

strength  
in numbers

25 years  
of cities  
working  
together

League of  
Minnesota  
Cities  
Insurance  
Trust

Annual  
Report

2005





## **A quarter-century after its inception, the League of Minnesota Cities Insurance Trust (LMCIT) is still going strong. What began as an experiment has become fundamental to city operations in every corner of the state.**

Back in 1980, the League of Minnesota Cities saw a problem and an opportunity. The private insurance market was leaving municipal entities behind, refusing to provide coverage or charging exorbitant rates because of the nature of municipal risks. Recognizing the importance of cities being able to have reliable, affordable insurance coverage, the League established LMCIT—one of the first municipal self-insurance pools in the nation.

Within the first year of operation, 83 cities agreed to pool their resources through LMCIT. Today, these “charter members” remain with LMCIT and are part of a statewide membership comprised not only of cities, but also townships, watershed districts, sanitary sewer districts, development commissions, and municipal hospitals and nursing homes, among others. Today, there are 1,126 property/casualty and 961 workers’ compensation policies in force.

In the beginning, LMCIT coverage consisted of basic property/casualty, workers’ compensation, and health insurance. Changes in city needs and the insurance market have driven many changes in LMCIT coverages over the years. Overall, coverages

have grown and become more and more specific to member needs—land-use coverage and no-fault sewer backup coverage are two recent examples. But LMCIT has also pulled back on coverage when it made sense, such as moving away from providing health insurance coverage when it became apparent we had no advantages over the private market in offering this coverage, and focusing instead on information and consulting on health insurance and benefits issues.

LMCIT has been shaped over the past 25 years by a strong, active membership. Commitment to loss control efforts is one key way members have kept the organization strong. LMCIT’s ability to return \$175 million in dividends over the past 25 years is a testament to the hard

work cities have done to control risks and reduce the number and severity of claims.

The 25<sup>th</sup> anniversary of LMCIT is indeed a milestone that should prompt us all to take a moment to pause and celebrate how far we’ve come. It is a great example of what can happen when cities collaborate for the benefit of their communities. We expect the next 25 years to be more of the same: evolving challenges, collaborative efforts, innovation, and progress.



***Here's to another 25 years!***

# '05 LMCIT Annual Report

## General management developments

### *Continued integration of LMC and LMCIT services*

While it is a legally a separate organization, LMCIT is very closely connected to the League of Minnesota Cities (LMC) in a number of ways. An important goal of the past few years has been to better integrate and coordinate LMC and LMCIT services, in order to deliver services more effectively and efficiently. This approach has been a real success, especially in the Human Resources area. In addition to LMCIT-specific departments and functions, a number of costs for operational support are shared between LMCIT and LMC, including Training and Conferences, Human Resources and Benefits, Office Services, Technology Services, Communications, Field Representation, General Counsel, Finance, and Research.

### *Changes in BRAC relationship implemented*

LMCIT negotiated and entered a new three-year service contract with Berkley Risk Administrators Company (BRAC). Through this process, major changes were made in the property/casualty claims supervision structure, including implementing and monitoring specific claims handling standards, expanding the claims supervision staff in order to reduce caseloads, and separating the litigation management and adjuster supervision functions. Additionally, a more effective “feedback loop” is being established so that the risk areas that BRAC personnel observe in the field are considered in LMCIT’s strategic planning and management activities.

### *Claims audits prove helpful*

During the past year, LMCIT put in place specific standards for property/casualty claims handling, covering areas like investigations, communications with the city and with claimants, and file documentation. Each month LMCIT now formally audits a random sample of property/casualty claims for compliance with those standards. The results are encouraging. The more than 150 claim files audited so far show reasonably good compliance with the standards, but more importantly the audits are providing useful information on where there is room for improvement.

decrease in  
the average  
premium rate  
for LMCIT  
liability coverage  
per \$100 of  
city expenditures  
over the last  
10 years:

35%

## Member satisfaction remains strong, membership remains stable

Results from member satisfaction surveys conducted in 2004 show very high satisfaction rates in all LMCIT programs. Several of the numbers are actually quite staggering:

- 100 percent of respondents indicated they were satisfied with the property/casualty program overall.
- 100 percent indicated they were satisfied with the quality of service provided by the underwriting staff.
- 100 percent rated their underwriter as responsive.

Results from the 2004 work comp survey were also very strong and consistent with prior years—more than 90 percent of respondents indicated they were “satisfied” in response to every question asked.

Membership in both the work comp and property/casualty program has remained stable over the past year. Property/casualty membership rose from 1,110 policies in 2004 to 1,126 policies in 2005, and in the work comp program, membership increased from 944 to 961 policies during the past year. Special coverages continued to experience an increase in member participation, including bond coverage, liquor liability coverage, and coverage for municipal airports.

## Work comp: Rates continue to rise and no dividends in sight

Premium rates in the work comp program have continued to increase since 2001. The driving factor is the continuing sharp increase in medical costs. Unfortunately, no good solutions to this problem are evident right now, there is no sign that this trend will change any time soon, and, as a result, there are no dividends for the work comp program on the horizon.

Even in this gloomy context, there are some positive notes to report. One positive development is that the number of work comp injuries has trended downward in the past couple of years. Another is the Prompt First Action Report released in January 2005 by the Minnesota Department of Labor and Industry. The report shows that cities and LMCIT have been very timely in taking initial action on lost-time work comp injuries. In 2004, LMCIT was in compliance on 92.6 percent of the claims. The average for private insurance companies is 84.2 percent; for self-insurers, the average is 90.7 percent; and for the system overall, it is 85.9 percent. This is another good example of how cities and LMCIT staff work together to achieve higher standards.

survey respondents  
indicating satisfaction  
with the LMCIT  
property/casualty  
program overall:



average  
compliance rate  
with work comp  
“prompt action”  
requirements  
for work comp  
insurance  
companies  
in 2004:



LMCIT’s compliance  
rate in 2004:



total dividends  
returned to  
LMCIT members  
since the creation of  
the insurance trust  
25 years ago:

\$175  
million

total value  
of city property  
covered by LMCIT  
in 2005:

\$9.3  
billion

## Property/casualty: Rates stable and dividends returned

Rates overall have remained stable in the property/casualty program over the past few years, including this past year. Looking to the year ahead, there are no new or problematic trends in losses, which would suggest that relatively stable property/casualty rates can be expected.

In December 2004, LMCIT returned a \$9 million dividend to property/casualty program members—the same amount returned in each of the previous two years. As in the past, the dividend was distributed among member cities using a formula that reflects both a city's premiums and its losses for all years of LMCIT membership. In general, the formula is designed to reward long-term members and members that have done the best job of controlling losses.

## Reinsurance changes to result in savings, if losses controlled

The reinsurance market remained relatively stable over the past year. However, just one major loss event—a sizable natural disaster or a terrorism event, for example—could affect this market substantially. The reinsurance market has also become much more concentrated over the past few years, with the number of players having been consolidated to a few, large reinsurers.

Changes made in fall 2004 reduced LMCIT's dependence on reinsurance, but it remains critically important for our property coverage. The LMCIT Board decided to significantly increase the amount of risk retained, from \$500,000 to \$1 million per occurrence. This change reduced reinsurance costs, but it also means LMCIT will be directly paying more losses. On average, a net savings of more than \$1 million per year is possible—if losses resemble past patterns. However, as is the nature of risk retention, any one year could be different and LMCIT could either pay out more or save more depending on that year's claims activity.

## Coverage developments in terrorism and floods

### *Terrorism coverage contemplated*

Losses caused by terrorism currently would fall under existing property coverage, with LMCIT paying a maximum of \$1 million per year for property damage—regardless of the number of city buildings damaged,

or the number of events. (LMCIT covers about 1,800 buildings valued over \$1 million—about 270 of those are valued over \$5 million, and 30 are valued over \$20 million.) Going forward, the LMCIT Board and staff will be evaluating options for specific coverage or coverage changes related to coverage for property losses caused by terrorism.

### ***Flood insurance through LMCIT no longer an option***

For a few years, LMCIT operated as an NFIP flood insurer as part of a pilot program. In spring 2005, LMCIT was abruptly informed that the pilot program had ended and would not be continued. The result is that LMCIT no longer offers NFIP flood insurance and the potential role of LMCIT in flood coverage going forward will be reassessed. The possibility of providing non-NFIP flood coverage is being actively reviewed.

### ***Additional coverage developments***

The LMCIT Board approved several additional coverage improvements for the coming year. LMCIT will now offer coverage for liability arising from applications of pesticides or herbicides, and for liability arising from underground damage and damage to bodies of water from a pollutant release caused by a sudden occurrence. Other significant changes include clarifications of liability coverage based on state constitutional provisions, an increase in the limits for pollutant clean-up in city buildings under the property coverage, and specification of how recoveries will be allocated between the city and LMCIT.

## **Loss control: New, strategic efforts to help make cities smarter**

### ***A more strategic approach to loss control implemented***

Looking at LMCIT's loss control efforts from a strategic perspective has been a high priority during the past year. To inform this effort, the position of loss data analyst was created to develop appropriate research and analytical methodology. The analyst provides statistically reliable information about loss patterns and root causes. Overall, LMCIT has begun to develop a vision of how loss control systems and services should function and be integrated with other LMC activities, and staff resources and activities are being aligned in support of that vision. The following are a number of strategic loss control goals LMCIT staff are working toward:

- Accurate, real-time understanding of our loss experience and risks.
- A standard, but flexible, method for analyzing information and setting priorities.
- Strategies to efficiently and effectively attack loss control priorities.
- Mechanisms to measure loss control efforts, and therefore outcomes that produce measurable results.

increase in the  
average medical cost  
of a work comp claim  
from 2001 to 2004:

41%

rank of the  
cost of land use  
litigation claims  
among total  
liability claims:

1

factor by which  
the average annual  
work comp cost  
for police injuries  
exceeded the  
average annual cost  
for police liability  
claims from  
2002 to 2004:

3

Some progress toward achieving these goals has already been made. There has been increased emphasis on work comp and injury prevention, identification of specific employee groups and types of injuries that are producing losses, special attention to land use, and more use of specific loss data to guide the loss control representatives in their on-site work with members.

### ***Land-use loss control resources enhanced***

Land-use claims continue to be the biggest single piece of our liability costs, averaging between \$1.5 million and \$2 million per year. To address this issue, the LMCIT Board approved a plan for enhanced land-use loss control in summer 2004. The plan included adding 1.5 staff positions focused on land use to provide consulting, code review, and training to members facing land use and development issues, in addition to developing informational materials and providing general land-use training throughout the state. Other components could include developing a second opinion service as an alternative to litigation. The additional staff members have been hired and will help to increase the amount of training provided, likely through an on-site, on-demand approach geared toward city councils and planning commissions. Also anticipated is the implementation of a “hotline” type of advice and consultation service for members on issues related to land-use regulation and development.

### ***Keeping employees safe through OSHA assistance***

Another major effort of the past year is LMCIT’s new OSHA training initiative—the OSHA/Safety Assistance Program. It is a cooperative effort between LMCIT and the Minnesota Municipal Utilities Association (MMUA). The program provides a convenient and cost-effective way for cities to give employees the safety training they need and that OSHA requires. The program includes regular, regional training sessions on OSHA and related safety topics; low-cost, on-site/on-demand training for city employees on specific safety-related topics; and online training options for some topics. More than 240 LMCIT members—227 cities and 13 other municipal entities—have participated in the program to date. The hope is that this effort will help cities to reduce the number and severity of employee injuries, and, as a result, positively impact work comp costs. A good relationship is evolving with MMUA and there is more potential as we move forward.

### ***Special attention to patient handling risks***

A specific group of LMCIT work comp members received extra attention and loss control guidance this past year—municipal health care and nursing home facilities. The employees at these facilities experience unique risks

due to the nature of their work—primarily risks associated with lifting and moving patients. Because of patient-handling injuries, injury rates for the medical facilities industry are comparable to labor-intensive, risk-prone industries like mining.

To help curb these risks and improve the work comp experience ratings at these facilities, LMCIT took specific, focused measures. An on-site survey of each member health care facility was conducted, written recommendations were provided based on that survey, and responses to those recommendations were evaluated prior to offering coverage renewal. Common themes in these recommendations were to implement safety committees and injury review processes, and to increase use of mechanical patient handling devices. Also provided were a conference on employee safety and a session on injury management training, both of which were attended by representatives from a number of member facilities.

In an effort to help members realize the benefits of using mechanical patient handling (or “no lift”) devices, LMCIT initiated a demonstration project in cooperation with the Field Crest Care Center in Hayfield. LMCIT believes there is a broad spectrum of benefits, including reduced injuries and injury costs, to be enjoyed as a result of implementing mechanical lifting and movement technology. The goal is to demonstrate that it is practical to implement a no-lift approach in a typical Minnesota nursing home, that it can significantly reduce employee injuries caused by lifting and handling patients, and that it can be implemented in a way that provides a warm and caring environment for patients. The project is expected to be implemented in fall 2005. Soon afterwards, other member health care and nursing home facilities will be encouraged to tour the facility and learn from Field Crest’s experience.

### ***Continued success in keeping employment liability under control***

This past year was a big one in the area of HR and Benefits assistance. On the HR side, a variety of training sessions, including the very well attended Sexual Harassment Prevention Training sessions (1,645 city staff participated), were provided at locations throughout the state; work continued on the *HR Reference Manual* project that was initiated in the previous year; and a great deal of individual assistance and advice was provided to LMCIT members. Overall, approximately 132 presentations to more than 3,000 city officials and staff were provided during the past year. And, as a result of these education and training efforts, and contrary to national trends, LMCIT’s employment liability costs for 2004 were about half of what they were in 1992—despite inflation and increased LMCIT membership.

tons that  
the average  
nursing assistant  
lifts in a  
two-week period:

24

decrease in the  
total number of  
employment  
liability claims  
from 1993 to 2004:

60%

In the area of benefits consultation, a presentation on retiree health benefits was given at the spring Safety & Loss Control Workshops. State and federal requirements, as well as potential legal issues, brought this issue to the forefront during this past year. We also developed a new request for proposal (RFP) template for cities wanting to evaluate an employee assistance program (EAP), and expanded the League-sponsored short-term disability program to include an additional \$400 weekly benefit option.

### ***Regional training expanded***

Over the past few years, a concerted effort has been made to integrate loss control training with the wide array of training sessions and conferences provided through the League. This past year, the League's training offerings were expanded through new regional sessions and loss control information integral to those sessions. Training on Fire Department Management & Liability Issues, developed in conjunction with a number of fire-related associations, was provided to 686 attendees. Land Use Issues training, with separate sessions provided to elected officials, board and commission members, and city employees, was also well attended with 355 participants. Regional training sessions scheduled for the remainder of 2005 include Technology Issues for Cities and HR Basics for Supervisors.

Another important and popular regional training opportunity is the Safety & Loss Control Workshops. A total of 1,190 individuals from 405 cities and other local government entities attended the spring 2005 workshops. The workshop session topics included land use, individual vs. council authority, traffic crashes, beach safety, effective safety committees, retiree benefits, and extraordinary expense coverage, among others. Other loss control trainings offered in late 2004 and 2005 were a Chain Saw Safety Workshop (132 employees attended from 32 cities), and a Street Maintenance Policies training session (84 employees attended from 58 cities). LMCIT also partnered with the Minnesota Chiefs of Police Association to provide training for police chiefs on a variety of loss control issues.

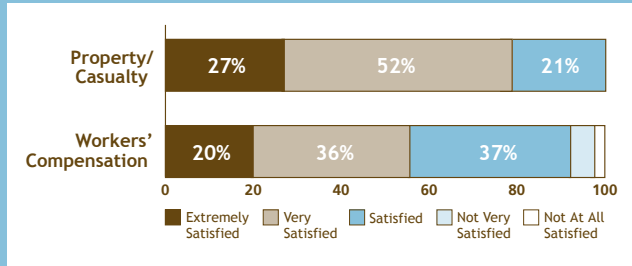
## **Conclusion**

### ***Superior coverage. Low cost. Responsive service. Stability. Expertise.***

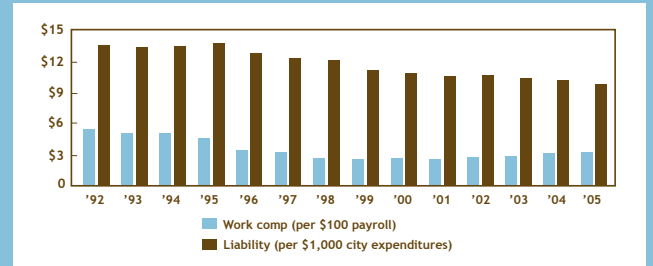
For 25 years, the membership of LMCIT has collaborated to produce one of the most successful municipal insurance pools in the nation. The LMCIT Board of Trustees and staff feel privileged to serve LMCIT's members and look forward to the year ahead as an opportunity to enhance the coverages and services provided, with the goals of helping member cities to remain fiscally stable, to improve the safety of residents and municipal employees, and to protect the important municipal property communities rely upon.

# strength in numbers

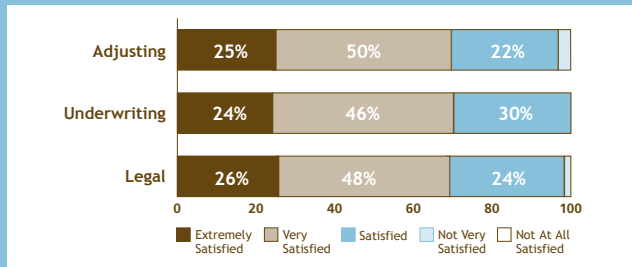
## 2004 satisfaction with LMCIT programs



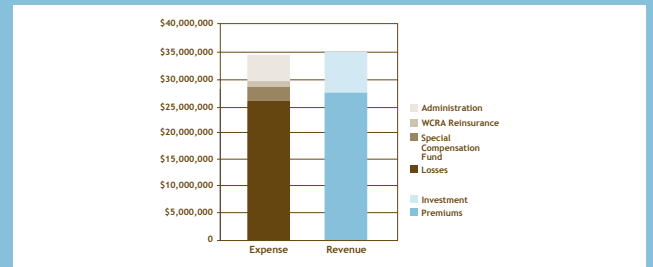
## work comp and liability rate history



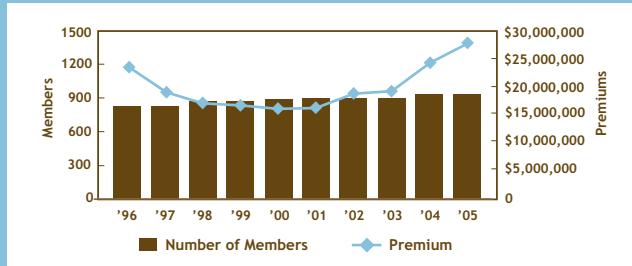
## 2004 satisfaction with LMCIT services



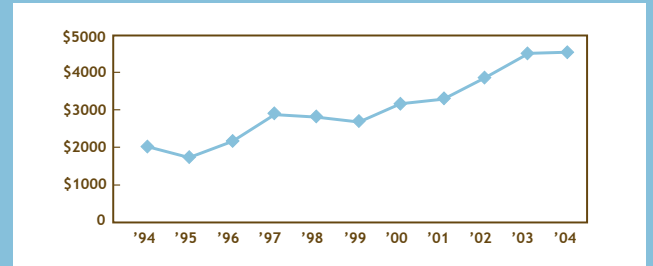
## 2005 work comp rates



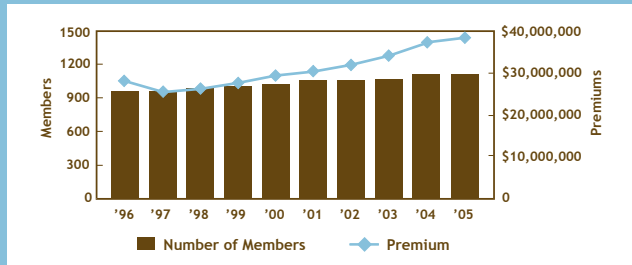
## workers' compensation program membership at February 1, 2005



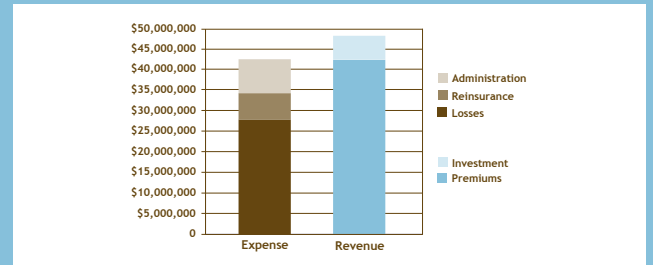
## average medical cost per claim



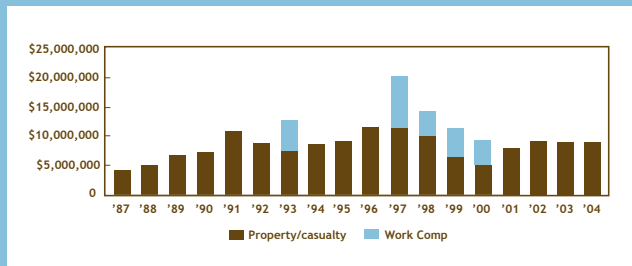
## property/casualty program membership at February 1, 2005



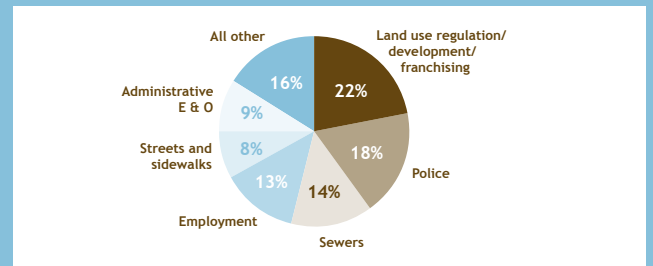
## 2005 property/casualty rates



## LMCIT dividends – \$175 million since 1987



## 2000-2004 distribution of liability loss costs





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## 2005 Highlights

- Member cities marked 25 years of working together.
- A \$9 million dividend was returned to property/casualty members, while the fund balances for LMCIT programs were built up to ensure continued financial strength.
- The OSHA/Safety Assistance program was launched in conjunction with the Minnesota Municipal Utilities Association with three initial Safety Meetings held in 2004-05.
- A loss data analyst was hired to help provide statistically reliable information about loss patterns.
- New staff was added to augment resources focused on land-use loss control.
- Special attention was paid to member health care facilities, including the initiation of a “no-lift” demonstration project in partnership with the Field Crest Care Center.
- More than 1,000 city officials and staff received guidance on fire management and land use issues through new League regional training opportunities.
- Nearly 1,200 city officials and staff from 405 cities participated in the spring 2005 Safety & Loss Control Workshops.
- More than 3,000 city officials and staff received training on human resources issues.

