



Minnesota Workers' Compensation
Insurers Association, Inc.
7701 France Avenue South ▪ Suite 450
Minneapolis, MN 55435-3200

ATTENTION: RATE FILING PERSONNEL

June 24, 2004

To: ALL ASSOCIATION MEMBERS

Circular Letter No. 04-1421

RE: 2004 Update to Retrospective Rating Parameters

The Minnesota Department of Commerce has approved the above filing to become effective October 1, 2004.

The purpose of this item is to update Minnesota's Retrospective Rating Plan Expected Loss Ranges to correspond with the updated Table of Expected Loss Ranges filed by the National Council as part of NCCI R-1388. NCCI R-1388 also includes an update to the Retro Plan's State and Hazard Group Severity Relativities. Please note, however, that MWCIA has not filed to adopt that portion of NCCI R-1388. In Minnesota, the active State and Hazard Group Differentials are published in the current Minnesota Ratemaking Report. Minnesota's 2004 State and Hazard Group Severity Relativities, therefore, will remain in effect until the 2005 Annual Ratemaking Report is filed and approved for use effective January 1, 2005.

National Council's approval of NCCI R-1388 became effective July 1, 2004. New Retrospective Rating Plan Manual pages indicating Minnesota did not approve these Expected Loss Range tables until October 1, 2004, therefore, should be forthcoming. In the meantime, an exhibit showing the new 2004 Retrospective Rating Plan Manual's Table of Expected Loss Ranges and a portion of NCCI's R-1388 filing memorandum as additional background information is attached for your convenience. Member carriers who reference the Expected Loss Ranges table in their current rate filing will need to file a substitute page with the Commerce Department on or before August 1, 2004 to comply with Minn. Stat. §79.56, Subd. 1. [**Note:** This information generally appears on the Miscellaneous Values Page of a carrier's rate filing.]

Should you have any questions regarding this item, please direct them to MWCIA's Actuarial Services Department at 952.897.1737 or by sending an email to info@mwcia.org.

ITEM R-1388—2004 UPDATE TO RETROSPECTIVE RATING PLAN PARAMETERS

State Hazard Group Relativities

The variation in the loss ratios of employers in the lower hazard groups should be smaller than the variation for employers in the higher hazard groups. The State Hazard Group Relativity Factors adjust for this difference by placing lower hazard group employers in a higher Expected Loss Size Range and higher hazard group employers in a lower Expected Loss Size Range than would otherwise be the case. This adjustment affects the column selection in the Table of Insurance Charges, which then impacts the basic premium portion of the retrospective policy premium.

The State Hazard Group Relativities should be updated regularly due to changes in the circumstances (changes in state statutory benefit levels, inflation, etc.) underlying each state's severity.

PROPOSAL

It is proposed that the *Retrospective Rating Plan* be amended as contained in the attached exhibits.

Expected Loss Ranges

This filing updates the Table of Expected Loss Ranges for entry into the Table of Insurance Charges. The proposed ranges are found in Exhibit 2.

State Hazard Group Relativities

This filing also updates the State Hazard Group Relativities of the *Retrospective Rating Plan* for each state. Exhibit 1 provides a description of the development of the relativities. As explained in the exhibit, individual state severities, as well as countrywide severities, are used in the calculation of the relativities.

The proposed relativities are found in Exhibit 3.

IMPACT

Expected Loss Ranges

The proposed Expected Loss Ranges are necessary to maintain the aggregate expected balance between the retrospectively rated premium and the guaranteed cost premium. If these ranges were not updated, there would be a natural slippage caused by inflation over time because risks would have an apparent growth in size as seen by increasing expected losses, but no real growth in size as seen by their expected number of claims.

State Hazard Group Relativities

Retrospective rating should produce premium that is equitably distributed to all insured employers, but on average close to the guaranteed cost in the approved rate. The object of this change is to maintain the aggregate expected balance, but the impact will vary slightly for individual insured employers. Thus, insurance charges and premiums will be higher for some insureds and lower for others. For most of the insured employers electing retrospective rating, the impact on final premium from these changes will be quite small.

The improved equitability from this change will result in slightly lower average insurance charges for some states, and slightly higher for others. However, the statewide impact will be negligible. The program is designed to be revenue-neutral countrywide.

IMPLEMENTATION

Exhibit 1 displays the development of State Hazard Group Relativities. Exhibits 2 and 3 detail the changes made to the *Retrospective Rating Plan Manual for Workers Compensation and Employers Liability Insurance*.

ITEM R-1388—2004 UPDATE TO RETROSPECTIVE RATING PLAN PARAMETERS

EXHIBIT I

RETROSPECTIVE RATING PLAN MANUAL
 2004 EXPECTED LOSS RANGES
 EFFECTIVE 7/1/04

Expected Loss Group	Range Rounded Values	Expected Loss Group	Range Rounded Values	Expected Loss Group	Range Rounded Values
95	643— 1,003	65	53,905— 58,219	35	672,306— 754,844
94	1,004— 1,486	64	58,220— 62,880	34	754,845— 847,519
93	1,487— 1,962	63	62,881— 67,914	33	847,520— 966,428
92	1,963— 2,594	62	67,915— 73,350	32	966,429— 1,110,847
91	2,595— 3,375	61	73,351— 79,222	31	1,110,848— 1,276,849
90	3,376— 4,075	60	79,223— 85,580	30	1,276,850— 1,467,659
89	4,076— 4,919	59	85,581— 92,534	29	1,467,660— 1,744,627
88	4,920— 5,710	58	92,535— 99,909	28	1,744,628— 2,086,194
87	5,711— 6,628	57	99,910— 107,646	27	2,086,195— 2,494,638
86	6,629— 7,688	56	107,647— 115,984	26	2,494,639— 3,075,371
85	7,689— 8,695	55	115,985— 124,969	25	3,075,372— 3,913,499
84	8,696— 9,829	54	124,970— 135,124	24	3,913,500— 4,980,041
83	9,830— 11,100	53	135,125— 146,146	23	4,980,042— 6,363,618
82	11,101— 12,351	52	146,147— 158,070	22	6,363,619— 8,142,851
81	12,352— 13,742	51	158,071— 170,961	21	8,142,852— 10,419,549
80	13,743— 15,287	50	170,962— 184,485	20	10,419,550— 13,332,799
79	15,288— 17,008	49	184,486— 199,046	19	13,332,800— 17,060,577
78	17,009— 18,769	48	199,047— 214,861	18	17,060,578— 23,402,105
77	18,770— 20,663	47	214,862— 233,758	17	23,402,106— 34,611,525
76	20,664— 22,751	46	233,759— 254,315	16	34,611,526— 51,190,173
75	22,752— 25,001	45	254,316— 276,681	15	51,190,174— 75,709,857
74	25,002— 27,372	44	276,682— 302,352	14	75,709,858— 111,974,276
73	27,373— 29,966	43	302,353— 330,838	13	111,974,277— 165,609,059
72	29,967— 32,811	42	330,839— 362,010	12	165,609,060— 259,241,432
71	32,812— 35,815	41	362,011— 399,071	11	259,241,433— 410,223,772
70	35,816— 39,068	40	399,072— 441,013	10	410,223,773— 649,138,303
69	39,069— 42,611	39	441,014— 487,363	9	649,138,304— & over
68	42,612— 46,201	38	487,364— 538,584		
67	46,202— 49,903	37	538,585— 598,787		
66	49,904— 53,904	36	598,788— 672,305		