

CITY OF RAPID CITY

1/1/2005 RENEWAL COMPARISON

COVERAGE	RC AGENT'S QUOTE				SDPAA QUOTE			
	LIMITS		DEDUCTIBLE*	PRICE	LIMITS		DEDUCTIBLE*	PRICE
GENERAL LIABILITY	\$5,000,000	Occurrence	\$100K/\$500K	\$288,150	\$5,000,000		\$100K/\$400K	\$167,164.00
	\$5,000,000	Aggregate		\$272	No Aggregate			
Employee Benefit Liab	\$1,000,000	Occurrence	\$100K/\$500K		\$1,000,000		\$100K/\$400K	Incl.
	\$3,000,000	Aggregate			No Aggregate			
Premises Damage	\$100,000		\$100K/\$500K	Incl.	\$100,000		\$100K/\$400K	Incl.
Fail to Supply	\$250,000		\$100K/\$500K	Incl.	Excluded			Incl.
Sewer Backup	\$1,000,000		\$100K/\$500K	Incl.	\$250,000		\$100K/\$400K	Incl.
Liquor Liability	\$5,000,000	Occurrence	\$100K/\$500K	Incl.	\$5,000,000		\$100K/\$400K	Incl.
	\$5,000,000	Aggregate			\$5,000,000			
Health Care Professional	\$5,000,000	Occurrence	\$100K/\$500K	Incl.	\$5,000,000		\$100K/\$400K	Incl.
	\$5,000,000	Aggregate						
Injunctive Relief	No Coverage				\$25,000			Incl.
Broad Legal Defense Fund	No Coverage				\$5,000			Incl.
AUTO LIABILITY	\$5,000,000		\$100K/\$500K	\$50,111	\$5,000,000		\$100K/\$400K	\$118,337.00
UM/UIM	\$300K/\$300K		\$100K/\$500K		\$300K/\$300K		\$100K/\$400K	
AUTO PHYS DAMAGE								
COMP			\$10,000	\$12,850	Per Schedule		\$10,000	\$85,435.00
COLLISION			\$10,000	Incl.			\$10,000	
Garagekeepers Legal	\$1,000,000		\$10,000	Incl.	Included			
GOV'T. OFFICIALS LIABILITY	\$5,000,000	Occurrence	\$100K/\$500K	\$13,791	\$5,000,000		\$100K/\$400K	\$17,843.00
	\$5,000,000	Aggregate			No Aggregate			\$3,979.00
OPT - RETRO ACTIVE COV					Incl in \$5,000,000 Limit			
Employment Practices Liability	\$2,000,000	Occurrence	\$100,000	\$41,858				
	\$2,000,000	Aggregate						
LAW ENFORCEMENT LIABILITY								
	\$2,000,000	Occurrence	\$100K/\$500K	\$98,575	\$5,000,000		\$100K/\$400K	\$62,818.00
	\$2,000,000	Aggregate			No Aggregate			
					(Same Limits as General Liability)			

COVERAGE	RC AGENT'S QUOTE			SDPAA QUOTE		
	LIMITS	DEDUCTIBLE*	PRICE	LIMITS	DEDUCTIBLE*	PRICE
PROPERTY Bldg & Content	\$261,191,000	\$50,000	\$256,237	\$262,057,679	\$50,000	\$269,107.00
Flood, excl zones A & V	\$5,000,000	\$100,000		\$5,000,000	\$50,000	
Earthquake	\$5,000,000	\$50,000		\$5,000,000	\$50,000	
Miscellaneous Property (IM)	\$5,334,319	\$1,000	Incl.	Note 1 \$3,523,623	\$1,000	Incl.
EDP Hardware	\$1,633,553	\$1,000	Incl.	\$1,283,553	\$1,000	Incl.
EDP Software	Incl.	\$1,000	Incl.	\$350,000	\$1,000	Incl.
Fine Arts	\$1,620,628	\$1,000	Incl.	\$1,620,628	\$1,000	Incl.
Signs	\$189,000	5%	Incl.	Note 1 \$7,500	\$1,000	Incl.
Miscellaneous Property (IM)	\$98,600	\$1,000	Incl.	Note 1		
Difference In Conditions	\$5,000,000	\$50,000	Incl.	Included		
BOILER & MACHINERY	\$50,000,000	\$5,000	\$21,862	\$262,951,679	\$5,000	\$35,000.00
Extra Expense	??			\$100,000		
Add'l cost to match coverages			\$35,000			
TOTAL			\$818,706			\$759,683.00

Aggregate - Maximum that will be paid in one year.

Deductible on Liability Coverages - St. Paul - \$500,000 Aggregating Deductible
SDPAA - \$400,000 Aggregating Deductible

(An aggregating deductible is the maximum deductible for all lines of liability coverage in one coverage year)

Note 1 - Limits per schedule provided by independent agents

October 28, 2004

TO: Sam Kooiker, Councilmember, City of Rapid City
FROM: Gary Drewes, Hagan Benefits, Inc.
RE: SDPAA Proposal

Thank you for the opportunity to explain the proposal provided by the South Dakota Public Assurance Alliance (SDPAA) to the City of Rapid City in more detail. Over 300 South Dakota governmental entities are members of the SDPAA. These members have found the coverage provided by the SDPAA to be a sound investment to protecting the assets of their entity.

We are enclosing a comparison of the quote we provided to the City. It is our understanding that the independent agents increased the quote provided by the SDPAA prior to their comparison. We understand that a sum was added for agent's commission, loss adjustment expenses and airport errors & omissions liability. The amount that was added to the SDPAA figures for loss adjustment expenses is an estimated amount for the loss adjustment expenses as this figure is totally dependent on claims incurred by the City.

One advantage of the SDPAA is that you are an owner of the program. For several years, the SDPAA has authorized a distribution for renewing members. What could this mean for the City of Rapid City? If the City had been a member of the SDPAA in 2004, the City would have been eligible for a distribution in 2005 that would have amounted to \$43,400.43 based on the quote provided by the SDPAA. This would have reduced the annual contribution to \$715,282.57 for 2005.

While the SDPAA does have a clause requiring withdrawing members to take their unpaid claims with them, there is also a provision for a cumulative reserve fund for each member. A percentage of your contribution is credited toward your cumulative reserve balance over a six-year period. At the end of six years, you are fully vested in your cumulative reserve balance. If you were to leave at any renewal date, you would take your claims with you; however, you would also take your vested portion of the cumulative reserve balance to help pay for any unpaid claims you may have incurred. If everything would remain the same, we estimate that the City's cumulative reserve fund would be \$828,420 at the end of six years.

We hope this answers some of the questions that have been raised. If you have any additional questions, please feel free to contact our office at 1-800-456-0737. Thank you for your consideration.



Memo to: Mayor Jim Shaw & Council
From: Gary Drewes, Hagan Benefits, Inc. *Gary*
Date: October 22, 2004
Subject: Liability & Property coverage

On behalf of Hagan Benefits, Inc., and the South Dakota Public Assurance Alliance, it was certainly our pleasure to provide a quote for the City of Rapid City for liability and property. Our office was disappointed to learn that our quote was adjusted upward before it was presented to the Legal and Finance Committee.

I have enclosed a copy of the summary we provided. Although I have not seen the figure given to the Legal & Finance Committee, as you can see our quote for the coverage's requested was \$759,683. I understand a commission for insurance agents in Rapid City was added to the quote and an additional amount was added for loss adjustment expense. It is difficult to understand why these adjustments were made without discussing it with us.

Presently, 323 government entities (cities, counties and other local government entities) are members of the South Dakota Public Assurance Alliance (POOL). In the nearly 18 years of existence for the POOL, the members have enjoyed broad coverages and stable rates. Today most government entities are looking at methods of making every tax dollar work to the maximum benefit of their entity. We firmly believe the POOL is serving that need to our member's satisfaction.

An issue we are hearing much about today is the concern of whether insurance brokers are being objective in providing advice to their clients. (Please see the enclosed article from the Monday, Oct. 18, 2004 USA TODAY newspaper.)

The credibility of the POOL, governed by nine local government officials from South Dakota, has been above reproach.

We would certainly appreciate the opportunity in the future to visit with the **entire council** about how the POOL may be of benefit and a cost saving to the City of Rapid City.

Spitzer eyes possible kickbacks to insurance brokers

Payments key as case widens

By Thor Valdmanis
USA TODAY

NEW YORK — New York Attorney General Eliot Spitzer is widening his insurance industry investigation to examine whether big insurance companies may be paying kickbacks for business from some of the nation's 300,000 independent insurance agents and brokers.

Spitzer suspects the payments, known in the industry as "contingent commissions" or "market service agreements," are at least partly responsible for high rates of auto,

home, business, life and health insurance coverage.

"We are looking at the big insurance companies to see if there have been payments designed to influence small independent brokers," says David Brown, chief of Spitzer's investment protection bureau. "If brokers have been less than objective in giving their advice (to individual consumers), we think that is a problem."

The payments are at the heart of a lawsuit announced Thursday by Spitzer accusing brokers such as Marsh & McLennan and Ace of taking payoffs from insurers, including American International Group, to steer corporate clients their way, rather than getting customers the best prices for corporate property

and casualty policies. Also, two executives at AIG and one at Ace have pleaded guilty to bid-rigging by providing clients with false or inflated quotes. They are believed to be cooperating with Spitzer.

On Friday, Marsh & McLennan said its risk and insurance services subsidiary would stop taking incentive fees and that its top management is being reshuffled. AIG also announced it was considering ending the arrangements. Meanwhile, MetLife disclosed that it had received three new subpoenas in connection with the investigation.

News that the Spitzer probe is reaching down to providers of individual insurance policies is likely to further shake the industry.

The Independent Insurance

Agents & Brokers of America, which represents more than 300,000 agents and brokers, denounced bid-rigging Friday but defended incentive fees. "In industries where there are commission payments, including the insurance industry . . . , incentive compensation is one form of compensation used to reward sales excellence," IIBA CEO Robert Rusbuldt said in a statement.

Although Spitzer does not have jurisdiction outside of New York, where he is a likely Democratic candidate for governor in two years, he was a driving force in the nationwide crackdowns on tainted Wall Street stock research and fraud in the mutual fund industry.

"If brokers have been less than objective in giving their advice, we think that is a problem."

— David Brown
chief of Eliot
Spitzer's
investment
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bureau

► Regulators get tougher, 1B