



League of Minnesota Cities Insurance Trust 2015-16 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, 2015 and workers' compensation coverage renewing on or after Jan. 1, 2016. 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, 2015](#)

- The per household and per sewer connection rates for the municipal liability coverage will both decrease 10%, while the per police officer, per employee, and annual expenditure rates will remain flat. For a member with a perfectly average mix of liability exposures, the average rate decrease will be 3%.
- Property rates will decrease 4% for buildings, contents, and unscheduled mobile equipment.
- Property rates will decrease 10% for scheduled mobile equipment.
- Auto physical damage rates will decrease 10%.
- Off-sale liquor liability rates will decrease 5%.
- Rates for all other lines of coverage will not change.

[Workers' Compensation Rates, Effective Jan. 1, 2016](#)

- Overall premium rates will increase 3%.
- The relative rate levels for various job classes will be adjusted.

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 such as the fourth year of transition to the new liability rating system and adjustments that will be made to the relative rate levels in the workers' compensation program for various job classes.

2015-16 Premium Rates

When LMCIT sets premium rates, the average experience over the past several years is used to project how much loss to expect in the future. Once again this year LMCIT incorporated a solid contingency margin into the premium rates. A margin is needed to cover extra costs in case losses turn out to be more than what LMCIT projected. By doing so, LMCIT is able to keep premium rates much more stable from year to year. In other words, it helps keep premium rate changes in the range of a few percent up or down each year, rather than the much larger year-to-year premium rate changes that would be needed if LMCIT set lower rates with a much smaller contingency margin.

Property/Casualty Rate Changes

Premium rates will change as indicated at right for property/casualty coverages renewing on or after Nov. 15, 2015. With respect to municipal liability premiums, the average rate decrease is 3%, but that average rate decrease amount consists of 10% rate decreases for the per household and per sewer connection rates and no change for the per police officer, per employee, and annual expenditure rates.

The rate reductions this year are possible because losses in these coverage areas have been positive. This year's claim analysis showed that property losses continue to show volatility, but loss costs have been relatively low in the last few years compared to prior history. Land use liability has trended in a positive direction, with the frequency of claims declining since 2008. Sewer backup liability has also been positive, either with losses maintaining or decreasing somewhat since 2006. Loss experience for auto physical damage and off-sale liquor liability have also been positive.

Coverage	Rate Change
Average liability rates	-3%
Per household rate	-10%
Per sewer connection rate	-10%
Per police officer rate	0%
Per employee rate	0%
Annual expenditure rate	0%
Property rates (buildings, contents, unscheduled mobile equipment)	-4%
Property rates (scheduled mobile equipment)	-10%
Auto physical damage rates	-10%
Off-sale liquor liability rates	-5%
All other coverage rates	0%

With the exception of police liability, claim types have closely tracked LMCIT's loss projections. Police liability in 2013 and 2014 was much higher than normal due to a series of claims related to the Driver's Privacy Protection Act (DPPA). LMCIT considers this event unusual and not predictive of the police liability exposure. It has discounted the DPPA claims for purposes of rate setting, but appropriate reserves have been set aside to handle the uncertain cost of these claims. If the reserves aren't needed, the funds will be returned to members in the future.

Changes to the New Liability Premium Rating System

LMCIT switched to a [new liability rating system](#) on Nov. 15, 2012. The new system involves calculating premium costs in a new way. Because of this, some members have seen their liability premiums increase or decrease. During this transition period, LMCIT has applied a transitioning mechanism so that members don't experience a large swing in costs. This was done by capping how much premiums could increase or decrease. Most members are now fully transitioned to the new system, but there are some left. For the coming year, LMCIT will no longer cap premium changes.

There are a few limited exceptions for certain members, including police task forces and joint police departments. These members' premium increases will be capped at 50% and 30%, respectively, until fully transitioned.

Workers' Compensation Rate Changes

Members with renewals on or after Jan. 1, 2016 will see a 3% increase in overall rate levels on average. One of the main reasons for this year's rate increase is because of rising medical costs, which account for 60% of LMCIT's total workers' compensation loss costs. Rates for 2016 assume that medical costs will continue to increase at a rate of about 9% annually, which significantly outpaces the increase in wage levels. Wage levels are what LMCIT uses to calculate premiums, and these levels are only increasing about 2-3% each year.

Changes to the Relative Rate Levels for Various Job Classes

In addition to the overall rate increase, there will be adjustments to the relative rate levels for various job classes. Every three years, to help ensure fairness in cost allocations, LMCIT reviews and revises the relative levels of premium rates for municipal employees. To the extent possible, LMCIT uses its own loss experience for the preceding five-year period. If there isn't enough loss data for a certain job class, LMCIT's loss data is supplemented with data from the Minnesota Workers' Compensation Insurance Association.

How an individual city is affected by these adjustments for 2016 will depend on its own payrolls and job classifications, as well as associated rate changes. For a city with a typical mix of payrolls, class increases and decreases will offset each other to a large extent. To put it another way, for most members the overall change in premiums will be within a few percent above or below the average of a 3% rate increase.

However, a special purpose entity member with most of its payroll in one or two classes can see a bigger effect, such as a standalone police department, ambulance, or nursing home entity. Of particular note is that volunteer fire departments may see larger premium increases for volunteer firefighters. This is because unlike other classes of employees, worker's compensation coverage for volunteer firefighters is rated based on population served rather than payroll. For some years LMCIT premium rates for volunteer firefighters have been lagging the rates for other employee classes, relative to actual losses. That lag arose largely because of the different rating base. While payroll as a rating base has a natural inflation factor built in, population growth tends to grow at a lesser rate; and as a result actual premiums grew faster in the payroll-based classes, causing volunteer firefighter premiums to fall behind other classes relative to other losses. LMCIT covers most volunteer firefighters in Minnesota, which means the rate adjustments reflect actual loss history for this payroll class.

The table on the following page details 2016 class rate changes for the bulk of city payrolls. Most job class rates are shown per \$100 of payroll. The rates for volunteer fire are shown per 100 of population.

Class Code	Description	LMCIT 2015 Rate	LMCIT 2016 Rate	Rate Change
5506	Street Construction	\$ 9.40	\$ 9.20	-2%
7380	Ambulance	\$ 5.97	\$ 5.58	-7%
7381	Ambulance (Volunteer)	\$ 14.81	\$ 16.16	9%
7502	Gas Operations	\$ 4.11	\$ 4.87	18%
7520	Waterworks	\$ 4.79	\$ 4.21	-12%
7539	Electric & Steam Plant	\$ 4.19	\$ 4.06	-3%
7580	Sewage Plant	\$ 5.17	\$ 4.66	-10%
7706	Firefighters	\$ 7.68	\$ 8.24	7%
7708	Firefighters (Volunteer)	\$ 186.09	\$ 206.56	11%
7716	Firefighters - Non-Smoking	\$ 6.91	\$ 7.41	7%
7718	Firefighters (Volunteer) - Non Smoking	\$ 167.53	\$ 185.91	11%
7720	Police	\$ 4.12	\$ 4.67	13%
7721	Police - Non Smoking	\$ 3.72	\$ 4.20	13%
7722	Police Reserves	\$ 2.54	\$ 2.35	-8%
7723	Police Reserves - Non Smoking	\$ 2.29	\$ 2.11	-8%
8017	Off Sale Liquor Store	\$ 3.10	\$ 4.17	35%
8227	City Shop	\$ 4.75	\$ 3.69	-22%
8810	Clerical	\$ 0.77	\$ 0.69	-11%
8824	Retirement Living Ctr.- Health	\$ 5.53	\$ 7.36	33%
8825	Retirement Living Ctr.- Food Service	\$ 2.26	\$ 9.08	301%
8826	Retirement Living - All Other	\$ 2.78	\$ 5.20	87%
8829	Nursing Home – Professional	\$ 5.45	\$ 6.46	18%
8830	Nursing Home – All Other	\$ 7.52	\$ 7.97	6%
8833	Hospital – Professional	\$ 3.47	\$ 2.49	-28%
8835	Public Health Nursing – Traveling	\$ 4.03	\$ 3.26	-19%
9015	Building - Maintenance	\$ 5.71	\$ 4.98	-13%
9040	Hospital – All Other	\$ 6.94	\$ 5.86	-16%
9060	Golf Course	\$ 2.70	\$ 1.89	-30%
9063	Community Centers	\$ 1.65	\$ 2.66	61%
9084	On Sale Liquor Store	\$ 4.39	\$ 5.32	21%
9102	Parks	\$ 4.33	\$ 5.01	16%
9182	City Arena Operations	\$ 2.58	\$ 2.46	-4%
9403	Garbage	\$ 8.48	\$ 9.51	12%
9410	Municipal Employees	\$ 0.80	\$ 0.52	-35%
9411	Elected or Appointed Officials	\$ 0.37	\$ 0.40	8%