

**This quarter's featured articles:**

- **"State of the MN Workers Compensation Market" (presented at the MWCIA Annual Luncheon held April 16, 2012). See pages 2, and 3.**
- **MN DOC approves NCCI Item E-1402 Revisions to the MN Experience Rating Plan.... See Circular Letter No.12-1614 dated, May 17, 2012, and "Additional Perspectives", page 3.**

Thursday, May 31, 2012



By **Bruce A. Tollefson**

## PRESIDENT'S CORNER

### The Times They Are A Changing?

Minnesota's own Bob Dylan penned his ballad "The Times They Are A Changing" as a commentary on social change in 1964. While the purpose of his song was to bring light to some of the controversies of the day, the concept of changing times impacts many more than causes of the 60s.

I for one remember 48 years ago. I also know that I was a lot younger then. One reality of the passage of those 48 years for myself and for my contemporaries in the "baby boom generation" is that we are approaching or have arrived at retirement.

Retirement of seasoned personnel impacts all organizations, but it is for the first time in many years having a large impact on the senior ranks of a small group of data collection organizations (DCOs) of which MWCIA is a member.

It is important that we take the time to stop and recognize these individuals for a number of reasons. Clearly they have spent the bulk of their careers working with DCOs, but they have also been instrumental in building effective leadership within their organizations.

That leadership has been instrumental in moving DCOs into the modern world of workers' compensation data collection. I have over many articles spoken of the advances in the technology and tools for data collection as well as the products and services offered by MWCIA and other DCOs to our members.

Senior managers, individuals, and others have been a part of the vision that lead to these advancements. They have also championed these changes in dealings with other DCOs.

Among the persons who have retired over the

past number of months are the following:

Carole Banfield – Insurance Services Office. Carole served as an executive vice president of ISO. She worked more than 40 years in the property/casualty insurance industry. She was closely involved with the development and implementation of many of ISO's important insurance programs. She also was part of the effort by ISO to join forces with DCOs in the development of many products for the industry.

Grover Czeck - New Jersey Compensation Rating & Inspection Bureau. Grover was the Executive Director and Chief Operating Officer of the New Jersey Bureau. Under Grover's leadership, the New Jersey Bureau joined ACCT and CDX.

Bob Mike - Workers Compensation Insurance Rating Bureau of California. A lawyer by training, Bob worked with the California Rating Bureau for many years and rose to become its President. As the head of a major DCO, Bob was always exploring the benefits of the collective efforts of DCOs. He was also one of the leading voices among the DCO organizations in the development of these collective efforts to serve the insurance industry.

I have just returned from a meeting where another long time DCO manager announced his pending retirement.

Jerry Stage - Compensation Advisory Organization of Michigan. Jerry serves as the President and CEO of the Michigan Bureau. Jerry has held that position since 1993. He was one of the founding members of the Workers' Compensation Insurers Organization in 1995 and has been involved in the industry efforts of that and other organizations throughout his tenure as the head of the Michigan Bureau.

As in other industries, these individuals possess years of experience. Their retirement represents a significant loss of knowledge, experience and leadership for their organizations and for the other DCOs with whom they work. In addition to their business expertise, they will be missed because as

individuals, they are intelligent and interesting people.

The good news is that they leave behind strong organizations with a deep bench of talent. They have also been working with their respective Boards on succession planning to locate suitable replacements for their important jobs.

The silver lining in these changes is that new individuals in the key leadership roles of these DCOs will hopefully stimulate new ideas, new thoughts, and new ways of looking at problems. The key to this future success is the careful selection of these new leaders.

We at the MWCIA are also looking forward and have succession plans in place to ensure that the MWCIA continues as an industry leader. We also have many individuals within our organization with the skill and talent to keep the organization on track as members of our senior leadership retire and are replaced. Our Board is also deeply involved in planning for the eventual succession of leadership.

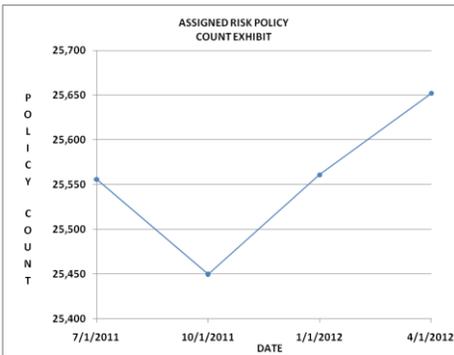
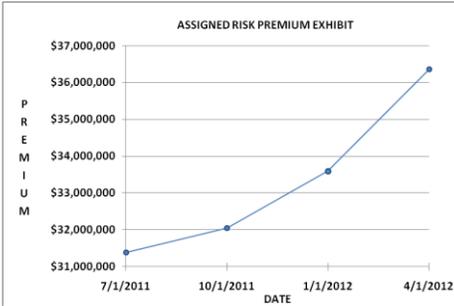
I look forward in the future to providing more information on these efforts and keeping this organization true to our core mission as: **the preferred Data Service Organization (DSO) for quality workers' compensation data collection, analysis, and products in Minnesota.**

- **Our products and knowledge provide for informed decisions for clients' products/pricing/rates and state policy.**
- **We are committed to proactive partnerships in developing state, regional and national standards, structures and systems.**

So looking forward at MWCIA, even with retirements on our horizon, I believe our future growth as an organization will continue. Let me end the same way I began, with the words of another Dylan song. How will MWCIA weather the loss of its baby boomers? As the Dylan song goes, "Don't Think Twice, It's All Right."

## FROM THE ASSIGNED RISK CORNER

### ASSIGNED RISK SUMMARY REPORT AS OF 04/01/2012 (ALL SERVICING CONTRACTORS)



### CERTIFICATES OF INSURANCE FROM SUBCONTRACTORS

The Minnesota Workers' Compensation Assigned Risk Plan (MWCARP) has been experiencing a significant number of occurrences of subcontractors cancelling their workers' compensation insurance policies without providing notice to the general contractor. We've also witnessed an increase in the incidents of subcontractors providing invalid certificates to general contractors, resulting in no workers' compensation insurance coverage being available.

When a general contractor receives a certificate of insurance from a subcontractor, the insurance carrier named on the certificate should be contacted to verify that a policy actually exists. The general contractor should also request notification by the insurance carrier, if and when the subcontractor's workers' compensation coverage is cancelled. This is one step the general contractor can take to protect themselves from being charged premium for the employees of the subcontractor.

**COMPLETING AN ON-LINE ASSIGNED RISK (OAR) PLAN APPLICATION? CLICK [here](#) FOR A REVIEW OF OAR PLAN APPLICATION FAQs AND ANSWERS.**

## OAR BROWSER ALERT

When submitting an OAR plan application, please be advised that the OAR web application supports **Internet Explorer 6.0 and higher**. **Other browsers and older versions of IE are not recommended.**

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## FROM THE ACTUARIAL CORNER

**STATE OF THE MN WC MARKET**  
*(presented at the April 16, 2012, MWCIA Annual Luncheon)*

### "DIRECT EARNED PREMIUM"

Overall insured premium levels dropped over 25% from 2005-2010; although last year's data is not yet available, I expect this trend will have continued into 2011. The economy, of course, has substantially precipitated this decline. A good sign in all this is that the Assigned Risk Plan has depopulated to such an extent – over 65% over the same time period – that it now represents just 4.5% of the insured market.

### "LOSS RATIOS"

The ratio of direct incurred losses to earned premium bottomed out in 2007, but has seen an uptick in recent years. In a state like MN with a very stable, consistent benefit structure, this sort of mild, cyclical movement in the underwriting cycle is expected. Nonetheless, the ratio has increased over 20% since 2007 – primarily driven by the premium reductions we just reviewed – about 23% over the same time period.

### "PURE PREMIUM BASE RATE CHANGES"

When you have a long enduring, steady benefit structure as we do in MN, and a defined, significant limitation on full rate level production, you should see a couple of things: (1) a lag between current experience changes and the point at which they actually exhibit themselves in the rates, and (2) fairly insignificant annual changes. That's exactly what we see. MWCIA has filed 8 modest decreases over the last 10 years, – an average annual reduction of 0.8% over the decade – and the underlying statistics supporting the recent CY loss ratio increases have not quite yet found their way into our ratemaking data.

### "AVERAGE LOSS COST MULTIPLIERS"

The pure premiums that MWCIA

promulgate include **NO** provisions for late loss development, trend, claim adjustment expenses, other carrier expenses, premium taxes, and assessments. Our competitive rating statute affords carriers significant freedom in determining these additional costs, and they're traditionally represented in their loss cost multipliers. This has been another example of stability. 2010 voluntary market LCM's were only about 5% higher than they were in 2001 – standing right around 1.75. On average, the Assigned Risk Plan has kept their multiplier over 38% higher than the voluntary market counterpart since 2005 – certainly catalyzing the Plan's reduction in market share. (2.60 today – over 42% higher)

### "LOST TIME FREQUENCY"

The primary driver responsible for keeping costs relatively stable and predictable is lost time case frequency. After many years of significant decreases, changes in average case counts per \$1 million of Standard Earned Premium have settled over the last several years – with an average annual decrease of just 1% from 2004-2010.

### "INDEMNITY & MEDICAL LOSS %"

As indemnity claims have become less prevalent and more predictable, MN has experienced a phenomenon not uncommon countrywide: our projection of the medical portion of the ultimate loss dollar is now nearing 68%.

### "MEDICAL SEVERITY"

The singular reason for this is that the average cost of a lost time medical case is projected to have increased 76% since 2001 – or about 6% per year. This annual rate has been slowing in recent years, but....

### "MEDICAL SEVERITY AND MCPI"

...again, not uncommon to MN – this change is about double what we've seen nationally in the Medical CPI – which has increased about 3.5% annually over the same time period.

### "INDEMNITY CASE RESERVE CHANGES"

The indemnity and medical loss proportion dichotomy is also evident in case reserve movement. While carriers are releasing existing indemnity case reserves (**dark blue bars\***) faster than they're establishing new ones (**light blue bars\***) – amounting to over a \$60 million net reduction over the decade.

On the medical side, the opposite is happening. Carriers have established over \$1.2 billion of new case reserves (light yellow bars), while releasing less than \$600 million (dark yellow bars). Medical case reserves now account for close to 58% of the total case reserves held on all MN WC claims.

#### “CASE RESERVE CHANGES”

So, since 2000, while net indemnity case reserves have dropped about 7%, net medical case reserves have increased almost 145%.

#### “SUMMARY”

To summarize – MN WC continues to be relatively predictable. Insured premium volume continues to drop due to the recession, with case frequency changes stabilizing after years of steady decreases. Medical average cost increases are slowing as well, but medical reserve strengthening continues, as new & more expensive medical cases arise. These combinations of characteristics have brought about some increases in recent net loss ratios – which we expect will be soon filtering into our ratemaking considerations.

\*Graphs used for this presentation, are available by clicking [here](#).

Craig Anderson, VP Actuarial, MWCIA.



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### FROM THE UNDERWRITING CORNER

#### CIRCULARS & FILINGS

Since our last issue of [MWCIA News](#), the following changes have been filed and approved for use in MN:

#### [Circular 12-1608](#)

##### 2011 Test Audit Summary Report

This circular contains the test audit summary results for 2011.

#### [Circular 12-1609](#)

**AMENDED: 4-1-2012 Assigned Risk Rates**

The intent of this circular is to highlight only the items in the Assigned Risk Rate Schedule and Miscellaneous Values Pages that will change due to the Commissioner’s Order.

#### [Circular 12-1610](#)

##### Elimination of Hard Copy Policy Data Submissions Effective July 1, 2012

The intent of this circular is to remind member carriers that effective July 1, 2012, only electronic copies of policies, endorsements, cancellations and reinstatements received in our system database.

#### [Circular 12-1611](#)

##### Three-Year Variable Rate Policies not Permitted in Minnesota

The intent of this circular is to remind member carriers that Three-Year Variable Rate Policies are not permitted in Minnesota.

#### [Circular 12-1612](#)

##### 2011 Annual Report

This circular announces and offers a link to MWCIA’s 2011 Annual Report.

#### [Circular 12-1613](#)

##### Elimination of Hard Copy Policy Data Submissions Effective July 1, 2012

This circular serves as yet another reminder that **as of July 1, 2012, electronic copies only of policies, endorsements, cancellations and reinstatements received in our office will be entered into our system database.**

#### [Circular 12-1614](#)

##### NCCI Item E-1402 – Revisions to the Experience Rating Plan Primary/Excess Split Point Value and Maximum Debit Modification Formula

This Circular details changes to MWCIA’s Experience Rating Plan (primary/excess loss split point and the maximum debit modification formula.

#### ADDITIONAL PERSPECTIVES

1. The Experience Rating Plan is a national (NCCI) merit rating program currently in use in those states that allow private workers’ compensation insurance policies. NCCI’s changes to the Experience Rating Plan (Item E-1402) are intended to apply to those states.

**To minimize confusion by maintaining consistency, especially for multi-state policyholders, independent DCO states, like Minnesota, do their best to stay consistent with NCCI.**

2. The average claim cost has more than tripled in the last 30 years. Based upon NCCI’s and MWCIA’s research, the split point

should actually be increased to \$15,000 immediately. **To best manage the needed change (\$15,000) and minimize disruptiveness, NCCI decided to phase-in the necessary change.** After significant discussion and analyses, NCCI determined that a larger increase in the first year of the transition period would be much less disruptive than equal changes over a three- or even four-year period. This traditionally proves true in most rating transition programs: a larger change in the first year immediately focuses questions, engenders clarification, and encourages carriers to examine additional insured pricing considerations.

In support of MWCIA Circular Letter 12-1614, additional resources are available (and are in the planning stages of being made available) to facilitate training needs. Those resources include: NCCI [webinar](#); NCCI’s “FYI Plus” dated August 5, 2011, with Frequently Asked Questions (refer to NCCI’s website); MWCIA FAQs (soon to be released); planned CE classes offered in cooperation with MIIAB (tba); MWCIA Actuarial Department availability for questions (952) 897-1737, option 3, or email at [actuarial@mwcia.org](mailto:actuarial@mwcia.org).

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We recommend carriers bring these items to the attention of the appropriate staff within their organization as these changes have a direct impact on how companies write and/or report data on workers’ compensation policies in Minnesota.

**Reminder:** As the sole data service organization in Minnesota, MWCIA is the only organization authorized to file workers’ compensation manual rules, standard forms and endorsements, and classification and statistical codes on behalf of member carriers in this state. As such, each Circular, continues to identify those NCCI changes that are not approved for use either in part or whole in MN.

#### EXPERIENCE RATING – WORKSHEETS AND ELIGIBILITY-- SELECTED Q & A:

**Q1:** I tried to open an experience modification on MWCIA’s website, however, it is not highlighted and won’t open. Is something wrong?

**A1:** If an insured’s information is not highlighted – meaning you can’t “click” on it

to open it – it means that there is no experience modification.

If an insured has historically been *Intrastate* rated and is now *Interstate* rated, you will see a 0.00 experience mod with a status of “Manual Entered”. You will be able to click on the effective date, however, there will be a notification indicating that the insured is now rated by NCCI.

**Q2:** I am an agent. How do I obtain experience modification worksheets?

**A2:** Agents may purchase them one of two ways: Complete a **Product Request Form** and purchase them one at a time, or sign up for a **Web Account** as a *Subscriber*. Both the Product Request Form and the Web Account Application are found on our website under the Carriers/Agents tab.

For Web Accounts there are two Subscriber levels:

- \$1,000 Platinum - Unlimited access to experience modifications for one year
- \$150 Silver - Limited to 20 experience modification worksheets

**Q3:** What are the eligibility criteria for experience rating?

**A3:** Eligibility for experience rating is based on two factors: number of years in business and premium. The insured must be in business at least 2 years and meet one of the following premium criteria:

1. \$10,000 subject premium (unmodified) in the 1<sup>st</sup> year of the experience rating period or,
2. An average of \$10,000 subject premium (unmodified) in the first 2 years of the experience rating period or,

3. If an employer has more than 2 years of experience, they must develop an average annual subject premium (unmodified) of \$5,000 in the experience rating period.

Please refer to the ***MN Experience Rating Plan Manual*** for more information. This manual may be found on our website. Click [here](#) to view.

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### **REMINDERS**

**Manage USR:** Monthly unit stat reports that are **due, late** or **missing** are placed on a report (**14, 18, 21 Month Report**). Similarly, following the first Sunday of the subsequent month, a new set of reports are loaded in the system for the current month. This report is available to the carriers via the **MANAGE USR** program (this program electronically houses all unit reports a for carriers’ easy access). This site also serves as a place where carriers can access their unit stat data prior to acceptance in our Spectrum system.

The issue we have encountered is that carriers periodically request a prior month’s report. It is imperative to remember that this report is only available for one month at which time it is deleted from our system and no longer accessible.

We strongly recommend carriers use the **MUSR** system to maintain their own data. The MUSR system allows carriers to retrieve reports available within that month’s time.

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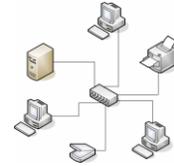
**New Manage Policy System feature:** For the convenience of those carriers who work with large volumes of data, we’ve expanded the “Select All” feature from 50 rows to 100 rows. This feature allows carriers to execute operations in bulk (e.g. validating or submitting multiple policy transactions

simultaneously; viewing errors and/or warnings for all selected transactions, etc.). We believe introduction of this enhancement as well as those on the horizon will enhance the Manage Policy System.

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**Mark your calendars** for Thursday, July 19, 2011, to attend **MWCIA’s annual golf outing** to be held at Crystal Lake Golf Club, Lakeville, MN. See you on the first tee.

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**When accessing the MWCIA website, remember to use Internet Explorer 6 or higher.**

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***MWCIA News*** is a periodic publication of the Minnesota Workers’ Compensation Insurers Association as a service to its members and the workers’ compensation industry. Please direct any questions, comments or suggestions you may have concerning this publication to Glenn Colby, CPCU, editor of *MWCIA News*, c/o MWCIA; 7701 France Avenue South, Suite 450; Minneapolis, MN 55435. You may also contact Glenn by phone (952 897-6411), fax (952 897-6495), or e-mail ([glenn.colby@mwcia.org](mailto:glenn.colby@mwcia.org)).



### **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.*



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