



Date: November 23, 2009
To: LMCIT Members
From: Pete Tritz, LMCIT Administrator
Ann Gergen, LMCIT Associate Administrator
RE: **2009-10 Rates and Dividends**

2009-10 Rates and Dividends

Members will see various rate changes in LMCIT's Workers' Compensation, liability and auto programs for the 2009-2010 underwriting year. We're very pleased to be able to reduce average rate levels slightly for the coming year.

Changes will be effective for Property/Casualty (P/C) coverage written or renewed on or after November 15, 2009, and for Workers' Compensation coverage on or after January 1, 2010. In addition, the P/C program will return a \$9 million dividend to members.

2009-2010 Property/Casualty Rates

Here's a summary of changes affecting property/casualty rates, effective November 15, 2009:

- Liability rates will increase 3 percent.
- Auto Liability rates will decrease 4 percent.
- Auto Physical Damage rates will decrease 6 percent.
- Excess liability rates will be unchanged. However, the minimum premium which affects very small cities will be reduced 40 percent.
- Liquor liability rates for off-sale operations will decrease 15 percent. Rates for on-sale operations will decrease 5 percent.
- There will be no change in rates for the Property, Machinery Breakdown, Bond, and Uninsured/Underinsured Motorist coverages.

In total these changes add up to a very slight reduction in overall average rate levels, though how individual cities are affected will vary. And of course each city's premium costs will also be affected by changes in city expenditures, property values, payrolls, other exposure measures, and experience rating.

Background on Property/Casualty Rates and Dividends

Property and liability losses are the biggest pieces of LMCIT's expense picture, and play a large role in determining total premium costs paid by member cities. Another factor that impacts premiums is the amount of risk LMCIT retains. During the past few years, we've increased the amount of retained risk to reduce reinsurance costs. But that also means LMCIT's loss costs vary more from year to year. That in turn translates into more variability in the amount of dividends LMCIT is able to return.

Property losses – which account for about a third of the total property/casualty loss costs – can vary significantly from one year to the next depending upon the impact to city property from severe weather events. However premium rates are designed to reflect average loss rates over many years, and the longer-term patterns continue to be fairly stable. Reinsurance costs, which are also a significant portion of property premiums, are down slightly for the coming year as well.

As with property losses, liability losses greatly vary from year to year, and last year accounted for 49 percent of loss costs. Three categories – land use, employment, and police – account for about 60 percent of liability loss costs. The liability rate increase this year is largely driven by two main factors:

- Land use litigation is the biggest single element of liability loss costs (25 percent). Costs have been increasing since 2006, and are now averaging about \$3.4 million annually.
- Police liability is the second biggest liability loss cost area for LMCIT (19 percent). These costs have also been increasing in recent years. The number of claims received hasn't changed significantly, but more cases have resulted in very large judgments and settlements.

Employment liability (14 percent) and sewer backup liability (13 percent) are also major pieces of LMCIT's liability loss costs. Except for a spike in employment liability costs in 2006 due to two specific claim situations, both of these areas have been fairly stable both in the number and the cost of claims. Costs for other types of liability have been down slightly in recent years, which helps offset some of the increased costs for land use and police liability.

For other coverages (i.e. auto, machinery breakdown, liquor, etc.), rates will either be flat or down for the coming year, reflecting the claims experience in those areas.

Property/Casualty Dividend

Members of the LMCIT Property/Casualty program will share in a \$9 million dividend this year. This is substantially more than the \$4 million returned during 2008 and \$7 million returned during 2007. Total returned dividends since 1987 is \$184 million.

The larger dividend this year is possible largely because of two factors: Very few large storm or fire losses during the second half of 2008 and the first half of 2009, and continued strong investment returns.

As in the past, the dividend will be distributed during mid-December 2009. The dividend formula will be the same as that used during the past several years. According to the formula, a city's share is proportionate to the difference between the city's total earned premiums and total incurred losses for all years the city has been a member, with large individual losses capped for purposes of the formula. This approach recognizes cities that have been long-time members and that have been most successful in avoiding and controlling losses.

Highlight

LMCIT members during 2009 successfully avoided and controlled losses. As a result, members of the Property/Casualty program will share in a \$9 million dividend.

2009-2010 Workers' Compensation Rates and Classification Rate Changes

Here's a summary of changes affecting work comp rates, effective Jan. 1 2010:

- Workers' compensation rates for 2010 will decrease an average of 2 percent.
- The 2 percent premium credit for managed care will be eliminated.
- The relative rate levels for various job classes will be adjusted.

The overall rate reduction reflects several positive trends:

- The number of workers' compensation injuries has been declining slightly.
- Indemnity costs are essentially tracking with wage inflation.
- Medical costs continue to increase, but not quite as rapidly as a year ago.
- Investment returns have been solid.

Based on a review of claim costs in workers' compensation managed care, the premium credit for participation in managed care will be eliminated, effective for workers' compensation renewals on or after Jan. 1, 2010. LMCIT members currently enrolled in a workers' compensation managed care organization have received separate communication about this change. The combined impact of LMCIT's overall rate decision and decision regarding managed care premium credit is that for cities participating in workers' compensation managed care, overall premium rates will stay flat.

In addition to the overall rate decrease, there will be adjustments to the relative rate levels for various job classes. Every three years, to help ensure fairness in cost allocations, LMCIT reviews and revises the relative levels of premium rates for municipal employees.

How an individual city is affected for 2010 will depend on its own payrolls and its make-up of job classifications and associated rate increases or decreases. For 2010, employee job class rate increases are capped at 30 percent in order to minimize the impact for members with large concentrations of payroll in certain classes. The most notable impact of this year's changes will be in stand-alone fire agencies with most of their payroll in the volunteer firefighter job class.

The following table details 2010 class rate changes for the bulk of city payrolls. Most job class rates are shown per \$100 of payroll. The rates for volunteer fire (7708 and 7718) are shown per 100 of population.

Code	Description	LMCIT Rates 2009	Percent Change	LMCIT Rates 2010
5506	Street	\$ 8.35	-5%	\$ 7.90
7380	Ambulance	\$ 5.55	-15%	\$ 4.72
7381	Vol. Ambulance	\$ 8.15	21%	\$ 9.87
7502	Gas Ops	\$ 3.10	10%	\$ 3.41
7520	Waterworks	\$ 3.90	3%	\$ 4.03
7539	Electric or Steam Plant	\$ 3.90	-7%	\$ 3.64
7580	Sewage Plant	\$ 2.65	30%	\$ 3.45
7610	Cable TV	\$ 0.52	-10%	\$ 0.47
7706	Fire – Paid	\$ 7.27	-12%	\$ 6.39
7716	Fire-Paid (non-smoking)	\$ 6.54	-12%	\$ 5.75
7708	Fire – Volunteer	\$ 87.57	30%	\$ 113.84

7718	Fire-Vol (non-smoking)	\$ 78.84	30%	\$ 102.49
7720	Police	\$ 4.17	-8%	\$ 3.84
7721	Police (non-smoking)	\$ 3.75	-8%	\$ 3.45
8017	Liquor - Off Sale	\$ 2.34	-12%	\$ 2.06
8227	City Shop	\$ 6.48	-45%	\$ 3.59
8810	Clerical	\$ 0.78	3%	\$ 0.80
8829	Nursing Home – Prof	\$ 4.73	-8%	\$ 4.37
8830	Nursing Home – Other	\$ 4.27	30%	\$ 5.54
8833	Hospital - Prof.	\$ 2.35	-2%	\$ 2.31
9015	Building Maint.	\$ 5.05	-9%	\$ 4.60
9033	Housing Authority	\$ 2.91	-8%	\$ 2.68
9040	Hospital – Other	\$ 6.98	3%	\$ 7.19
9060	Golf course	\$ 1.71	15%	\$ 1.96
9063	Community center	\$ 1.43	-23%	\$ 1.10
9084	Liquor - On Sale	\$ 3.45	-16%	\$ 2.91
9102	Parks	\$ 3.54	3%	\$ 3.65
9182	Ice Arenas	\$ 1.34	28%	\$ 1.72
9403	Garbage	\$ 7.61	8%	\$ 8.23
9410	Municipal Employees	\$ 0.46	28%	\$ 0.58
9411	Elected Officials	\$ 0.19	30%	\$ 0.25

Assessment from Workers' Compensation Reinsurance Association (WCRA)

WCRA is a statewide, mandatory workers' compensation reinsurer. WCRA recently announced a deficit and its Board of Directors adopted an assessment program to recover \$268 million from members and policyholders. LMCIT's share of the assessment is about \$5 million, some of which will be payable over the next several years. Despite the assessment, LMCIT's membership in WCRA has been financially beneficial.

LMCIT has decided to prepay \$3.3 million of the assessment. This amount and the first payment for the balance of LMCIT's assessment will be made solely from LMCIT's Workers' Compensation fund balance and not allocated to LMCIT members via additional premium charges.

We will make future determinations about how to pay for each year's assessment, but the initial assessment was by far the most significant. We determined that paying the assessment directly was in the best interest of members, given current budget and fiscal limitations in cities.

Workers' compensation Retrospective Rating Close-Out Charges

LMCIT for many years has offered members with premiums of more than \$25,000 per year the option of a retrospective rating. After five years, a city that uses the "retro rating" has the option to close-out past years, so that no further adjustments are made in that year's premiums.

We decided to automatically close retro ratings that are older than 16 years. The goal is to eliminate administrative work and the potential for claims to re-open unexpectedly in member cities. Retro cities may still choose to hold retro years open beyond year 16 at their discretion. In addition, the close-out charges for retrospective rating years will increase slightly each year after year 5 and through year 16, effective beginning in 2011.

Cities that use a retrospective rating option, or with retro years still currently open, have been notified of this change by separate memo.