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League of Minnesota Cities Insurance Trust
2016-17 Premium Rates

The League of Minnesota Cities Insurance Trust (LMCIT) Board of Trustees has approved premium rates for the upcoming underwriting year. Following is a summary of rate changes taking place for property/casualty coverages renewing on or after Nov. 15, 2016 and workers' compensation coverage renewing on or after Jan. 1, 2017. Click on each link to learn more about what is driving the rate changes. If you have questions, contact your underwriter at 651-281-1200 or 800-925-1122.

Property/Casualty Rates, Effective Nov. 15, 2016

- The per sewer connection rate (sewer backup liability) will decrease 10% and the per household rate (land use liability) will decrease 5%. The per police officer rate (police liability) and annual expenditure rate (all other liability) will each increase 5%. The employee rate (employment liability) will not change. These rate changes are designed to offset one another, so for a member with a perfectly average mix of liability exposures, the average rate for liability coverage will remain flat.

- Property rates will decrease 4% for buildings, contents, and property-in-the-open.

- Equipment breakdown rates will decrease 4%.

- The mobile property rating method has been revised. As a result, most members will see a rate decrease but some will see a modest increase.

- Rates for all other lines of coverage will not change.

Workers' Compensation Rates, Effective Jan. 1, 2017

- Overall premium rates will increase 3%.

- Volunteer firefighter rates will increase an additional 2%.

Premium Rates

The rate changes for the coming year don't necessarily mean your premiums will increase or decrease by that amount. In fact, some members' property/casualty premiums could still increase despite the rate decreases and some members' workers' compensation premiums could either decrease or increase by more than the indicated overall rate increase. That's because actual premiums are also affected by changes in city expenditures, property values, payrolls, experience rating, and other exposure measures.

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2016-17 Rate Changes

LMCIT's rates are designed to fund projected losses (projected losses are based on claim experience in recent years) and expenses for the year, and a contingency margin is usually also incorporated to cover extra costs in case losses turn out to be more than what LMCIT projected. The idea behind building a margin into the rates is that it allows for rate stability from year to year – in the range of a few percent (either up or down) - rather than the much larger year-to-year premium rate changes that would be needed if LMCIT set lower rates with no contingency margin.

As is typically the case, a solid margin was included on property/casualty rates this year because losses are very volatile and unpredictable from year to year (especially with respect to property damage related to summer storms). In most years, some level of margin is built into the workers' compensation rates as well, albeit generally a much smaller margin compared to the property/casualty rates. This is because workers' compensation loss experience is generally much more predictable from year to year, but the Board of Trustees decided this year forego a margin in order to keep the rate increase as low as possible while remaining fiscally responsible.

Property/Casualty Rate Changes

Premium rates will change as indicated at right for property/casualty coverages renewing on or after Nov. 15, 2016.

Coverage	Rate Change
Average liability rates	0%
Per household rate (land use liability)	-5%
Per sewer connection rate (sewer backup liability)	-10%
Per police officer rate (police liability)	5%
Per employee rate (employment liability)	0%
Annual expenditure rate (all other liability)	5%
Property rates (buildings, contents, property-in-the open)	-4%
Mobile property rates (the actual effect will vary for individual members due to a change in the rating method)	-40% (average)
Equipment breakdown rates	-4%
All other coverage rates	0%

For a member with a perfectly average mix of liability exposures, the average rate for liability coverage will remain flat, but specific rates within each liability class (as shown) will vary. The liability rate changes generally reflect changing loss patterns in recent years.

Rates for fixed property (buildings, contents, and property-in-the-open) will decrease by 4%. Equipment breakdown (an optional coverage) rates are also being reduced 4%. These rate decreases are due in part to positive loss experience, but also reduced reinsurance costs which are being directly passed through to members.

The rating method for mobile property is changing for the coming year. Mobile property premiums will now be based on the premium for fixed property. Most cities will see a decrease, but some will see a small increase. On average, rates for mobile property will be about 40% lower. This is part of a broader change in how mobile property will be covered. Under the new system, unless the member indicates otherwise, coverage will apply for all mobile property the member owns, subject to a $100,000 per unit limit; and members will only need to schedule individual items for which more than $100,000 of coverage is needed. For more information, see the League's web page on *Mobile Property Coverage*.

Workers' Compensation Rate Changes

Members with renewals on or after Jan. 1, 2017 will see a 3% average increase in overall rate levels. One of the main reasons for this increase is because of rising medical costs, which account for nearly 60% of LMCIT's total workers' compensation loss costs. Rates for 2017 assume medical costs will increase at a rate of about 8% annually (it's been in this range for the past several years), which significantly outpaces the increase in wage levels. With the exception of volunteer firefighters, wage levels are what LMCIT uses to calculate premiums, and these levels are only increasing about 2-3% each year.

In addition to the overall 3% average increase, rates for volunteer firefighters will increase an additional 2%. This is because rates are based on the population volunteer firefighters serve, rather than wage levels. Because the rate base – population – doesn't increase with inflation like payrolls do, an additional adjustment is needed to keep volunteer firefighter rates from gradually falling behind the rates for other employee classes.