



INFORMATION MEMO

Reducing LMCIT Premium Costs

Explore ways in which League of Minnesota Cities Insurance Trust (LMCIT) members can reduce premium costs. Understand the effect of reducing costs and other important considerations.

RELEVANT LINKS:

LMC information memo, [LMCIT Liability Coverage Guide](#), Section III.L, *Medical payments*.

LMC information memo, [LMCIT Liability Coverage Guide](#), Section II.D, *Coverage limits*.

I. Liability coverage

A. Consider dropping medical payments coverage

Coverage B of LMCIT's liability coverage, or the "medical payments" coverage, provides a limited amount (\$2,500 per person and \$10,000 per occurrence) of no-fault coverage for medical treatment for those injured on city property because of a condition in the property.

The medical payments coverage only comes into play in situations where the city is not legally liable for the injury (if the city is legally liable for the injury, it will be covered as a liability claim). In many cases, the medical payments coverage pays costs that would otherwise be covered by the individual's own health insurance. Dropping the medical payments coverage can reduce the liability premium by about a percentage point or so.

B. Consider not waiving the statutory tort liability limits

LMCIT gives the city the option of waiving the statutory liability limits. Liability coverage is more expensive if the city waives the limits; the cost difference is 3.5 percent of liability premium for members that choose to waive. Waiving the limits does not give the city better protection; the benefit is only to the party who is making a liability claim against the city.

C. Don't purchase unnecessary "specialty" liability policies

There are some instances where cities are purchasing specialty policies from private insurance companies for risks the city's LMCIT liability coverage already covers. If your city is buying any of the following as a separate policy, you should carefully review why you're doing so:

This material is provided as general information and is not a substitute for legal advice. Consult your attorney for advice concerning specific situations.

RELEVANT LINKS:

LMC information memo, [LMCIT Liability Coverage Guide](#), Section III.R.2, *No-fault sewer backup coverages*.

LMC information memo, [Making and Managing City Contracts](#).

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[LMCIT Contract Review Service](#).

- Police liability
- Firefighters professional liability
- Ambulance professional liability
- Public officials' liability
- Employment practices liability
- Employee benefit liability
- Fiduciary liability for relief associations
- Fire relief association bond
- Cyber or data security breach liability

D. Consider dropping optional no-fault sewer backup coverage

LMCIT's optional no-fault sewer backup coverage reimburses homeowners for damages caused by a sewer backup, irrespective of whether the city was negligent and legally liable. While many cities feel this is a benefit for citizens, it could be an option to consider eliminating during tight budget times. The cost of this coverage varies greatly by member because it is based on the number of sewer connections and the limit selected, among other things, but premiums can range from as low as \$100 to as high as \$20,000 or more.

E. Potential savings related to service contracts

Under LMCIT's liability rating system, there are two areas where cities can potentially reduce their liability premium if service contracts are arranged in a manner that adequately reduces the city's liability exposure.

1. Law enforcement contracts

If a city is contracting for law enforcement services with a county or some other entity, LMCIT will make a charge for the police liability exposure (based on number of officers), unless the law enforcement contract adequately transfers the risk away from the city receiving the service. If the entity that is providing the service agrees to defend and indemnify the city receiving the service for claims arising out of the services performed under the law enforcement agreement, LMCIT will forego the police liability premium charge for the city receiving the service. The contract needs to be sent to LMCIT for review.

RELEVANT LINKS:

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LMC information memo,
[LMCIT Property, Crime,
Bond, and Petrofund
Coverage Guide](#), Section
II.D.2.a., *Vacant buildings*.

2. Other service contracts

Another component of the liability rating system is based on a city's annual expenditures. For certain types of service contracts that adequately transfer the risk away from the city receiving the service, LMCIT can forego including the expenditures associated with that contract from the rating basis. The base rate for liability premium associated with annual expenditures is about \$1 for every \$1,000 in annual expenditures. A large contract in the \$2 million range, for example, could potentially save the city a couple thousand dollars in liability premium if it is submitted to LMCIT and structured in a manner that adequately reduces the city's liability exposure.

II. Property coverage

A. Don't cover rented buildings

When the city leases a city-owned building to a private party, the lease agreement may require the renter to insure the building. There are occasionally situations where the city also schedules the building under the city's property coverage as well, to protect the city in case of any problem with the tenant's insurance. If you have a leased building and the tenant is insuring it, and if you have assurance the tenant has the needed insurance and it protects the city's interest, you could drop that building from the city's coverage. Of course, you'd have to ensure it is added back if the lease were terminated or the tenant lost coverage.

B. Report vacant buildings

If a building is vacant, it's covered only for actual market value, not replacement cost. The premium for a vacant building is also based on market value rather than replacement cost, but a higher rate is used to reflect the higher risk. Depending on the circumstance, the actual premium for a building could increase or decrease when that building becomes vacant. When a covered building becomes vacant mid-term, LMCIT will give the city the premium credit right away if there's a premium decrease. If there's an increase, LMCIT will waive the increase until the city's next renewal. Remember, when a building becomes vacant, the coverage automatically switches from replacement cost to market value even if the city hasn't reported to LMCIT that the building has become vacant.

RELEVANT LINKS:

LMC information memo, [National Flood Insurance Program](#).

LMC information memo, [Extraordinary Expense Coverage](#).

LMC information memo, [LMCIT Property, Crime, Bond, and Petrofund Coverage Guide](#), Section VI., *Municipal electric utilities*.

LMC information memo, [LMCIT Auto Coverage Guide](#), Section IV, *Auto physical damage coverage*.

LMC information memo, [LMCIT Auto Coverage Guide](#), Section III, *Auto liability coverage*.

C. Use a high deductible on NFIP flood coverage

Compared to other types of property insurance, the National Flood Insurance Program (NFIP) flood insurance is expensive. In some cases, cities are required to carry NFIP insurance on certain buildings as a condition of disaster assistance that the Federal Emergency Management Agency (FEMA) provided in the past. NFIP offers optional deductibles, which can reduce premiums significantly. If flood damage occurs, the city can use LMCIT's extraordinary expense coverage to finance its cost under the deductible.

D. Review replacement cost values for electric generation facilities

LMCIT offers agreed amount replacement cost coverage for generation facilities. Briefly, the coverage limit and the premium are based on the cost of providing the generating capacity the utility needs, rather than on the cost of replicating the actual facility the utility currently has. This might make sense in a situation where the utility's existing facility has significantly more capacity than what the utility needs, or in a situation where a different and newer technology can provide the same generating capacity for less than the cost of replicating the existing facility's older technology.

III. Auto coverage

A. Drop auto physical damage coverage on older, low-value vehicles

LMCIT automatically provides auto physical damage coverage on all city vehicles unless the city specifically opts not to cover specific vehicles. If you have some older, relatively low-value vehicles that are not critical to the city's operations, consider deleting them from the auto physical damage coverage.

B. Drop primary auto liability coverage on private vehicles used on city business

The city has the option to make the LMCIT auto liability coverage primary when a city employee uses his or her vehicle on city business, for a cost of \$10 per person. If the city drops this optional coverage, the employee still has the same total auto liability coverage limit available when using his or her auto on city business. The difference is that the employee's personal auto liability would respond first, and the LMCIT auto liability coverage would apply as excess.

RELEVANT LINKS:

LMC information memo, [LMCIT Property, Crime, Bond, and Petrofund Coverage Guide](#), Section VII.A, *Bond coverage*.

LMC information memo, [LMCIT Workers' Compensation Coverage Guide](#), Section III, *Premium options*.

IV. Bond coverage

LMCIT's bond coverage, which is an additional cost coverage option, is designed to meet the city's needs for bond coverage on public officials. If your city has LMCIT's bond coverage, it doesn't need to also purchase separate bonds to meet the statutory requirements for the city clerk and treasurer, the relief association treasurer, and so on.

LMCIT's bond coverage can also be used to meet the requirements for an Economic Development Authority (EDA) or port authority treasurer's bond. It also covers the gambling manager for relief associations that are operating charitable gambling.

V. All coverages

A. Retain more risk

Some cities still have property/casualty deductibles as low as \$250 or \$500. For most cities, a deductible of at least \$1,000, \$2,500, or \$5,000 will make more sense economically. Cities should consider the medical deductible options on workers' compensation as well. While there are obviously no guarantees, the premium savings *over time* should normally be more than enough to cover the additional risk the city is retaining. Of course, the city needs to make sure that reserve funds are available to cover a reasonable number of deductibles during the year.

For mid-sized and larger cities, an aggregate deductible approach often makes a lot of sense for the property/casualty coverage. Under this approach, the city retains a substantial deductible, but the city's maximum cost per year is capped at a specific dollar amount. For example, the city is responsible for the first \$10,000 of each loss, but for no more than a maximum of \$20,000 for the year. A much smaller "maintenance" deductible then applies to subsequent claims. This gives the city a way to reduce premiums significantly by retaining a substantial amount of risk, but the maximum amount of risk the city retains is a known amount that can be planned for and budgeted. The "retro-rating" option offers a similar alternative on workers' compensation, for cities with standard premiums of \$25,000 or more.

B. Reduce coverage limits

RELEVANT LINKS:

LMC information memo, [LMCIT Liability Coverage Guide](#), Section II.D.3, *Purchasing higher liability limits*.

LMC information memo, [LMCIT Property, Crime, Bond, and Petrofund Coverage Guide](#), Section VII.A, *Bond coverage*.

One obvious idea for reducing premiums is to reduce coverage limits, which means the city is retaining the risk of a large loss that would have otherwise been covered by higher coverage limits. However, large losses can and do occur, and LMCIT urges cities to think carefully before taking this step and to look first at some of the other suggestions outlined in this memo.

1. Excess liability coverage

LMCIT makes available the option of carrying higher liability coverage limits than the basic limit of \$2 million per occurrence. Excess liability coverage is available in \$1 million increments up to a maximum of \$5 million. Before declining this coverage, cities should consider the fact that the statutory tort caps (\$500,000 per claimant and \$1.5 million per occurrence) do not apply to several types of claims. These include:

- Claims under federal civil rights laws.
- Claims for tort liability that the city has assumed by contract.
- Claims for actions in another state.
- Claims based on liquor sales.
- Claims based on a “taking” theory.

2. Bond coverage

LMCIT offers bond coverage as an additional cost coverage option to cities. It is designed to make available all the bond coverage and limits that cities and city officials need. The minimum bond limit is \$50,000 and limits up to \$1 million are available.

Most cities obtain their bond coverage through LMCIT, but there are some who purchase it elsewhere. Carrying lower bond limits is something to consider when thinking about reducing premium costs, but there have been instances of cities carrying very low bond limits that essentially do not provide any financial protection. When losses from employee dishonesty occur, the cost can be very substantial.

3. Liquor liability coverage

The LMCIT liability coverage contains an exclusion for liquor liability, but optional coverage can be provided under a separate, standalone covenant. The coverage is available for off-sale municipal liquor stores, on-sale municipal liquor stores, and special event liquor or beer sales by an organization that is an instrumentality of a member city, including cities that do not operate a municipal liquor store.

RELEVANT LINKS:

LMC information memo, [LMCIT Liability Coverage Guide](#), Section III.K, *Liquor liability*.

LMC information memo, [Experience Rating in LMCIT's Liability and Workers' Compensation Premiums](#).

LMC information memo, [The Agent's Role and Compensation in LMCIT](#).

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There's no easy rule for deciding how much coverage is adequate for a municipal liquor store. No matter what coverage limits the city buys, it's possible to imagine a situation in which it won't be enough. Ultimately the city council needs to exercise its own judgment in deciding how much coverage to carry and pay for. LMCIT recommends that any city with a municipal liquor store carry limits of at least \$500,000, but cities should strongly consider higher limits of \$1 million or more.

C. Avoid losses

Premiums for municipal liability, auto liability, and workers' compensation are all experience-rated, so avoiding losses is a very effective way to reduce premiums. The dividend formula is also loss-sensitive, so avoiding losses of all types benefits all Minnesota cities when dividends are distributed.

VI. Agent fees

Members of the LMCIT property/casualty program are required to designate an agent to provide various insurance and/or advisement services to the city. Cities participating in the workers' compensation program have the option not to use the services of an agent, although most do. When deciding on what amount to pay the agent, the city should remember that agent fees are negotiable and both parties are free to agree on a higher or lower percentage fee, or on a different basis for compensating the agent. Any increase or decrease in the agent's compensation will flow through directly as a dollar-for-dollar increase or decrease in the city's premium.

VII. Further assistance

The LMCIT underwriting staff is available to assist you with questions about reducing premium costs.