

# MWCIA News



**2nd Quarter 2014 issue** a publication of the Minnesota Workers' Compensation Insurers Association

*Featured Article—Minnesota State of the Market report delivered at the MWCIA Annual luncheon, April 21, 2014*

June 12, 2014



## PRESIDENT'S CORNER

By **Brandon Miller, President**

We have had a busy couple months since our last newsletter was released in March.

### Financial Audit

Every year, MWCIA staff works with our outside independent financial auditors to complete an in-depth financial audit. We are a non-profit corporation and like the other Data Service Organizations across the country, most of our revenues are from member insurance companies. The audit cycle culminates with a report to our standing Audit Committee which meets separately with the auditors to ensure transparency and visibility to our members. With an annual budget of about \$7.6 million, we take our financial responsibility and management to our members very seriously. This year we received another positive audit with no findings.

### Annual Meeting and Quarterly Board Meeting

Each year, two or more of our elected Board members' terms expire. This year, Brian Bent from SFM and Keith Krueger from American Compensation Insurance Company were re-elected to fill two expiring terms. They will serve another four year term on the Board.

At the Board Meeting following our Annual Meeting, Gary Thaden ended his two year term as Chair and will return to a Director position. Gary has guided the Board through some active times in the past 24 months and has earned my thanks and appreciation for a job well done.

Kevin Christy, a Board member from Western National Insurance Company, was elected to serve as Chair for a two-year term by the Board of Directors at the April Board Meeting. Kevin has previously served on our Actuarial and Audit Committees.

I believe we have a very engaged Board of Directors. The Board will be working on reviewing some governance principles later this summer. I look forward to working with Kevin and all the Board members moving forward in 2014 and beyond.

### MWCIA Annual Luncheon

This year we had our largest turnout ever for the Annual Luncheon, again held at the McNamara Center on the University of Minnesota Minneapolis Campus. We had some great speakers including University President Eric Kaler, who spoke to the U of M experience in providing a safe and diverse workplace while overseeing some major construction projects. President Kaler also touched on some of the initiatives he is leading to focus the U of M expenditures to student learning and research.

Next up was MN Labor and Industry Commissioner Ken Peterson and Dr. Sharon Belton from the Workers' Compensation Research Institute. Commissioner Peterson and Dr. Belton highlighted the just released Worker Outcome Study from Minnesota. The highlights I took away are that the relationship between the employer and employee and the interface between pre-existing physical conditions of the employee, most strongly impact the success of return to work for injured workers.

### 2014 Initiatives: Strategic Planning

In our last newsletter, I promised to highlight one major initiative for each quarter in 2014. Strategic planning is important for an organization to help determine whether our organization is serving our customers and providing value to the industry.

We re-visited our Mission Statement (see column three of this page). We have also outlined some strategic initiatives for 2014 and 2015 which we will be focusing on. As well, we will begin to incorporate the strategic plan down into our day to day operational goals and

at some point, cascade those down to individual performance standards. That way we can make sure individuals, company departments and teams are aligned with our strategic plan and mission.

Last newsletter I listed some staff turnover through retirements. This time I regrettably must share that one of our long-time Business Analysts, Savi Venkateshaiah, has left the organization. We are pleased however, to be able to hire Don Peterson, who joins us with deep experience working in the insurance technology arena. Don joined us in March.

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### MWCIA Mission Statement

**The mission of the Minnesota Workers' Compensation Insurers Association is to collect, process, and analyze workers' compensation data so that we can provide high quality, consistent information to our insurer members and regulators. We will develop and deliver useful services and products to the workers' compensation community.**



**Brandon A. Miller, President, MWCIA**

## **FROM THE ACTUARIAL CORNER**

Highlights of the **MINNESOTA STATE of the MARKET** report delivered at the annual luncheon, April 21, 2014:

### **DIRECT EARNED PREMIUM**

After five years of premium decreases we've experienced more than a 20% increase in insured premium from 2010-2012.

- this mirrors national results, (+17%)
- statewide employment has grown over the last two years, (workers: +3%, total wages: +8%)
- the insured (vs self-insured) proportion of the market has increased (+3%)
- loss cost multipliers have increased slowly but steadily over the last 3 years (+3.5%)

### **ASSIGNED RISK PLAN PREMIUM**

On the other side of the coin, a significant repopulation of the assigned risk pool has occurred during the past couple of years, (we project another 30% increase through CY 2013 - - and a \$\$ volume today representing more than 6% of the insured WC market - - However, this looks like it might be cresting.

### **LOSS RATIOS**

So, through all this, the voluntary market loss ratio experienced a 5 point improvement in 2012 after several years of increases. In a state like MN with a very stable, consistent benefit structure, this sort of mild, cyclical movement in the underwriting cycle is expected - - with the 2012 loss ratio drop inversely related to the significant premium increase in the same year.

### **PURE PREMIUM BASE RATE CHANGES**

With MN's long-enduring benefit structure, and our defined, significant limitation on full rate level production, you should see fairly insignificant annual changes in the pure premium level. That's exactly what we see. MWCIA has filed 9 modest decreases over the last 10 years - - an average annual reduction of 1.6% over the decade.

### **LOST TIME FREQUENCY**

The primary driver responsible for keeping costs relatively stable and predictable is lost-time frequency. Changes in average case counts per \$1 million of standard earned premium settled toward the end of the last decade - - but have again started to display modest decreases from 2009-2012 - - with an average annual decrease of about 3.7% during that time period.

## **INDEMNITY & MEDICAL LOSS PERCENTAGES**

As indemnity claims have become less prevalent and more predictable, MN has experienced a phenomenon not uncommon countrywide: the medical portion of the ultimate loss dollar has dropped slightly in the last couple of years, nonetheless, it still stands at 63%.

### **MEDICAL SEVERITY**

Of course, the singular reason for this is the increase in medical severity over time. Countrywide, the WC average cost per lost-time medical case has grown an average of about 4.7% annually since 2003 - - and the MN WC severity changes have essentially been a mirror-image of this - - with MN averages up around 4.6% over the same time period. Again, these severity changes are slowing - - down from double digits only a few years ago.

### **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) - - amounting to about a \$143 million net reduction over the decade.

### **MEDICAL CASE RESERVE CHANGES**

On the medical side, the opposite is happening. Carriers have established almost \$1.3 billion of new case reserves (light yellow bars), while releasing less than \$715 million, (dark yellow bars).

### **CASE RESERVE CHANGES**

So, since 2002, while net indemnity case reserves have dropped about 15.6% - - net medical case reserves have almost doubled to over \$1.15 billion - - & they now account for about 60% of the total case reserves held on all voluntary insured MN WC claims.

### **SUMMARY**

**The negatives:** (1) over an 85% premium repopulation of the MN assigned risk pool during 2012-2013 - - although this looks like it may have crested late last year - (2) the recent legislative change opening up compensability for post-traumatic stress disorder has caused some uncertainty.

**The positives:** (1) improved underwriting results - double digit reduction in loss ratios, (2) slowing increases in medical cost severity, (3) a return to modest case frequency decreases, all leading to a (4) predictable, steady pure premium level.

For the complete presentation including charts and graphs, click [here](#).

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## **FROM THE IT CORNER**

### **MANAGE POLICY FOLLOW-UP NOTIFICATIONS NOW ON MPS**

The Manage Policy System (MPS) has been updated to include policy follow-up notifications. A policy follow-up notification will be issued when MWCIA staff reviews a policy thirty days after its receipt and determines that requested information for the policy has not yet been received from the carrier. Initially, follow up notifications will be generated only when the following situations occur:

1. there is an unresolved discrepancy in reported experience modification;
2. MWCIA has not yet received the complete policy for a binder;
3. MWCIA wishes to provide a free form notification to the carrier regarding some other matter.

Other types of follow-up notifications may be introduced in the future.

Policy follow-up notifications are available for viewing in two different locations within MPS. **First**, you may view them from the coverage detail screen. A new follow-up tab will indicate if any follow-up notifications apply to the policy. **Second**, policy follow-up notifications are available via a new search option on the "Letters/Errors" search screen. Using the "follow-up" search options, a carrier may search for follow-up notifications according to a variety of different parameters. New indicators will alert you to the presence of these notices.

Follow-up notifications should be checked as regularly as you now do for transaction errors and policy letters.

Follow-up notifications are not removed from MPS so you must keep track of which notices you have responded to.

If you have any questions, please contact Kim LaHoud 952 897- 6412 or by email at [Kim.LaHoud@mwcia.org](mailto:Kim.LaHoud@mwcia.org).

**NEW CDX ADMIN PRODUCT COMING SOON**

CDX will soon be rolling out a new administration product that carriers, data collection organizations, and third party administrators can use to manage their CDX settings and permissions.

In anticipation of the upcoming release of the new CDX Administration Product, Computer Based Training (CBT) is now available on the ACCCT log-on page menu. It may also be accessed directly using the following link: <http://cdxcbt.acct.org/>.

The release date of the new product will be announced shortly, allowing a 30 day time period for review of the training material. Registration for WebEx training sessions is forthcoming and will be scheduled before the release.

Please direct any questions to [cdxcentralsupport@axispoint.com](mailto:cdxcentralsupport@axispoint.com).

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**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 14-1652 Announcement that CDX Rescinds the December 31, 2014 Sunset of PEEP](#)

This circular announces that CDX has decided not to sunset the Policy Entry and Edit Package (PEEP) on December 31, 2014.

[Circular Letter 14-1653 2013 Annual Report](#)

This circular announces the release of the 2013 MWCIA Annual Report.

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**MN WORKERS' COMPENSATION  
"IT'S THE LAW"**

**EXECUTIVE OFFICERS OF A CLOSELY HELD CORPORATION, MANAGERS OF AN LLC, SPOUSE, PARENT, CHILD--EXCLUSIONS  
MN STATUTE 176.041**

From time to time, we identify some of the more often referred to statutes which form the framework of MN workers' compensation and which give rise to many questions. Our intent here is not to interpret statute or offer opinions on statute. Interpretations or opinions of statute are left to the Minnesota Department of

Labor and Industry and/or legal counsel.

This edition's topic is part of the excluded employment section of MN statute **176.041** (one of the most robust workers' compensation statutes on the books). Specifically, we'll identify the exclusion of: executive officers of a closely held corporation, managers of an LLC, and the spouse, parent, child--for both a closely held corporation and an LLC.

Before we look at the aforementioned exclusions, it is important to first review parts of two other statutes (statutes **176.021** & **176.181**):

MN statute **176.021** reads in part:

**176.021 APPLICATION TO EMPLOYERS AND EMPLOYEES.**

**Subdivision 1. Liability for compensation.**  
*Except as excluded by this chapter all employers and employees are subject to the provisions of this chapter.*

*Every employer is liable for compensation according to the provisions of this chapter and is liable to pay compensation in every case of personal injury or death of an employee arising out of and in the course of employment without regard to the question of negligence. The burden of proof of these facts is upon the employee.*

MN statute **176.181** reads in part:

**176.181 INSURANCE**

**Subdivision 1. Authorization.** *Any employer responsible for compensation may insure the risk in any manner authorized by law.*  
**Subdivision 2. Compulsory insurance; self-insurers.** *(1) Every employer, except the state and its municipal subdivisions, liable under this chapter to pay compensation shall insure payment of compensation with some insurance carrier authorized to insure workers' compensation liability in this state, or obtain a written order from the commissioner of commerce exempting the employer from insuring liability for compensation and permitting self-insurance of the liability. The terms, conditions and requirements governing self-insurance shall be established by the commissioner pursuant to chapter 14.....*

As stipulated in these two statutes (**176.021** and **176.181**), MN employers are liable for injuries to employees arising out of and in the course of employment and further, those same employers are required to insure payment of compensation to the injured employee either by way of insurance with a carrier authorized to insure workers' compensation liability or with commissioner approved self-insurance.

MN statute **176.041** identifies certain employments (employees) who are exempt

from these MN workers' compensation law:

*Subdivision 1. Employments excluded. This chapter does not apply to any of the following:*

*(7) an executive officer of a closely held corporation having less than 22,880 hours of payroll in the preceding calendar year; if that executive officer owns at least 25 percent of the stock of the corporation;*

*(9) a spouse, parent, or child, regardless of age, of an executive officer of a closely held corporation who is referred to in clause (7);*

*(18) a manager of a limited liability company having ten or fewer members and having less than 22,880 hours of payroll in the preceding calendar year; if that manager owns at least a 25 % membership interest in the limited liability company;*

*(19) a spouse, parent, child, regardless of age, of a manager of a limited liability company described in clause (18);*

(Note, the definition of a closely held corporation may be found in [MN statute 176.011.](#))

In summary, the employments identified above and the spouse, parent, and child of those employments, fall outside the scope of MN workers' compensation law. Consequently, an employer is not required by law to insure these employments (voluntary insurance or self-insurance).

The employments identified however do have the option to elect coverage if they so desire. MN statute **176.041** addresses election of coverage in Subdivision 1a. **Election of coverage.** Subtle as it may be, there is no option to exclude coverage for one of these employments in MN. In MN, it's the law.

For a complete review of MN statute 176.041, click [here](#).

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**HOW TO CLASSIFY A RISK**

We featured an article in the 1<sup>st</sup> quarter 2012 edition of MWCIA News on "How to Classify a Risk". Since classification of a risk continues to be a staple of our daily diet albeit phone calls, emails, or what may cross your underwriting desk or audit desk, a review of that article is timely.

The key to classification is embedded in a few important points:

- **Classify the business**, not the individual tasks within the business;

- Remember the **Standard Exceptions** and **General Inclusions**;
- Generally, there will be only one Basic Class code, with the exception of contracting risks.

The **Basic Classification** describes the business of an employer. It includes all aspects of their business except the Standard Exceptions which are Clerical - 8810, Drivers - 7380, Salespersons - 8742 & Automobile Salespersons - 8748. Sometimes, the **Basic Classification** caption will include some Standard Exceptions. Other times, the **Basic Classification** caption will indicate ALL EMPLOYEES - this does NOT include the Standard Exception codes unless specified in the caption.

Say you have a manufacturing operation and you want to classify the people who manufacture the product, package it and those employees who work in the warehouse. All of these employees will fall under the basic code that describes the manufacturing operation. You do not separately classify each of the different jobs involved in the manufacture, packaging and storage of the product.

Other considerations are the **General Inclusions** and **General Exclusions**. **General Inclusions** are operations that appear to be separate businesses but are included within all **Basic Classifications**. An example of this is a restaurant or cafeteria operated by the insured for employee use. **General Exclusions** are operations in business that are so unusual for the type of business described by the **Basic Classifications**, that they are separately rated. Examples are: aviation, new construction, stevedoring, and employer operated day care.

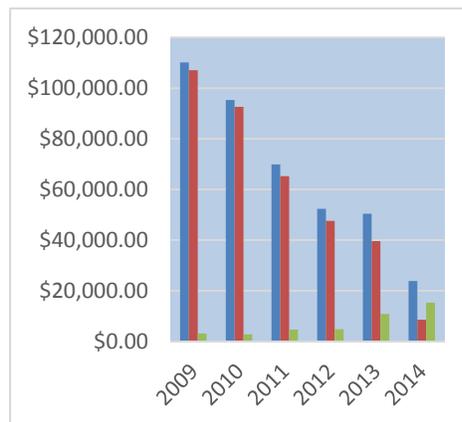
Contracting risks may have many different **Basic Classifications** depending on the jobs performed and if separate payroll records are maintained. If separate payroll records are not maintained for any construction or erection operation, the highest rated class that applies to the job or location will be assigned. General Contractors that perform all work through

subcontractors will still need to be classified based on the type of work performed. The rules regarding classification procedures are found in the [MN Basic Manual](#) under Rule 1: **CLASSIFICATION ASSIGNMENT**.

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**GOOD NEWS—FINES & PENALTIES  
TRENDING DOWNWARD**

Among the MIS data MWCIA monitors and reports are the timeliness and accuracy of carrier's submissions. Technology advancements, introduction of new systems, and outstanding support from the carrier community have all worked together to result in more accurate and timely submissions over the years. This accomplishment has further manifested itself in reduced fines and penalties evidenced by the graph included below.



**Key**

- Vertical axes: Fines (\$)
- Horizontal axis: Calendar year
- Blue bar: Billed
- Red bar: Paid
- Green bar: Unpaid

We are most pleased with the progress evidenced here and we thank you for your continued support.

If you would like further detail, please contact Ora Lowery at (952) 897-6423 or by email at [Ora.Lowery@mwcia.org](mailto:Ora.Lowery@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](http://www.mwcia.org)

**NOTABLES & REMINDERS**

**ASSIGNED RISK PLAN VOLUME  
(As of January, 2014)**

<u>Policy Count</u>	27,330	0.40 %
<u>Premium</u>	\$ 59,998,220	-0.94%
<u>Policy Average</u>	\$ 2,195	

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**EDUCATION & TRAINING**

MWCIA continues to offer customized educational workshops and seminars to meet your needs. Whether you're looking for a course that focuses on one specific workers' compensation topic or a general workers' compensation overview, we can tailor the course to meet your needs.

MWCIA has had the privilege of quarterly participation with the Minnesota Department of Employment and Economic Development in their "Employment Taxes and Employer Responsibilities" seminars. In addition, MWCIA continues to provide cost free workers' compensation educational seminars on a myriad of subjects including experience rating, ownership, excluded employments, independent contractors, etc., to agents and brokers, professional organizations, business and trade associations, and insurance carriers.

If you have any interest, please contact Jen Glywasky at (952) 897-6454 or at [Jen.Glywasky@mwcia.org](mailto:Jen.Glywasky@mwcia.org).

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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, e-mail [gcolby@gmail.com](mailto:gcolby@gmail.com).*