

Activity Description

The Risk Management Division (RMD), operating under legislative authority of M.S. 16B.85 and M.S. 176, provides two basic areas of service.

- ◆ The division provides multiple lines of property and casualty insurance coverage and other insurance programs to state agencies at below market cost through the Risk Management Fund (RMF).
- ◆ The division administers the workers' compensation program for all state employees.

Population Served

The division's property and casualty insurance program serves state agencies, boards, commissions, and political subdivisions.

The division's workers' compensation program serves state employees in the executive, legislative, and judicial branches and in quasi-state agencies such as the Minnesota Historical Society and the Minnesota State Fair.

Services Provided

The division offers five major lines of insurance:

- ◆ auto liability,
- ◆ auto comprehensive and collision,
- ◆ general liability,
- ◆ property,
- ◆ boiler and machinery; and
- ◆ worker's compensation.

The division also offers other miscellaneous lines that are customized to meet specific agency needs. When unique types of coverage are required, the division assists state agencies with purchasing appropriate insurance if self-insurance of the risk is not deemed appropriate for the RMF. Reinsurance is purchased to protect the RMF against catastrophic or annual aggregation of property and extra-territorial liability losses.

Under M.S. 16B.85 the division has other responsibilities such as evaluating risk exposures, statewide risk management coordination, and identifying ways to eliminate redundant efforts in risk management and insurance programs.

The workers' compensation program provides services through four distinct units: claims management, legal services, disability management, and safety and loss control.

- ◆ The claims management unit works with injured employees, agencies, the Department of Labor and Industry, rehabilitation and vocational specialists, medical providers, and others to determine compensability, administer the law, and resolve state employee workers' compensation claims.
- ◆ The legal services unit represents state agencies in workers' compensation court cases.
- ◆ The disability management unit works with injured employees, agencies, rehabilitation and vocational specialists, medical providers and others to help state workers who have been hurt or disabled on the job to return to active employment as quickly and safely as possible.
- ◆ The safety and loss control unit works with the statewide safety committee and individual agency safety committees to address widely varied workplace safety and health issues. These include materials handling, air quality, hazardous materials, blood-borne pathogens, biological hazards, and office ergonomics.

Activity at a Glance

- ◆ Property values insured totaling more than \$10 billion.
- ◆ Insured 14,000 vehicles.
- ◆ Served approximately 59,000 employees in the executive, legislative, and judicial branches of state government and in quasi-state agencies such as the Minnesota State Fair.
- ◆ In FY 2007, 2,693 workers' compensation claims were filed.

Historical Perspective

The legislature created two separate funds currently administered by the division. The following provides a historical summary of each fund.

Risk Management Fund

The state's property and casualty programs are supported entirely by the RMF. The fund was created in 1986 largely due to the difficulty the state was having obtaining auto liability insurance in the commercial market. The RMF allows the commissioner of Administration to offer state agencies alternatives to purchasing conventional insurance. Historical development of the fund is as follows:

- ◆ The first general liability insurance was underwritten by the RMF in 1988.
- ◆ Automobile comprehensive and collision insurance was offered soon after.
- ◆ A full line of property and casualty insurance coverage was added with the creation of Minnesota State Colleges and Universities (MnSCU).

The fund is maintained by charging premiums for the various insurance products offered. The division has an advisory committee (composed of representatives from state agencies, academia, and the private sector) which meets regularly to review the financial condition of the fund and the insurance programs offered.

State Compensation Revolving Fund

The state's workers' compensation program is supported by the state compensation revolving fund which was created during the 1934 legislation session. Under this fund, the insured groups have one of two options.

One option allows the division to make workers' compensation payments from the fund until the fund is reimbursed by the injured employee's agency, the special compensation fund, the workers' compensation reinsurance fund, or recovered from a subrogation claim. This has become known as the "pay-as-you-go" option because agencies are invoiced for their actual benefit and related costs each month. The amount invoiced each month varies, depending on the actual monthly cost.

The second option has become known as the premium pool option. The premium pool, which started in FY 2003, allows agencies to pay annual premiums, which are based on each agency's previous five-year average agency loss experience. This option stabilizes workers' compensation costs even for the smallest agencies and precludes agencies from having to reduce budgets, services, or seek emergency legislative funding to meet their workers' compensation obligations. This option also allows claims management staff the ability to settle claims when it is in the state's best long-term financial interests.

The worker's compensation program was originally within the Minnesota Department of Labor and Industry. The program was under the Department of Employee Relations from 1984 until it became part of the Risk Management Division in the Department of Administration on 12-12-2007.

Key Program Goals

To provide our customers with valuable services, products, advice and expertise.

- ◆ Implemented the I-35W Bridge Collapse Emergency Wage Relief Fund – 34 claimants were paid a total of \$282,302 during FY 2008.

To reduce costs by working across government.

- ◆ Negotiated a reduced rate for the state's property reinsurance program while adding over \$600 million in insured value and doubling the amount of coverage for 100-year flood zones from \$5 million to \$10 million.
- ◆ Completed the first business plan for the workers' compensation program, resulting in agencies participating in the workers' compensation premium pool receiving a surplus distribution of over \$600,000. This credit reduces the premium participating agencies will pay in FY 2009.

ADMINISTRATION DEPT

Program: GOVT AND CITIZEN SERVICES

Activity: RISK MANAGEMENT

Narrative

- ◆ Completed the property and casualty business plan, which resulted in agencies participating in the RMF receiving a dividend pay out of approximately \$1.4 million in FY 2009. This represents a return of premium – or an additional discount on an already competitive rate – equal to 13.6%.
- ◆ The safety and loss control program coordinated registration of state employees to the Minnesota Safety Conference hosted by the Minnesota Safety Council, saving state agencies \$3,845.

Key Measures

The goal of the RMF is to provide insurance at a lower cost than the traditional insurance market. One measure is to compare industry overhead to the RMF. Over the past five years, the performance has been as follows:

Fiscal Year	2004	2005	2006	2007	2008 (Est)
Industry Average Operating Expense Ratio	29.5	30.3	30.0	30.8	31.0
RMD Operating Expense Ratio (lower is better)	14.9	13.8	15.9	18.1	20.2

The RMD operating expense ratio to the industry over the last five years is at an average of 1.8:1. That is, for every \$1.80 the industry spends on operating expenses, the RMD spends \$1.00. The increase in the RMD operation expense ratio is partly due to a change in accounting for certain reinsurance costs.

The WC Program uses industry benchmarks to measure its performance. Two of these measurements are shown below. The total cost of the state's workers' compensation expenditures has been stable during the last five years when compared to payroll costs and to the average cost of indemnity claims (loss of time from work claims) for all other Minnesota employers.

WC Costs Per \$100 Payroll

Fiscal Year	2002	2003	2004	2005	2006
State of Minnesota	\$0.96	\$1.08	\$1.12	\$1.04	\$1.07
Minnesota Self-Insured Employers	\$1.15	\$1.25	\$1.25	\$1.25	\$1.28
All Other Minnesota Employers	\$1.58	\$1.67	\$1.71	\$1.72	\$1.66

Comparison of the state of Minnesota average indemnity benefits per indemnity claim to Minnesota employers (figures adjusted for wage growth).

Average Cost of Indemnity Claims

Fiscal Year	2002	2003	2004	2005	2006
State of Minnesota	\$10,200	\$10,900	\$10,800	\$11,100	\$11,900
All Other Minnesota Employers	\$15,500	\$15,200	\$15,200	\$15,200	\$15,100

Activity Funding

The division's property and casualty program operates as an internal service fund charging fees based on insurance options requested by customers. The property and casualty program has 11.75 full-time employees on 7-1-08.

The division's workers' compensation program operates as a special revenue fund. The cost to administer the program is allocated across all state agencies based on the number of employees, open claims, and transactions for each agency. This fee covers all of the administrative costs for claims management, administrative support, disability management services, and safety and loss control services.

The workers' compensation program also receives a general fund appropriation to pay the state's annual Workers' Compensation Reinsurance (WCRA) premium.

Operating Losses/Increases in Retained Earnings:

Retained earnings for the property and casualty program increased by \$1,672,291 in FY 2007. The \$8.3 million is the highest the policyholder surplus has been, which is primarily due to the FY 2007 positive loss results.

ADMINISTRATION DEPT

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Dividends represent the return of premium for superior loss and expense experience. Premiums collected are invested by the State Board of Investment (SBI). The difference between premium and investment, less deductions for losses incurred and administrative expenses, equals the amount of funds that are eligible for dividend declaration. In the event of unsatisfactory experience, it is possible that no dividend would be declared.

In FY 2008, the Advisory Committee approved a dividend payment of \$1,875,409. The RMF has returned more than \$14 million in dividends to policyholders over the last 20 years.

Agencies participating in the workers' compensation premium pool will receive a surplus distribution of \$608,252 based on the actuarial analysis completed in FY 2007.

History of Rate Changes:

Fiscal Year	2004	2005	2006	2007	2008	2009
Rate Change (by line)						
Auto Liability	.00%	.01%	7.47%	8.24%	10.67%	.00%
Auto Physical Damage	.00%	.00%	.00%	1.37%	(2.81%)	.00%
General Liability	.00%	.00%	.00%	.00%	.00%	.00%
Property	.00%	.00%	(21.05%)	.00%	.00%	.00%
Other	.00%	.00%	.00%	.00%	.00%	.00%
Rate Change Average	.00%	.00%	(13.80%)	2.37%	2.43%	.00%

Factors contributing to changes in premium rates:

- ◆ loss experience variation;
- ◆ increased claim potential due to additional volume;
- ◆ increased risk management, safety and loss control; and
- ◆ fluctuations of the reinsurance marketplace.

The Workers' Compensation Program's administrative fee has remained unchanged since FY 2004.

Fiscal Year	2004	2005	2006	2007	2008	2009
Administrative Fee	\$2.5M	\$2.5M	\$2.5M	\$2.5M	\$2.5M	\$2.5M

Contact

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www.mainserver.state.mn.us/risk

Property and Casualty annual reports online:

www.mainserver.state.mn.us/risk/Division_Reports/division_reports.html

Workers' Compensation annual reports online:

www.risk-workerscomp.admin.state.mn.us/reports.htm

ADMINISTRATION DEPT
Program: GOVT AND CITIZEN SERVICES
 Activity: RISK MANAGEMENT

Budget Activity Summary

<i>Dollars in Thousands</i>					
	Current		Forecast Base		Biennium 2010-11
	FY2008	FY2009	FY2010	FY2011	
<u>Expenditures by Fund</u>					
Open Appropriations					
General	408	625	655	688	1,343
Statutory Appropriations					
Miscellaneous Special Revenue	26,309	28,704	31,453	32,571	64,024
Risk Management	13,158	12,459	12,980	12,858	25,838
Total	39,875	41,788	45,088	46,117	91,205
<u>Expenditures by Category</u>					
Total Compensation	3,524	3,710	3,812	3,887	7,699
Other Operating Expenses	36,351	36,709	39,842	41,045	80,887
Other Financial Transactions	0	1,369	1,434	1,185	2,619
Total	39,875	41,788	45,088	46,117	91,205
Full-Time Equivalents (FTE)	44.9	45.9	45.8	45.4	