

**HOW
OWNERSHIP
AFFECTS
YOUR
EXPERIENCE**



www.mwcia.org

FILING REQUIREMENTS

When an ownership change occurs, the insurance company, the agent of record, or the employer must report the details of such changes to the Minnesota Workers' Compensation Insurers Association (MWCIA).

To report changes in ownership, complete an Ownership Change Form (ERM-14), signed by an officer of the company. ERM-14's are located on our website at www.mwcia.org.

MWCIA staff will determine the type of change and/or combinability of the entities involved and will amend the experience modification accordingly.



OWNERSHIP CHANGES

Changes in ownership interest may affect the continued use of an entity's experience in future experience ratings. When a change occurs, a determination shall be made to retain or exclude an entity's experience.

COMBINABLE ENTITIES

Two or more entities must be combined when:

- A.** The same person, the same group of people or a corporation owns **more than 50%** in each entity.

Example's of **A** above:

<u>ABC Co.</u>	<u>DEF Co.</u>
Smith 75%	Smith 51%
Jones 25%	Jones 49%

ABC Co. and **DEF Co.** are combinable since **Smith** owns more than 50% in both entities.

<u>LMN Co.</u>	<u>OPQ Co.</u>	<u>WXY Co.</u>
Smith 25%	Jones 30%	Smith 10%
Jones 40%	Smith 30%	Jones 60%
Brown 35%	Brown 40%	Brown 30%

LMN Co., **OPQ Co.** and **WXY Co.** are all combinable since, as a group, **Jones & Smith** own more than 50% of each entity.

- B.** An entity owns a majority interest in another entity, which in turn owns a majority interest in a third entity. All entities are combinable for experience rating purposes regardless of the numbers of entities involved.

Example of **B** above:

<u>ABC Co.</u>	<u>DEF Co.</u>	<u>GHI Co.</u>
Smith 100%	ABC Co. 100%	Jones 25%
		Smith 75%

All entities are combinable as **Smith** owns 100% of **ABC Co.**, which owns 100% of **DEF Co.** and **Smith** also owns 75% of **GHI Co.**

EXCLUSION OF EXPERIENCE

An experience modification
IS NOT

transferred when:

All of the following MUST APPLY

- 1) The collective ownership of all parties having an interest in an entity before the change and after the change amounts to either less than $\frac{1}{3}$ ownership before the change, or less than $\frac{1}{2}$ ownership after the change.

Example 1: Jones owns 25% before the change and 50% after the change.



Example 2: Smith owns 100% before the change and less than 50% after the change.

- 2) A material change in ownership is accompanied by a change in operations sufficient to result in reclassification of the governing code.

Example: Previous owners were working as a restaurant serving food and the new owners are now selling gas from a gas station at the same location.

- 3) A material change in ownership is accompanied by a change in the process and hazard of the operations.

Example: Before the change, the company was a restaurant, after the change, the company manufactures frozen pizzas.

A CHANGE IN OWNERSHIP INCLUDES THE FOLLOWING:

- ▶ Sale, transfer or conveyance of all or a portion of a company's ownership interest.

- ▶▶ **Example:** Sold all or part of a company or ownership in a company to another person or entity.



- ▶ Sale, transfer, or conveyance of a company's physical assets to another company, which takes over its operations.

- ▶▶ **Example:** Physical assets may include the employees, manufacturing equipment or vehicles.

- ▶ Merger or consolidation of two or more companies.

- ▶▶ **Example:** Company A and Company B merged to create Company C.

- ▶ Formation of a new company subsequent to the dissolution or non operative status of a company.

- ▶▶ **Example:** Flower shop is no longer in business. Same owners started a dry cleaning shop

- ▶ Voluntary or court mandated establishment of a trustee or receiver, excluding a debtor in possession, or a trustee under a revocable trust.

- ▶▶ **Example:** Company filed for bankruptcy.



FREQUENTLY ASKED QUESTIONS

Q. When does an employer need to complete an Ownership Change Form (ERM 14)?

A Whenever there is a change in ownership, a change in the legal status, a change in the name of the company, or a second entity is purchased.

Q What will happen to my experience modification if I sell my company?



A When a company is sold, the experience is transferred to the new owner.

Q If a husband owns one company and a wife owns a separate company, can they be combined for experience rating?

A They would not be combinable for experience rating. Husbands and wives are considered individuals for workers' compensation purposes.

Q What if I purchase another company?

A. The experience of the company that was purchased will be combined with the experience of your existing company to create a single experience modification that will apply to both companies.

Q What is considered ownership in a Limited Partnership?

A General Partners are considered majority owners in a Limited Partnership.

