

June 19, 2014

ALL ASSOCIATION MEMBERS

Circular Letter No. 14-1654

RE: Item E-1402–Revisions to the Experience Rating Plan Primary/Excess Split Point Value and Maximum Debit Modification Formula – 2015 Frequently Asked Questions

Circular Letter No. 12-1614 announced the approval of the captioned filing effective January 1, 2013. The major piece of this filing was an increase to the primary/excess loss split point used in MWCIA's Experience Rating Plan over a three year period. January 1, 2015 begins the third year of this three year period with the split point increasing from the current \$13,500 to \$16,250. The frequently asked questions below were developed to aid your understanding of the changes to become effective January 1, 2015.

1. Why does the experience rating split point need to change?

Without the split point increase, the portion of each claim that flows into the experience rating formula at full value will be much smaller, and the Experience Rating Plan will give less weight to each employer's actual experience. To address this issue, a transition plan to increase the split point amount over time has been implemented.

2. How will the experience rating split point change in 2015?

Effective January 1, 2015, the split point will increase from \$13,500 to \$16,250. This completes the three year phase-in in which the approved threshold increased to \$10,000 in 2013, \$13,500 in 2014, and \$15,000 – to be adjusted for inflation – in 2015. The \$16,250 is based on the inflation adjustment to \$15,000.

3. How was the inflation adjustment determined for 2015?

The Actuarial staff at MWCIA reviewed countrywide severity changes, as well as various regression fits against Minnesota's total average cost per case, and found annual trends ranging from 4% to 5%. Staff selected an annual adjustment of slightly more than 4%, or approximately 8.3% over the two-year trend period. Applying this to the \$15,000 base resulted in the chosen \$16,250.

4. What will be the impact of increasing the experience rating split point from \$13,500 to \$16,250 on experience mod factors?

- There will be no measurable change in the overall average statewide experience modification level in 2015.
- 88% of current rated insureds will either see modification decreases, or increases of no more than 2%
- 11% of current rated insureds will see modification increases between 2% and 10% - with an average around +3.5%
- 1% of current rated insureds will see modification increases of more than 10% - these changes will primarily affect businesses with current modifications exceeding 1.84

Please direct any questions you may concerning this item to MWCIA's Actuarial Department at (952) 897-1737, option 3, or email at actuarial@mwcia.org.