

March 1, 2021

The Honorable Roslyn Robertson
Commissioner
Minnesota Department of Labor and Industry
443 Lafayette Road
St. Paul MN 55155

RE: Report on Workers' Compensation Rates in Minnesota

VIA E-Mail

Dear Commissioner Robertson:

Attached herewith is the Report on Workers' Compensation Rates in Minnesota to the Minnesota Workers' Compensation Advisory Council (Rate Oversight Commission). Minnesota Statutes section 79.55, subdivision 10, states that the Minnesota Commissioner of Commerce shall annually issue a report comparing the average rates charged by workers' compensation insurers in Minnesota to the pure premium base rates filed by the Minnesota Workers' Compensation Insurers Association (MWCIA). I am sending this report to you as chair of the Minnesota Rate Oversight Commission, to enable the Rate Oversight Commission to conduct its review in accordance with Minnesota Statutes section 79.55, subdivision 10.

Sincerely,



Grace Arnold
Commissioner (Temporary)

Enclosure



2021 Report to the Workers' Compensation Advisory Council (Rates Oversight Commission)

Workers' Compensation Rates in Minnesota

As required by Minnesota Statutes § 79.55, subdivision 10

Minnesota Department of Commerce

Mission

Commerce protects all Minnesotans in their everyday financial transactions by investigating and evaluating services and advocating that they be fair, accessible and affordable.

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Executive Summary

Pursuant to Minnesota Statutes section § 79.55, subdivision 10, the Minnesota Commissioner of Commerce (Commissioner) shall issue a report by March 1 of each year, comparing the average rates charged by workers' compensation insurers in Minnesota to the pure premium base rates filed by the Minnesota Workers' Compensation Insurance Association (MWCIA).

Until 2017, MWCIA pure premium base rates had been fairly stable, drifting downward slightly. In 2017 a double-digit decrease occurred. Another large decrease (although not in the double digits) was experienced in 2018. In 2019 through the current year of 2021, the MWCIA pure premium base rates have returned to the trend of decreasing at a very small rate. At the same time, the loss cost multipliers (LCMs) used by the insurers to develop rates (which are applied to the MWCIA pure premiums) have also been fairly stable, with the exception of some larger increases in the 2012 – 2013 period. Those increases may have been driven by an expectation of lower investment income. Combining the LCMs and the MWCIA loss costs, the rates charged by insurers have been fairly stable (with one exception noted) and have not moved significantly over the ten-year period, similar to the MWCIA pure premium base rates. The exception we note is due to the MWCIA pure premium base rates having larger than usual decreases effective January 1, 2017 and January 1, 2018. It is notable that it does not appear that the carriers have adjusted their LCMs significantly in reaction to MWCIA pure premium decreases from a few years back.

Purpose

As noted above, Minnesota Statutes section § 79.55, subdivision 10 requires the Commissioner to issue a report to the Minnesota Workers' Compensation Advisory Council (Rate Oversight Commission) by March 1 of each year. The statute also provides that the Rate Oversight Commission shall review the Commissioner's report and

if the experience indicates that rates have not reasonably reflected changes in pure premiums, the Rate Oversight Commission shall recommend to the legislature appropriate legislative changes to this chapter.

Background

In 1984, the Minnesota workers' compensation insurance rates were deregulated. At the same time, the Minnesota Legislature established the requirement for this annual report to track rates being charged by workers' compensation insurers in the new competition-based system. Minnesota Statutes § 79.55, subdivision 10 requires a comparison of the rate changes made by insurance carriers with the changes in the pure premium base rates published by the MWCIA. Because a simple comparison does not include many other factors, it may not be the best indicator of whether the competitive rating law is indeed making the Minnesota workers' compensation insurance market competitive. Although rate changes and pure premium changes can be expected to frequently move in the same direction, there are several reasons why they may not. A more detailed discussion of these factors is contained in the Appendix to this Report.

The MWCIA Ratemaking Report may or may not be so important to an insurer in setting overall rate levels. Although it may have some merit for very small carriers, most insurers will set rate levels by looking at their own data as well as data gathered from competitors. The data needed to prepare this Report is generally too old for companies to use to make current decisions. The most likely value of the Report for insurance carriers is to establish the relationships between the occupational classifications (job class codes (JCC)). At that level of detail, insurance carriers, for the most part, lack sufficient data for individual job class code analysis. However, this Report is useful as a general indicator of what is happening to workers' compensation rates in Minnesota.

One approach is to examine whether carriers are using the MWCIA pure premiums, based upon whether a carrier's rates are moving in the same direction as the MWCIA's pure premiums. Based on information collected by the Commerce Department as of February 8, 2021, 212 of the 270 carriers had adopted the January 1, 2021, loss costs, representing 80% of the market share. However, it is important to note that if a carrier has filed for an effective date after the date of this extract, it would not appear on the tracking tool. As of August 3, 2020, 236 out of 271 carriers had adopted and had in effect the January 1, 2020, MWCIA pure premiums representing 89% of the voluntary market.

It should be noted that the Commerce Department tracks the changes in the loss cost multipliers (LCMs), not the rate changes themselves. The LCM may be a better indicator of what is happening in the market. (This is because the LCM is the factor that the insurance carrier uses to adjust the pure premium to the desired rate level, with an average factor in Minnesota of 1.93.)

Finally, employers are most concerned about the premiums that are paid, not the rates. Please see the section of the Appendix on "Pricing Flexibility" for additional comments about adjustments from rates to premiums.

Report on Rates Charged by Insurers versus MWCIA Pure Premium Base Rates

The Commerce Department has conducted a review of the base rates charged by insurance carriers selling workers' compensation coverage in Minnesota and compared these rates with the pure premium base rates¹ charged by the MWCIA for the time period 2012 – 2021. The results of this comparison are contained in this Report. An underlying assumption of the statute is that changes in workers' compensation carrier base rates should reflect changes in the MWCIA pure premiums². In general, carrier base rate changes and MWCIA pure premium changes do move in the same direction. However, there are various reasons why this may not occur and these are discussed in the Appendix.

The chart below shows the changes in MWCIA pure premiums during the past ten years.

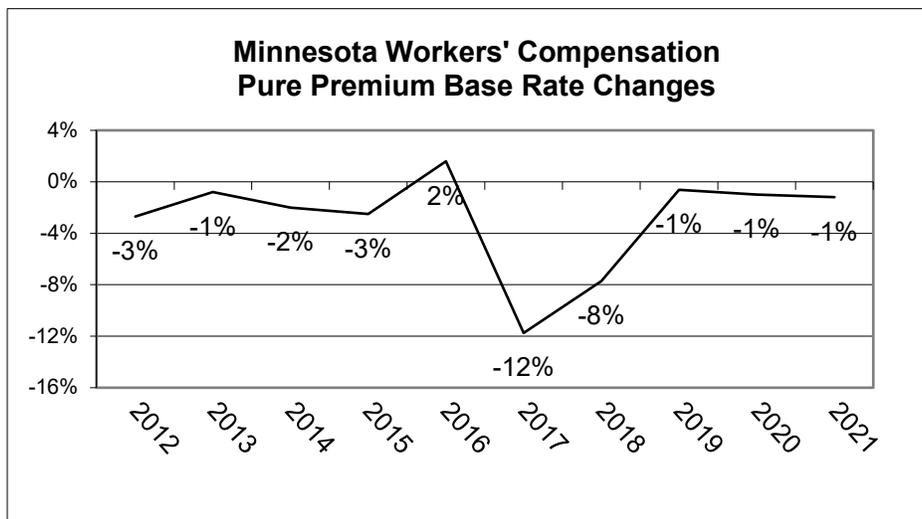


Figure 1

During this period, the annual changes have most often been modest decreases with the exceptions of 2017 and 2018 when larger decreases occurred. The cumulative effect is more significant. Since 2012, pure premium base rates have declined by almost 25%, although more than three quarters of this is due to the January 1, 2017 and January 1, 2018 changes.

It is important to note that the MWCIA pure premiums represent more of the expected losses over the last five years than they did prior to that. Specifically, the rules do not allow the MWCIA pure premiums to be developed to ultimate. Prior to 2016, they were developed to eighth report. In 2016 they were developed to 10th report, 2017 to 14th, 2018 to 18th, 2019 to 24th, 2020 and 2021 to 27th. As a result, if one compares the MWCIA loss

¹ The pure premium is the amount that an insurance carrier would need to charge in order to cover only the workers' compensation benefits (losses) paid to injured workers. These pure premiums, for each employer job classification, are calculated by the MWCIA based on industry experience.

² Throughout this report, the terms pure premiums and loss costs are used interchangeably. Due to statutory restrictions, the pure premiums calculated by MWCIA are not quite the full amount for the loss cost, but it is most of the full amount. No expenses of any type are included. In addition, considerations for profits and contingencies, investment income and taxes are also excluded. See the Appendix for additional detail.

costs in 2015 to those in 2021, the 2021 loss costs represent a greater portion of the losses a carrier would be expected to pay. For the comparison shown on the prior chart, the impact of the point to development has been adjusted to go back to the eight report, so the loss costs for each year represent the same thing. However, because of this adjustment, the figures in this chart for the last few years will not match those published by MWCIA.

In order to go from pure premiums to rates, an insurer determines a loss cost multiplier (LCM) which adjusts for additional loss elements excluded from the MWCIA pure premiums and for insurance company expenses, taxes, and expected profit (after considering investment income). These rates must be filed and approved by the Commerce Department before they can be used.

The following chart shows the average changes in insurance carrier LCMs during the past ten years.

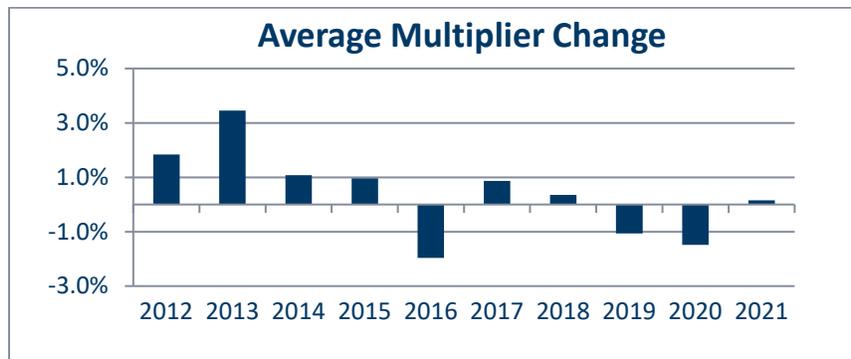


Figure 2

The rate change is the combined effect of the pure premium change and the multiplier change. For example, the MWCIA pure premium change in 2020 was -1.0%. The average LCM in the filings made during 2020 decreased 1.5%. As a result, the overall rate effect for business written in 2020 is approximately -2.5%.

Over the past ten-year period, the average change in LCMs was 0.4% each year. In 2013 the increase was above 3%, and 2016 had a decrease of close to 2%. Most of the recent annual changes have been within plus or minus 1%. (Please note that 2021 is evaluated in February, while the other years are evaluated in November, except for 2018 through 2020 which were evaluated in August).

During the past nine-year period, pure premiums and multipliers – and therefore rates – drifted lower generally. However, during 2013, the average rate increased because the increase in the LCMs was of a greater magnitude than the decrease in the MWCIA pure premiums. In 2017 and 2018, due to the large decrease in the MWCIA pure premiums, the rates decreased by a more significant amount.

There are multiple factors influencing these dynamics. Given the steady increase in medical costs, it would be expected that workers' compensation loss costs would increase. In fact, medical costs per claim have gone up, although recently at a slower rate. However, there has been a dramatic drop in the number of claims. As noted in the [Minnesota Workers' Compensation System Report, 2018](#) produced by the Minnesota Department of Labor and Industry: "In 2018, there were: ...4.1 paid claims per 100 full-time-equivalent workers, down 51% from 1998." Low interest rates, with the perception by carriers that they would earn less investment income,

may be putting upward pressure on LCMs. Also, concerns about the relatively little known long term impact of COVID-19 may also be placing some upwards pressure on companies to keep their LCM levels higher.

Current Workers' Compensation Environment in Minnesota

The workers' compensation insurance market in Minnesota appears to be competitive. There are over 200 insurance carriers and the largest market share of any one insurer is 10%.

The Commerce Department has reviewed the LCMs that were in effect and available as of February 8, 2021. As demonstrated by the table below, there is significant variation in the LCMs filed by insurance carriers in Minnesota.

2021 Loss Cost Multipliers for the Ten Largest Workers' Compensation Writers in Minnesota (Based on 2019 Written Premium)		
		LCM
1	SFM Mutual Insurance Company	2.110
2	Zurich American Insurance Company	1.648
3	Western National Mutual Insurance Company	2.600
4	Federated Mutual Insurance Company	2.064
5	SECURA Insurance, A Mutual Company	1.770
6	West Bend Mutual Insurance Company	1.770
7	Owners Insurance Company	1.840
8	ACUIITY, A Mutual Insurance Company	1.542
9	SFM Safe Insurance Company	2.450
10	Travelers Indemnity Company of America (The)	1.335

Please note that a higher filed rate does not necessarily mean that a higher premium will be charged to the employer. There are various discounts available. Schedule rating is typically thought of as the most significant discount. Most insurers have filed schedule rating plans with credits up to 40%.

The Minnesota Assigned Risk Plan writes 4% of the market. The table on the next page shows market share information (as a percent of voluntary market) for the Assigned Risk Plan, the voluntary market as a whole, and the top ten carriers for both 2018 and 2019.

Market Shares for the Ten Largest Workers' Compensation Writers in Minnesota (Based on 2019 Written Premium)			
	2019		2018
	Written Premium	Market Share *	Written Premium
Total Voluntary Market	\$961,450		\$954,035
Total Vol. Market Plus Assigned Risk	\$996,701		\$994,354
Change in Premium *	1%		
Number of Insurers *	276		285
Assigned Risk Plan	\$35,251		\$40,319
SFM Mutual	95,004	10%	98,960
Zurich American	38,423	4%	35,436
Western Natl Mutual	26,222	3%	25,931
Federated Mutual	22,167	2%	20,540
Secura Ins A Mutual Co	21,911	2%	20,433
West Bend Mutual	20,984	2%	18,888
Owners Ins Co	20,529	2%	22,054
Acuity A Mutual Ins Co	19,292	2%	19,753
SFM Safe Ins Co	18,777	2%	18,799
Travelers Ind of Amer	17,798	2%	15,846

**Of Voluntary Market*

Self-insurance is also a viable option in Minnesota. The 2018 *Workers' Compensation System Report*, issued by the Minnesota Department of Labor and Industry, states that, based on paid indemnity claims, 25% of the total workers' compensation market is self-insured.

Voluntary market losses have been close to break-even the past five years. Based on industry average expenses, an insurance carrier typically pays 65% of its premium in losses and has enough left to cover loss settlement costs and expenses. The loss ratio average for the industry for the past five years is 52%. This is lower than the 54% figure given in last year's version of this report due to the relatively higher 2014 loss ratio no longer being in part of the most recent five years. (It should be noted that these lower loss ratios in recent years are the primary driver for the MWCIA filed decreases for 2017 and 2018). These results vary significantly by carrier. Within the top ten voluntary writers, five-year loss ratios vary from 38% to 72%. For future results, the Commerce Department would expect to see more rate decreases than increases in the immediate future.

Lastly, a relevant question may be simply: "Is the Minnesota workers' compensation market competitive?" Several observations can be made to answer this question:

1. The market appears to be largely stable. Other than the 2017 and 2018 MWCIA pure premium changes, there have not been large changes in the pure premiums or in the LCMs. For the most part the pure

premiums have been trending slowly downward, and the company LCMs have not moved significantly in the past few years.

2. The market appears to be competitive. There are more than 200 insurance carriers writing workers' compensation coverage in Minnesota and the largest market share of any one company is 10%. There is a wide range in the LCMs. Among the top 20 carriers, the LCMs range from 1.30 to 2.60. This range may reflect different pricing policies. For example, a carrier with a high LCM may rely on discounts to be competitive.
3. One of the significant concerns related to the workers' compensation insurance system in Minnesota is the impact of the residual market, known as the Workers' Compensation Assigned Risk Plan (ARP). It had been growing rapidly, appeared to be stabilized for a while and now appears to be decreasing rapidly. In September 2011, the premium written in the ARP was \$32.1 million. By January 2014, that number had grown to \$60.0 million. As of September 30, 2020, the 12-month rolling calendar year earned premium was \$34.8 million.
4. The Workers' Compensation Reinsurance Association's (WCRA) surplus continues to grow. At year-end 2016, the surplus was \$674 million versus the \$453 million surplus the year before. At year-end 2017, it increased to \$1,035 million. At year-end 2018, it was at \$904 million. At year end 2019 it again increased to \$1,406 million. This strong position is good for the workers' compensation insurance system in Minnesota, since the WCRA stabilizes results for Workers' Compensation insurers by paying excess losses on all of the workers' compensation claims given the entity's chosen per occurrence attachment point.
5. The National Association of Insurance Commissioners (NAIC) annually publishes a competition database report. This report indicates that Minnesota workers' compensation is not concentrated based on the market shares of the largest four groups and the Herfindahl-Hirschman index.

Appendix

Why the pure premiums and the rates may move in different directions

Both the pure premiums and the rates charged by insurance carriers are measures of the workers' compensation loss experience. Although these measures will frequently move in the same direction, there are various factors that could cause one to move up and the other to move down.

- **Data Differences.** The MWCIA pure premium analysis compares actual losses with *hypothetical* premiums, calculated by the MWCIA using the most recent set of pure premiums and payrolls reported by the insurers. However, when a carrier determines its rate level, it compares its actual losses with the premiums it actually collected (usually brought up to the current benefit and rate level). If an insurer has had more losses than expected, then the insurer will need to increase rates, no matter what the pure premium analysis indicates. The pure premium analysis is a "what if" estimate of the number. The insurance carrier analysis is grounded more firmly in actual results.

The analysis in the MWCIA pure premium report provides the individual insurance company with a perspective on industry-wide experience. However, the MWCIA pure premium report for insurance carriers has more value in providing information about the relationship between the approximately 500 classes of employers. Insurers do not have enough data to set these relationships based on their own data and need an industry base to have a credible analysis of the differences between the job class codes.

- **Age of Data.** The pure premiums are based on industry data. Because the data is collected from all insurers, it is on average more than two years old when compiled and analyzed by the MWCIA. In contrast, an insurance carrier determining a rate level change is using data that often is less than six months old. If anything, company rate changes, instead of *following* the MWCIA pure premium changes, are a *forecast* of what each individual company believes will happen.
- **Additional development for injuries that occurred at least twenty-seven years ago.** Injured workers who are still receiving medical and wage loss benefits twenty-seven years after an injury are usually seriously hurt. Changes in medical technology and care can add to the costs (or in some instances reduce them) of these injuries in unexpected ways. By department rule, the MWCIA pure premiums cannot reflect any changes in the expected loss costs to ultimate value so the MWCIA cuts off the changes at a selected report (currently twenty-seven years). However, insurance carriers can and must reflect these changes in their rates. If insurers believe that these costs are increasing, then the rate changes will be greater than the pure premium changes.
- **Reinsurance.** By law, all workers' compensation insurance carriers in Minnesota must purchase reinsurance from the Workers' Compensation Reinsurance Association (WCRA). The MWCIA pure premiums do not include any reinsurance charges. The insurance carrier rates must, of course, consider the costs of reinsurance, making adjustments if they believe that they will incur higher or lower than average costs in the Minnesota workers' compensation market when compared to what WCRA compiles. In Minnesota, the WCRA makes most of the investment income as opposed to the individual insurance carriers. An additional complication is that the WCRA reinsures the entire workers' compensation market, including the Assigned Risk Plan (ARP) as well as government and private self-insured employers. The ARP, in particular, has had poor reinsurance experience. The voluntary market subsidizes a small portion of the ARP's reinsurance costs although with the ARP selecting the highest WCRA attachment point in recent years, the impact of this subsidy has been mitigated.

- **Insurance carrier expenses and investment income.** The MWCIA pure premiums cannot, by statute, include any expenses or adjustments for investment income. Insurers must consider both of these items. An insurance carrier must collect enough to pay its expenses and must also consider the amount of investment income that will be earned on the reserve funds held to pay losses. (In Minnesota, a great deal of the investment income is earned by the WCRA, not the individual insurance carriers.) Changes in the insurer's company expenses and potential investment income affect the filed rates but not the MWCIA pure premiums.
- **Market share.** The average multiplier is calculated by weighting each carrier's multiplier against the carrier's premium for the most recent year. Consequently, the average multiplier will be affected by premium movement between the voluntary market and the ARP and the self-insured market as well as movement between the carriers (from those who heavily use schedule credits to compete versus having a lower LCM and fewer credits available). In theory, if the ARP is being depopulated, then the average multiplier will rise as employers that are somewhat costlier than average are written in the voluntary market at rates that are higher than average. This may cause the average multiplier to increase even when no employer actually gets an increase. On the other hand, self-insured employers generally have better than average experience. If the voluntary market writes more of these employers, the average multiplier will probably decline. In recent years, the self-insured market has stabilized and the assigned risk plan market share has been decreasing.
- **National Perceptions.** Insurance carriers do not look at Minnesota workers' compensation experience in a vacuum; instead, they consider what is happening to the line of insurance in total. Other than SFM Mutual Insurance Company, none of the other carriers of significance have most of their premium exposure in Minnesota. Forecasts for the entire market more likely have a larger impact on carrier behavior than Minnesota results, particularly for the industry.
- **Impact of COVID-19.** Since the data that MWCIA based their primary analysis upon was prior to the emergence of COVID-19, and this report's focus is whether the carriers are for the most part following the MWCIA forecasts, for this version of the report we have not seen significant departures in loss cost multipliers. For the 2021 loss costs MWCIA built into their pricing model an estimate of the impact due to COVID-19. If carriers or the most part believed that MWCIA significantly underestimated the impact due to COVID-19 one might expect to see average LCMs increasing. Another possibility could be that carriers would avoid certain job class codes, particularly those covered by the presumption legislation. However, if that was to happen, it would be likely that the ARP would grow significantly in those classes as it would be unlikely that those employers would choose to self-insure. At this stage neither an increase in LCMs or the volume of business in the presumption classes has been observed, but this is certainly something that should be monitored, especially if the long term effects for covered workers who experienced COVID-19 turn out to be more severe than generally anticipated at this time.

- **Pricing flexibility.** It is possible in many instances for an insurance carrier to change an employer's premium without changing the manual rate. An employer's premium calculation begins with the manual rate filed by the insurance carrier. This amount is then adjusted for the employer's loss experience, via the experience modification factor. If the employer chooses to have a deductible, they receive a premium credit for assuming that portion of the loss. After these basic adjustments, the insurer may also offer a schedule credit or debit, reflecting the condition of the premises, the training and selection of employees, safety programs and return-to-work options and/or other characteristics as determined by the insurance carrier. Schedule credits and debits are loosely defined and depend, to some extent, on the underwriter's judgment and perception of risk. Consequently, it is possible for employers to have premium adjustments even if the manual rates do not change. Schedule credits can be as high as 40% of premium, so the possible magnitude of these adjustments is quite significant. By statute, the Commerce Department cannot regulate the size of discounts and the Department does not track either the size or use of schedule credits. In addition, some carriers offer dividend programs which are not guaranteed but must be filed with the department in order to assure the program(s) are not unfairly discriminatory. Employers will be more concerned about the actual premiums that they pay (such as per employee or amount of payroll after considering the job classification mix) rather than whether their rate went up.

***Workers' Compensation Advisory Council
Responsibilities under Minn. Stat. § 79.55 as Rate Oversight Commission***

Deadline	Responsible Party	Action
October 1	Minnesota Workers' Compensation Insurers Association (MWCIA)	Files information used and related to the calculation and cost of workers' compensation insurance premiums with the Commissioner of Commerce and WCAC; focuses on "pure premium"—the actual cost of workplace injury and illness claims before insurers' administrative expenses and profit are added.
December 1	WCAC	"May" submit to the Commissioner of Commerce a report concerning the completeness of the filing and whether the premiums are excessive, inadequate, or unfairly discriminatory.
March 1	Commissioner, Department of Commerce	Submits a report to the WCAC comparing the average rates charged by workers' compensation insurers to the pure premium base filed by the MWCIA.
Discretionary	WCAC	Reviews the Commerce Commissioner's report and, if experience demonstrates that rates have not "reasonably reflected changes in the pure premium", the WCAC "shall" recommend appropriate legislative changes.