

Memorandum

TO: VEBA
ADVISORY COMMITTEE

FROM: Miguel Bernal

SUBJECT: FIDUCIARY LIABILITY
INSURANCE RENEWAL

DATE: November 15, 2019

Approved



Date

11-15-19

RECOMMENDATION

Approve extension of the City of San José Voluntary Employees' Beneficiary Association (VEBA) fiduciary liability insurance coverage offered by Hudson Insurance Company ("Hudson"), the incumbent carrier, for the period from January 1, 2019 to June 30, 2020 with a \$5 million aggregate limit, \$25,000 retention, for an additional premium of \$5,734¹.

BACKGROUND

The City of San José ("City") purchases fiduciary liability insurance coverage for the City's VEBA Plan. The purpose of the insurance is to protect the City and the Plan's Board from legal liability arising from obligations set forth in the Employee Retirement Income Security Act (ERISA) of 1974. The coverage is designed to respond to claims from plan participants or regulating agencies alleging errors or omissions in plan administration, insufficient funding, or breach of fiduciary duties in the investment/advice, fund management, and/or disbursement of plan proceeds. The City began purchasing fiduciary liability insurance for the VEBA Plan as of January 1, 2018.

Last year, the Finance Department worked with the City's insurance broker, Arthur J. Gallagher ("Gallagher"), to retain Hudson as the fiduciary liability insurer. The current policy expires on January 1, 2020.

ANALYSIS

In September 2019, the Human Resources and the Finance Departments met to discuss the strategy for the renewal of the VEBA fiduciary liability insurance policy and agreed to have Gallagher approach Hudson about extending the policy for an additional six months to align the VEBA policy with that of the City's other fiduciary liability policies. Staff directed Gallagher to request that additional premium on a pro-rata basis. The reasoning for aligning the policy

¹ The additional premium for the six-month period represents the gross premium quoted by Hudson less credit for the retail commission payable to Gallagher as the City has a fee arrangement with Gallagher.

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renewal dates is to (1) market the plans together to generate scale economies thereby avoiding minimum premiums and (2) create administrative efficiencies by reducing the amount of Staff time spent in the underwriting process. Staff notes that there is incremental risk in extending the aggregate limits of the VEBA Plan policy for an additional six months because there exists an additional six-month period for claims to be made before additional limits of liability would be available. Staff feels the risk is minimal since there has been no claim made as of the date of this memorandum.

Hudson, the incumbent carrier, has agreed to extend the expiring policy which includes a \$5 million aggregate limit and a \$25,000 retention for an additional premium of \$5,734, slightly under the pro-rata premium rate of \$7,000.00 for the six-month extension. Approval of this recommendation will extend the policy period of the VEBA Plan policy from January 1, 2019, to June 30, 2020.

COORDINATION

This report was prepared by the Finance Department in coordination with the Human Resources Department and the City Attorney's Office.

A handwritten signature in blue ink that reads "Miguel Bernal". The signature is fluid and cursive, with a large loop at the end.

MIGUEL BERNAL
Risk Manager