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MWCIA News



www.mwcia.org

April 2003 issue

a publication of the Minnesota Workers' Compensation Insurers Association



PRESIDENT'S CORNER

By Bruce A. Tollefson

Making A Mandatory Workers' Compensation System Work Efficiently

Occasionally I run across news articles about injured employees who don't have the required workers' compensation insurance. These stories are all the more compelling in terms of human tragedy when the injured employee also lacks adequate health insurance.

For those of us accustomed to looking at the mandatory nature of workers' compensation insurance, these stories remind us of the reality that the workers' compensation system is not a universal protection for all employees. MWCIA staff may be more aware of this, in part, because we are viewed as speaking for the workers' compensation industry when we are called upon to explain to employers and others the gaps in the system. MWCIA has a less visible role, however, in helping assure the 'mandatory' workers' compensation system works efficiently.

Like other states, Minnesota requires "every employer" to provide compensation for work related injuries and to purchase workers' compensation insurance to guarantee those benefits are covered.

State and individual municipalities are exempt from this insurance requirement - an exception that raises data reporting and claims tracking concerns to be discussed some other day. In addition, the law establishes categories of persons that are exempt from coverage under certain circumstances such as sole proprietors, general partners, certain officers of closely held corporations and limited liability companies, family farm operations, casual laborers, household workers, independent contractors in the construction industry and a few others.

The Department of Labor and Industry's website at www.doli.state.mn.us does a good job of providing information on these potential exemptions as well as other helpful workers' comp system information.

The proper use of these exemptions creates its own challenges. Sometimes there is simple confusion and on other occasions the exemptions are manipulated to avoid the requirements of the law. In both cases, MWCIA has a role in ensuring employees entitled to coverage are in fact protected.

Because of our superior database and data processing capacities, MWCIA is designated by the Minnesota Department of Labor & Industry (DLI) as the single source for the receipt and processing of Proof of Coverage information. While Proof of Coverage is a simple and routine

report to insurers, in reality it is the key tool for tracking employers as they enter, leave, or move within the system.

The Department of Labor & Industry is the primary agency enforcing mandatory coverage and managing the Special Compensation Fund, which pays benefits to uninsured employees. DLI's designation of MWCIA to run the Proof of Coverage system brings certain benefits to the system and our members that might not be achieved if DLI were required to operate this process independently. Because of MWCIA's participation, carriers can utilize the latest in electronic tools when filing Proof of Coverage information. Our data processing capabilities provide for faster and more accurate processing of gaps in coverage. This benefits employers by reminding them of their obligations and our members who supply the required insurance.

Finally, assisting DLI in enforcing the mandate of insurance coverage helps to lower the drain on the Special Compensation Fund, which is ultimately funded through carrier and self-insurer assessments.

Efficiently eliminating lack of coverage problems is a good policy and good business. MWCIA in partnership with the Department of Labor & Industry makes the system work. While there are some who will always work to avoid the law's requirements, our current system works well for those who wish to follow the law. ☺

ASSIGNED RISK PLAN NEWS

When completing applications to Minnesota's Assigned Risk Plan, please remember the following premium changes:

- ARP rates — effective 4-1-03
- Expense Constant — \$145
- SCF Surcharge — 5.8% of standard premium
- Terrorism Risk Surcharge — .02 per \$100 annual payroll
- Owner inclusion maximum — \$73,060
- Family member inclusion minimum — \$10,972

The following questions and answers are provided to help agents understand ARP's SCF Assessment and Terrorism Risk Insurance surcharges and how they are applied to policies in the Minnesota Assigned Risk Plan:

SCF Assessment Surcharge

Q. How do I calculate ARP's SCF Surcharge?

- A. Multiply the standard premium by 5.8%. Standard premium is the amount after the experience modification or increased limits.

Q. When is the SCF Surcharge added to ARP's premium calculation?

- A. The SCF Surcharge is added to the premium prior to the expense constant.

Q. Are ARP's 'IF ANY' policies subject to the SCF Surcharge?

- A. Yes. 5.8% of the policy's minimum premium amount should be added for ARP's SCF Surcharge.

Terrorism Risk Insurance Surcharge

Q. How do I calculate ARP's Terrorism Risk Insurance Surcharge?

- A. Divide the total payroll by 100 and multiply by .02.

Q. When is the Terrorism Risk Insurance Surcharge added to ARP's premium calculation?

- A. The Terrorism Risk Insurance Surcharge is added after the expense constant.

Q. Are ARP's 'IF ANY' policies subject to the Terrorism Risk Insurance Surcharge?

- A. ARP's 'IF ANY' and per capita policies are not subject to the Terrorism Risk Insurance Surcharge.

New ARP applications indicating the premium formula with the SCF and Terrorism Risk Insurance Surcharges and an updated version of MWCIA's "How to Complete the ARP Application" Brochure are available on MWCIA's website at www.mwcia.org or by calling our office at 952.897.1737.



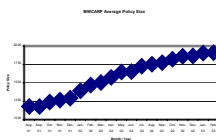
<p>2003 Assigned Risk Plan 1st Quarter Totals</p> <p>Total Employer Count: 36,926</p> <p>Total Premium Volume: \$69,427,253</p>

From the Actuary . . .

MWCARP GROWTH SIGNIFICANT

One of the indicators of a tight insurance market is an increase in the size of the line's assigned risk pool. In Minnesota workers' compensation, this is no exception. In the past 18 months, the Minnesota Workers Compensation Assigned Risk Plan's (MWCARP) in-force premium writings have increased over 75% - - moving from an average level around \$40 million in August 2001, to over \$70 million in February 2003.

What's even more interesting is the increase in average MWCARP policyholder premium size. In August 2001, the average policy insured by the plan was around \$1180. Last month, the average policy had grown to over \$1900 - - an increase of almost 62%.



[Enlarged Chart Image on Page 4]

There are about 3000 more businesses insured in the MWCARP than there were 18 months ago, and the average policy size of these new accounts is over \$10,000. The pool still only represents about 5-6% of statewide insured standard premium, but there is good reason to believe that this trend will continue - - particularly with increasing voluntary market rates, scaling back of schedule rating options, and the overall stagnant economy.

SCF SURCHARGE UPDATE

For information regarding the proper handling of Minnesota's **Special Compensation Fund Assessment Surcharge**, please refer to MWCIA's Circular Letter No. 02-1389; Circular Letter No. 02-1392 and Commerce Bulletin 2002-7 — available online at www.mwcia.org.

For answers to some of the 'Frequently Asked Questions' on this topic, don't miss reading this issue's special insert page.

A message from the DEPARTMENT OF COMMERCE

The Department will now accept the NAIC Uniform Property & Casualty Transmittal Document to assist carriers in their filing process.

MWCIA Circular Letter 03-1401 released March 13th provided carriers with copies of the NAIC transmittal document and instructions on how this form may be used in Minnesota. Carriers who write workers' compensation in Minnesota now have the option of using either the standard Minnesota Property - Casualty Transmittal Form or the Uniform Property & Casualty Transmittal Document when making their filings.

For questions on the proper use of either form in Minnesota, please contact Tammy Lohmann, Commerce's Chief Workers' Compensation Analyst, at 651.296.2327 or email her at tammy.lohmann@state.mn.us.

TERRORISM ACT UPDATE

For information regarding proper handling of the new **Terrorism Risk Insurance Act of 2002** in Minnesota, please refer to MWCIA's Circular Letter No. 03-1397; Circular Letter No. 03-1398; Circular Letter No. 03-1400; and Commerce Bulletin 2003-1. Copies of all four documents are available on MWCIA's website at www.mwcia.org.

To find answers to some of the 'Frequently Asked Questions' on this topic, don't miss reading this issue's special insert page.

2004 MCPAP ENROLLMENT SEASON CLOSES

The 2004 Minnesota Contractors' Premium Adjustment Program enrollment period came to a close on April 1st.

During the January to April 1st enrollment period, over 2500 employers in the contracting industry applied for this special credit designed expressly for their industry. Data from all eligible applicants will be collected to develop the credit tables for the program and qualifying contractors should receive their 2004 credit notices sometime this early fall. Rejected applications generally fall into two categories — ones that do not meet the annual hourly average requirement of \$18 for all employees combined under one contracting classification or ones that do not have current workers' compensation coverage. Employers with combinable entities and/or involved in wrap-up projects may also have their applications delayed while MWCIA staff determine if all payroll information has been properly included.

To avoid delayed processing in the future, please remind your clients with combinable entities or wrap-up projects to indicate the inclusion of all entities' payroll data on their application.

Contracting employers who missed the 2004 MCPAP deadline but still wish to apply may do so until 90 days past their 2004 modification effective date. All late applications are subject to a two-point (.02) late processing penalty adjustment factor. As a credit only program, however, the assessment of this penalty will never increase an employers MCPAP credit factor above 1.00.

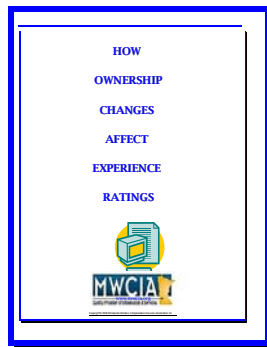
Copies of the 2004 MCPAP application and the 2003 application are available on MWCIA's website at www.mwcia.org. If you have further questions about MCPAP, please email our office at info@mwcia.org or call one of our underwriters at 952.897.1737. ☎

Attention All Web Users

For assistance with MWCIA's website or account system, please call 952.897.1737 or email your questions to info@mwcia.org.

Attn: Agents & Underwriters

~ AVAILABLE SOON ~
MWCIA's OWNERSHIP BROCHURE



MWCIA staff is in the process of preparing a new brochure designed to assist in explaining the connection between ownership and experience rating for workers' compensation purposes.

The brochure, entitled "How Ownership Changes Affect Experience Rating", will explain in simple terms how combinability of multiple entities and changes in ownership affect the development of an employer's experience modification. Additionally, this new brochure will provide information to assist agents and underwriters in explaining what constitutes a 'material' change under Minnesota rules.

Once available, the 'Ownership' brochure will join the rank of brochures already available on MWCIA's website. To obtain free copies of MWCIA's current brochures, simply log on to our website at www.mwcia.org. If you have any questions that the brochures don't answer, feel free to email our office at info@mwcia.org or give us a call at 952.897.1737. ☎

Attention: MWCIA Members

The Annual Meeting of the Minnesota Workers' Compensation Insurers Association, Inc. will be held at 1:30 p.m. — Tuesday, April 22, in the offices of MWCIA: 7701 France Avenue South, Suite 450; Edina, Minnesota.

FILING REFRESHER: Cancellations/Non-Renewals

Minnesota's Cancellation and Non-Renewal rules state that cancellation/termination/expiration filings will not become effective until:

- 30 days after receipt by MWCIA of WC 89 06 09 B for cancellations for non-payment
- 60 days after receipt by MWCIA of WC 89 06 09 B for all non-renewals

Remember, this rule applies whether a carrier files electronically or on hard copy.

DLI Highlights...

Due to staffing reductions, the Department of Labor & Industry (DLI) has found it necessary to discontinue the release of their new journal, *DLI Research Reporter*. Copies of their three back issues can still be accessed via DLI's website at www.doli.state.mn.us/reporter. Please address any questions or comments you may have about back issues of this publication or this notice to theresa.vanhoo@state.mn.us. ☎

FILING REFRESHER: PROOF OF COVERAGE

MN Rule 5222 requires all policy information to be filed on a timely basis with MWCIA as the official repository of Minnesota's Proof of Coverage. All Proof of Coverage notifications must be filed in the approved format:

- Within 10 days of the policy effective date, or
- Within 20 days of binding coverage

Remember, this rule applies whether Proof of Coverage data is filed electronically or on hard copy.

RECENT CIRCULARS, ETC.

As a quick reference tool, the following list indicates all MWCIA Circulars published since the release of our last newsletter:

Circular Letter No. 03-1399

02/05/03 - 2002 Test Audit Summary Report

Circular Letter No. 03-1400

02/14/03 - Terrorism Risk Insurance Act of 2002 - Manual Revisions

Circular Letter No. 03-1401

03/13/03 - Uniform Property & Casualty Transmittal Document

Circular Letter No. 03-1402

04/01/03 - Large Risk Alternative Rating Option (LRARO) Filing Procedures (revised)

MWCIA's Circular Letters are available online at www.mwcia.org

Please note:

Minnesota's new Statewide Average Weekly Wage is \$702 effective October 1, 2002.

NON-APPROVED NCCI ITEMS

As the data service organization, MWCIA is the only company authorized to file workers' comp manual rules, standard forms & endorsements, and classification & statistical codes on behalf of member carriers in the state of Minnesota.

Members — please note the following NCCI Items are not approved for use in the State of Minnesota:

B-1369 – 2001 Basic Manual For Workers' Compensation & Employers' Liability Insurance

U-1372 – Issuing Agency/Producer Office Address Endorsement WC 89 06 25

B-1373 – Basic Manual Rules & Enhancements

R-1378 – 2002 Update to Retrospective Rating Plan Parameters

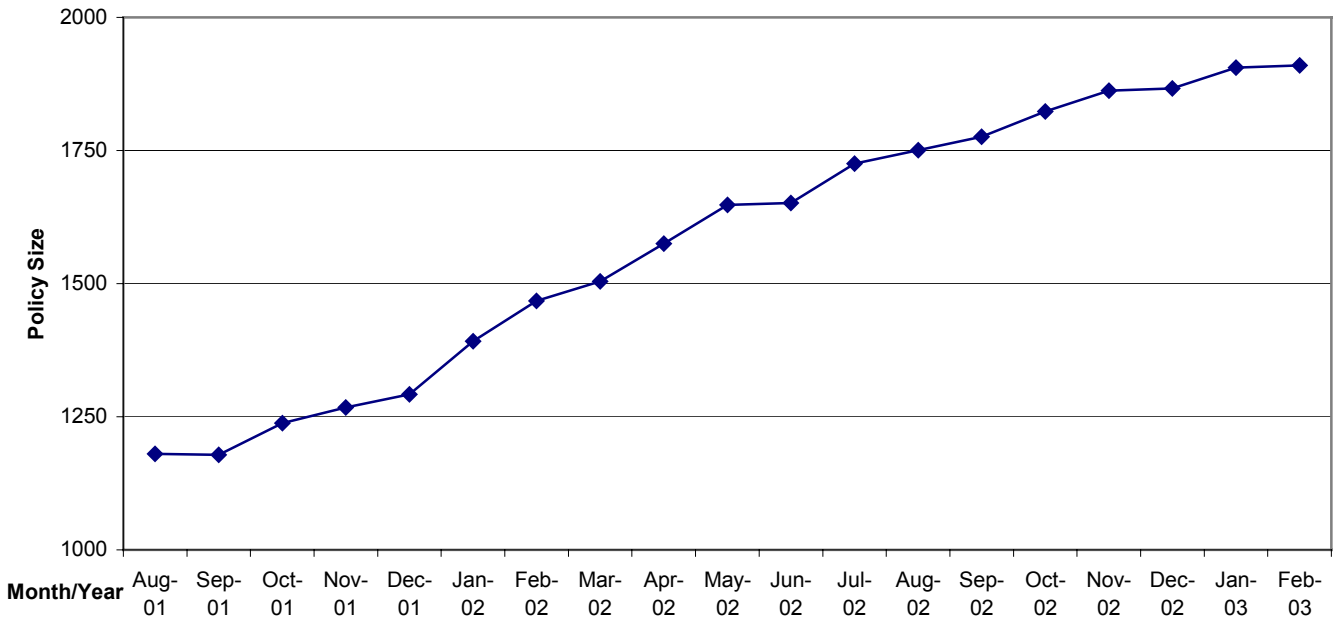
If you have any questions regarding these items, please contact our staff by emailing us at info@mwcia.org

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 Marie Johnson, editor of MWCIA News, c/o MWCIA: 7701 France Avenue South, Suite 450; Minneapolis, MN 55435. You may also contact her by phone at 952.897.6410; fax at 952.897.6495; or by emailing her at marie.johnson@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.

MWCARP Average Policy Size



[ENLARGEMENT OF ACTUARIAL CHART SHOWN ON PAGE 2]



MWCIA News

UNDERWRITER/AGENT ALERT

Since the first of the year, MWCIA staff has fielded hundreds of calls and emails from members and agents interested in learning more about the Minnesota Special Compensation Fund (SCF) Assessment surcharge and the Terrorism Risk Insurance Act of 2002 surcharge. The purpose of this insert is to provide a quick reference tool with basic information about the two programs. By providing this additional information we hope to dispel some of the misconceptions that have been surfacing regarding both of these programs.

SCF Assessment Surcharge

Background Information —

The Special Compensation Fund provides reimbursements for runoff Supplementary Benefits and second injuries, direct payments to injured workers of uninsured or bankrupt employers, and pays operating expenses of the workers compensation and OSHA divisions of the MN Department of Labor & Industry, the Office of Administrative Hearings, and the Workers Compensation Court of Appeals. Its funding is obtained through assessments to the insurance carriers who write workers' compensation insurance in Minnesota and self-insurers. Recent Minnesota statute changes now require the separation of this element from carrier rates. Effective 1-1-2003, therefore, **all** Minnesota carriers must show the SCF Assessment as a separate surcharge on their Minnesota policies.

Although the Minnesota Legislature ruled that the SCF Assessment should now apply as a separate premium element, they did not dictate a method for determining the surcharge or its resulting policy application. Because of this, there can be differences in how various carriers develop and charge the SCF Surcharge. Each carrier was requested to file new rates removing the SCF Assessment from the pure premium base rate multiplier that they intend to use by January 1st. Agents will need to contact each carrier they work with to determine their SCF Surcharge and how the surcharge is included in the premium calculation.

Frequently Asked Questions —

Q. Is the Special Comp. Fund Assessment Surcharge new?

- A. The Special Compensation Fund (SCF) Assessment is not new – only the way it is charged and shown on the policy is new. Previously carriers determined whether or not to include this assessment as part of their rate structure. Now **all** carriers are required to show the assessment as a separate surcharge amount.

Q. What is the rate for the SCF Assessment Surcharge?

- A. There is no standard rate for the SCF Surcharge. Each carrier is responsible for developing their own method of calculating the SCF Assessment Surcharge under the new rules. Because of this, the surcharge can vary from carrier to carrier.

Q. Once I know the surcharge, where do I add it?

- A. Since each carrier develops their own method for applying the SCF surcharge, it is best to check with the carriers you do business with to establish their current SCF Assessment surcharge and the method they are using to calculate the surcharge in their premium formula.

MWCIA News

UNDERWRITER/AGENT ALERT

Terrorism Risk Insurance Act of 2002 Surcharge

Background Information —

The Terrorism Risk Insurance Surcharge is a new premium factor created in the aftermath of the September 11th tragedy. Unlike other P & C lines, terrorism coverage is **MANDATORY** in the State of Minnesota for workers' compensation insurance and cannot be excluded.

Frequently Asked Questions —

Q. What is the Terrorism Risk Insurance Act of 2002?

- A. The Terrorism Risk Insurance Act of 2002 is a federal program which provides P&C insurance coverage for losses resulting from certain acts of foreign sponsored terrorism through calendar year 2005. This coverage cannot be excluded on workers' compensation policies in the State of Minnesota.

Q. When does the Terrorism Risk Insurance Act of 2002 surcharge apply?

- A. Under the Terrorism Risk Insurance Act, carriers can apply their approved rate to new, renewal, and existing policies as of November 26, 2002. Under this Act, carriers are permitted to make an additional charge for this coverage but are not required to do so even though Terrorism Risk Insurance coverage is mandatory.

Q. Is there a standard rate for Terrorism Risk Insurance?

- A. The **loss cost** approved for Terrorism Risk Insurance is two cents (\$0.02) per \$100 of annual payroll. Carriers may apply their own multipliers to the approved lost cost without an additional filing with the Department of Commerce.

Q. Where do I add this surcharge?

- A. The Terrorism Risk Insurance surcharge is not subject to experience rating, retrospective rating, deductible credits, scheduled rating, MCPAP, the SCF surcharge, premium discount, or any other individual risk rating plans the carrier may apply to the policy.

For more information about the Special Comp. Fund Surcharge or the Terrorism Risk Insurance Surcharge, please refer to MWCIA's website at www.mwcia.org or call our office at 952.897.1737.