

MWCIA News



4th Quarter 2012 issue a publication of the Minnesota Workers' Compensation Insurers Association

New Split Point and Max Debit Modification Formula changes effective 01/01/2013 (see page 3)

November 27, 2012



By Bruce A. Tollefson

PRESIDENT'S CORNER

MWCIA - 30 Years Old - But Really Going on 90

The year 2014 marks a milestone for Minnesota Workers' Compensation Insurers Association (MWCIA). It will mark 30 years since our incorporation.

So what does my title "Really Going on 90" mean? It means that MWCIA is part of a much longer history of workers' compensation insurance in Minnesota and it shows how our evolution has followed that history.

The adoption of workers' compensation insurance as a benefit for injured workers goes back to 1921 when Minnesota first adopted a workers' compensation law. As part of that law, the legislature recognized the need for a state rating bureau which collected information on Workers' Compensation policies and claims and helped assure that employers purchased this mandatory coverage.

The entity created by that initial law was named the Minnesota Compensation Rating Bureau (MCRB). As the name implies, MCRB was a Rating Bureau under the regulatory supervision of the Minnesota Insurance Department.

From the 1920's to the late 1970's, MCRB served an essential role in the functioning of the workers' compensation system. It collected detailed information on all policies and claims. It published manuals directing how policies would be issued and how workers would be classified. MCRB also annually proposed rates, subject to approval by the Insurance Department, that were mandatory for all insurers. MCRB also

managed the assigned risk plan as it then existed in Minnesota.

In the 1970's increasing costs of workers compensation insurance and a nationwide review of the system had its impact on Minnesota. In 1972, the National Commission on Workers' Compensation prompted dramatic law changes that vastly expanded workers' compensation benefits. Minnesota, as well as many other states, was affected.

These vastly expanded benefits along with rising inflation took a heavy toll on businesses and industries. These same factors also stressed many Workers' Compensation insurers leading to a rise in carrier insolvencies. The MCRB was at the center of this push for increased benefits and premiums. Faced with data on increasing costs, MCRB asked the Insurance Commissioner for a one year 67.5% overall average rate increase in 1977.

Not surprisingly this filing was not well received. This filing prompted legislative hearings, litigation, and turmoil in the system. The end result was vast changes in the Workers' Compensation law. Among these changes were modifications to the law governing MCRB and a renaming of that organization to Workers' Compensation Insurers Rating Association of Minnesota (WCIRAM).

Unfortunately these changes did not alleviate the problem or the significant imbalance between benefits paid and premium levels carriers could charge.

This tension existed for several years and through multiple legislative reviews. The culmination of this controversy was a wholesale restructuring of the Workers' Compensation pricing law. With that came

a dramatic change in the old rating bureau structure. While many of the key functions of a rating bureau were continued, the Legislature created an entity known as a Data Service Organization (DSO). With that law change, MWCIA was created in 1983 and promptly licensed as the state's only DSO.

The new law was intended to resolve the years of controversy underlying the growth in worker's compensation rates and to build long term stability into the system.

One of the primary changes was that Minnesota was switched from "administrative pricing" to an "open competition" system. Along with numerous other changes, this helped take most of the "politics" out of the system and to provide carriers with flexibility to compete on prices. In addition, these changes, along with adjustments to the benefits paid by law changes in 1993 and 1995, have produced a system that has been fairly stable for past many years.

With all of this in mind, we thought it important to not only "celebrate" the 30 years that the MWCIA has been in existence, but to also reflect on the history and the valuable "lessons learned".

Over the coming months leading up to 2014, the MWCIA is planning some informational pieces and events that will help celebrate our 30 years. Look for additional information about our plans in future MWCIA Newsletters and the MWCIA website.

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.

FROM THE IT CORNER

PEEP to sunset December 31, 2014

CDX has decided that the Policy Entry and Edit Package (PEEP) will no longer be available after December 31, 2014, because the program is cost prohibitive to maintain. Other CDX products are not impacted by this change.

The CDX announcement mentions that some Data Collection Organizations (DCOs) have already developed a PEEP replacement product. In 2011, Minnesota Workers' Compensation Insurers Association, Inc. (MWCIA) released the Minnesota Manage Policy System (MPS). MPS allows member carriers to manage their own policy data. Features of the system include: functions to import, create, and submit electronic policy transactions; comprehensive transaction validation; near-time electronic submission processing by the MWCIA; robust transaction and coverage search capabilities; and over thirty-three months of coverage and transaction history.

To learn more about MPS, please email Manage_Policy@mwcia.org or contact Kim LaHoud at 952-897-6412 and/or go to http://www.mwcia.org/Downloads/Circular_Letter/11-1597.pdf to view MPS Circular Letter #11-1597.

FROM THE UNDERWRITING CORNER

CIRCULARS & FILINGS

Since our last issue of MWCIA News, the following circulars have been filed and approved for use in MN:

Circular Letter 12-1617

WCIO Search Point Application Announcement

This circular announces the release of the WCIO Search Point application.

Circular Letter 12-1618

Communications on the New Construction Contractor Registration Pilot Project

This circular announces the new Construction

Contractor Registration Pilot Program.

Circular Letter 12-1619

NCCI Item B-1425 – Revisions to Employers Liability and Admiralty or FELA Coverage Increased Limits Percentages and Factors – Clarification

This circular reminds carriers wishing to adopt the Employers Liability and Admiralty or FELA Coverage increased Limits Percentages and Factors that they must make their own filing on their own manual pages with the Minnesota Department of Commerce for approval including minimum premium charges.

Circular Letter 12-1620

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

This circular identifies frequently asked questions about the NCCI Item E-1402 "Revisions to the Experience Rating Plan Primary/Excess Split Point Value and Maximum Debit Modification Formula".

Circular Letter 12-1621

2013 Minnesota Ratemaking Report

This circular announces the approval of the Minnesota Ratemaking Report.

Circular Letter 12-1622

CORRECTION: 2013 Minnesota Ratemaking Report

This Circular announces a correction to a typo found in the Miscellaneous Values page of the 2013 Minnesota Ratemaking Report.

Circular Letter 12-1623

Eligibility Requirements for Experience Rating in Minnesota

This circular confirms the premium eligibility requirements for Experience Rating in Minnesota.

Circular Letter 12-1624

Additional Communication on the New Contractor Registration Pilot – Program

This circular provides additional information about the Minnesota Department of Labor & Industry's new Contractor Registration Pilot-Program.

Circular Letter 12-1625

Discontinuing PEEP – Policy Entry and Edit Package

This circular announces the *sun setting* of the Policy Entry and Edit Package (PEEP) as of December 31, 2014.

Circular Letter 12-1626

Executive Officers' Payroll Threshold Changes

This circular explains the formula increases for the minimum & maximum individual weekly remuneration for executive officers, partners and sole proprietors, and electing members/owners of limited liability companies.

Circular Letter 12-1627

Paper Processing of Cancellations and Reinstatements – Increased Fees

This Circular announces an increase in the fees for handling hardcopy policy cancellations and reinstatements.

As the sole data service organization in Minnesota, MWCLA 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 Minnesota.

EXECUTIVE OFFICERS' PAYROLL THRESHOLD CHANGES

Have you heard or read about the changes effective January 1, 2013, to the minimum and maximum individual weekly remuneration applicable to executive officers, partners, and sole proprietors?

\$190,528.....Maximum Individual Remuneration applicable to executive officers, partners, and sole proprietors in connection with *Minnesota Basic Manual* Rule 2-E-1-b and Rule 2-E-3-a, electing members/owners of a Limited Liability Company in connection with *Minnesota Basic Manual* Rule 2-E-2-b, Code 9178--"Athletic Sports or Park: Non-Contact Sports", and Code 9179--"Athletic Sports or Park: Contact Sports"

\$31,772.....Minimum Individual Remuneration applicable to executive officers, partners, and sole proprietors in connection with *Minnesota Basic Manual* Rule 2-E-1-b and Rule 2-E-3-a, and electing members/owners of a Limited Liability Company in connection with *Minnesota Basic Manual* Rule 2-E-2-b .

Note the new thresholds apply to all MN Workers' Compensation Assigned Risk Plan policyholders effective April 1, 2013.

For additional insight, please refer to [Circular Letter 12-1626](#) Executive Officers' Payroll Threshold Changes.

SPLIT POINT VALUE AND MAXIMUM DEBIT MODIFICATION FORMULA CHANGE EFFECTIVE JANUARY 1, 2013

Are you familiar with the changes to the MN Experience Rating Plan effective January 1, 2013? (Refer to [Circular 12-1614](#))

The Experience Rating Plan is a national 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.

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.

Here's what our analysis tells us about the impact of the changes to the Minnesota Experience Rating Plan:

1. There will be **no measurable change in the overall average statewide experience modification level in 2013**;
2. **82% of current rated insureds will either see modification decreases or increases of no more than 2%**;
3. **12% of current rated insureds will see modification increases between 2% and 10%, with an average around +5%**;

4. **6% of current rated insureds will see modification increases of more than 10% - these changes will primarily affect businesses with current modifications exceeding 1.25.**
5. Future results will be much less significant; it's expected that only **5% of rated insureds will see additional modification increases of more than 5% from 2014 through 2015.**

Ample training resources are available to you, including: NCCI [webinar](#); NCCI's "FYI Plus" dated August 5, 2011, with Frequently Asked Questions (refer to NCCI's website); MWCIA [Circular Letter No 12-1614](#), and MWCIA [Circular Letter No 12-1620](#) (Frequently Asked Questions); on site presentations by Glenn Colby, CPCU; and the MWCIA Actuarial Department (952) 897-1737, option 3, or email at actuarial@mwcia.org.

HOW TO CLASSIFY A RISK

We (MWCIA) are called upon daily to provide counsel and guidance in properly classifying a risk. Let me first say that classifying a risk should never be used as pricing tool (aka "creative classification"). Creative classification negatively affects both the ratemaking process and any applicable experience modification. (In the case of an experience modification, use of an intentionally understated or lower rated classification will result in an artificially inflated experience modification. The old adage applies: "Pay me now or pay me later". In the final judgment, everyone pays for such misuse of the classification system.

The first step in the classification process is to identify the business of the employer. There are many sources of that information: an application for insurance, the agent or broker, the employer, the website of the employer (if any), the experience rating worksheet(s) (if available), a D&B report, (if any), an annual statement of the employer, any advertisements (e.g. Yellow Pages), etc.

Armed with that information, there are a number of resources available to you to identify the proper classification of the employer's business: **MN Basic Manual; Classification Search; Classification Survey Request Form** (both of which can be found on the MWCIA website); or a quick phone call to one of our friendly and

customer focused Underwriting staff members:

Jeff Kvam	952 897.6414
Melodie LaChapelle	952 897.6407
Glenn Colby	952 897.6411
Jen Glywasky	952 897.6454
Lesley Pyle	952 897.6410

As you classify a risk, you are to be guided by one basic principle: **assign the one basic classification that best describes the business of the employer within a state.** Subject to certain exceptions, each classification includes all the various types of labor or tasks found within a business. It is the business that is classified, **not the individual employments, occupations or operations within the business.**

Certain exceptions apply:

1. Separate Legal Entities

Classification rules apply separately to each legal entity operating in Minnesota even if multiple entities are insured under a single policy. This assignment procedure applies even if the business is conducted at more than one location.

2. Businesses Not Described by a Classification

If no basic classification clearly describes the business, the classification that most closely describes the business must be assigned. For a business *not described* by any classification, show the wording that describes the business in Item 4 of the Information Page of the policy. With this wording, show the code number of the classification that most closely describes the business. All the rules pertaining to the assigned basic classification apply to this operation.

Here are some additional rules to be mindful of:

General Inclusions of a Basic Classification Code

Some operations appear to be separate businesses but are included within all basic classifications. These are called general inclusions. These operations are not separately classified. They include the following:

- Restaurants or cafeterias operated by the insured for employee use; (**Exception:** If these operations are conducted in connection with construction, erection, lumbering, or mining operations, they must be separately classified.)

- Manufacture of containers by the insured, such as bags, barrels, bottles, boxes, cans, cartons, or packing cases for sole use in the operations insured by the policy;

- Hospitals or medical facilities operated by the insured for its employees;

- Maintenance or repair of the insured's buildings or equipment by the insured's employees;

- Printing or lithographing by the insured on its own products;

Some employees may perform general inclusion duties for more than one basic classification. In such cases, refer to Rule 2-G of the MN Basic Manual for classification treatment.

Exceptions: A general inclusion operation must be separately classified if any of the following conditions apply:

- The operation is conducted as a separate and distinct business of the insured (refer to Rule 1-D-3 of the MN Basic Manual);
 - The operation is specifically excluded in the wording of the basic classification;
- The principal business is described by a standard exception classification.

For a complete and thorough explanation of "How to Classify a Risk", please refer to Rule 1 (Classification Assignment) along with the User's Guide of the MN Basic Manual.

How would you classify the following risks?

1. Snow Removal
2. Ice Dam Removal from roofs
3. Roof Heating Cable Installation
4. Christmas Tree Lights – outside

5. Nannies.

You can check your answers by comparing them to the "most recent top 5 class code inquiries received by MWCIA" found on the MWCIA website. Click on the following link:



FYI

**Assigned Risk Plan Volume
(As of September 1, 2012)**

<u>Policy Count</u>	25,933	(+0.1%)
<u>Premium</u>	\$43,685,028	(+1.63%)

REMINDERS

IMPORTANT NOTICE TO INSURANCE CARRIERS

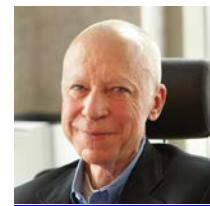
Starting with the 2013 assessment, companies will be assessed in the same manner as they file their Financial Calls. If a group of companies files separate Financial Calls for each company, they will be assessed accordingly. Also, beginning in 2013, we will be sending our invoices for the assessments electronically; please be certain we have your correct E-mail address on file. If you have any questions or comments concerning this change in procedure, please contact either Leann Hayes at leann.hayes@mwcia.org or Karen Ose at karen.ose@mwcia.org.

CERTIFICATES OF INSURANCE

Any and all requests for a certificate of insurance must be directed to your agent, broker, or insurance carrier. MWCIA does not issue Certificates of Insurance under any circumstances.

If you or your organization has any Workers' Compensation training needs, contact Glenn Colby, CPCU, Senior Communications and Underwriting Specialist, at glenn.colby@mwcia.org, tel. (952) 897-6411. Glenn is available to provide a wide spectrum of Workers' Compensation topics (experience modifications, independent contractors, employer paid claims, ownership, etc.) at no cost to you. Glenn will tailor the presentation to your needs and present at your site.

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).



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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