full-time employees

Immediate Cost
None

ACA Assessment Risk
280 – 30 = 250 x $2,320 = $580,000
OPTION 2: ADD TO EXISTING PLAN OFFERINGS

Pros:
• Eliminates potential $2,320/every employee assessment
• Eliminates potential $3,480/individual assessment (if affordable)
• Good for employees (collective bargaining chip?)
• No new plans created

Cons:
• Raises district spending on medical insurance
• Could impact plan utilization and rates
• Carrier must allow

Financial risk and impact

Example:
District offering full coverage to more employees – moving from 88% to 98% of its full-time employees

Immediate Cost*
28 x $13,000 (est.) = $364,000

ACA Assessment Risk
NONE

*Assumes PA 152 cap contribution for current offering
OPTION 3: OFFER AFFORDABLE, MINIMUM VALUE COVERAGE

Pros:
- Eliminates potential $2,320/every employee assessment
- Eliminates potential $3,480/individual assessment

Cons:
- Is it too expensive for the employee?
- Makes employee ineligible for federal Marketplace subsidy
- Carriers may require minimum participation levels
- Additional cost to carriers

Financial risk and impact

Example:
District offering coverage to more employees – moving from 88% to 98% of its full-time employees

Immediate Cost*  
28 x $8,000 (est.) = $224,000

ACA Assessment Risk
NONE

*Assumes $9,600 average “bronze” plan cost. Affordability based on approximately $12/hour earnings for nine months.
OPTION 4: OFFER MINIMUM VALUE & UNAFFORDABLE COVERAGE

Pros:
• Eliminates potential $2,320/every employee assessment
• Employees remain eligible for Marketplace subsidies

Cons:
• Potential $3,480/individual assessment remains
• Carriers may require minimum district cost sharing and employee enrollment levels
• Potential Section 125 Plan nondiscrimination implications

Financial risk and impact

Example:
District offering coverage to more employees – moving from 88% to 98% of its 280 full-time employees

Immediate Cost*
28 x $0 = $0
OR
28 x $4,800* = $134,400

ACA Assessment Risk
28 x $3,240 = $90,720

*Assumes $9,600 average “bronze” plan cost, district contributing 50%.
OPTION 5: OFFER “MINIMUM ESSENTIAL COVERAGE”

Pros:
• Eliminates potential $2,320/every employee assessment
• Employees remain eligible for Marketplace subsidies
• Transition relief insulation

Cons:
• “Loophole” solution – political implications?
• Potential $3,480/individual assessment remains
• New plan administrative work
• Potential Section 125 Plan nondiscrimination implications

Financial risk and impact

Example:
District offering “minimum essential coverage” to newly eligible employees – moving from 88% to 98% of its 280 full-time employees

Immediate Cost*
28 x $0 = $0
OR
28 x $800* = $22,400

ACA Assessment Risk
28 x $3,240 = $90,720

*Estimated annual cost of one self-funded MEC plan.
ACTION ITEMS

- Review 2018 ACA/IRS reporting results
- Model vulnerability to 2019 assessments
- Determine which option works best to achieve 95 percent
- Partner with a consultant or agent
- Prepare for annual ACA strategy review

ANY QUESTIONS?
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