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MWCIA News

*Minnesota Workers'
Compensation Insurers
Association*

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PRESIDENT'S CORNER

Bruce A. Tollefson

Minnesota Uses \$325 Million To Improve the Workers' Compensation System

In my last article I commented on "the interesting times in Minnesota politics". It is good to report that interesting does not necessarily mean non-productive. I am pleased to report on the efforts of many participants in the political system who seized a "golden opportunity" and made a real difference. Here is what happened.

The Minnesota Department of Commerce, which oversees the operations of the Assigned Risk Plan, determined that the Plan had generated a surplus estimated at upwards of \$500 million. Obviously finding an additional \$500 million is a pleasant surprise but it also creates a tempting pool of money that the political system might wish to tap for all sorts of purposes.

The truth as we know it is that this surplus did not just appear. It was money that initially came from Minnesota employers who bought workers' compensation policies and who managed to control claims costs. Knowledgeable observers believed that these funds should be kept within the workers' compensation system.

One obvious area of need was the Minnesota Special Compensation Fund. That Fund is used in part to reimburse insurers and self-insured employers for benefits paid under the second injury and supplementary benefit programs. The Fund obtains its funding through assessments levied on Minnesota employers' workers' compensation policies.

Minnesota's Department of Labor and

Industry has a Minnesota Workers' Compensation Advisory Council made up of the key participants in Minnesota workers' compensation system. The Advisory Council was established by the 1995 Minnesota Legislature to help get politics out of Minnesota workers' compensation. Since employers and labor are two key players in the workers' compensation system, the Advisory Council is jointly chaired by Bernie Brommer, President of Minnesota AFL/CIO and David Olson, President of Minnesota Chamber of Commerce.

The Council and its leaders came up with a plan to funnel a significant part of these surplus funds into tangible benefits for employers, employees and the insurance industry, all of whom believed that surplus funds generated by workers' compensation policies should be used to lower workers' compensation costs. Among the key points discussed were:

- Transferring \$325 million of the Assigned Risk surplus to the Special Compensation Fund to pay down a substantial portion of the Fund's liabilities.
- Increasing weekly maximum temporary total disability benefit from \$615 to \$750 and the minimum weekly temporary total disability from \$104 to \$130.
- Increasing the dollar amounts on all permanent partial disability brackets with maximum increasing from \$400,000 to \$515,000.
- Requiring lump sum permanent partial disability benefits paid within 30 days when requested by employee.
- Providing a minimum dependency compensation of \$60,000.
- Increasing maximum burial expense from \$7,500 to \$15,000.
- Requiring employers to pay \$60,000 to the estate of an employee who dies

from work related injury and who has no dependents.

- Requiring at least a 30% assessment rate reduction by the Special Compensation Fund.

Putting together the details of this plan required a concerted effort by a number of people. Special recognition for the crafting of this plan must go to Bernie Brommer, David Olson and all the members of the Advisory Council, the Commissioner and staff of the Department of Labor and Industry; the Commissioner and staff of the Department of Commerce; the Minnesota Chamber of Commerce; the Minnesota AFL/CIO and the Minnesota Insurance Federation.

I would also be remiss in not recognizing the hard work of the staff of this Association. As we have done in the past with every piece of important workers' compensation legislation, the MWCIA serves as a key resource in evaluating the true impact of proposed legislation upon the workers compensation system through its evaluation of how various changes will impact employers and employees. We were called upon to perform that role with this proposal.

When this plan was submitted to the Legislature for its review and consideration, support was overwhelming. The plan was passed by unanimous votes of 129 to 0 in the Minnesota House of Representatives and 64 to 0 in the Minnesota Senate. It was then signed into law as 2000 Minn. Laws, ch. 447 by Governor Ventura.

This is a great example of interesting times and the benefits of the coordinated efforts of industry, labor, management and government. For those who believe that cooperative efforts and reasoned solutions aren't possible, we have real proof in Minnesota that they are possible and a reality.

2001 Ratemaking Report Release

Preparations for the production of the 2001 Minnesota Ratemaking Report are well under way. The Association's actuarial committee will meet in early July to discuss and agree on changes in the pure premium base rate level, and other parameters and techniques. Following board review, the report is scheduled to be released during the third week in August. As always, copies are provided free to all members.

Rate / Price Differentials

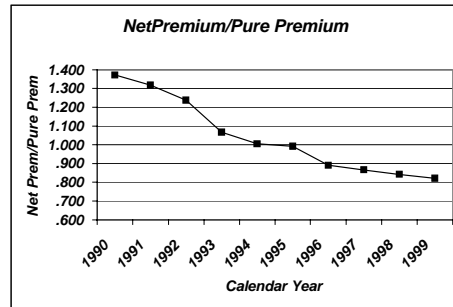
One of the most confusing things to a newcomer to Minnesota workers' compensation is the difference between our pure premium base rate level, and the final premium, or price charged for the coverage in the competitive marketplace. By statute, the MWCIA produces a set of rates each year based on historical premium and loss data which is generally sufficient to fund a limited level of claim experience. The MWCIA's rate level is far from complete. It does not include factors for: (1.) additional increases in payments or reserves for claims still in the system after eight years; (2.) changes in claim payment patterns between the time the data was collected, and the time new rates may be in effect; (3.) Minnesota-specific taxes and assessments; (4.) claim-adjustment expenses; (5.) other insurance company-specific operating expenses, such as commission & production costs, and home office general expenses.

These five factors can be substantial. In fact, the Assigned Risk Plan adjusts the pure premium base rate level by a factor of 2.5, (an increase of 150%), to produce its rate schedule. Insurance companies will do something similar, increasing the MWCIA's pure premiums by their own factors to produce their gross filed rate levels.

However, pricing doesn't stop there. The voluntary market in Minnesota utilizes a variety of pricing resources to develop final costs for employer insureds. The most prevalent are: (1.) rate deviations, (2.) experience rating plans, (3.) schedule rating plans, (4.) retrospective rating plans, (5.) premium discounts, (6.) deductible plans, (7.) dividend plans, and more! On average, these plans tend to significantly reduce the ultimate price to policyholders. What is fascinating, is the magnitude of this reduction in Minnesota - - and how the average price level has changed so dramatically over the past decade.

The following chart displays the movement of the ratio of net premium (final price) and

pure premium over the past ten years.



Note that in 1990, net premium was nearly 40% higher than the pure premium level - - a somewhat intuitive result. But in 1999, net premium had fallen to a level almost 20% below pure premiums - - a distinct indication of the result of heavy market competition.

Among many other things, this differential between an average, arbitrary starting rate level, and the final, ultimate price charged in the marketplace is a variable about which all participants in the Minnesota workers' compensation market should be aware.

SPECIAL UNDERWRITING FORMS ALERT

Following is a new mandatory endorsement that was recently approved for use in Minnesota.

Minnesota Amendatory Endorsement WC 22 00 00

Circular Letter No. 99-1341 (renumbered 00-1341) announced the approval of a new mandatory endorsement in Minnesota (WC 22 00 00) effective 12:01 a.m., May 23, 2000, applicable to new and renewal business only. The purpose of this special endorsement is to amend the present language of Part II (employer's liability coverage) of *Policy Form WC 00 00 00A* to bring the language of the policy into compliance with specific Minnesota statutes.

The Department of Commerce originally recommended the creation of a new Minnesota policy form for the purpose of conforming the current language of the standard policy to Minnesota law. Recognizing the difficulties associated with requiring a special policy for Minnesota, Association staff negotiated on behalf of our membership to satisfy the Commerce Department's concerns through the creation of a special Minnesota Amendatory Endorsement.

Effective immediately, compliance with Minnesota statute requires the mandatory attachment of the Minnesota Amendatory

Endorsement WC 22 00 00 to every new or renewal policy where Minnesota coverage is being provided. It is important to note that WC 22 00 00 is also required on any Employers' Liability only policy where Minnesota coverage is being afforded. A sample of this endorsement will be included with Minnesota's other special endorsements in the NCCI's *Forms Manual*.

Please direct any questions you may have concerning this item to one of our underwriters at 952.897.1737, or email our office at underwriting@mwcia.org.

ASSIGNED RISK PLAN NEWS

Just a reminder that Berkley Risk Administrators Company, LLC is now the sole servicing contractor for all new and renewal Assigned Risk policies starting July 1st.

Employers' of Wausau ARP will continue to service any pool policies issued by their office for claim handling, audit/billing, and statistical reporting purposes.

In connection with Wausau's reduced role as an ARP servicing contractor, Employers' of Wausau closed their local office effective June 12th. Questions concerning Wausau ARP policies are now being handled by their home office and a toll-free number has been established for your convenience (800.231.2317).

Should you have other questions or concerns regarding either Berkley or Wausau during this transition, please feel free to call our office at 952.897.1737 or email us at info@mwcia.org.

Correction

MWCIA's 1999 Annual Report inadvertently understated the Assigned Risk Plan's 1999 yearend totals. The correct numbers are:

1999 total employers:	33,225
1999 total premium:	\$24,322,194

We apologize for any inconvenience this error may have caused.

DEPARTMENT OF COMMERCE

The Department of Commerce has recently received a number of unnecessary or unacceptable filings from companies.

Companies should remember that if they have filed a Limited Power of Attorney

(LPOA) with the department they do not need to re-file it, as it is intended to be permanent until it is revoked by the company. Also, if a company has filed the LPOA it does not need to re-file items that have already been filed by the MWCIA. Only annual rate filings and independent company programs must still be filed.

The department has also been receiving quite a few form filings that do not fall within the exception language that is contained in Minnesota Rule 2705.3200. Companies need to remember that they are only permitted to use forms that have been filed with the department by the MWCIA. The only exception is limited to forms that are related to the company's rating plan and for which no suitable form has been filed by the MWCIA. This exception is very narrow, and only endorsements related to dividend plans and additional credits, such as managed care or drug-free workplace, have been approved to date.

The Department of Commerce is currently preparing for the 2001 workers' compensation rate filing season. An updated filing bulletin will be issued in late July that will include updated instructions as to the items that companies should be including in their annual rate filings. Please watch for this bulletin, as it will replace the 1998 and 1999 versions. The department encourages companies to file as early as possible, so that they have their approved rates available for marketing purposes.

DEPARTMENT OF LABOR & INDUSTRY HIGHLIGHTS

New Law Requires Employers to Give Employees "Information Sheet"

A new workers' compensation law, signed by the governor April 27, 2000, contains some additional requirements of employers with regard to the *First Report of Injury*.

Specifically, M.S. §176.231, subd. 2, is amended to read, "The employer must give the employee the *Minnesota Workers' Compensation System Employee Information Sheet* at the time the employee is given a copy of the *First Report of Injury*." The effective date is Aug. 1, 2000.

Accordingly, the Minnesota Department of Labor and Industry has worked with its stakeholders to compose a single-page information sheet that will advise injured workers of their rights and responsibilities, as well as who they can call for additional information and assistance.

It has been the department's experience that many workers' compensation issues needlessly become disputes, due primarily to an initial misunderstanding or lack of communication. The department hopes this information sheet will help prevent these type of occurrences and let injured workers know that there are department mediators who will help resolve claim problems before any misunderstanding becomes a dispute that needs to be litigated.

Employers are encouraged to provide their employees with a copy of this sheet whenever a work injury is reported to them. A copy of the *Employee Information Sheet* may be obtained from the department's Web site at <http://www.doli.state.mn.us/wceinfo.html> or by calling the department's Customer Assistance unit at (651) 297-2636 or 1-800-DIAL-DLI (1-800-342-5354).

(Most) Everybody Loves a Discount

One of the changes in the workers' compensation statutes that resulted from the 2000 legislative session was a provision (M.S. 176.101, sub 2b) that permits a lump sum payment of permanent partial disability benefits if the employee requests it. This applies to dates of injury October 1, 2000 and after. If this is done, the lump sum payment may be discounted to the present value calculated up to a maximum five per cent basis. This sounds like a good deal for both the employee, who gets the money sooner, and the insurer, who gets a reduction in the amount paid out.

The process of determining the present day value is not as simple as taking a straight 5% off the top. Think of some of the long term loans that we have such as auto or home mortgages. The initial purchase price is quite different from the total paid out at the end of the loan term because of the interest paid. Present values work in the opposite direction. We know what the total amount due is (the value of the permanent partial disability rating prior to discounting), the amount of each payment (the temporary total disability rate), the number of payments to be made (the amount due divided by the amount of the payment), the frequency of the payment (weekly, bi weekly, twice monthly etc) and the interest rate (up to 5%). All of these are used to determine what the starting amount would be. This is the present day value amount, which would be paid in a lump sum. The main element that affects the amount of the discount is the number of payments - the greater the number of payments made as a result of a high permanent partial disability rating and low compensation rate, the greater the discount.

The calculations can be done manually using tables or using PC spreadsheet programs,

however these are typically designed for once a month payments and are not completely accurate for different frequencies of workers' compensation payments. Rather than burn out a calculator with manual calculations, the DLI web page (www.doli.state.mn.us) will have a present day value calculator available in the near future which can be used with these variables.

WHAT ARE FEIN OR UI NUMBERS?

MWCIA receives many inquiries as to the requirement of the FEIN and UI numbers. Our office does not use the numbers however; they are required for proof of coverage purposes. FEIN is the Federal Employer Identification number and the UI is the Minnesota Unemployment Account number.

The Minnesota Department of Labor and Industry (DOLI) is the state agency responsible to ensure that all required employers purchase workers' compensation insurance. DOLI has enforcement and regulatory authority to enforce the purchase of WC insurance. Minnesota Rules Chapter 5222 outlines the rules specifying the form, content and place of filing for all proof of coverage items. DOLI has contracted with our office to provide them proof of coverage information through our data collection system. This alliance between our offices saves the insurance companies the expense of having to file policy information with two separate offices. They file policies, endorsements, cancellations and reinstatements with MWCIA and the filing satisfies the proof of coverage needs of DOLI at the same time.

Minnesota Rules are very specific with respect to the information for each employer that must be filed. The specifics are contained in Minnesota Rules Chapter 5222.2001. This section contains the requirement that "Every employer's federal employer identification number (FEIN) and unemployment account number" (UI) shall be collected with each insurance policy.

It is important that insurance companies along with insurance agencies collect these two numbers each and every time they complete a WC insurance application and/or issue a WC insurance policy. For further information please see Minnesota Rules Chapter 5222.2001.

RECENT MWCIA CIRCULARS

Following is a list of the most recent MWCIA Circulars published since the last

MWCIA Newsletter. This checklist is published to help all MWCIA members and subscribers stay current with MWCIA Circulars.

Circular Letter No. 00-1340

4/11/00 – MWCIA 1999 Annual Report

Circular Letter No. 00-1341

6/13/00 – FORMS MANUAL – Special Minnesota Endorsement & BASIC MANUAL – Rule VIII: Part Two – Employers Liability

Circular Letter No. 00-1342

6/20/00 – MWCIA Membership List eliminated from Basic Manual

Circular Letter No. 00-1343

6/20/00 – NCCI Item B-1362 – Code 5551 – Roofing – Amended Phraseology

Circular Letter No. 00-1344

6/20/00 – NCCI Item B1363 – Codes 7403, 7405, 7423 & 7431 – Air Carrier Classification – Amended Phraseologies

Circular Letter No. 00-1345

6/20/00 – Basic Manual Rule IV.D.4 – Assignment of Additional Basic Classifications

Circular Letter No. 00-1346

6/21/00 – Insurance Bureau Bulletin Board Service Network - IBBSnet™

Circular Letter No. 00-1347

7/25/00 – Minnesota Department of Commerce Notification

MWCIA's Circulars are available on our website at www.mwcia.org or by calling our front desk services specialists at 952.897.1737.

The following chart lists recent NCCI items that were not incorporated into MWCIA rules or guidelines.

U-1355

WCSP Pension Table Revisions (89-91 Mortality) – See MWCIA Circular Letter No. 99-1326

R-1356

1999 Update to Retrospective Rating Plan

E-1357

Experience Rating for Self-Insureds – ERM 16 Forms

B-1351

Workers Compensation Premium Algorithm

U-1358

WC Statistical Plan Claim Grouping Option

U-1360 & 1360A

URE Workers Compensation Statistical Plan – this manual is not applicable in Minnesota

R- 1365

2000 Update to Retrospective Rating Plan – See MWCIA's 2001 Annual Ratemaking Report that will be released prior to 9/1/2000

MWCIA is the data service organization licensed to file manual rules, classifications and statistical codes on behalf of member companies in Minnesota.

This newsletter is published periodically by the Minnesota Workers' Compensation Insurers Association as a service to the workers compensation industry. If you have questions, comments or suggestions, please contact the MWCIA at 7701 France Avenue South, Suite 450, Minneapolis, MN 55435 or call 952.897.1737 / fax 952.897.6495.

MWCIA PURPOSE

As the preferred provider of quality Minnesota Workers' Compensation information, we are committed to developing products, services and markets that meet our customers' evolving needs, and to providing a work environment rich in opportunities for personal and professional growth.

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

ADDRESS CORRECTION REQUESTED



‘JUST ASK US!’

As time rolls on, staff responds to an increasing variety of inquiries via the internet. Here are responses to some of the ‘Frequently Asked Questions’ our staff has received over this past quarter. If you have questions you would like addressed in a future newsletter, please submit them via email to underwriting@mwcia.org; or mail us in care of ‘MWCIA’s FREQUENTLY ASKED QUESTIONS’.

- **Is it proper for us to give out other employer's experience modifications to our customers? Some customers have contacted us and want us to find out their competitor's experience modifications. If we do give these out, are we possibly violating any privacy issues?**

MWCIA does not provide any personal information about employers to other employers. We provide modification histories & modification ratesheet information on employers to work comp carriers and their licensed agents for a fee. While we can not stop a company from distributing this information to other employers, we would strongly disagree with this practice and reserve the right to refuse products to individuals who would continue to use our information in this manner.

- **I'm looking for information on wrap up insurance, more specifically, how claims are handled when wrap up insurance is purchased. I have an insured whose experience mod was affected by a claim that occurred under a wrap up policy. Please let me know how I can obtain any policy or claim information for the wrap up policy.**

Employers who are involved in wrap up projects will have two separate policies - one for the wrap up project and another for all of their other work projects. To obtain claim information for either policy, the employer will need to contact the carrier in question. As far as the mod calculation is concerned, there is no difference between a claim occurring on a wrap up policy or a regular policy for an employer. Data from all of the employer's policies within the rating period will be used in the calculation of their experience modification.

- **I need to check on the status of the 6/15/00 experience mod for one of my accounts. Here is the employer's name, file number, and current policy number.**

While frustrating, it is often difficult to respond to questions of this nature on the spot. Our underwriters require time to research our records and often must confer with another staffmember in a different area of the office. Sending an email inquiry as exemplified above is a quick and easy way to provide our underwriters with the necessary information. One of our staff will research the matter and get back to you just as soon as possible.

- **I would like to know if a contractor I've hired has valid insurance coverage. We have a copy of the old policy that expired 4/23/99. We are having this contractor paint our home exterior. Please inform via email / U.S. mail if valid insurance coverage.**


We suggest you obtain a Certificate of Insurance from your contractor listing you as the certificateholder. This document is issued directly to you by their insurance company to serve as proof of coverage' in these instances.

Frequently Asked Phone Numbers:

- Department of Labor & Industry - 651.297.4377
- Department of Commerce - 651.296.4026
- Assigned Risk Servicing Contractors:
Berkley Administrators – 612.544.0311
Employers of Wausau ARP – 800.231.2317

MWCIA WEBSITE UPDATE


Here is an update to some of the ‘frequently asked questions’ staff received since the last newsletter about MWCIA’s website and subscriber services:

 **The employee we signed up left the company. Can we transfer their subscriber account to a new employee?**

Unfortunately the MWCIA Individual Subscriber Account is non-transferable. Since the account actually belongs to an individual and not a company, the person who signs up for the account can still use the account when they switch employers once they provide us with their new billing information. The annual service fee is intended to offset our expenses for setting up and maintaining accounts. If an employer pays the annual fee on the employee’s behalf, therefore, they will still need to pay an additional set up fee for any employees they may wish to sign up for an account in the future.

 **Any news on the online ordering system for experience modification worksheets?**

Thank you all for your patience! This product is in its final testing phase at MWCIA and should be available by the time this goes to press. As soon as it’s up and running, a notice will appear on our website announcing its availability. As a bonus to our new online ratesheet ordering system, employer mod histories will now be included as part of your annual subscriber fee once this product becomes available.

 **What other features are new to MWCIA’s website?**

The following enhancements have been implemented on MWCIA’s website since our last newsletter:

- Carrier Rate Search (public access)
- downloadable Assigned Risk Depopulation Reports
- online Class Code Search (MCI)
- more ‘help’ box information

 **Who should I contact if I have more questions?**

If you would like more information about the various products & services available through MWCIA or need help using our website, please contact our front desk services specialists or one of our underwriters at 612.897.1737, or email us at underwriting@mwcia.org. If you have comments or suggestions about the look of our website, please email them to marie.johnson@mwcia.org.