



Minnesota Workers' Compensation Insurers Association, Inc.

7760 France Avenue South, Suite 640, Minneapolis, MN 55435 • 612/897-1737

J. P. Hildebrandt, President

March 6, 1992

ALL ASSOCIATION MEMBERS

Circular Letter No. 92-1125

RE: Minnesota Contractors Premium Adjustment Program (MCPAP)

The Minnesota Commerce Department has approved the implementation of the Minnesota Contractors Premium Adjustment Program effective October 1, 1992. Attached for your information is a copy of the complete filing documents as approved by the Commerce Department. It is anticipated that MWCIA will supply member carriers with a notice letter (see exhibit 2) for each of their eligible contracting policyholders within the next ten days. Unless otherwise directed, these letters will be mailed in bulk to the same address MWCIA is currently mailing the experience modification worksheets. During the implementation phase, contractors eligible for MCPAP will have until May 15, 1992 to submit the required payroll information. The first period of the MCPAP will be for policies becoming effective on or after October 1, 1992 to December 31, 1993. Thereafter letters to eligible policyholders will be issued by July 1 of each year with an enrollment period ending September 1.

Shortly after May 15, 1992, MWCIA will calculate the rate offsets and individual premium credit factors that apply to each eligible policyholder. Carriers and policyholders will be advised of the premium credit factors which then must be displayed on each affected policy in the manner set forth in Exhibit 5. All policies which are issued before the premium credit factor is available should contain the MCPAP endorsement (see exhibit 4).

We urge that this letter and its attachments be widely circulated to ensure that all parties affected by MCPAP are informed of these new procedures.

Very truly yours,

JOHN P. HILDEBRANDT

President

/ls
Attachments

MINNESOTA CONTRACTING PREMIUM ADJUSTMENT PROGRAM

The Association proposes the above program to become effective 12:01 a.m. October 1, 1992 and thereafter. The program applies to employers having exposure in any of the contracting classifications in Minnesota.

The Minnesota Contracting Premium Adjustment Program is designed to vary an employer's workers' compensation premium by way of a premium credit based upon the employer's average wage level. While the initial determination of any applicable credit is computed on a class-by-class basis, the credit (if any) will be applied to the employer's entire Minnesota standard premium in order to facilitate the carrier's application of the credit. The program will provide a premium credit to those eligible contracting employers paying in excess of \$12.00 per hour per contracting employee.

The program does not provide for any premium debits. Therefore, rate changes are required for all the applicable classifications in order to offset the premium credits.

The program (see Exhibit 1) shall be administered as follows:

1. MWCIA shall provide its members with a standard letter (Exhibit 2) with Application on reverse side. A separate letter will be issued for any of their insureds having a policy containing any applicable contracting classification. The first year, this letter will be sent to the insured 30 days after the program has been approved by the Commerce Commissioner. In subsequent years, (1994 and thereafter), this letter will be sent to each insured by July 1.
2. The insured shall complete the required information and mail the completed form to:

Minnesota Workers' Compensation Insurers Association, Inc.
7760 France Avenue South, Suite 640
Minneapolis, Minnesota 55435
Attention: MCPAP

- The first year, the completed form must be returned to MWCIA 60 days from the date of mailing to assure inclusion in the program. In subsequent years, the completed form must be returned to MWCIA no later than September 1.
3. The Minnesota Workers' Compensation Insurers Association, Inc. will compute the insured's average hourly wage for each classification, the applicable classification premium credit, and the overall policy credit factor. These calculations will be displayed on a Policy Credit Work Sheet (Exhibit 3). A copy of this Work Sheet will then be mailed to the carrier.
 4. The carrier shall use this policy credit factor in the calculation of the insured's estimated premium at policy issuance. In those cases where the carrier receives the policy credit factor after the insured's policy has been issued, the policy shall be so endorsed.

5. Expected losses used in the calculation of the insured's experience modification will be decreased by the policy credit factor.
6. The policy credit factor is to be applied to the premium determination process directly after the application of experience modification and prior to any deviation and premium discount. This policy credit factor, if available upon policy issuance, must be displayed on the Information Page of the policy (Exhibit 5). If the factor is not available upon policy issuance, the required endorsement must be attached to the policy.
7. Upon audit, the carrier shall use the same policy credit factor in the calculation of the insured's final earned premium. Additionally, the carrier shall verify the data originally provided by the insured for the computation of the policy credit factor by reviewing those records upon which the insured's data was originally based. If this process uncovers any errors, revised payroll and/or hours worked, data must be submitted to the Minnesota Workers' Compensation Insurers Association, Inc. The revised data will be used to calculate a revised policy credit factor.
8. The earned premium dollar modification amount due to the application of the policy credit factor must be reported on unit statistical reports under Classification Code 9046. This amount must be reported on lines D, E, F or G since it is not subject to experience modification (Exhibit 6).
9. No adjustment to aggregate standard earned premium reported on the aggregate calls for experience is required because of this premium credit. In other words, reported aggregate standard earned premium must include the effects of these premium credits.

Please carefully review the above, including attached Exhibits, with your underwriting, auditing and statistical personnel.

MINNESOTA CONTRACTING PREMIUM ADJUSTMENT PROGRAM

The Minnesota Contracting Premium Adjustment Program provides for a premium credit for a qualifying policy which contains one or more contracting classifications. Policies subject to experience rating are eligible for the program.

The basis for determining the credit is the total payroll (excluding overtime premium pay) and hours worked for each contracting classification for the second calendar quarter of the year preceding the policy inception date as reported to taxing authorities. If the insured did not engage in operations for the complete quarter, then the last complete quarter prior to the policy year inception shall be used. A credit may be determined for each contracting classification by dividing the total payroll, excluding overtime premium pay, by the number of hours worked to arrive at the average hourly wage for the classification. In the absence of specific records for salaried employees, it will be assumed each such individual worked forty (40) hours per week. The credit for average hourly wage is listed below:

<u>Average Hourly Wage</u>	<u>Credit from Manual Premium</u>
\$11.99 or less	0%
\$12.00 - \$12.50	5%
\$12.51 - \$13.00	6%
\$13.01 - \$13.50	7%
\$13.51 - \$14.00	8%
\$14.01 - \$14.50	9%
\$14.51 - \$15.00	10%
\$15.01 - \$15.50	11%
\$15.51 - \$16.00	12%
\$16.01 - \$16.50	13%
\$16.51 - \$17.00	14%
\$17.01 - \$17.50	15%
\$17.51 - \$18.00	16%
\$18.01 - \$18.50	17%
\$18.51 - \$19.00	18%
\$19.01 - \$19.50	19%
\$19.51 - \$20.00	20%
\$20.01 - \$20.50	21%
\$20.51 - \$21.00	22%
\$21.01 - \$21.50	23%
\$21.51 - \$22.00	24%
\$22.01 and over	25%

The total contracting classification credit amount, in dollars, must be calculated and then divided by the total policy premium at MN DSR pure premium base rates - including contracting and non-contracting classifications. The result would be the percentage credit which is to be applied to the qualifying policy. When calculating the total policy credit, the percentage shall be rounded to two decimal places. (As an example, .1547 rounded to .15 and .1551 rounded to .16.)

The insured shall submit the required payroll and hours worked information to the Minnesota Workers' Compensation Insurers Association, Inc. for calculation of any applicable credit. The carrier shall, upon audit, verify the information that was submitted by the insured and used in the calculation of the credit. If the carrier discovers an error in the original request for policy credit, the revised information must be submitted to the Minnesota Workers' Compensation Insurers Association, Inc. for recalculation. If the insured does not furnish records to verify the payrolls and hours worked originally submitted and used in the calculation of the credit there shall be no credit applied to the policy.

The credit authorized by the Minnesota Workers' Compensation Insurers Association, Inc., shall appear on Item 4. of the Information Page of the policy. If the credit is not available at the time of policy issuance, the carrier shall endorse the policy to provide this credit information.

"Contracting classifications" are those classifications subject to the following code numbers:

0050	5057	5215	5479	5649	6248	8227
3365	5059	5221	5480	5651	6252	9545
3719	5102	5222	5506	5703	6306	9549
3724	5146	5348	5507	6003	6319	
3726	5160	5403	5508	6017	6325	
5020	5183	5467	5538	6204	6400	
5022	5188	5445	5551	6217	7538	
5037	5190	5462	5606	6229	7601	
5040	5213	5474	5645	6235	7855	

A B C Construction Inc
14 Wistful Vista
Sometown MN 56111

MINNESOTA CONTRACTORS PREMIUM ADJUSTMENT PROGRAM
Workers Compensation Premium Credit Application for 1992

The Minnesota Contractors Premium Adjustment Program has been approved by the Minnesota Commerce Department for employers engaged in contracting operations and is applicable to policies with effective dates on or after October 1, 1992.

A special premium calculation, which may result in a premium credit for you, will be based on average hourly pay rates for each classification of contracting operation. In order to qualify for this program, you must have paid an average hourly wage of \$12.00 or more in at least one construction classification during the fourth quarter (October, November, December) of 1991. In order that your premium credit factor may be correctly established, please complete the attached premium credit application and return to:

Minnesota Workers' Compensation Insurers Association, Inc.
Attn: MCPAP
7760 France Avenue South, Suite 640
Minneapolis, Minnesota 55435

If they do not receive this application by May 15, 1992, your premium calculation will not reflect any premium credit.

For each applicable classification (both contracting and non-contracting) covering all your companies' operations in the state of Minnesota, report the total Minnesota payroll (including overtime or premium pay) and the corresponding total number of hours worked for the fourth calendar quarter (October, November, December) of 1991 as reported to taxing authorities. You must submit data on all entities (both contracting and non-contracting) which are commonly owned and combined for experience rating purposes. Your Experience Modification factor will be adjusted to reflect the premium credit factor calculated by MWCIA.

Note #1: If you did not engage in contracting operations during the 1991 calendar year, the requested information to be provided should then be for the last complete calendar quarter prior to the effective date of your workers' compensation policy.

Note #2: In the absence of specific records for salaried employees, you should assume that each individual worked forty (40) hours per week.

Please preserve your payroll records which formed the basis for this declaration as we will be required to verify the reported information in order for any premium credit to be applied.

Thank you for your cooperation.

MINNESOTA CONTRACTORS PREMIUM ADJUSTMENT PROGRAM
APPLICATION

Association File #: 012345

Insured: A B C Construction Inc

Policy No.: 011

Effective Date: December 31, 1990

Carrier Name: Real Insurance Company

Notice:

Unless Code(s), total wages paid, total hours worked, calendar quarter reported are indicated and application is signed, it cannot be processed. Contact your agent if assistance is desired.

CLASSIFICATION(S)	CODE	TOTAL MINNESOTA WAGES PAID DURING QTR	TOTAL HOURS WORKED DURING QTR
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____

The foregoing is based on actual wages and hours worked, as reflected in our payroll records, for the complete calendar quarter ending _____.

Signature _____

Position _____

Date _____

MINNESOTA CONTRACTORS PREMIUM ADJUSTMENT PROGRAM
POLICY CREDIT WORKSHEET

CARRIER: _____

INSURED: Sample Construction Company, Inc.

POLICY NO: WC 12345 PERIOD: _____

NON-CONTRACTING CLASSIFICATIONS:

(1) CLASS CODE	(2) PAYROLL	(3) MN DSR PURE PREM BASE RATE	(4) PURE PREMIUM [(2) x (3)] / 100	(5) AVERAGE HOURLY RATE	(6) CREDIT PERCENTAGE	(7) CREDIT DOLLAR AMOUNT (4) X (6)
8810	750,537	.23	1,726	XXX	XXX	XXX
				XXX	XXX	XXX
				XXX	XXX	XXX
				XXX	XXX	XXX
				XXX	XXX	XXX

CONTRACTING CLASSIFICATIONS:

5222	71,468	10.61	7,583	16.50	13%	986
5506	4,790,491	9.86	472,342	16.48	13%	61,405
6306	333,765	16.73	55,839	16.90	14%	7,817
6319	564,405	11.71	66,092	16.90	14%	9,253
8227	852,562	3.18	27,111	15.00	10%	2,711
TOTAL PURE PREMIUM PREMIUM (All Classifications)			630,694	TOTAL CREDIT		82,172

(82,172 + 630,694) Total Credit + Total Pure Premium = Policy Credit

(1.00 - .13) 1.00 - Policy Credit = Policy Credit Factor

PRINT DATE: _____

WORKERS COMPENSATION AND EMPLOYERS LIABILITY INSURANCE POLICY

WC XX XX XX

Original Printing

Effective October 1, 1992

Standard

MINNESOTA CONTRACTING PREMIUM ADJUSTMENT PROGRAM

The premium for the policy may be adjusted by a Minnesota Contracting Premium Adjustment Program policy credit factor. The factor was not available when the policy was issued. If you qualify, we will issue an endorsement to show the policy credit factor after it is calculated.

Notes:

1. Attach this endorsement to a policy showing Minnesota in Item 3.A of the Information Page when an insured's policy credit factor is not available when the policy is issued.
2. An appropriate typewritten entry may be made in Item 4. of the Information Page instead of using this endorsement.

SAMPLE PREMIUM CALCULATION
MINNESOTA CONTRACTING PREMIUM ADJUSTMENT PROGRAM

Location, Classification and Payroll in Minnesota
 Calculation of Estimated Annual Premium

Describe by location the duties of employees	Class Code	Number of Employees	Total Payroll	Rate	Premium
Concrete Construction	5222	2	71,468	16.90	12,078
Street or Road Construction	5506	145	4,790,491	14.93	715,220
Sewer Construction	6306	9	333,765	29.55	98,628
Water Main Construction	6319	17	564,405	11.72	66,148
Contractors Yard	8227	25	852,562	6.60	56,269
Clerical Office Employees NOC	8810	28	750,537	0.61	4,578
Salesperson, Collectors or Messengers - Outside	8742				
Drivers, NOC	7380				
Employers Liability / /					
Total Premium					952,921
Experience Modification (.82)					-171,526
* MINNESOTA CONTRACTING PREMIUM ADJUSTMENT POLICY CREDIT (13%)					-101,581
Standard Premium					679,814

* As Issued by this Association

STATISTICAL REPORTING

1. The earned premium dollar adjustment due to the application of the policy credit factor must be reported on unit statistical reports under Classification Code 9046. This amount must be reported on lines D, E, F or G since it is not subject to experience modification.
2. No adjustment to aggregate standard premium reported on the aggregate Call for Experience is required because of this premium credit. In other words, reported aggregate standard earned premium must include the effects of these premium credits.

Experience Rating and Contracting Classification
Premium Adjustment Program

Those classifications to which this program applies will have the MN DSR pure premium base rate raised above the otherwise indicated average rate to provide money with which to pay the discounts. Some insureds' premium in these classes will be developed from the base rates with no discount, while others will. Thus, the starting points prior to experience rating will differ for these risks.

In order to maintain the balance of the experience rating plan the expected losses which enter into the calculation of experience modifications have to reflect these different starting points. The Expected Loss Rate (ELR)¹ in the manual corresponds to the base rate. Thus, the expected losses derived from each ELR correspond to a risk receiving no discount from the base rate. These risks have higher than average expected losses for the class. For risks receiving a discount, the expected losses are lowered by the amount of the discount. These risks have lower than average expected losses for the class. The ELR times payroll would produce redundant expected losses for these risks.

Therefore, the expected losses derived by summing the product of the ELR's and payrolls for individual classes will be multiplied by the discount applied to the policy. This will provide an appropriate starting place for comparison with actual losses in the calculation of the experience modification.

The effect will be that large risks who receive discounts will find that their experience modification will be somewhat higher. However, a risk will always be better off getting the discount; the change in experience modification will only partially offset the effect of the discount. Similarly, a risk receiving no discount will find its higher base rate only partially offset by a decrease in its experience modification.

¹ Expected Losses = ELR x Payroll