

OWNERSHIP

A Key to Experience Rating



Minnesota Workers' Compensation Insurers Association, Inc.

MWCIA

7701 France Ave S

Suite 450

Minneapolis, MN 55435 - 3203

Tel: 952-897-1737

Fax: 952-897-6495

www.mwcia.org

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Minnesota Workers' Compensation Insurers Association Inc

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REPORTING REQUIREMENT:

When a change in ownership occurs, your policy requires you to report the details of such changes to the Minnesota Workers' Compensation Insurers Association. (MWCIA)
To facilitate this reporting requirement, an owner or officer will complete, sign and date a Confidential Request for Ownership Information ([ERM-14](#)). This form is available on our website at www.mwcia.org.

Optionally, the information may be sent to the MWCIA in narrative form on the letterhead of the employer and signed by an officer of the insured entity.

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

TYPES OF OWNERSHIP CHANGES:

For purposes of experience rating, a change in ownership includes any of the following:

Sale, transfer or conveyance of all or a portion of an entity's ownership interest

- Example: Sold all or part of a company to another person or entity.

Sale, transfer or conveyance of an entity's physical assets to another entity that takes over its operations

- Example: Physical assets may include employees, equipment or vehicles.

Merger or consolidation of two or more entities

- Example: Company A and Company B merge to create Company C.

Formation of a new entity that acts as, or in effect is, a successor to another entity that:

- a) **Has dissolved**
- b) **Is non-operative**
- c) **May continue to operate in a limited capacity**

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

An irrevocable trust or receiver, established either voluntarily or by court mandate

- Example: Company files for bankruptcy.

COMBINABLE ENTITIES: (EXPERIENCE IS TRANSFERRED)

Two or more entities must be combined when:

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

Examples:

ABC CO.	DEF CO.
Smith 75%	Smith 51%
Jones 25%	Jones 49%

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

LMN CO.	OPQ CO.	XYZ CO.
Smith 25%	Jones 30%	Smith 10%
Jones 40%	Smith 30%	Jones 60%
Brown 35%	Brown 40%	Brown 30%

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

- 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 number of entities involved.

Example:

ABC CO.	DEF CO.	GHI CO.
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 a **majority of GHI Co.**

EXCLUSION OF EXPERIENCE (AN EXPERIENCE MODIFICATION IS NOT TRANSFERRED):**All of the following must apply:****1) The change must be a material change such that:**

- The entire ownership interest **after** the change had no interest before the change, or
- The collective ownership of all parties having an interest in an entity results in either *less* than:
 - a) 1/3 ownership **before** the change, or
 - b) 1 /2 ownership **after** the change.

Example (a): Jones owns 25% before the change and 50% after the change.

Example (b): 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 operated a restaurant and the new owners are operating 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: A restaurant operation has become a manufacturer of frozen pizzas.

FAQ:**When does an employer need to complete an Ownership Change Form (ERM-14)?**

- Whenever there is a change in ownership, legal status, name of the company or purchase of another entity.

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

- When a company is sold, the experience may be transferred to the new owner.

If one spouse owns one company and the other spouse owns a separate company, can they be combined for experience rating?

- They would not be combinable for experience rating. Spouses are not considered a sole proprietor for workers' compensation purposes.

What if I purchase another company?

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

What is considered ownership in a Limited Partnership?

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

WHAT IF I STILL HAVE QUESTIONS?**For additional tips and information:**

Visit www.mwcia.org and view the FAQ under the Agents section.

Email MWCIA at underwriting@mwcia.org

Who We Are:

The mission of the Minnesota Workers' Compensation Insurers Association (MWCIA) is to collect, process, and analyze workers' compensation data so that we can provide high quality, consistent information to our insurer members and regulators. We will develop and deliver useful services and products to the workers' compensation community.

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