



Mutual LINK

T. E. A. M. "Together Everyone Achieves More"
Aaron Grove, MAFMIC Chairman

This year is flying by and I am really enjoying my year as chairman. It has been a blast working closely with the MAFMIC staff. They each have unique talents and are phenomenal in their roles. Aaron steered us through another successful legislative season with no bills passing that would hinder our ability to take care of our policy-holders. We are very fortunate to have him at the capital watching out for our best interests. This is a very important election season, please do your part in getting politicians elected that will keep an eye out for our industry. Dani has been busy with all the MAFMIC educational events. Dani is wonderful at negotiating with the hotels that host our meetings. She keeps the office running smoothly and does a great job of keeping yours truly in line. Arlette's talents shine through each publication of the Mutual Link. She does a great job working with the Editorial Advisory Committee on the content and layout. Our membership is truly blessed to have these three working on our behalf.

MAFMIC has been busy with a full schedule. Already this year MAFMIC has completed the Annual Convention, Congressional Contact Program, Short Course, Spring Agents meeting, and Managers Workshop. However, there is still plenty to come as well. July will bring the Managers & Directors Seminar on July 13. This seminar will take place at the Gorecki Center on the campus of Saint Benedict in St. Joseph. The MAFMIC staff is excited for this new location. The following day the MAFMIC Golf Outing will take place at Little Crow Country Club in Spicer. You do not have to be a good golfer to have fun at this event. Please come out, support a good cause, and have a lot of fun with your peers. I would also like to make mention of the NAMIC Annual Convention. Not only is the event filled with great information and fantastic speakers, this year MAFMIC's own Paul Stueven is the NAMIC Chairman. There has been many inquires asking to have a detailed policy school, because of that, a policy school is coming soon. The education and policy committees are working together to get this school scheduled. More information on the policy school will follow when dates are confirmed. The last item I would like to draw your attention to is the MAFMIC Short Course moving to the fall starting in 2017. There will be no short course in March of 2017. Instead it will be moving to November 15 & 16, 2017. For the first time this seminar will be held at the Minneapolis Marriot Northwest.

I hope everyone is having a great summer. I look forward to catching up with many of you very soon at an upcoming MAFMIC event.

Aaron Grove, MAFMIC Chairman 2016-2017

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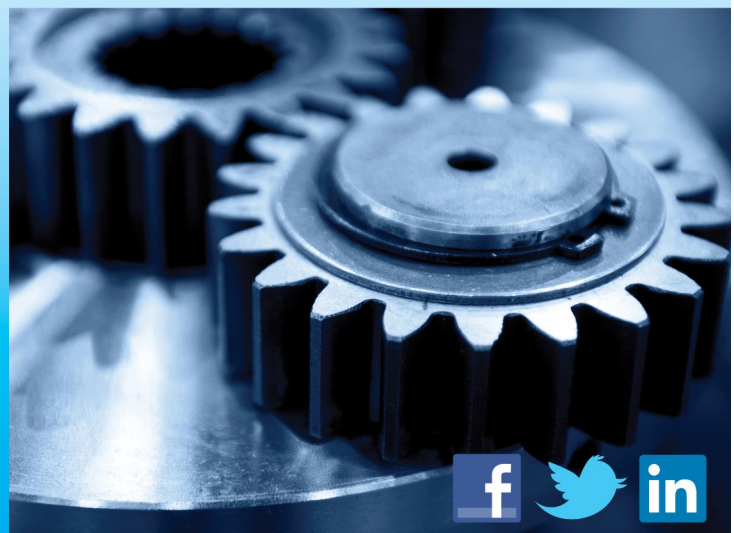
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Member Profile of Flora Mutual



Flora Mutual was founded in 1893 by a group of farmers in the Danube area. We do have board minutes that go back to 1898.

Our company writes for fire and additional lines. We have three employees; Manager, Terry Lange, Norma Monson (part time) and Judy Schroeder (the previous manager) who works as needed. We have 30 agencies with a total of about 50 agents.

Our company business philosophy is to provide the best coverage for our insured's as we can as well as the best possible price. Our mission is to be progressive and keep up with the changing times in order to remain competitive within the industry.

Our goals for the company in five years are to increase the size of the company and keep the company in a strong financial position.

Our company's biggest challenge would probably be the size of the farms and the very competitive homeowner market. The farms have gotten so large and many are getting to a size that doesn't really fit our profile.

Any donations or advertising we do is exclusively done in the communities in our area only. If we had to describe our company in one word, it would be...***Accommodating.***

“Pre-Award Interest on Arbitration Awards”

By John Neal, Attorney

Willenbring, Dahl, Wocken & Zimmermann, PLLC

This article follows the theme of our previous articles dealing with the appraisal process. The Court of Appeals recently issued a published decision (*Poehler v. Cincinnati Ins. Co.*, 874 N.W.2d 806 (Minn. Ct. App. 2016)) concerning interest on appraisal awards, which is now pending before the Minnesota Supreme Court. This case may have a significant impact not only on the direct issue, namely payment of interest on appraisal awards, but also in determining whether to pay a claim before proceeding with appraisal.

In *Poehler*, a fire damaged the insured's property. The carrier valued the loss at \$175,663.83 and paid the claim. The insured believed he was entitled to an additional \$170,442.55. He requested appraisal under the terms of the policy. The three-member appraisal panel assessed the loss and awarded the insured \$88,480.21. The insured filed the appraisal award with the Court and sought pre-judgment interest in the amount of 10%. The district court granted the insured's request for pre-award interest. The Court of Appeals reversed, finding that the prejudgment-interest statute does not apply to appraisal awards. The insured petitioned the Minnesota Supreme Court for review, which the Court granted on March 29, 2016. For now, we await the outcome of the Supreme Court's decision.

While interest on some appraisal awards may be nominal, for others it could be several thousands of dollars. This in turn may impact a company's decision to proceed with an appraisal or pay the insured's demand.

JUNE 2016 Board Meeting Synopsis *Greg Parent, Secretary-Treasurer*

The MAFMIC Board of Directors held their second quarterly meeting of the year on June 8 at the Grand View Lodge in Nisswa. In addition to routine items like the financial and management reports, district updates, and board liaison committee reports, the board took action on a few items requiring approval.

After some discussion, the board approved the MAFMIC Committee Membership & Selection document that was distributed at the March board meeting for review prior to the June meeting. The board also reviewed and approved a document showing the current membership of each MAFMIC committee and the proposed term expirations. The board thanked Immediate Past-Chairman Deb Liden and President/CEO Aaron Cocking for their work on developing a more uniform and consistent method of selecting members for each of the various MAFMIC committees.

Aaron Cocking provided an update on Key Employee Life Insurance which was approved at the March board meeting. Aaron indicated that all of the paperwork was in place and ready to be submitted for the purchase of the two policies. MAFMIC Secretary-Treasurer Greg Parent just needed to sign Aaron's application and everything would be forwarded to Steve Storm for processing. Greg signed the application.

The board approved a new Associate Membership application for the legal firm of Borgelt, Powell, Peterson & Frauen. The board also discussed the merits of whether MAFMIC should be involved with helping develop a universal property inspection app for use on smart phones by various company inspectors. The board asked Aaron Cocking to provide some additional information before making a decision.

Aaron Cocking also reviewed several updates he recently made regarding the Board Policy Manual. The vast majority were purely editorial corrections except for the addition of the committee membership and selection document that the board just approved. The board also voted to remove an old outdated page from the manual.

The board watched a video presentation regarding a possible change in location for the 2019 convention to the Radisson Blu Hotel at the Mall of America. The board was impressed with the facility and the costs involved, so they approved the change for 2019-2021 with an option to move in 2018, should it become available for MAFMIC to do so.

The board will meet for their third quarter meeting at the MAFMIC office on September 14-15. The September meeting will see the annual Employee Performance Reviews conducted by the Executive Committee and brought forth to the board for review and action regarding salaries and benefits. Members are encouraged to contact their MAFMIC District Directors with any concerns or issues that may need to come before the board.

Greg Parent

MAFMIC Secretary-Treasurer

Staying Disciplined In a Low Interest Rate Environment

Alex Coulter, Schluchter Investment Advisors

The current interest rate environment continues to make bond investing difficult for individuals as well as mutual insurance companies. Despite the anticipation of rising interest rates, the 10 year treasury, which is a common fixed income benchmark, is currently at 1.87% as of May 25th, 2016. The low interest rate environment has resulted in many individuals asking the same question: where do I find bonds with higher yields?

Mutual insurance companies in Minnesota are governed on their investments by MN Statute 67A.231. As a result, mutual insurance companies are often searching for the highest yields available in certificate of deposits, government agency bonds, municipal bonds, and corporate bonds. When mutual insurance companies desire higher yields, they are usually left with only two options: 1) go out longer in bond maturity or 2) go lower in bond credit quality. Both of these options have inherent risks associated with them. Longer maturing bonds will decline more in price than shorter maturing bonds when interest rates rise. Lower credit quality bonds increases the risk of bond impairment in the future.

As of May 25th, 2016, an investor could buy a 10 year treasury bond yielding 1.87% or they could purchase a 30 year treasury bond yielding 2.67%. Investors can also earn higher yields by going lower in credit quality. As an example, an investor could purchase a 10 year AAA rated municipal bond yielding 1.41%. The investor could purchase a lower rated 10 year A rated municipal bond yielding 1.72%. Statute 67A.231 requires bond purchases to have a credit rating of AAA, AA, A, or BBB. Bonds with a credit rating of BB or lower are considered “junk bonds” and are prohibited by Statute 67A.231.

It is important to discuss the risks of purchasing bonds that are longer in maturity or lower in credit quality with your investment advisor. Additionally, make sure that investment decisions are in compliance with your company’s Investment Policy Statement. The Investment Policy Statement is a document that lays out guidelines for how the mutual insurance company’s policyholder surplus is to be invested by their investment advisor. It is common that mutual insurance companies have stated guidelines on bond maturities and credit qualities in their Investment Policy Statement. Investment Policy Statements should be reviewed at least annually by the board to make sure the investment portfolio is in compliance. This should be documented in meeting minutes.

The interest rate environment continues to make bond investing difficult. Despite the difficult environment, it is important for mutual insurance companies to stay disciplined in their investing and in compliance with Statute 67A.231 and the company’s Investment Policy Statement. Mutual insurance companies should be mindful of sacrificing their investment strategies in an effort to achieve higher yields.

“Corporate bonds contain elements of both interest rate risk and credit risk. The purchase of bonds is subject to availability and market conditions. There is an inverse relationship between the price of bonds and the yield: when price goes up, yield goes down, and vice versa. Market risk is a consideration if sold or redeemed prior to maturity. Some bonds have call features that may affect income.”

Continued on page 6...



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Staying Disciplined In a Low Interest Rate Environment

Alex Coulter, Schluchter Investment Advisors

Continued from page 5....

“Municipal bonds are federally tax-free but may be subject to state and local taxes, and interest income may be subject to federal alternative minimum tax (AMT). The purchase of bonds is subject to availability and market conditions. There is an inverse relationship between the price of bonds and the yield: when price goes up, yield goes down, and vice versa. Market risk is a consideration if sold or redeemed prior to maturity. Some bonds have call features that may affect income.”

“Government bonds are guaranteed only as to timely payment of principal and interest, and, if held to maturity, they offer a fixed rate of return and fixed principal value. Government bonds do not eliminate market risk. The purchase of bonds is subject to availability and market conditions. There is an inverse relationship between the price of bonds and the yield: when price goes up, yield goes down, and vice versa. Market risk is a consideration if sold or redeemed prior to maturity. Some bonds have call features that may affect income.”

“Treasury bills are guaranteed by the U.S. government as to the timely payment of principal and interest, and, if held to maturity, they offer a fixed rate of return and fixed principal value. U.S. Treasury bills do not eliminate market risk. The purchase of bonds is subject to availability and market conditions. There is an inverse relationship between the price of bonds and the yield: when price goes up, yield goes down, and vice versa. Market risk is a consideration if sold or redeemed prior to maturity. Some bonds have call features that may affect income.”

“Certificates of deposits (CDs) typically offer a fixed rate of return if held to maturity, are generally insured by the FDIC or another government agency, and may impose a penalty for early withdrawal.”

“This is a hypothetical example and is for illustrative purposes only. No specific investments were used in this example. Actual results will vary. Past performance does not guarantee future results.”

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Manager's Workshop Highlights - Grand View Lodge May 11-12th



MAFMIC 2016 SCHOLARSHIP RECEIPIENTS



Mary McClure, Fairmont Farmers Mutual presenting *Matt Henderson* with his Scholarship.



Manager, Roseau County Mutual, Jim Svir and Chairman Joe Burian presenting *Amy Svir* with her scholarship.



Jim Bryant, Manager, Hay Creek Mutual, presenting *Casey Deneen* his Scholarship.



Mikel Nelson, Manager, Elmdale Mutual, presenting *Autumn Zupko* her Scholarship.



MAFMIC 2016 SCHOLARSHIP RECEIPIENTS



Paul Larson, Manager, Leentrop Farmers Mutual presenting *Olivia Bartz* with her Scholarship.



Karen Weber, Manager, Redwood County Mutual presenting *Ethan Derickson*, with his Scholarship.



Laurie Wellnitz, Manager, Agassiz & Odessa Mutual, *Jacob Maatz* his Scholarship.



Carol Maciej, Manager, Mid-Minnesota Mutual, presenting *Chelsea Roberts* her Scholarship.



“PATH Act Changes: What MAFMIC Members Can Expect”

Jim Williams, Abdo, Eick & Meyers, LLP

In December, new tax legislation was passed and signed into law. You may have heard the buzz in the mutual insurance industry regarding changes included in the Protecting Americans against Tax Hikes (PATH) Act. Among several individual tax changes, there are some that will potentially affect many MAFMIC member companies. The most significant changes involve the 831(b) election and bonus depreciation.

The 831(b) election is commonly referred to as the “investment method” of taxation. This is a permanent election that allows smaller insurance entities to be taxed on investment income and not net income before tax. This election has several limitations but is typically beneficial for companies that experience underwriting gains on a regular basis.

The new law includes an increase to the gross written premium limitation for the 831(b) election. Currently, there is a \$1.2 million limitation in net written premiums for companies that want to make this election. Starting in 2017, this limitation will increase to \$2.2 million. The increased limitation will create new opportunities for many companies. It will also give companies that formerly made the election and later exceeded the premium limitation, a chance to revert back to filing under the investment method.

The second change to the 831(b) election involves a new limitation on this election. Companies that receive more than 20 percent of net written premiums from any one policyholder may be subject to additional qualification requirements that will not be covered in this issue.

With these changes, 2016 marks a pivotal tax planning opportunity for companies that formerly used the 831(b) election and later exceeded the premium limitation—if their net written premiums will be under the new limitation in 2017, that is. These companies may be able to take advantage of accelerated depreciation with Section 179 expensing and the extension of bonus depreciation under the PATH Act. If you feel this may apply to your company, or if you are interested in making the 831(b) election in the future, please consult with your CPA.

This article, like any other news article, should not be used as tax advice or as a substitute for discussing your company’s situation with a qualified tax or legal professional.

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BYOD Guidelines

Employees at companies of all sizes, either through their own volition or due to corporate requirements, are engaging in **Bring Your Own Device (BYOD)** programs in ever greater numbers. Many of these employees continue to work at home, beyond the traditional workday, on personal laptops, tablets and smartphones as the work and personal life divide continues to blur.

Companies that do not take a proactive approach to managing the use of personal devices face growing risks, as costs associated with data losses, privacy breaches and other cyber threats continue to rise.

Establish a Formal BYOD Policy

Determine what and how devices are used. Your policy can specify the type of devices that are allowed to be used, how employees may use the devices to connect to corporate networks (e.g., through a secured wi-fi connection), and what applications are approved for use, including downloadable apps and cloud-based tools.

Set expectations. Your policy can specify that the company has no responsibility for lost or damaged personal devices or employee injury from misuse of a personal device. The policy can also restrict the type of data that can be transferred to personal devices, and establish protocols for data synchronization and backup.

Establish requirements. The policy can require employees to install the latest operating system updates, corporate-designated anti-virus software, encryption software and remote data-wiping capability.

Conduct Regular Employee Training

Share best practices for data security. Employees should understand all of the elements of the corporate BYOD policy and also realize the exposure to risk and consequences of failing to follow the required precautions.

Set training goals. After training, employees should know how to access appropriate corporate data from their personal devices, understand which applications are risky and which are safe to use, know how to separate work and private data on their devices, and know which type of work activities are appropriate for BYOD.

Manage BYOD Risks

Vet personal devices and applications. Companies should review devices and apps for potential risks, with an eye toward striking a balance between restrictions to protect the corporate network and flexibility that will allow employee productivity.

Update corporate network protection for personal devices. Steps include requiring a two-step process for authentication to access the corporate system that recognizes both the device and the person using it. Put software tools in place to allow remote wiping of data, scanning for malware and data leakage and archiving of corporate data.

2016 MAFMIC * CALENDAR OF EVENTS

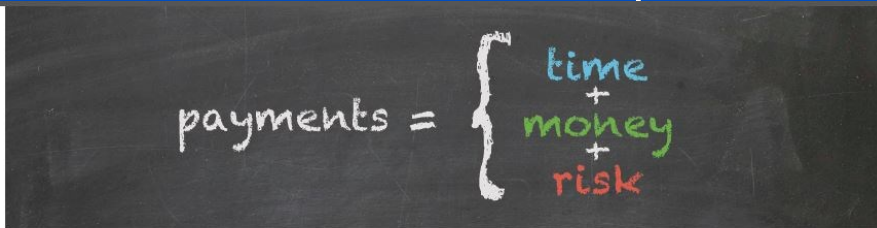
July 13 Manager & Director Seminar,
Gorecki Center, College of St. Bens
St. Joseph

July 14 MAFMIC Golf Outing
Little Crow, Spicer

August 2-3 Leadership Development
Workshop (NAMIC) – Chicago, IL

Sept 8 PIA, Education Day & Trade Show
Location: Canterbury Park Expo Center

Sept 25-28 NAMIC 121st Annual Convention
Vancouver, Canada



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Contact Richard Holm to see how our software solutions can fit your mutual's needs at rholm@prioritydata.com or 402.590.2506.