

**Activity at a Glance**

- More than \$12 billion in property values insured
- 13,400 vehicles insured
- Approximately 60,000 employees served in the executive, legislative, and judicial branches of state government and in quasi-state agencies such as the Minnesota State Fair
- 2,691 workers' compensation claims were filed in FY2009
- Co-sponsors an annual State Safety and Loss Control Conference for state agencies and MnSCU.

**Activity Description**

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

- Multiple lines of property and casualty insurance coverage and other insurance programs for state agencies at below-market cost through the Risk Management Fund (RMF)
- 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 RMF offers five major lines of insurance:

- auto liability
- auto comprehensive and collision
- general liability
- property
- boiler and machinery

The RMF 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, coordinating statewide risk management, 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 (DLI), 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.

**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 state's difficulty obtaining auto liability insurance in the commercial market. The RMF allows the commissioner of Administration (Admin) to offer state agencies alternatives to purchasing conventional insurance. Historical development of the fund is as follows

- First general liability insurance underwritten by the RMF in 1988.
- Automobile comprehensive and collision insurance available soon after.
- Full line of property and casualty insurance coverage added with the creation of Minnesota State Colleges and Universities (MnSCU).

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The fund is maintained by charging premiums for the various insurance products. The RMF has an advisory committee, composed of representatives from state agencies, academia, and the private sector, that 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 covered groups have one of two options.

The first 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 is known today as the premium pool option. The premium pool, started in FY 2003, allows agencies to pay annual premiums, 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 DLI. The program was under the Department of Employee Relations (DOER) from 1987 until it became part of the Risk Management Division in Admin in December 2007.

### Key Activity Goals & Measures

**Admin Goal – To provide our customers with valuable services, products, advice, and expertise** (<http://www.admin.state.mn.us/admin.html>)

**Admin Goal – To reduce costs by working across government** (<http://www.admin.state.mn.us/admin.html>)

Goal 1) The RMF provides insurance coverage for the state at a lower cost than the traditional insurance market.

Measure: Compare industry overhead to the RMF. Performance over the past five years is as follows

Fiscal Year	2005	2006	2007	2008	2009
Industry Average Operating Expense Ratio	30.3	30.0	30.9	32.6	32.7
RMF Operating Expense Ratio (lower is better)	13.8	15.9	18.1	20.5	20.1

Measure: The RMF operating expense ratio compared to the industry average operating expense ratio over the past five years is 1.8:1. That is, for every \$1.80 the industry spends on operating expenses, RMF spends \$1.00. The RMF operating expense ratio is stabilizing after prior increases caused by sharp increases in reinsurance costs.

Goal 2) The Workers' Compensation program uses industry benchmarks to measure its performance. Two of these measures follow. The total cost of the state's workers' compensation expenditures is stable over the last five years when compared to payroll costs and to the average cost of indemnity (loss of time from work) for all other Minnesota employers.

Measure: **WC Costs per \$100 Payroll**

Fiscal Year	2004	2005	2006	2007	2008
State of Minnesota	\$1.06	\$ .99	\$1.01	\$1.00	\$ .93
Minnesota Self-Insured Employers	\$1.24	\$1.25	\$1.26	\$1.27	\$1.21
All Other Minnesota Employers	\$1.72	\$1.69	\$1.60	\$1.52	\$1.35

Data Source: DLI System Report (released 2010)

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

Measure: **Average Cost of Indemnity Claims**

Fiscal Year	2004	2005	2006	2007	2008
State of Minnesota	\$13,200	\$12,000	\$12,700	\$12,000	\$12,600
All Other Minnesota Employers	\$17,100	\$17,200	\$17,400	\$17,600	\$18,100

Data Source: DLI System Report (released 2010)

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### Activity Funding

The property and casualty program operates as an internal service fund, charging fees based on insurance options requested by customers. No money is appropriated for division operations from the general fund. The property and casualty program has 10 full-time employees on 7-1-10.

The 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, and safety and loss control services.

An open general fund appropriation pays for the state's annual Workers' Compensation Reinsurance (WCRA) premium.

### Operating Losses/Increases in Retained Earnings:

Retained earnings for the property and casualty program decreased by \$1,607,666 in FY 2009. This decrease is due to large property claim losses and large dividend payments over the biennium. The FY 2009 policyholder surplus is \$6.3 million.

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 2010, the Advisory Committee approved a dividend payment of \$605,233. The RMF has returned more than \$16 million in dividends to policyholders over the past 22 years.

The workers' compensation premium pool experienced a deficit of \$119,268 in FY 2009. This amount will be added to the premiums paid by agencies participating in the pool in FY 2011.

### History of Rate Changes:

Fiscal Year	2006	2007	2008	2009	2010	2011
Rate Change (by line)						
Auto Liability	7.47%	8.24%	10.67%	.00%	11.60%	.00%
Auto Physical Damage	.00%	1.37%	(2.81%)	.00%	(12.55%)	.00%
General Liability	.00%	.00%	.00%	.00%	.00%	.00%
Property	(21.05%)	.00%	.00%	.00%	5.00%	.00%
Other	.00%	.00%	.00%	.00%	.00%	.00%
Rate Change Average	(13.80%)	2.37%	2.43%	.00%	4.50%	.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
- fluctuations of the reinsurance marketplace

The workers' compensation program's administrative fee has remained unchanged since FY 2004.

Fiscal Year	2006	2007	2008	2009	2010	2011
Administrative Fee	\$2.5M	\$2.5M	\$2.5M	\$2.5M	\$2.5M	\$2.5M

### Impact of Rate Changes:

Assuming the same volume and mix of services as FY 2010, customers will pay the same amount in FY 2011.

### Contact

Director

Phone: (651) 201-2585

Email: <http://www.admin.state.mn.us/risk>

Annual reports online: <http://www.admin.state.mn.us/risk/publications.html>.

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**INTERNAL SERVICE FUND  
FINANCIAL STATEMENT**

<b>(DOLLARS IN THOUSANDS)</b>	<b>* OPERATIONS DATA *</b>			
	ACTUAL FY 2010	PROJECTED FY 2011	PROJECTED FY 2012	PROJECTED FY 2013
OPERATING REVENUES:				
NET SALES	12,164	11,996	12,204	12,459
LESS: COST OF SALES				
GROSS PROFIT ON SALES	12,164	11,996	12,204	12,459
OTHER REVENUE				
NET REVENUES	12,164	11,996	12,204	12,459
LESS: OPERATING EXPENSES:				
CLAIMS	5,354	5,727	6,024	6,174
SALARIES	848	941	945	964
SUPPLIES & EXPENSES	5,087	5,099	5,114	5,134
INDIRECT COSTS	64	83	83	83
AMORTIZATION & DEPRECIATION	0	62	62	62
TOTAL OPERATING EXPENSES	11,352	11,912	12,228	12,417
OPERATING INCOME (LOSS)	811	84	(24)	42
NON-OPERATING REVENUES (EXPENSES)	(456)	(307)	(550)	(650)
NET INCOME (LOSS)	355	(223)	(574)	(608)
BEGINNING RETAINED EARNINGS	6,299	6,654	6,431	5,857
PRIOR PERIOD ADJUSTMENT	0	0	0	0
ENDING RETAINED EARNINGS	6,654	6,431	5,857	5,249
RATE INCREASE/(DECREASE):	4.50%	0.00%	2.00%	2.00%
FTE	10.1	11.7	11.7	11.7
<b>Expenditure Reconciliation to BBS</b>				
Operating Expenses			12,228	12,417
Less amortization & depreciation (non-cash)			62	62
Plus dividend expense paid in same FY as declared			700	800
Total cash payments			<u>12,866</u>	<u>13,155</u>
BBS Amounts - Financing by Fund				
Risk Management			<u>12,866</u>	<u>13,155</u>
<b>Receipt Reconciliation to BBS</b>				
Net Revenues			12,204	12,459
Interest Income from Non-operating revenue/expenses			150	150
Total cash receipts			<u>12,354</u>	<u>12,609</u>
BBS Amounts - Revenue Collected				
Risk Management			<u>12,354</u>	<u>12,609</u>

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**INTERNAL SERVICE FUND  
FINANCIAL STATEMENT****\* FINANCIAL DATA \***

	ACTUAL FY 2010	ESTIMATED FY 2011
ASSETS:		
CURRENT ASSETS:		
CASH	18,151	17,575
OTHER CURRENT ASSETS	3,042	1,050
TOTAL CURRENT ASSETS	21,193	18,625
NON-CURRENT ASSETS:		
TOTAL ASSETS	594	634
	21,787	19,259
LIABILITIES & FUND EQUITY:		
LIABILITIES:		
CURRENT LIABILITIES:		
DUE GENERAL FUND - CURRENT	0	0
MASTER LEASE - CURRENT	0	0
OTHER CURRENT LIABILITIES	15,042	12,734
TOTAL CURRENT LIABILITIES	15,042	12,734
NON-CURRENT LIABILITIES:		
DUE GENERAL FUND - NON-CURRENT	0	0
MASTER LEASE - NON-CURRENT	0	0
OTHER NON-CURRENT LIABILITIES	91	95
TOTAL NON-CURRENT LIABILITIES	91	95
TOTAL LIABILITIES	15,133	12,829
FUND EQUITY:		
CONTRIBUTED CAPITAL-GENERAL FUND	0	0
RETAINED EARNINGS	6,654	6,431
TOTAL FUND EQUITY	6,654	6,431
TOTAL LIABILITIES & FUND EQUITY	21,787	19,259

**ADMINISTRATION DEPT**  
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Budget Activity Summary

<i>Dollars in Thousands</i>					
	Current		Governor's Recomm.		Biennium
	FY2010	FY2011	FY2012	FY2013	2012-13
<b><u>Expenditures by Fund</u></b>					
<b>Open Appropriations</b>					
General	842	2,468	1,942	1,990	3,932
<b>Statutory Appropriations</b>					
Miscellaneous Special Revenue	30,383	31,589	32,784	34,199	66,983
Risk Management	10,347	12,482	12,866	13,155	26,021
<b>Total</b>	<b>41,572</b>	<b>46,539</b>	<b>47,592</b>	<b>49,344</b>	<b>96,936</b>
<b><u>Expenditures by Category</u></b>					
Total Compensation	3,423	3,567	3,588	3,669	7,257
Other Operating Expenses	37,544	42,515	43,304	44,875	88,179
Other Financial Transactions	605	457	700	800	1,500
<b>Total</b>	<b>41,572</b>	<b>46,539</b>	<b>47,592</b>	<b>49,344</b>	<b>96,936</b>
<b>Full-Time Equivalents (FTE)</b>	<b>40.9</b>	<b>44.5</b>	<b>44.5</b>	<b>44.5</b>	