

March 10, 2016

**ALL ASSOCIATION MEMBERS**

Circular Letter No. 16-1682

**RE: NCCI Item E-1404 – Establishment of a Methodology to Calculate Experience Rating Premium Eligibility Amounts**

The Minnesota Department of Commerce has approved the above filing to become effective 12:01 a.m., January 1, 2017, for new and renewal business.

The purpose of this filing is to establish an indexing methodology for the calculation of experience rating premium eligibility amounts and a process for continued annual updates.

In accordance with the *Minnesota Experience Rating Plan Manual*, an employer qualifies for experience rating when its subject premium, developed in the experience period, meets or exceeds the minimum premium eligibility amount. NCCI research has shown that the current premium eligibility amounts are too low. As a result, the number of experience rated employers has steadily increased. Minnesota research shows similar trends. Minnesota premium eligibility amounts, as displayed in the Minnesota Table of Subject Premium Eligibility Amounts in the *Minnesota Experience Rating Plan Manual*, have not increased since January, 2007.

The new procedure will calculate and update the experience rating premium eligibility amounts annually and index them to the year-to-year change in the statewide average weekly wage (SAWW). Initially, the Column B amount of the Minnesota Table of Subject Premium Eligibility Amounts would be multiplied by the year-to-year change in SAWW, rounded to the nearest \$250. This amount would become the new Column B premium eligibility amount. The Column A amount continues to be twice the Column B amount.

In subsequent annual calculations, the intermediate values from the prior calculation (before rounding) becomes the new base amount. This new base amount is then multiplied by the subsequent year-to-year change in the SAWW. After this computation, the \$250 rounding is then applied to determine the new premium eligibility amount for Column B. This process of indexing the prior year base amount will measure the annual change in the SAWW in a consistent manner each year. Based on the result of the calculation, the premium eligibility will either remain the same or increase in a given year. The amounts will not be allowed to decrease from one year to the next.

Based on a review of 2015 ratings produced, the number of ratings increased by 4.4% over the 2014 year. The application of this indexing methodology to that population would result in a .21% reduction in rated employers, however the total number of experience rated employers would still have grown.

Exhibit I attached displays the current Minnesota Table of Subject Premium Eligibility Amounts as well as the proposed values effective January 1, 2017.

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](mailto:actuarial@mwcia.org).

Exhibit I

Minnesota Experience Rating Plan Manual

Current Phraseology			Proposed Phraseology		
Rule 2—Experience Rating Elements & Formula			Rule 2—Experience Rating Elements & Formula		
A. Premium Eligibility			A. Premium Eligibility		
2. Minnesota Subject Premium Eligibility Amounts			2. Minnesota Subject Premium Eligibility Amounts		
An employer qualifies for experience rating when its subject premium, developed in its experience period, meets or exceeds the minimum eligibility amount. Refer to Rule 2-E-1 to determine an employer's experience period.			An employer qualifies for experience rating when its subject premium, developed in its experience period, meets or exceeds the minimum eligibility amount. Refer to Rule 2-E-1 to determine an employer's experience period.		
a. An employer qualifies for experience rating in Minnesota if its data in the last year or last two years of the experience period develops a subject premium of at least the amount shown in Column A.			a. An employer qualifies for experience rating in Minnesota if its data in the last year or last two years of the experience period develops a subject premium of at least the amount shown in Column A.		
b. An employer may not qualify according to Rule 2-A-2-a. If an employer has more than two years of experience as referenced in Rule 2-A-2-a, then to qualify for experience rating the employer must develop an average annual subject premium of at least the amount shown in Column B. Refer to Rule 2-A-3 to determine average annual subject premium.			b. An employer may not qualify according to Rule 2-A-2-a. If an employer has more than two years of experience as referenced in Rule 2-A-2-a, then to qualify for experience rating the employer must develop an average annual subject premium of at least the amount shown in Column B. Refer to Rule 2-A-3 to determine average annual subject premium.		
Minnesota Table of Subject Premium Eligibility Amounts			Minnesota Table of Subject Premium Eligibility Amounts		
Effective	Column A	Column B	Effective	Column A	Column B
1-1-2006	\$ 8,000	\$4,000	1-1-2017	\$10,500	\$5,250
1-1-2007	\$10,000	\$5,000	1-1-2018 & Subsequent Years	Column B multiplied by 2.	The intermediate values from the prior calculation (before rounding) multiplied by the subsequent year-to- year change in the statewide average weekly wage, rounded to the nearest \$250.
1-1-2008 & Subsequent Years	+\$1,000*	+\$500*			
	*Increase premium eligibility requirement incrementally for each 10% increase over the 2005 average annual premium size				