



Action to Recommend Purchase of Fiduciary Liability Insurance

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CONFIDENTIAL

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Fiduciary Liability Insurance

- Fiduciary liability insurance is an insurance product line that protects the Plan Sponsor and the Plan's fiduciaries (such as members of the Deferred Compensation Committee) from legal liability from claims alleging a breach of fiduciary duty in either the management or administration of the Plan
- Common claim scenarios applicable to defined contribution plans include allegations that the:
 - Plan paid excessive fees to its investment managers, consultants or administrators
 - The Plan selected investment options inappropriate for Plan participants
- Insurers typically require risk sharing in the form of a self-insured retention and often require a separate and higher self-insured retention for Class Action Claims as defined by the policy
- The policy does not cover
 - Any deliberate criminal or deliberate fraudulent acts
 - Wrongful acts or omissions prior to the inception of the policy



Fiduciary Liability Claims

Examples

- **Imprudent Investments:** Trustees of a \$9.5B employee retirement plan were alleged to have conducted illegal and imprudent investments involving hundreds of millions of dollars. The lawsuit raised questions concerning low return on investments and excessive management fees.
- **Failure to Monitor:** Participants of a health plan sued the plan's board of trustees alleging that the trustees paid excessive fees in administering the plan. Participants alleged that trustees breached their duty to monitor the fees of the plan administrator.
- **Conflict of Interest:** Trustees of a \$1.3B plan were alleged to have breached their fiduciary duty and accused of conflict of interest when plan assets were invested in products owned by an investment manager. The fees paid to the investment manager were also called into question.
- **Defined Contribution Claim:** Fiduciaries of defined contribution plan failed to notify retirees of a blackout period that occurred to accommodate a switch to a new administrator. The retirees were unable to change their investment options during that period and brought suit claiming that had they been notified, they would have moved their funds prior to the blackout.



Agencies with Plan Assets Over \$100M Typically Purchase \$5M in Limits

Client	Plan Type	Sponsored Plan Assets	Limit of Liability	Self-Insured Retention (SIR)	Class Action Claims SIR
1	DC	\$111,154,693	\$3,000,000	\$25,000	\$150,000
2	DC	\$129,342,655	\$5,000,000	\$50,000	\$250,000
3	DC	\$142,593,088	\$5,000,000	\$25,000	\$150,000
4	DC	\$205,362,173	\$5,000,000	\$10,000	\$10,000
5	DC	\$269,084,395	\$5,000,000	\$25,000	\$200,000
6	DC	\$273,463,566	\$5,000,000	\$25,000	\$75,000
7	DC	\$310,065,785	\$5,000,000	\$1,000,000	\$1,000,000
8	DC	\$440,711,488	\$5,000,000	\$50,000	\$50,000
9	DC	\$467,208,314	\$5,000,000	\$50,000	\$1,500,000
10	DC	\$515,585,145	\$5,000,000	\$50,000	\$250,000

DC: Defined Contribution Plan



The City Received a Quote for Fiduciary Liability Insurance from Hudson Insurance Company

Insurer	Hudson Insurance Company
A.M. Best Rating	A+, Financial Size Category XV
Limits ¹	\$5,000,000
Self-Insured Retention ^{2,3}	\$100,000 Each Claim
Annual Premium	\$23,350
Sponsored Plan Assets	\$294,238,600 as of 12/31/25
Participants	1,586 as of 12/31/25

1. Includes \$1M of additional limits for defense
2. The City would be responsible for the Self-Insured Retention
3. The Self-Insured Retention of \$100,000 is the lowest available based on the plan's size and number of participants

Annual Premium Would Drop to \$17,480 for Option with \$3M in Limits



Recommendation

- Recommend to the City Manager approval of fiduciary liability insurance including for the period from June 30, 2025, to June 30, 2026, with a \$5,000,000 aggregate limit, a \$100,000 self-insured retention for an annual premium of \$23,350 subject to the appropriation of funds.