



# The Corporation of the Town of Milton

Report To:	Council
From:	Glen Cowan, Chief Financial Officer / Treasurer
Date:	September 13, 2021
Report No:	CORS-048-21
Subject:	Insurance Program Update & WSIB Actuarial Report
Recommendation:	<b>THAT staff be directed to negotiate a renewal of insurance for the period beginning January 1, 2022 with Marsh Canada with the final award being subject to Council approval.</b>

**THAT the Town of Milton fully self-insure the cost of WSIB claims on a go-forward basis.**

## EXECUTIVE SUMMARY

- The Town is currently in the fifth year of its insurance contract with Marsh Canada.
- Due to the current market conditions, a scan of other municipalities, the Town's recent claims history and the existing relationship with the insurance provider, it is recommended that the Town negotiate a renewal for up to 1.5 years.
- A competitive request for proposal process is expected to follow this renewal, subject to the on-going monitoring of market conditions and the industry in 2022.
- As previously reported, excess WSIB insurance coverage was no longer available to the Town beginning in March 2021.
- Further analysis has been undertaken and it is recommended that the Town re-purpose the funding that had historically been utilized for the premiums for WSIB excess insurance to continue to fund the Town's WSIB reserve.
- This approach is expected to achieve the updated target balance for the WSIB reserve, and potentially lead to overall savings to the Town in the long-term.

## REPORT

### Background

The Risk Services section of the Purchasing & Risk Business Unit is responsible for administering the comprehensive insurance program for the Town of Milton and employing risk management strategies for protecting the Town's assets and reputation. The objective of effective loss prevention, claims administration and risk financing is to ensure loss exposure reduction and a high awareness for public safety. The most recent update to Council for the business unit was provided in report [CORS-026-21](#).



## Background

The comprehensive insurance program is procured using a competitive process. The Town's three year contract with Marsh (formerly Jardine Lloyd Thompson ("JLT") Canada Inc.) which began on January 1, 2017 included the option to renew the contract for additional terms, subject to satisfactory pricing and performance. The Town is currently in the 5<sup>th</sup> year of this contract.

The Town annually undertakes an actuarial review of its Workplace Safety & Insurance Board claims history to obtain a forecast for the future in order to set appropriate reserves and ensure a proper reflection of value on the Town's annual financial statements. An Excess WSIB Insurance Policy to insure against WSIB claims which exceed a value of \$500,000 has historically formed part of the overall insurance program. This excess policy was discontinued in 2021 as outlined in reports [CORS-014-21](#) and [CORS-026-21](#).

## Discussion

### Insurance & Risk Program

In 2021, the Town incurred an increase in its premiums for insurance coverage. This was a common result for municipalities across Ontario. As was expressed to Council in Schedule A of the Purchasing Various Report CORS-014-21, the increase experienced related to current conditions in the insurance industry, that being a hardened market. A hard market occurs when there is a high demand for insurance and lower supply of coverage available. This results in increased premiums and more strict limits being placed on coverage. The Town was fortunate in that the insurance portfolio did not experience significant limitations on its coverage or a demand for higher deductibles, as was experienced by other Ontario municipalities.

As the Town is currently in the fifth year of its insurance contract with Marsh Canada, staff have investigated whether a competitive request for proposal for coverage is in the Town's best interest in the current market. Staff recommend that going to market for the insurance and risk program in 2021 is not in the Town's best interest and that instead a further review be undertaken in 2022. This recommendation is based on the following factors:

- Hardened Market - Premiums are currently high, coverage is restricted and higher deductibles are being required within the municipal sector.
- Capacity - there are a limited number of insurers willing to underwrite municipal insurance in the market and a number of firms have recently pulled out of this market altogether.
- Municipal Peers - several other municipalities are currently proceeding to market (or planning to), and additional time will allow Milton to benefit from the results of all of those processes prior to committing to its own process.

## Discussion

- Loss History - The Town's loss history has been less than favourable in 2020/2021 relative to other recent years.
- Relationship - the Town has built a rapport with its currently insurance providers, including ensuring the providers' familiarity with the Town's management program and culture, which may benefit the terms of a renewal.

To elaborate on the factors mentioned above, staff canvassed other municipalities regarding their experiences going to market in 2020/2021 for insurance coverages. Many Ontario municipalities that went to market had a less than desirable response. This relates to capacity and the limited number of insurers willing to underwrite municipalities. Municipalities, with their vast and varied operations, road liability, the existence of the rule of joint and several liability in Ontario and a hardened market, are considered an unattractive risk. Most municipalities that went to market only received two or three bids that almost always included the incumbent.

The Town has incurred a number of third party liability claims in 2020/2021. Loss history is a factor used by bidders when assessing the risks of insuring a municipality, therefore a return to the Town's previous levels (which are low) would better position the Town should it occur.

The Town has built a relationship and rapport with its current insurance program providers in that they are familiar with the Town's risks, infrastructure, procedures and effective mitigation strategies. Although this does not ensure that the terms of a renewal will be favourable for the Town relative to the existing insurance coverage, staff believe that this alternative better positions the Town to manage the potential impacts as compared to going to market at this time.

If approved by Council, staff would seek a renewal of the insurance program to July 1, 2023, which provides for an additional six months beyond the typical one year term. This will permit the Town time to monitor the market through most of 2022 prior to issuing a Request for Proposal for the subsequent years. There are also administrative benefits and efficiencies expected by moving the Town's renewal date from year end to a mid-year date.

## Excess WSIB Insurance Policy and Actuarial Report

The Town of Milton is a Schedule 2 employer under the Workplace Safety and Insurance Act (WSIA) and as such is responsible for paying for all workplace injury and illness claims. The Workplace Safety and Insurance Board (WSIB) administers the payment of injury and illness claims and recovers the cost of these benefits plus administration fees from the Town. Historically the Town has purchased excess WSIB insurance which protected the Town from any approved claims with a value in excess of \$500,000.



## Discussion

Staff were advised late in 2020 by the insurance carrier of the Excess WSIB Policy, that due to the presumptive legislation put into place regarding prescribed cancers and their presumption to be work related occupational diseases they would be placing restrictions on the coverage provided for firefighters. The Policy was extended to March 2021 to allow the Town time to investigate options for this coverage moving forward.

Given that the excess policy was put into place to insure against those claims that incurred high dollar limits and the majority of such claims if incurred would arise from firefighting operations, staff with the support of Nexus Actuarial Consultants Ltd. (Nexus) reviewed the options available regarding such claims. Nexus undertake a valuation of the Town's WSIB claims every three years for the purposes of the Town's financial statements, and as such are well versed in both the legislation as well as the Town's operations.

One alternative available to the Town would be to transition to becoming a Schedule 1 employer under the WSIA. This avenue would require the Town to pay to the WSIB \$3.50 for every \$100 of insured earnings per year and in return the WSIB to assume the responsibility for future claims. At a cost in excess of \$1.3 million per year to the Town, this program's cost significantly exceeds the cost of the Town's claims history and therefore is not recommended.

Alternatively the Town can choose to self-insure for the entire cost of the WSIB program. To support this alternative the Town should maintain a reserve balance that is sufficient to support both the Town's benefit obligation as well as a provision for any future catastrophic claims. These amounts are estimated as follows:

1. Town's Benefit Obligation - Nexus recently undertook an actuarial valuation to update the Town's expected financial obligation for existing claims. Based on this review, the Town's obligation as of December 31, 2020 is estimated to be \$1,833,887. This amount is projected to grow to \$2,205,267 by December 31, 2023. These amounts represent the amount of funding that would be required in order to ensure that sufficient funding is available to settle all remaining payments from the Town's claims activity.
2. Catastrophic claims - although rare, these claims may occur and can generally range from \$2.5 million to \$5.0 million. For context, only one out of the 444 municipalities in Ontario would be expected to incur a catastrophic claim in the next 5 years.

Combining the two, a reserve target of \$4.3 million to \$6.8 million for the Town's WSIB reserve would help ensure that the Town was prepared financially in the event a material claim was received while the Town was completely self-insured. The Town's WSIB reserve is expected to end the year 2021 with a balance of \$3.0 million. This balance includes the \$1.2 million in 2020 year end surplus was that transferred through report



# The Corporation of the Town of Milton

## Discussion

[CORS-017-21](#), as well as the \$167 thousand transfer that was approved in [CORS-039-21](#).

Based on the above, staff recommend that the Town fully self-insure for WSIB on a go-forward basis. The \$196 thousand that will be saved by the discontinuation of the WSIB excess insurance premium can continue to be transferred to the WSIB reserve (as it was in 2021) in order to grow the balance to the target range. Annual surpluses or variances in the cost of the WSIB payments can also be used periodically as potential funding sources. Once the target balance is achieved, there may be potential opportunities for savings within the operating budget.

## Financial Impact

The Town maintains an extensive insurance and risk program to protect its assets and people. Ensuring that the Town is receiving the benefit of appropriate insurance protection commensurate with appropriate premiums is a priority. The award of the Town's 2021 insurance coverage was reported in CORS-014-21, where a premium of \$806,681 was identified for the year. If approved by Council, staff will negotiate the terms of a renewal for a period up to July 1, 2023 and report back prior to final award.

By re-allocating the funding that had historically been utilized to purchase excess WSIB insurance to the Town's WSIB reserve, the Town is expected to better position itself for future claims and potentially achieve savings in the long term. If approved by Council, a revision to the Town's Treasury Policy (Policy 116) will occur through the next planned update in order to reflect the updated reserve balance target for the WSIB reserve.

Respectfully submitted,

Glen Cowan  
Chief Financial Officer / Treasurer

For questions, please contact: Dana McLean, Senior Advisor, Phone: Ext. 2158  
Risk & Insurance

## Attachments

CAO Approval  
Andrew M. Siltala  
Chief Administrative Officer