



CONNECTING & INNOVATING
SINCE 1913

2008-09 Annual Report

League of Minnesota Cities Insurance Trust

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Introduction: LMCIT's Guiding Principles

The League of Minnesota Cities Insurance Trust (LMCIT) was founded by Minnesota cities during 1980 as a member-owned risk pool. LMCIT came into being at a time when private insurance carriers offered limited coverage at high prices. The goal at the time was to create and deliver specially designed Workers' Compensation and Property/Casualty programs with superior coverage and stable rates.

A good way to think about LMCIT today is that it is a cooperative non-profit insurance company for cities. Members own and control LMCIT.

LMCIT was founded upon a set of core values used by the Board of Trustees to guide their decision-making on behalf of member cities. Those core values – originally formalized during 1996 – still are relevant. In fact, LMCIT's Board of Trustees at their 2009 retreat reaffirmed the values as the guiding principles for LMCIT. They also formally recognized that partnering with cities to reduce and control risks and losses is a mission as important as providing cities the coverage cities need. LMCIT's core values include providing:

Guiding Principles

- 1. Superior, Reliable Coverage**
- 2. Loss Control Services**
- 3. Stability**
- 4. The Lowest Cost Coverage**
- 5. Fairness**
- 6. Responsive and Nimble Service Delivery**
- 7. Expertise, Leadership and Innovation**
- 8. Trust**

- **Superior, Reliable Coverage.** LMCIT seeks to provide Minnesota cities with coverages that meet all the risks a city might face. Coverage development is guided by city needs, including new coverages to meet emerging needs. Examples of new programs that meet changing city concerns include the special liability coverage for cities that sent assistance for the Republican National Convention and the Tenant User Liability Insurance Program. Other examples of newer coverages developed in recent years address liability related to land use and damages related to sanitary sewer backups.
- **Loss Control Services.** LMCIT recognizes that keeping employees and cities safe by reducing losses takes substantial cooperation with members, but that controlling losses is the most effective way to deliver stable premium rates. Helping members drives LMCIT, and examples of innovative services include the Regional Safety Groups, contract review

service, land use assistance, online learning including Police Accredited TRaining OnLine (PATROL), new training related to Human Resources and OSHA standards.

- **Stability.** Cities continue to face cuts to state aids that make already challenging budgets more so. Now, more than ever, providing stability is important. LMCIT takes a conservative approach to fund balance management so it can fully fund liabilities while maintaining a safety margin for catastrophic events. LMCIT's recently developed stress test shows that the members' pool can withstand several catastrophic events while still funding liabilities. This means LMCIT can focus on developing stable rates that meet claims and expenses, retain pool risk to keep reinsurance rates lower, and return dividends when possible. It also means members of LMCIT won't face sudden, unanticipated costs in the form of a drastic rate increase or unpaid losses.
- **The Lowest Cost Coverages.** Providing the lowest cost coverages to members during the long term is accomplished through a mix of a low operating cost, investment income, loss control education and services, and nonprofit philosophy. Private insurers may provide a lower initial price by covering a city at a loss or by offering a lower level of protection. That short-term advantage quickly becomes a disadvantage, however, when members consider the cost to a city of losses not covered, or of a rate hike in their second year with a private carrier.
- **Fairness.** Cities are members and owners of LMCIT, not just customers. A key consideration in every decision—whether setting rates, developing and providing new services, structuring coverages, or allocating dividends—is to treat every member city as fairly and equitably as possible. This is done in part by fairly allocating costs in recognition of differences such as city size, services provided, and other risk profiles. In addition, a city's own loss experience is part of the mix.
- **Responsive and Nimble Service Delivery.** LMCIT was founded during 1980 when cities were faced with a private insurance market that was unwilling to cover the risks cities faced. The League of Minnesota Cities (LMC) responded by establishing LMCIT. It was an innovative response to member needs, and a service that still helps cities solve problems and accomplish goals. Examples of this value in action include coverages developed for members who assisted with the Republican National Convention, no-fault sanitary sewer coverage and land use coverages.

- **Expertise, Leadership and Innovation.** LMCIT only provides coverages and services for Minnesota cities. Staff understands the risks, needs, and problems of members. A fundamental interrelationship between LMCIT and the League means that all coverage and loss control efforts are informed by a deep and broad understanding of the challenges faced by cities.
- **Trust.** Members trust and rely upon their organization. The Board of Trustees and staff recognize the importance of maintaining and earning that trust with each action and decision. ([Return to Table of Contents](#))

Workers' Compensation Program Report

The primary goals of LMCIT's Workers' Compensation program are to provide superior coverages at rates that are as stable as possible to avoid sudden increases in costs for members.

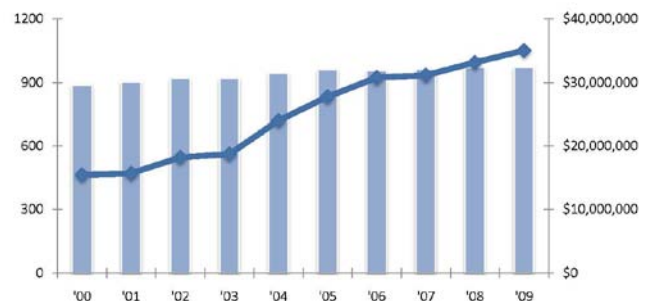
Delivering on these goals requires careful attention to and balance among factors including:

- The frequency of injuries experienced by workers.
- The growth of medical costs.
- Investment income and fund balance.

The overall financial strength and membership of LMCIT's Workers' Compensation program is strong and stable. Membership during the period from February 2008 to February 2009 was 972.

The frequency of injuries experienced by LMCIT members is stable. Medical costs remain significant, and the growth of those costs still outpaces all other trends. Medical costs continue to be the single largest driver of Workers' Compensation costs, and pressure premium rates as they have during recent years. Indemnity costs are relatively stable, increasing at about the rate of wage inflation.

**Membership in Workers' Compensation Program
February 2009**



The Workers' Compensation program had 972 members as of February 2009 with premiums of about \$35million. To learn more, visit the [Workers' Compensation](#) area of the [League](#) web site, in the Coverages section, under Risk Management.

LMCIT's Workers' Compensation program is financially sound. The Board of Trustees during 2008 evaluated LMCIT's fund balance against industry benchmarks and developed an LMCIT-specific stress test to examine the impact of several hypothetical events on the fund balance. The idea was to test the fund balance against several events that would create very large financial losses. The exercise showed that LMCIT can withstand several large losses while maintaining enough fund balance to meet generally accepted minimum fund balance ratios.

LMCIT maintains a fairly tight margin on premiums. That tight margin helps ensure

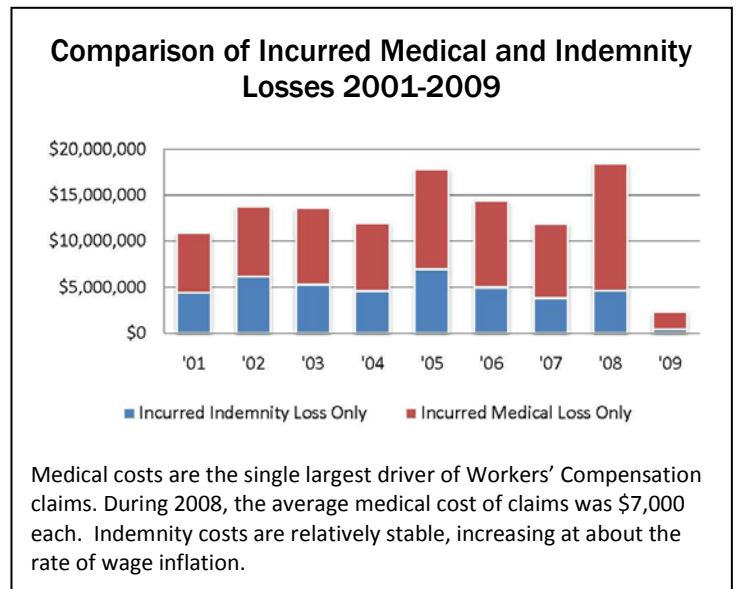
stable rates despite significant pressure from medical costs. The conservative approach has allowed the organization to return dividends in some years, but significant medical costs in recent years have meant no dividend has been returned for several years.

Workers' Compensation rates for 2009 increased 2.3 percent overall. The rate change reflected increases of 2 percent for workers' compensation and an additional 4 percent to the volunteer firefighter rates in order to keep pace with wage inflation, and the premium credit for managed care was maintained.

LMCIT will seek to modestly grow the fund balance to stay on track with growth in risks, exposures, liabilities, retentions and premium volume while working to deliver stable rates, maintain and develop strong programs, and deliver great service. [\(Return to Table of Contents\)](#)

Property/Casualty Program Report

The goals for the Property/Casualty program are the same as those for the Workers' Compensation program: To provide superior coverages at rates that are as stable as possible and to avoid sudden increases in costs to members.

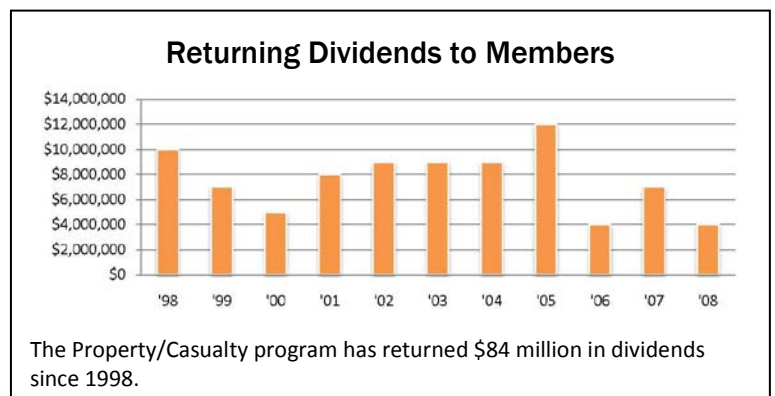
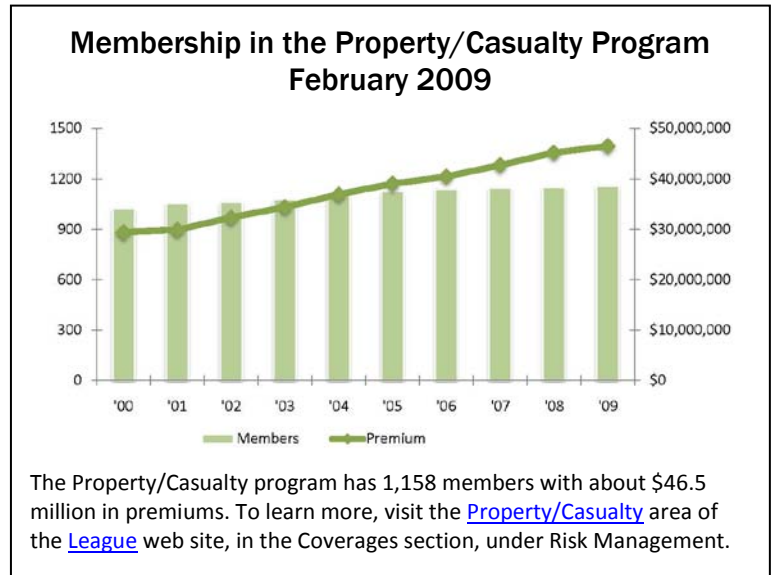


By keeping an eye on frequency of claims, investment income and the fund balance, LMCIT's Property/Casualty program is able to consistently deliver a stable program. That stability often allows LMCIT to return a dividend premium to its 1,158 members comprised of 819 cities and 339 special districts/joint powers entities.

Rates during 2009 were flat overall, but an individual city's premiums are affected by that city's changes in property values, city expenditures, vehicle and other exposure measures, as well as its experience rating. Factoring in a city's variables maintains fairness in rate setting. That means while member cities share risk, each also carries its fair share. Just as members share risk, they also share the dividend when costs are less than premiums. During 2008, LMCIT returned \$4 million in dividends, bringing total returned dividends since 1987 to about \$175 million.

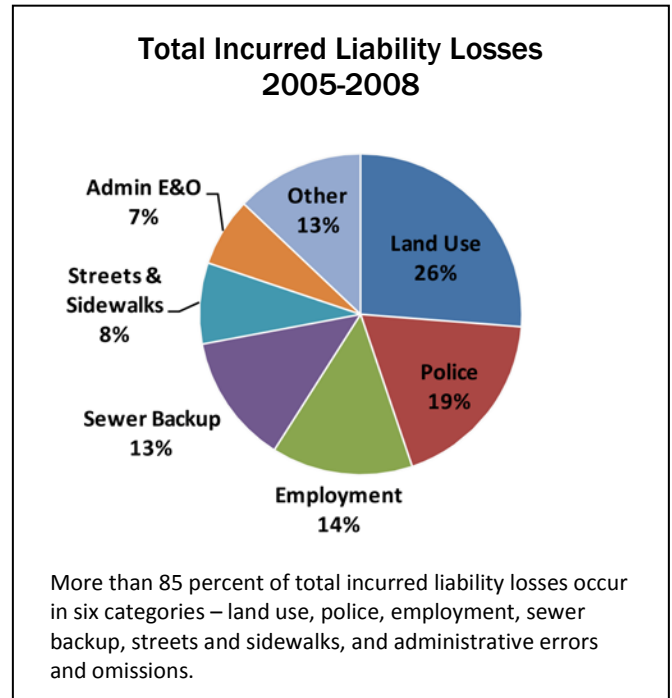
LMCIT also monitors trends to inform program development. Here's a snapshot of some of the things LMCIT is watching:

- Land use litigation remains the largest single element of all liability losses at about \$3.4 million per year or 26 percent of total incurred liability loss during 2005-2008, and continues to grow. While there here isn't one primary area of loss that can easily be targeted, LMCIT's land use team will continue to deliver training, resources and services to help members avoid costly claims.
- Police losses represent 19 percent of total incurred liability losses, at about \$2.4 million per year during 2005-2008. Evaluation of these losses is underway, but preliminary



information shows that since 2005, police claims have incurred the same amount of damages as expenses. LMCIT's Police Accredited TRaining OnLine (PATROL) is one tool to help reduce losses. Participation includes more than 1,800 officers representing 89 of 349 city departments and 26 of 87 county Sheriffs' departments. During 2009, new training was added to help meet OSHA standards and POST mandates. The program has a Minnesota-specific focus, and delivers timely legal updates on new legal cases and court decisions.

- Total incurred liability losses for employment have declined during recent years, but are still of concern. These claims represent 14 percent of total incurred liability losses at about \$2 million per year during 2005-2008.



- Sewer backups represent 13 percent of total incurred liability losses, and have cost about \$1.7 million each year during 2005-2008. These claims are expensive, but unlike land use liability loss costs which are primarily for defense and other expenses, only 1 percent of sewer backup liability

losses are for expenses or defense costs. Sewer backup claims have increased in cost to about \$2,300 each because more homes have finished basements and individuals are more aware of mold problems. The majority of backups are due to line obstructions, and city liability mostly stems from maintenance and inspection issues. LMCIT has developed the Sewer Toolkit to help cities implement maintenance and inspection schedules, and adopt policies that support prevention of costly backup claims. [\(Return to Table of Contents\)](#)

Fund Balance Stability

A conservative approach to fund balance is part of what allows LMCIT to deliver and develop superior coverages at stable rates, provide innovative services and programs and respond to

emerging needs and issues. It also means that LMCIT can fully fund liabilities while maintaining a safety margin for catastrophic events.

During 2008, Board Trustees designed and implemented a fund balance stress test to measure the ability of LMCIT to withstand a series of major events while still funding its liabilities. The stress test showed that LMCIT could weather a series of events and still meet a number of fund balance benchmarks in the industry.

Briefly, the method behind the test was to consider several hypothetical events that would produce a very large financial loss, calculate the cost of each event, and determine the fund balance needed to withstand that loss while ensuring enough fund balance remained to meet generally accepted minimum fund balance ratios.

The Workers' Compensation and Property/Casualty programs have current fund balances greater than the designated targets calculated using this methodology.

Risks, exposures, liabilities, retentions, and premium volume all continue to grow for both programs, so it also makes sense to continue to modestly grow the fund balances to keep pace. In order to continue modestly growing the fund balance for the two programs requires a different approach for each program.

The practice for the Property/Casualty program is to build a substantial safety margin into the rates so that revenues could cover losses and expenses even if losses should turn out to be greater than projected. Because of that margin, a dividend is returned to members if losses turn out at or below or not too much above projections, which has typically been the case.

The practice for the Workers' Compensation program is to build a significantly smaller margin into the rates. That means this program typically doesn't show a substantial amount of net income in any year, and only occasionally is able to return a dividend. [\(Return to Table of Contents\)](#)

New and Innovative Programs and Services

LMCIT constantly seeks to improve, develop and deliver programs and services that strengthen the partnership with members. Developing and recent examples of this innovation include:

- **Premium Incentives.** The Board of Trustees during 2008 began developing incentives for members to participate in certain loss control programs. The idea is to create ways to motivate city behavior that prevents claims in a particular area. Trustees will target incentives to an area in which specific behaviors or city actions are required in order to avoid an area of significant loss concern for the pool. Incentives are a way to recognize that members play a significant role in losses, and can take a positive, deliberate role in reducing claims through behaviors and decision making.

Trustees identified a number of areas for consideration, including sanitary sewer maintenance, utilities operations and maintenance, land use decision-making and employee safety. Staff is working to develop appropriate incentive programs in these areas for 2010, 2011 and beyond.

In developing future incentive programs, Trustees will consider areas that face significant risks and loss costs, have realistic solutions, address an area in which LMCIT has not otherwise been able to successfully implement recommended loss control measures and practices, and that are objective and measurable factors with good availability of information and expertise.

- **Special Coverage for Republican National Convention.** LMCIT strives to provide superior and innovative coverages that meet city needs, even when those needs pop up in short order. One example of how LMCIT delivers on these goals can be seen in the coverage LMCIT created to allow member cities to easily send law enforcement staff to assist at the 2008 Republican National Convention held in St. Paul.

LMCIT expanded its coverage to address the unique risks cities faced in assisting with the RNC. The end result was ample coverage at minimal costs.

- **Tenant User Liability Insurance Program (TULIP).** Members can safely allow private individuals and groups the opportunity to use or rent municipal facilities for events such as weddings, reunions and festivals through a new program called TULIP – the Tenant User Liability Insurance Program.

This program provides access to low-cost liability coverage of as much as \$1 million for special events. When individuals (called tenant users) purchase coverage through TULIP, the city is automatically named as an additional insured.

Members automatically are eligible to offer TULIP to tenant users, at no cost to the city. To make things as convenient as possible for cities, LMCIT also developed a sample contract and a facility rental application that is applicable with or without TULIP.

The program was developed and offered in response to member concerns about allowing use of city facilities for private events, in part because of the difficulty in getting indemnification agreements and certificates of insurance from tenant users.

TULIP is offered by LMCIT in conjunction with the National League of Cities, HUB International and Entertainment Brokers International (EBI).

- **Safety Assistance Programs.** Partnering with members to find practical solutions to foster a safety culture, keep city staff safe, reduce claims and meet OSHA standards are goals of the loss control services delivered through LMCITs' broad net of services offered through the Safety Assistance Programs, including Regional Safety Groups, OSHA/Safety Assistance, and a Safety Loan Program.

Regional Safety Groups. The Regional Safety Group initiative provides subsidized services to members of the Workers' Compensation program

Learn More

Learn more about the Tenant User Liability Insurance Program, and download resources for cities and residents.

To learn more, visit the [TULIP](#) area of the [League](#) web site, in the Coverages section, under Risk Management.

Learn More

Learn more about Safety Assistance Programs and how these services can help keep staff safe, reduce claims and meet OSHA standards.

To learn more, visit the [Safety Assistance Programs](#) area of area of the [League](#) web site, in the Loss Control section, under Risk Management.

including hands-on and web-based training, safety audits and one-on-one consulting. RSGs are self-directed groups of cities that meet up to 12 times a year on topics of their choosing. So far, 10 RSGs formed representing 70 cities. New groups are starting each month.

OSHA/Safety Assistance. As with RSGs, the OSHA/Safety Assistance program provides hands-on and web-based safety training, safety audits, and one-on-one consulting. The OSHA/Safety Assistance program is a formal series of trainings on defined topics, and helps develop skills of city safety coordinators. During 2008, 201 employees from 115 cities participated in this program.

Safety Loan Program. The Safety Loan Program is an affordable, reliable way for cities to fund safety improvements. Cities work with LMCIT to make improvements in one year, and spread the costs across several budget years. Interest rates are 30 basis points more than U.S. Treasury note rates. Funding is available for personal protective equipment, fire suppression and detection equipment, job site safety equipment, ergonomic equipment and more [\(Return to Table of Contents\)](#)

- **Utility Operations and Maintenance Pilot Project.** LMCIT, in partnership with the Minnesota Municipal Utilities Association (MMUA), is working on a pilot project to develop operating procedures and preventive maintenance schedules for electric generation facilities.

The goal of the pilot project, scheduled for completion during early 2010, is to develop individualized operating procedures and preventive maintenance schedules for two municipal electric utilities. This time-intensive and utility-specific pilot project will serve as a framework for determining how customized manuals can be created in a timely and cost-effective manner with other Trust member utilities. The initial investment is somewhat costly, but ultimately that customization is critical to creating a tool that adequately addresses each unique utility's specific needs. In the long run, costs for the customized manuals are expected to decrease as some of the tools, templates and policies are reformatted and/or reused as appropriate.

LMCIT provides coverage for 54 municipal electric generation facilities, each with unique risks. These facilities have a combined replacement cost of \$1.1 billion, or 8 percent of LMCIT's total covered value. Given the potential for a very large fire, explosion, machinery breakdown, or combination, working to prevent losses in these facilities is critical.

About a year ago, Board Trustees developed a rating plan especially to address these risks and to more fairly allocate that risk. With the new rating plan in place, LMCIT's next step is to work with MMUA to provide the technical, writing and other expertise needed to put in place customized guidelines that keep utility staff, the facility and community more safe.

Because of the unique nature of this pilot project, the future of the program will be carefully and regularly reviewed on an ongoing basis. ([Return to Table of Contents](#))

Rate Setting and Claims Processing

Making members' lives easier is a fundamental goal of LMCIT. On the surface, the task of calculating premiums is mundane. Simplifying the rating application and renewal means city staff will have more time to put toward the regular tasks of operating and delivering city services. The current rating system requires cities to provide extensive data on a range of items including physical property, payroll and expenditures. The level of detail needed in the data is far-reaching, and the data must be provided in multiple forms.

Developing a new approach to the liability premium calculation will remain fair and equitable. A new approach, however, will make reporting easier and more efficient for members and LMCIT underwriters. A new rating structure may also ease the transition from a manual premium calculation to an online reporting and calculating system, though it will take a few years to get there.

Learn More

Learn more about the claims management process by visiting the [Claims](#) area of area of the [League](#) web site, under Risk Management.

Ensuring claims are properly managed and processed is a big part of what LMCIT does. It's important to investigate city claims in a timely fashion so that reimbursements can be distributed

in manners that don't create hardship for city staff that experience on-the-job injuries or city's that face property and equipment claims.

During 2009, a multi-year effort resulted in improved efficiency of Workers' Compensation claims handling. In addition, Claims Work Station (CWS) will allow Trust staff to create a single electronic version of new claim files, decrease the need and cost of physical file storage and retrieval, improve enhanced data analysis, allow automation of routine tasks, and provide online access by members to some claims information.

Mapping the conversion of the Property/Casualty claims migration to CWS is underway, and these claims will be managed via CWS beginning during late 2011. [\(Return to Table of Contents\)](#)

Member Satisfaction

The Trust regularly asks members to rate their pool to understand if members' needs are being met. Members are asked about their experiences with the Property/Casualty and Workers' Compensation programs, as well as about their relationship with their underwriter.

While LMCIT is working on improving the processing of Property/Casualty renewals, in part through a simplified rate setting process, the most recent survey shows 100 percent of respondents in the Property/Casualty and Workers' Compensation programs are satisfied with the overall program, service quality, and responsiveness of their adjuster and with legal counsel. Members also reported being satisfied with the overall quality of LMCIT's underwriting program. [\(Return to Table of Contents\)](#)



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