PRESIDENT’S CORNER

By Brandon Miller, Exec. V.P.

In this last edition of 2013 of MWCIA News, I’d like to take a few minutes and reflect upon our 2013 accomplishments, preview our 2014 initiatives and most importantly, pay tribute to Bruce Tollefson, our outgoing President and inspirational leader.

2013

2013 has been both a busy and rewarding year as MWCIA experienced significant product mileposts. We continued to meet our strategic goals and also successfully addressed succession planning.

Looking back, here are some highlights of 2013:

Selection and hiring of a new President – Guided by Bruce Tollefson and supported by the MWCIA Board of Directors, I came on board in February, 2013, to facilitate a complete and thorough transition. This time has proven to be invaluable to me and will result in an orderly transition.

Legal Services selection – Tom Harms, who has served as our corporate counsel for more than 30 years will also be retiring in 2014. In the next newsletter we shall introduce our new corporate counsel.

Rollout of Spectrum 4.0 – After a few years of planning, design, programming and testing, Spectrum 4.0 was rolled out in late September. Version 4.0 fell just short of being a total rewrite into a new, more stable and supportable software system. Accuracy, ease of use, and functionality for our users is now much more consistent between independent bureaus in this new version of Spectrum.

Staffing – As part of our ongoing strategic management processes, the MWCIA management team established optimum level staffing while continuing to provide all services in a timely and accurate manner. MWCIA will be staffed with 39 talented and service oriented employees in 2014. Like any other forward thinking organizations, MWCIA’s years of investing in technology have resulted in operating with less staff (down from 50 employees) and at the same time, raising our level of productivity and service to our customers.

***

2014

As 2014 unfolds, I plan to devote part of the “President’s Corner” of the quarterly editions of MWCIA News, to headlining and discussing our initiatives.

We will be focusing on the following 2014 initiatives:

- ACCCT, the future;
- Organizational Strategic Planning Performance Based Measurements;
- Developing educational value for our members;
- Statistical analysis.

***

Best Wishes to Bruce Tollefson

As I mentioned in the last edition of MWCIA News, Bruce Tollefson, who has served as President of the Association since 1997, provided vision and leadership for this organization and has also served as a thought leader with other Independent state DCOs. His work here and nationally has made the entire workers’ compensation data system more effective, timely and responsive for our member carriers, policyholders, and their insurance agents.

Bruce has had a long career in the insurance industry, beginning with Federated as a Commercial Underwriter. In 1979, he went to work at Milwaukee Insurance Company as a district sales manager, a position he held until 1981, when he joined Citizen's Security Mutual Insurance Company in Red Wing, MN. Over the next 16 years, Bruce held various senior management positions including Vice President of Research & Development, Vice President of Underwriting, and Vice President of Operations. From there he joined the MWCIA and the rest, as they say, “is history”.

Bruce’s last day will be Thursday, January 16, 2014.

Bruce will be sorely missed and I am confident, like all of us here at MWCIA, you will want to reach out and extend your best wishes to Bruce.

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 ACTUARIAL CORNER

The 2014 Minnesota Ratemaking Report was released via MWCIA’s website the first week in August. The updated pure premiums, effective 1/1/14, reflect an overall average decrease of 2.0% over those effective during 2013. This is the ninth decrease in the last ten years. Pure premium levels have shown consistent, small stable decreases since 2005, with an average annual change of -1.6%.

The reduction in the average pure premium level was comprised of a 3.3% decrease due to experience indications, and a 1.3% increase due to benefit adjustments:

1. The impact of SF 1234, which:
   - increased the maximum weekly benefit from $850 to 102% of the statewide average weekly wage,
   - increased the escalation cap from 2.0% to 3.0%,
   - reduced the escalation deferral from four years to three.

2. The automatic adjustment in the minimum weekly permanent total benefit threshold increased from $595.40 to $614.25.

Annual medical severities continue to increase, but at a lower expected rate: 6.5-7.0%. Annual expected changes in case frequency continues to decline, and that rate is slowing as well: 2.0-2.5%. Average pure premium levels will tend to stay fairly constant as long as there are no major benefit changes, and case frequency is predictable. This has been the case in Minnesota during the last decade.

FROM THE IT CORNER

Integration of Manage USR with Web Membership

Circular Letters No. 13-1634 and 13-1635 announced upcoming changes to the Manage USR and Web Membership systems on the MWCIA website. These changes went live on August 19, 2013:

1. MWCIA now provides fine invoices via the Manage USR system. As of August 19, 2013, member insurance companies must access Manage USR to obtain their fine invoices. Hard-copy fine invoices are no longer provided via US mail. Fine invoices are accessible via the “Carrier Fines Unpaid – Notice of Fine Invoices” report. This report replaces the previous “Carrier Fines Unpaid” report.

2. Manage USR was integrated with the MWCIA Web Membership system. If member carriers wish to access Manage USR on or after August 19, 2013, then they must assign their users permissions through Web Membership.

The Web Membership system allows member carriers to set up and maintain their own user accounts and permissions for MWCIA website systems. Each carrier group establishes a group administrator who has primary responsibility for managing the user accounts for the carrier group. For more information on Web Membership, please refer to the Web Membership User Guide on the Web Membership login page: https://www.mwcia.org/WebMembership/Login.aspx.

The Web Membership system was introduced in 2011 with Manage Policy. One of the primary goals of Web Membership was to allow individual carrier users with the necessary permissions to access multiple MWCIA systems (such as Manage Policy and Manage USR) using the same login. Other MWCIA systems will be integrated with Web Membership soon.

If your carrier group has not yet registered for Web Membership, you may wish to submit a Web Membership Group Administrator Application. Please click on the following link to access the Web Membership Sign-up form on the Web Membership login page: https://www.mwcia.org/WebMembership/Login.aspx.

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 13-1640
Eligibility Requirements for Experience Rating in Minnesota

This circular communicates that there will be no adjustments to the rating eligibility thresholds in 2014.

Circular Letter 13-1641- NCCI Item E-1402
Revisions to the Experience Rating Plan
According to the appropriate experience rating modifications. Correction reports in the production of the indicated below, MWCIA will use all submitted. With limited exception as must be revised. When MWCIA receives a large volume of inquiries regarding the conditions under which MWCIA will recalculate an experience modification of a given risk. As you know, calculation of experience modifications is one of the many critical services MWCIA provides.

Rule 4 of the Minnesota Experience Rating Plan Manual identifies the conditions (Revision of Payroll and Revision of Losses) that would result in the recalculation of an experience modification. Let’s review those conditions:

**Revision of Payroll**

A carrier may discover within the audit period (within three years of policy expiration) that previously reported payroll must be revised. When MWCIA receives correction reports according to the Minnesota Statistical Plan, it will revise the current and up to two preceding experience rating modifications.

**Revision of Losses**

Revised unit reports (correction reports) to 1st, 2nd, and 3rd reports according to the Minnesota Statistical Plan may be submitted. With limited exception as indicated below, MWCIA will use all correction reports in the production of the appropriate experience rating modifications.

a. Submission of revised unit reports according to the Minnesota Statistical Plan will result in the automatic recalculation of the current and up to two preceding experience rating modifications.

b. If a paid or anticipated recovery from a special fund becomes known by the carrier, the “current” experience rating modification is that which is in effect when the carrier determines the revised loss value. The time frame for the three (current and two preceding) modifications is limited to the employer’s fifth most recent rating effective date.

c. If a subrogation recovery is obtained in an action against a third party, the “current” experience rating modification is that which is in effect when the carrier determines the revised loss value. The time frame for the three (current and two preceding) modifications is limited to the employer’s fifth most recent rating effective date.

d. The claimant or carrier has made a third party recovery and the third party has not filed a liability-over claim.

e. The third party in d. above does file a liability-over claim but settlement of such claim does not result in its recovery against the employer.

f. Where the originally reported claim is non-compensable as determined by:

(1) Official ruling denying benefits under Minnesota Statute 176.

(2) A claimant’s failure to file for benefits during the period of limitation allowed by Minnesota Statute 176.151.

(3) A claimant’s failure to prosecute his claim when a carrier contends, prior to valuation date that the claimant is not entitled to benefits under Minnesota Statute 176.

g. Originally reported loss values were incorrect due to a clerical error.

h. As specified in Minnesota Statute 79.211, subd.4, an insurer or an employer insured under a workers’ compensation policy subject to the Experience Rating Plan may request in writing of MWCIA that the most recent factor be revised if each of the following criteria is met:

(1) A (this means only one loss may be selected if there are more than one potential candidates) workers’ compensation claim under that policy is closed between the normal valuation date for that claim and the next time that valuation is used in computing the experience rating modification factor on the policy;

(2) MWCIA receives a revised unit statistical report containing data on the closed claim in a form consistent with its filed Unit Statistical Plan; and

(3) Inclusion of the closed claim in the experience rating modification factor calculation would impact that factor by five percentage points or more. (Note: when originally legislated, this statute was referred to as “Aggravated Inequity”.)

i. Where a claim should have been reported with Catastrophe Number 48.

**Ownership Changes and Combination of Entities—It’s all about the mod**

This is part 4 of a 4 part series on the subject of ownership changes and combination of entities and the impact those changes can have on an entity’s loss experience and experience modification.

In part 1, we discussed the ownership reporting requirements and reporting tools and defined the various types of ownership changes along with a high level look at their impact.

In part 2, we explored the subject of combination of entities including qualifications for combinability, determination of combinability (aka “rulings”), and multiple combinations.

In part 3, we discuss what happens to the experience (loss experience) when there is a change in ownership or combination of entities. This is extremely important information to know and can be a significant factor in one’s decision (due diligence) to purchase or not purchase a business.

In part 4, we’ll identify those conditions under which the loss experience of an entity undergoing a change in ownership is excluded from future experience ratings. We’ll also review the recalculation and application of experience rating modifications and the rules regarding the application of an experience rating modification when a change occurs.

We hope you find this 4 part series to be of value whether this is new information to you or simply a review.

**Part 4**

**Exclusion of Experience**

Rare circumstances may require that experience for any entity undergoing a change in ownership be excluded from future experience ratings. The experience will be excluded only if MWCIA confirms all of the following are met:

a. The change must be a material change such that:
(1) The entire ownership interest after the change had no ownership interest before the change, or
(2) The collective ownership of all those having interest in an entity results in either less than:
   • 1/3 ownership before the change, or
   • 1/2 ownership after the change; and
   b. The material change in ownership is accompanied by a change in operations sufficient to result in reclassification of the governing classification; and
   c. The material change in ownership is accompanied by a change in the process and hazard of the operations. Change in process and hazard is determined by MWCIA.

Here’s an example of a “rare circumstance”:

A city redevelopment project is aimed at revitalizing its seaport area, which existed for many years as a center for shipping and warehouse operations. An individual purchases a warehouse and immediately begins construction to turn the warehouse into a restaurant. The new employer is classified under Code 9082—Restaurant NOC, rather than Code 8292—Storage Warehouse NOC, which previously applied to the warehouse employees.

Because the restaurant operations and employees’ duties differ dramatically from those of the warehouse, the process and hazard conditions have changed. It would not be appropriate to transfer the past experience of the warehouse operations to the new restaurant operations. The new owner never operated a warehouse and essentially purchased the building for its location.

In this example, all three exclusion conditions have been met:
   • A material change in ownership occurred because the business was purchased outright
   • The conditions relating to the governing classification change were met
   • Process and hazard conditions were met

Recalculation and Application of Experience Rating Modifications

a. If a change in ownership and/or combinability status occurs, recalculation of experience rating modifications may be required. Changes in ownership and/or combinability status may also result in a change in rating effective date, as determined by MWCIA.

b. Recalculation and application of experience rating modifications in conjunction with this rule are subject to Rules 3 F. and 4 E. (refer to pages R 17 and R 22 of the Minnesota Experience Rating Plan Manual). Rule 4 E. is particularly important in that it establishes “if, then” scenarios for the the application of an experience rating modification when a change occurs. We recommend you become familiar with these rules.

We hope this 4 part series on ownership changes and combination of entities and how such changes can impact an entity’s experience modification, has been of value. We continue to encourage you to either consult with the underwriting staff of MWCIA or the Minnesota Experience Rating Plan Manual when questions arise on ownership changes and their effect on an experience modification.

*******************************

REMINDERS

2014 Miscellaneous Values

(Effective 1/1/14 for the Voluntary Market & 4/1/14 for the Assigned Risk Market)

2014 Maximum & Minimum Payrolls for Sole Proprietors, Partners & Officers

<table>
<thead>
<tr>
<th></th>
<th>Maximum</th>
<th>Minimum</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$ 196,560</td>
<td>$ 40,976</td>
</tr>
</tbody>
</table>

Minimum Annual Remuneration for Spouse, Parent or Child

|          | $14,768 |

Statewide Average Weekly Wage

<table>
<thead>
<tr>
<th>State Wide Average Weekly Wage</th>
<th>$ 945</th>
</tr>
</thead>
<tbody>
<tr>
<td>State Per Claim Accident Limitation</td>
<td>$ 215,000</td>
</tr>
<tr>
<td>State Multiple Claim Accident Limitation</td>
<td>$ 430,000</td>
</tr>
</tbody>
</table>

Assigned Risk Plan Volume

(As of October, 2013)

<table>
<thead>
<tr>
<th>Policy Count</th>
<th>26,973</th>
</tr>
</thead>
<tbody>
<tr>
<td>Premium</td>
<td>$ 58,968,395</td>
</tr>
<tr>
<td>Policy Average</td>
<td>$ 2,186</td>
</tr>
</tbody>
</table>

Experience Rating Split Point Change

In accordance with the approved filing effective January 1, 2013, (refer to Circular Letter No. 12-1614) the primary/excess split point will change to $13,500 effective January 1, 2014. It is expected that only 5% of rated insureds will see modification increases of more than 5% from 2014 through 2015.

Next Edition Preview

In our next edition of MWCIA News, we’ll discuss: Interchange of Labor and the 4 hour rule; Closely Held Corporations, LLCs and the spouse, parent, child, exclusions (referencing MN Statute 176.041). We’ll also discuss any other WC topic you tell us you’d like to read about.

*******************************

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 Collby, CPCU, editor of MWCIA News, c/o MWCIA; 7701 France Avenue South, Suite 450; Minneapolis, MN 55435. You may also contact Glenn by phone (952 897-641), 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.

www.mwcia.org