

LMCIT

# League of Minnesota Cities Insurance Trust

## Annual Report

**Meeting cities' changing  
risk management needs**

2002

# LMCIT Board of Trustees, 2001-02

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*You can read the League of Minnesota Cities full annual report in the August issue of Minnesota Cities magazine or on our web site: [www.lmnc.org](http://www.lmnc.org). For a copy of the LMC annual report, please call the League at (800) 925-1122.*

## Dear fellow LMCIT members:

This has been a year of enormous challenges. The horrors of Sept. 11 affected us in many ways, some obvious and some not so obvious. Seemingly overnight, the state went from issuing rebates to struggling with a huge budget shortfall. Health care and health coverage costs kept growing at double-digit rates. Private insurance buyers found that a 20 percent bump in their property, liability, and workers' compensation premiums was considered a good deal, 30 percent was about average, and 100 percent wasn't unheard of.

But one of the reasons cities formed LMCIT was to deal with challenges like these, and we think LMCIT proved its value this year. While private buyers struggled with huge premium increases, LMCIT member cities' property, liability, and work comp costs were stable and manageable—one less budget problem for cities to deal with. We found ways to help deal with the aftermath of Sept. 11—the liability risks for cities suddenly expected to handle airport security, the need for security improvements, and so on. We were able again to return a dividend for the fourteenth year in a row.

Did LMCIT solve all of the challenges cities face? No. Our biggest disappointment is that we've been no more successful than anyone else in controlling health coverage costs. We made the difficult decision to step out of the role of being a health benefits provider, but this change in direction doesn't mean we're giving up working on the ongoing challenge of health coverage. As costs continue to spiral, pressure will mount for changes in how our society provides and pays for health care and health coverage. Cities will need to participate in that discussion, and be prepared to deal with the changes that are almost certainly coming. There are other challenges too—reinsurance, coverage for terrorism risks, land use litigation costs, and the list goes on.

We'll mention one more challenge—replacing Jim Antonen on the LMCIT Board. The trustees who joined the Board this year are very talented and thoughtful, but it's hard to replace the support and leadership Jim provided for many years.

Obviously, we've got plenty to do. But we know we can accomplish a lot when cities work together, and that's what LMCIT and the League are all about.

Sincerely,



Karen Anderson  
Chair, LMCIT Board of Trustees, 2001-2002  
Mayor, Minnetonka



Pete Tritz  
LMCIT Administrator

Meeting cities' changing  
risk management needs

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## Responding to the events of September 11

Change has been a recurring topic during 2001-02. Sept. 11 changed the world as we knew it and the consequences of terrorist attacks have yet unknown repercussions. But what we can see is how these events affected city operations and the insurance market.

The 2001-02 reinsurance renewal was marked with more uncertainty than in the past. The events of Sept. 11 further toughened an already hard insurance market. Property/casualty reinsurance costs increased significantly, but LMCIT's strong financial condition meant we could offset much of that additional cost by increasing the amount of risk we retain.

While the p/c reinsurance renewal was complicated, the work comp reinsurance process went smoothly. Work comp reinsurance is provided by the Workers Compensation Reinsurance Association (WCRA). Since the WCRA only covers workers compensation in Minnesota, we're not affected by national workers compensation reinsurance trends and developments.

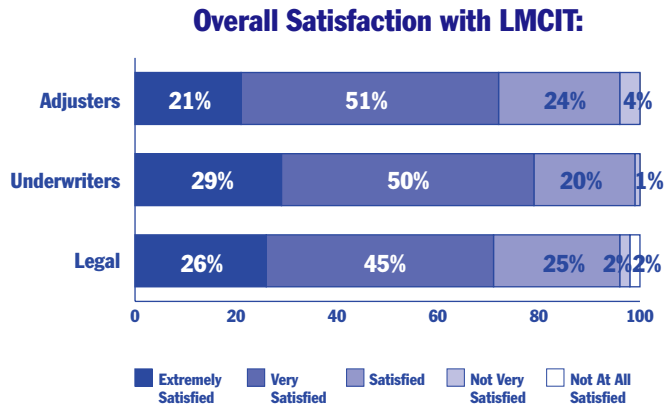
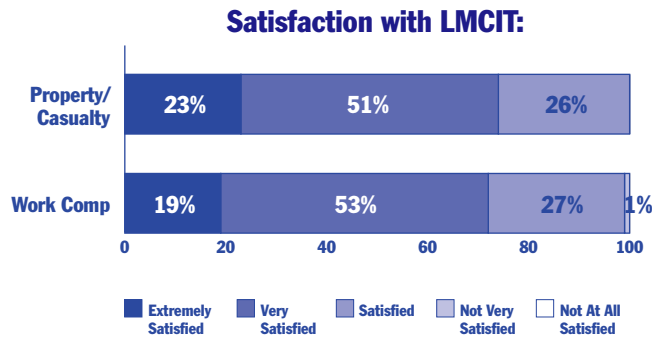
Sept. 11 affected LMCIT and cities in many other ways as well. Because of new reinsurance restrictions we had to limit coverage for property damage caused by terrorism to \$25 million per occurrence. Many cities have reassessed their security risks in light of Sept. 11, and have identified needs for improvement. In response, the LMCIT Board expanded the bleacher safety loan program to also include city security improvements.

Some cities also found themselves called on to assist with airport security, both at regional airports and at the Metropolitan Airports Commission (MAC). LMCIT worked to develop solutions for the liability and other risks inherent in these new airport security functions. To further respond to the new challenges, we gathered staff expertise on security-related issues, reshaped loss control workshop sessions and other training to include a security component, and developed a crisis communications planning guide to help smaller cities incorporate communications into their emergency planning efforts.

“We’re very happy to see that members continue to express high satisfaction in our programs and with our service.”

– Karen Anderson, LMCIT Board of Trustees Chair, 2001-2002

## LMCIT Member Satisfaction



## Responding to members' changing needs

This year LMCIT has seen change from the outside as well as from the inside. While LMCIT has expanded services and programs in a number of areas, the LMCIT Board made the difficult decision to step away from our longstanding role as a health and dental carrier. The Trustees concluded that acting as a coverage provider was not the most effective way for LMCIT to assist cities with their health coverage needs. Instead, the Trustees decided to refocus on helping cities evaluate benefits information, regulation, and options through tools, training, and advice. Because this was such a significant change of direction for LMCIT, staff worked closely with cities during the transition to help them identify, evaluate, and enroll in new coverage.

The LMCIT Board recognizes that the health care environment is very volatile and will continue to change rapidly. LMCIT wants to maintain a significant role and capability in benefits, so as to be prepared to respond as changes in the health care market may demand. We continue to offer other employee benefits insurance programs. In addition to life, short- and long-term disability insurance, LMCIT now offers long-term care coverage for city employees and their families.

Another initiative is to improve service through integration and close coordination of League and LMCIT efforts in HR and benefits. A number of projects are being developed resulting from this integration, including a benefits consultation program, a reference HR manual and an expanded HR/loss control training program.

The Board also is exploring how to help cities reduce the cost of health and work comp claims, by reviewing options for a Health Risk Management pilot project. And LMCIT continues to monitor issues that affect cities, such as the EEOC position on retiree benefits, and suggests policies that make sense for city benefit plans.

Loss control training is another area where we strive to integrate knowledge from different areas of the League and create partnerships with outside organizations. Our efforts towards integration and partnership have paid off in increased attendance at the 2002 Safety and Loss Control Workshops.

In addition, LMCIT has embarked upon a loss control effort for electric utilities. In conjunction with MMUA, LMCIT evaluated and developed existing and new standards, procedures and training for electric utilities, taking into consideration property and machinery breakdown risk.

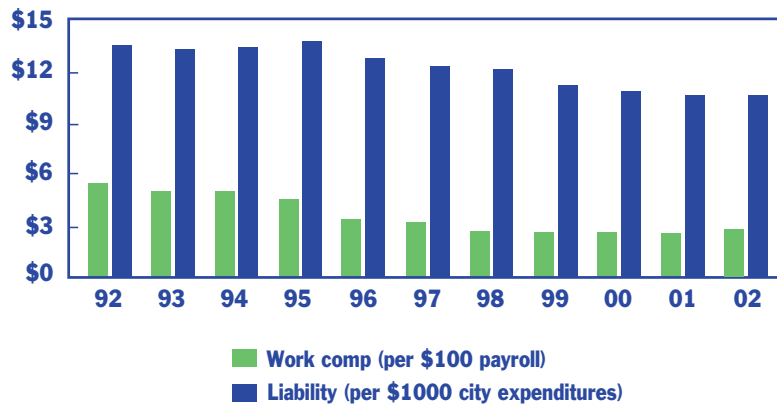
**Meeting cities' changing  
risk management needs**

“As a new Trustee, I really commend past Trust Board members for their foresight in building LMCIT’s financial strength over many years. That strength provided LMCIT with the flexibility to deal with a difficult reinsurance market to the benefit of our members.”

– Joel Hanson, LMCIT Board of Trustees

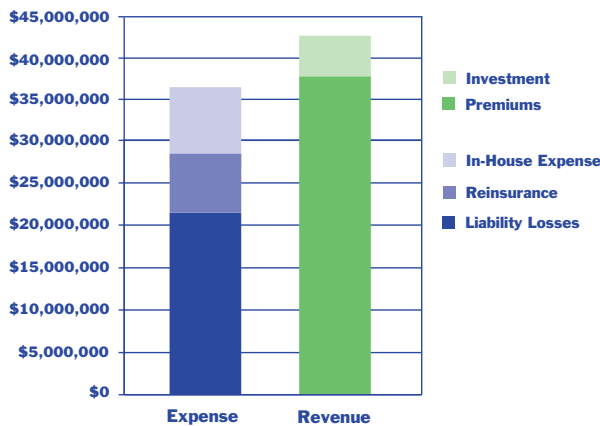
## LMCIT Rates

**Work Comp and Liability Rate History**

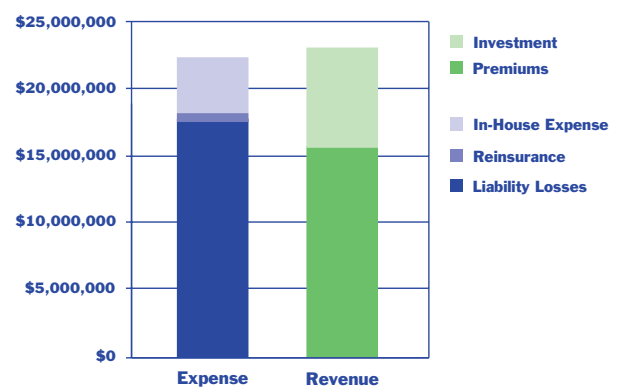


LMCIT sets premium rates so that premiums plus investment income cover projected losses and expenses with a prudent safety margin.

**LMCIT 2002 P/C Rates**



**LMCIT 2002 Work Comp Rates**



## LMCIT strength helps cities through tough times

This year LMCIT clearly showed its value in stabilizing cities' costs. While private insurance buyers faced premium increases of 30 to 50 percent and even more, for property, liability, and work comp insurance, LMCIT members saw no change in rates for property and liability coverage, and only a modest increase in their work comp premiums.

Two main reasons caused Minnesota cities' experience to be so different. First, losses were in line with or slightly below projections. And since LMCIT rates are based on cities' actual losses and expenses rather than on market factors, the rates remained stable.

Second, LMCIT's strong financial position made possible to offset higher reinsurance costs by increasing the amount of risk we retain. That financial strength is due to the Board's longstanding, conservative fiscal and financial practices.

Work comp rates for LMCIT members increased for the first time since 1992. This increase was necessary to meet projected increases in loss costs, due in part to rising medical costs and the rising numbers of lost-time injuries. To keep the increase as low as possible, the Board reduced the safety margin built into work comp rates. And to ensure future stability we'll need to rebuild that margin. The Board also decided to reduce the work comp managed care premium credit from 5 to 3 percent. This reduction maintains an incentive for cities to use the managed care option, while bringing the credit in line with actual savings.

A factor that will affect future work comp rates is the Special Compensation Fund (SCF) assessment rate. This assessment is charged to every Minnesota work comp insurer and self-insurer, and is based on work comp indemnity benefits paid during the year. The SCF assessment rate was raised from 20 percent to 30 percent effective retroactively January 1, 2002. The increase in SCF rate followed the legislature's transfer of \$230 million from the SCF to the state's general fund to help balance the state's budget.

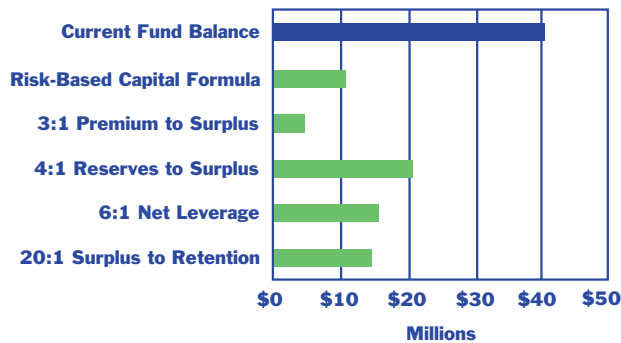
The higher SCF rate will cost LMCIT an additional \$600,000 for 2002. This also increases the future cost of benefits for injuries that occurred in previous years by over \$5 million. These added costs were covered by LMCIT's existing fund balance—funds that otherwise could have been returned as a dividend to member cities. The higher SCF assessment rate also means that the cost of future injuries will be higher, which will have to be reflected in higher premiums in the future.

**Meeting cities' changing  
risk management needs**

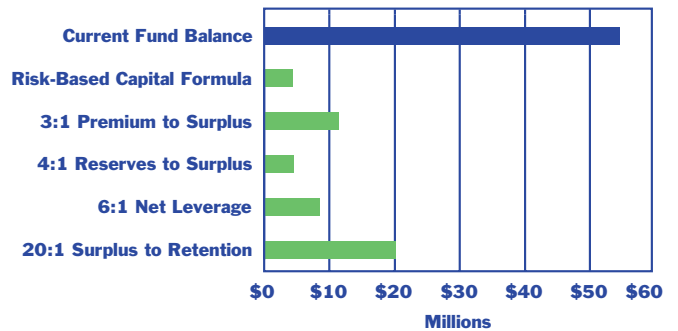
# LMCIT Financial Picture

The following charts compare actual LMCIT fund balances to a number of conventional benchmarks used to evaluate the adequacy of an insurance company's funding.

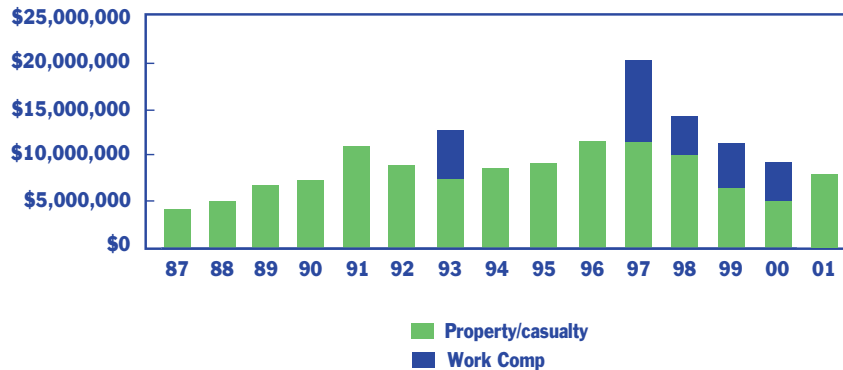
### Work Comp Fund Balance



### P/C Fund Balance



### LMCIT Dividends \$148 million since 1987



*Remember, LMCIT can't guarantee a dividend every year.  
If your city budgets the dividend, make sure there's a contingency plan.*

## Partnering to maintain stability

Every year, LMCIT makes the decision on whether to return a dividend in the p/c and work comp programs. The Board makes this decision by looking at the fund balance after losses and expenses are covered in each program. LMCIT's philosophy is to maintain a strong fund balance to help stabilize rates and avoid big swings in either direction.

LMCIT rates combined with investment income are used to pay for losses and expenses. If unused, the safety margin built into the rates may be returned as a dividend or used to further strengthen LMCIT's fund balances. Because LMCIT only returns funds not needed for losses, expenses or reserves, we can never guarantee how much, if any, unneeded funds will be available to be returned in any future year. Because losses vary from year to year, it is impossible to predict a dividend return every year.

LMCIT p/c program members received an \$8 million dividend in 2001. However, LMCIT was not able to return a dividend in the work comp program this year. Work comp losses ran above what the rates were designed to support because of two trends—the increasing frequency of lost work-time claims and increasing medical costs.

City loss control efforts are greatly responsible for dividend return and rate stability. For this reason, we continue to develop a loss control program that can answer risk management needs for cities of any size. And we continue to strengthen our litigation capabilities.

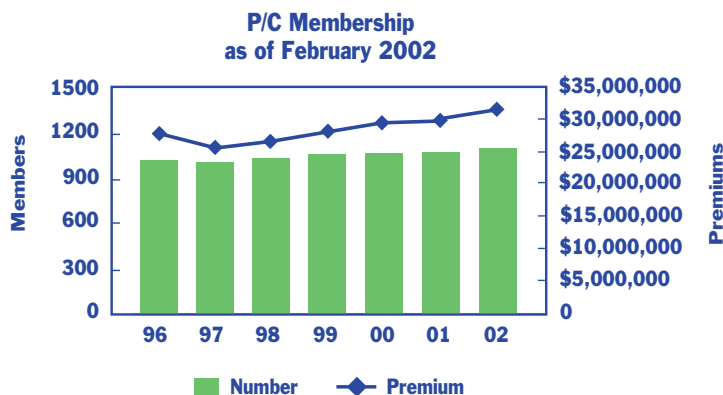
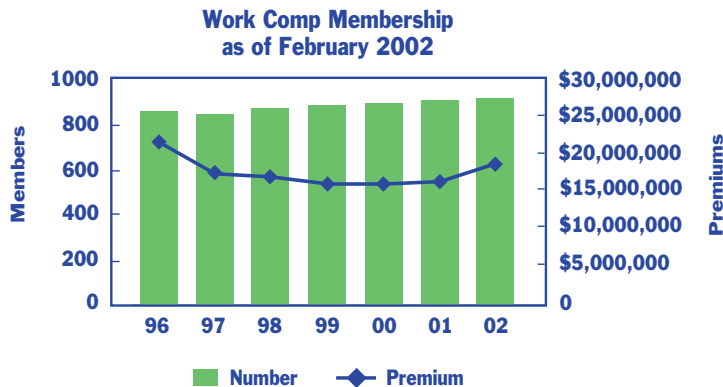
We've had several important appellate litigation successes this year. One decision states that land-use ordinances are not a proper subject for a city charter referendum. Another overturned an arbitrator's reinstatement of a peace officer found to have engaged in a pattern of offensive and predatory conduct toward women over a 10-year period. A third decision clarified when cities would be considered immune to liability related to injuries of children in city parks.

**Meeting cities' changing  
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“The participation in the loss control training shows the commitment cities have to reducing losses. That’s a big part of what LMCIT and the League are all about—helping make cities smarter about what we do and how we do it.”

– Todd Prafke, LMCIT Board of Trustees

## LMCIT Membership and Participation



### Participation in Loss Control Training

Sexual Harrassment Prevention Training:

- 60 sessions
- 1611 employees

Trenching Training:

- 5 sessions
- 113 employees

Confined Space Training:

- 1 sessions
- 17 employees

Spring Safety and Loss Control Workshops:

- 9 workshops
- 27 sessions in each workshop
- 1086 attendees

## LMCIT changes to meet new member needs

In addition to responding to changes in the environment in which we all are work, LMCIT also made a number of other changes designed to improve our performance and efficiency.

One such change was to increase the size of the LMCIT Board of Trustees from five to seven members. This larger Board helps assure continued strength and continuity of risk management knowledge, and provides broad representation from appointed and elected officials from cities of varying sizes and locations.

LMCIT also made some important changes in investment management. The Board selected a new investment manager, Galliard Capital Management, for the p/c program. Voyageur Asset Management will continue to manage the work comp program's investments. While both managers will operate under the same basic investment policy, Galliard follows a different strategy, focusing more heavily on the higher yields provided by mortgages and taxable municipal securities.

The Trustees also supported building an even stronger relationship between the League and Trust by increasing the financial support LMCIT provides to the League, and through better coordination and integration of League and LMCIT services. This enhanced financial relationship involves areas in line with the Trust's overall mission (meeting cities risk management needs) and Trustees' fiduciary responsibilities. The League and LMCIT continue to look at ways to further integrate the organizations, make better use of resources, and make services more efficient and effective through coordinated planning. After all, members have often told us that they don't really differentiate between the League and LMCIT.

The Trust Board emphasized the importance of ongoing member communication at its strategic planning meeting. LMCIT continues to look for ways to improve communication of insurance-related issues. We're reviewing renewal application materials and processes, keeping in mind future online applications. In addition, the online claims reporting system is working and members are increasingly making use of this service enhancement—already more than 10 percent of cities' claims are reported online.

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# LMCIT Highlights of 2002

- LMCIT returns an \$8 million property/casualty dividend to members.
- The LMCIT Board of Trustees approves stable rates in property/casualty program and small increase in workers' compensation program rates.
- LMCIT refocuses efforts in employee benefits programs and integrates them with the human resources services.
- Report on LMCIT member satisfaction surveys indicates high approval levels from member cities.
- The LMCIT Board makes new builders risk coverage and improvements to the coverage document available to members of the property/casualty program.
- Online claims reporting for auto, property, liability and work comp claims becomes available.
- Spring Safety and Loss Control Workshops are successful throughout Minnesota, with the highest attendance ever. More than half of total registrations are placed online.

## Looking ahead

We expect to continue to deal with the after-effects of Sept. 11 for years to come. One evolving issue we'll continue to work on is airport security. New security-related regulations may mean that airport authorities ask for more help from cities, which may expose cities to other risks. And we also expect to respond to other factors effecting change in cities.

The cost of health coverage will continue to be a significant issue. The ongoing double-digit increases will intensify the pressure for major changes in how we as a society approach health care and health coverage. Cities will need to be ready to participate in that discussion and to deal with those changes—whatever the reforms turn out to be.

The cost of litigation relating to land use regulation and development is high and growing. We'll need to continue to monitor and look for ways to control and reduce these costs, through training, coverage changes, appellate litigation, and legislative advocacy. One troubling recent decision, for example, may undermine the finality of the "quick take" eminent domain process.

We're also seeing a slight increase in membership both in p/c and work comp programs. While LMCIT city membership has been stable over the years, a few new members have come to LMCIT because of the very hard private insurance market. In some cases, private insurers declined to offer renewals to cities; other cities saw sharp increases in the premiums quoted by private insurers. We're also seeing increases in the number of cities choosing optional coverage such as liquor, airport and no-fault sewer backup.

We continue to work with NFIP to become a write-your-own carrier, and we hope to offer NFIP flood insurance the Fall of 2002. Nursing home insurance and medical malpractice insurance have become serious problems in some states, so we'll need to continue to monitor whether LMCIT needs to begin looking for ways to respond in these areas.

We continue to work on giving cities online access to claims information. And we're evaluating the League web site structure, which may result in some changes that improve usability and navigation.

Our goal is to continue to look for ways to meet cities' changing risk management needs.

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