



Board of Retirement Regular Meeting

Sacramento County Employees' Retirement System

Agenda Item 8

MEETING DATE: June 20, 2018

SUBJECT: Fiduciary Liability Insurance Renewal and Waiver of Recourse Endorsement for Fiscal Year 2018-2019

SUBMITTED FOR: X Consent Deliberation and Action Receive and File

RECOMMENDATION

Staff recommends that the Board approve the proposed renewal of fiduciary liability coverage, including the waiver of recourse endorsement, through Hudson Insurance Company for the policy period of July 1, 2018 through July 1, 2019.

PURPOSE

Fiduciary liability insurance provides coverage that protects SCERS in the event a claim is brought for a breach of fiduciary responsibility to members. Coverage of \$10 million with a \$50,000 deductible is included. The waiver of recourse endorsement protects individual Board Members and designated Staff from recourse or subrogation in the event the insurance company has to pay a claim.

DISCUSSION

The County Department of Personnel Services (DPS), Risk and Loss Control Division, recommends the purchase of fiduciary liability insurance, including the waiver of recourse endorsement. The policy is proposed by a new insurance carrier, Hudson Insurance Company (Hudson), and will continue to be brokered by Alliant Insurance Services. DPS has reviewed the proposal and assures SCERS that Hudson has an A (excellent) rating, and the proposed renewal policy will have the same terms and conditions as the expiring policy from current carrier RLI Corp.

Hudson provided SCERS with the most affordable bid. The proposed renewal premium is \$97,813. DPS charges an administration fee of 10% or \$9,781. The waiver of recourse endorsement premium is \$100 and is included in the annual premium.

DPS recommends that each individual Board Member and designated Staff elect to be included in the waiver of recourse endorsement. SCERS' designated Staff includes the

executive staff and other managers, as well as the investment officers. Each Board Member or Staff who elects coverage must pay \$4 with a personal check payable to SCERS.

BACKGROUND

DPS has managed the relationship with insurance broker, Alliant Insurance Services, in order to secure fiduciary liability insurance proposal for SCERS. DPS has reviewed Hudson’s proposal, offers their recommendation, and charges SCERS a 10% administration fee for their services.

ATTACHMENTS

- Letter from the Risk and Loss Control Office regarding Renewal of Fiduciary Liability Coverage for SCERS Effective July 1, 2018 to July 1, 2019

/S/

Kathryn T. Regalia
Chief Operations Officer

/S/

Eric Stern
Chief Executive Officer

**COUNTY OF SACRAMENTO
CALIFORNIA**

To: Eric Stern, Chief Executive Officer

From: Risk and Loss Control Office

Subject: Renewal of Fiduciary Liability Coverage for SCERS
Effective July 1, 2018 to July 1, 2019

Contact: Paul Hight, Risk and Loss Control Manager, 876-5019

Overview

Each year the County Risk Management Officer recommends the purchase of Fiduciary Liability Insurance by the Sacramento County Employees' Retirement Systems (SCERS). The insurance provides coverage that protects SCERS should a claim be brought against SCERS for a breach of its fiduciary responsibility to employees covered by the County's retirement system. The Risk Management Office also recommends the purchase Waiver of Recourse endorsement.

Recommendations

1. That you approve the renewal of the Fiduciary Liability insurance effective July 1, 2018 to July 1, 2019, placed with Hudson Insurance Company and brokered by Alliant Insurance Services.
2. That each individual Board Member and certain designated staff members elect to be included in the Waiver of Recourse endorsement.

Fiscal Impact

The Fiduciary Liability annual renewal premium with Hudson Insurance Company (RLI) is \$97,813, which is slightly less than last year's premium. The premium will be paid by SCERS. An administration fee of 10% will be added to cover costs associated with the acquisition and servicing of the policy on SCERS behalf. The Waiver of Recourse endorsement is \$4.00 for each individual electing the coverage. The individual, as required by the policy, must pay this with personal funds.

BACKGROUND

For the July 1, 2018 to July 1, 2019 renewal, Alliant secured a renewal proposal from Hudson Insurance Company, which replaces RLI. Hudson will be insuring thirteen (13) State Associations County Retirement Systems (SACRS) participants. All of which are 1937 Act Retirement plans.

DISCUSSION

Each year Alliant markets the program to relevant insurance carriers. All carriers approached have an A (excellent) rating with A.M. Best. Hudson was selected as the best carrier for the fiduciary liability program.

Risk Management has reviewed Hudson's renewal proposal. Hudson has an A.M. Best Rating of A (excellent) and is an admitted insurer in California. Hudson's policy matches the terms, conditions and coverage previously afforded by the prior carrier.

Risk Management Office recommends the purchase of Waiver of Recourse endorsement to protect individual Board members and designated staff. The recommendation that each individual Board member, and certain designated staff members, elect to be included in the Waiver of Recourse endorsement is based on a standard condition in all Fiduciary Liability policies. This condition allows the insurance company to subrogate, or take recourse, against the insured (plan trustees or staff) in the event the company has to pay on a claim. The right of recourse condition is placed in all these types of policies to: 1) meet certain requirements of ERISA, and 2) prevent fiduciaries from being "absolved from the consequences of their wrongful acts when premiums for liability coverage are being paid from the assets of the benefit plans they are administering – to the detriment of the beneficiaries of those plans."

While government plans are not normally subject to ERISA, it is prudent and a recommended practice to secure the Waiver of Recourse endorsement. All fiduciary policies allow the endorsement with the one provision that the endorsement be paid separately by the individuals covered and not out of plan funds. The \$4.00 charge (rounded) per participant (26 total) is very reasonable in the marketplace.

CLAIMS HISTORY

There have been no claims against the fiduciary liability insurance policy in the past 12 months.

FINANCIAL ANALYSIS

Last year's annual premium was \$98,277. Hudson's proposed renewal premium effective 7/1/18 to 7/1/19 is \$97,813 and includes the same terms, conditions, and coverage as the prior carrier. The proposed renewal policy will have the same policy aggregate limit of insurance of \$10,000,000 and a deductible of \$50,000 as per expiring. The Waiver of Recourse endorsement premium is \$100 and is included in the annual premium. The Risk Management administration fee is 10% of the annual premium, which is \$9,781. The Waiver of Recourse Endorsement is \$4.00 per plan participant (total of 26). This must be paid from non-system funds, requiring a personal check of the individuals participating in the endorsement. Their checks must be payable to SCERS.

CONCLUSION

This information is presented to Eric Stern, Chief Executive Officer. Upon notification from you of acceptance of the proposed renewal, I will direct Alliant to bind coverage. The Risk Management Office appreciates the opportunity to provide this service to the Sacramento County Employees' Retirement System.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Paul Hight", written in a cursive style.

Paul Hight, Risk and Loss Control Manager
County of Sacramento
Department of Personnel Services
Risk Management Division