



Members' Reference Guide

General Reference Guide

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WCRA Legal Documents

- Reinsurance Agreement
- Enabling Statute
- Restated Plan of Operation

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Financial Reporting and Premium Overview

The WCRA strives to maintain accurate and complete member financial information. Member data is used to determine each member's exposure, calculate rates, and charge premium. Quality data is the joint responsibility of both members and the WCRA. This Guide outlines WCRA's reporting timelines and the financial reporting responsibilities to assure member data is current and complete.

Each year the WCRA charges annual premiums to its members for workers' compensation reinsurance coverage. The Board of Directors determines the premium rates based upon actuarial analyses of the liability and associated expenses for the upcoming year. Premiums are calculated on the basis of a member's liability exposure (exposure base) and the reinsurance rate that corresponds to the retention level selected by the member.

Important Dates

August–September 13

Self-insurer members provide experience rating loss data for the experience modification calculation by the WCRA for use in the upcoming coverage year. Data must be received by September 13.

September

The WCRA Board of Directors approves rates and retention limits for the upcoming coverage year. The Commissioner of the Minnesota Department of Labor and Industry reviews and approves the WCRA rate filing.

October 1

Reinsurance renewal information is sent to WCRA members, including the Retention Selection Form with which members can confirm or change the level of reinsurance coverage for the upcoming coverage year.

December 1

Retention Selection Forms must be postmarked no later than December 1. Forms postmarked later than December 1 will not be considered valid and a member's prior year retention level will apply to the next calendar year.

January

Reinsurance certificates, agreements, and renewal invoices are mailed to members.

January–March

Self-insurer members electronically report payroll data to the WCRA for the previous coverage year in order to allow the revision of their reinsurance premiums from estimated to actual.

February–April

Self-insurer hybrid members electronically report payroll for two previous coverage years, and insurer members electronically report financial call information for the previous calendar year, to the WCRA. The WCRA also receives copies of annual financial call information from the MWCIA. This data is used to support the revision of reinsurance premium from estimated to actual.

August 1

The WCRA completes calculations of annual adjustments. Premium notices are sent to members.

Reporting Requirements

Each member is required to annually report financial and loss data to be used in the calculation of a member's premium.

Insurers

Reporting of accurate and complete prior-year financial call and related information is required annually. Insurer members failing to report data by the designated deadline will have their annual adjustment calculated using their standard earned premium at company rate level as reported to the Minnesota Workers' Compensation Insurers Association (MWCIA). Once an annual adjustment has been made using the standard earned premium at company rate level, late submitted data will not be accepted. All insurers are required to report data electronically using the WCRA's web-based reporting system.

Self-Insurers

Reporting of accurate and complete prior-year payroll data and related information is required annually. Self-insurer members failing to report this data to the WCRA by the specified deadline will be fined \$100 per calendar day for each report past due. Late reporting will be reported to the Department of Commerce.

Self-Insurer Hybrids

Due to their unique structures, certain WCRA self-insurer members (trusts, groups, associations, and political subdivisions) with 50 or more policyholders or entities in their reporting group are unable to report to the WCRA using standard self-insurer reporting guidelines. These members have been designated by the WCRA as self-insurer "hybrids." In recognition of the difficulty and expense that reporting as a standard self-insurer would impose on both the hybrid member and the WCRA, an alternative reporting method has been created for this segment of the Association's membership. The alternative reporting impacts hybrid members in three specific areas, described below. Except for these special provisions, hybrids are required to follow all other requirements established for self-insurers.

1. Annual Adjustment
 - a. Report estimated calendar year payroll on an aggregate payroll basis for one year prior by class code and audited calendar year payroll by class code for the year two years prior. Significant payroll variances between the audited and estimated reporting years must be accompanied by an explanation.
 - b. Provide a listing of all policyholders and their respective gross payroll in Minnesota for the audited calendar year being reported.
2. Experience Modification Factor
 - a. Agree to have their experience modification factor calculated using estimated payroll data, due to the delayed reporting, and have the final modification factor trued-up during the annual adjustment process.
 - b. Report self-insurer experience loss information annually to be used in the calculation of the hybrid's experience rating modification factor consistent with all self-insurers.
3. Audits
 - a. Agree to allow the WCRA to perform an annual sampling audit of policyholder data.

- b. Agree to allow the WCRA the right to audit hybrid policyholders, at the hybrid's expense, if concerns regarding reporting practices are identified by the WCRA.

To apply for self-insurer hybrid authorization, members must submit a request in writing to Cindy Smith at WCRA, 400 Robert Street North, Suite 1700, Saint Paul, MN 55101. The request must identify the number of policyholders or entities from whom data is annually collected (as of December 31 of the preceding calendar year) and a detailed explanation of the reasons why the member is unable to follow standard self-insurer reporting guidelines. After approval by the WCRA as a hybrid, a member may subsequently elect to return to standard reporting methods. However, the member then loses the option to switch back to hybrid reporting.

Third-Party Administrators (TPAs)

Some members prefer to outsource all or part of their WCRA reporting responsibilities. When a WCRA member contracts with a TPA to perform some or all of its business responsibilities with the WCRA, *it is the member's responsibility to assure that the TPA is reporting properly to the WCRA.* Members contracting with TPAs to work with the WCRA are required to complete a WCRA Member Third-Party Administrator Authorization Agreement. The agreement notifies the WCRA that a TPA is authorized to receive information and correspond with the WCRA on behalf of a member. The authorization also provides indemnification for the WCRA by a member for any legal action that may arise out of or in connection with any violation of the Agreement by the TPA or its employees. A copy of the form is available online and at the back of this Guide.

Reinsurance Premium

Background

The WCRA charges annual premium each year sufficient to cover:

- Its expected reinsurance liability between the members' selected retention limits and the prefunded limit (funded coverage).
- The expected claim payments during the year that exceed the prefunded limits for previous years (unfunded coverage).
- Associated expenses for that year.

Each member's premium is based on the member's Minnesota workers' compensation exposure (exposure base) and the reinsurance rate for the retention level selected by the member. The WCRA calculates premium by multiplying each member's exposure base by the applicable reinsurance rate. Complete calculations are illustrated in the "Billing Procedures" section of this Guide.

Every September, the WCRA Board of Directors determines the rates to be used to calculate the reinsurance premium for the next year. The rates correspond to the three retention level options (low, high, and super). Members who select the low retention level are charged the highest rate due to the WCRA's increased risk of exposure, with decreasing risk and decreasing rates for the high and super retention levels. In structuring the rates, the Board considers the effect of investment income in reducing the amount of premium revenue required to reimburse members for ultimate loss payments. Rates must be approved by the Commissioner of the Minnesota Department of Labor and Industry. Rates for all retentions also include a charge for expected unfunded payments to be made during the year.

See “Reinsurance Premium Rates,” “Member Exposure Base,” and “Experience Rating for Self-insurers” for additional discussion of the components of the premium calculations.

Funded Premium

Funded premium covers the WCRA’s expected incurred losses in excess of its members’ selected retention limits up to and including the statutory prefunded limit, as well as its operating, administrative, and claims expenses.

Funded premium is based on the exposure base for the year in which the work-related injuries occur. All loss and loss expense projections are discounted to today’s dollars.

Unfunded Premium

As required by its Enabling Act, the WCRA collects unfunded premium from its membership for all losses in excess of the prefunded limits in effect in all prior years in the year these losses are actually paid. These payments and the corresponding premium will generally not occur until many years after the injury occurs.

Unfunded premium amounts expected to be paid in each year are spread across all members and are based on the exposure base for the year in which the unfunded losses are paid by the WCRA. Since it is "pay-as-you-go" coverage, no discount is taken into account when calculating unfunded premium.

Reinsurance Premium Rates

Background

The WCRA provides unlimited reinsurance coverage above a member's selected retention limit, but the premium is charged two different ways.

1. Funded coverage up to the prefunded limit is financed by premium charged during the coverage year (the year in which the injuries occur).
2. Premium for the WCRA's unfunded coverage exceeding the prefunded limit is charged during the year in which claim payments over the prefunded limits are made.

Funded Rates

The WCRA annually determines a funded coverage rate for each of the three retention levels. To determine the rates, the WCRA first projects its total losses and expenses for each retention level’s coverage layer during the coming year. The funded coverage layer is defined as the portion of losses that is above the retention limit and below the statutory prefunded limit. The WCRA divides the projected costs for each funded coverage layer by the projected total exposures for the coming year. The calculation is as follows:

$$\text{WCRA Annual Rate for Funded Coverage} = \frac{\text{Projected Funded Losses and Expenses to be Paid in the Year}}{\text{Projected Exposure for the Year}}$$

Numerator:

- Total projected funded costs include projected WCRA losses in the funded coverage layer and anticipated expenses. From a reinsurance standpoint, the term "losses" refers to amounts paid or

expected to be paid for claim payments. For most losses, the WCRA uses a combination of actual loss history together with a pricing model to project future losses because historical claims experience includes only a portion of the total claims the WCRA expects to reimburse over time. The pricing model simulates the types of claims expected during the coming year using variables such as the employee's age, wage, social security offsets, and medical costs, which are simulated for individual claimants. In addition, dependent statistics necessary to project fatal claims costs, such as the age and number of dependents, are generated.

- By statistically generating thousands of claims, the WCRA pricing model, coupled with our historical data, can estimate the relative cost of losses for each funded coverage layer. The simulation model generates estimated future cash flows for each claimant. The WCRA allocates the cash flows to the funded coverage layers and applies discount factors to reflect present-day dollars. The results of the historical data and the simulated claims are combined to determine the relative number and size of claims that will fall within each funded coverage layer.
- The relative costs from the simulations are combined with projections of the number of Minnesota workers the WCRA will cover in the coming year and the number of claims those workers will generate. Next, expected losses are expanded to include multiple-claimant claims. Finally, the anticipated loss expenses and general operating costs are added to the projected WCRA discounted losses to arrive at projected total WCRA costs for each funded coverage layer. The projected total funded costs represent the funded premium the WCRA must collect in the coming pricing year.

Denominator:

- *Projected Exposure for the Year* is the actuarial exposure base approved annually by the Commissioner of Labor and Industry in the WCRA rate filing for all WCRA members.
- For an insurer member, the exposure represents the direct workers' compensation pure premium of the member in Minnesota during the calendar year. For a self-insurer, the exposure represents the estimated Minnesota premium a member would pay if workers' compensation coverage was purchased from an insurance carrier. The pure premium class rates of the MWCIA are used to ensure that all exposure bases for WCRA insurer and self-insurer members are calculated at the same rate level. See "Member Exposure Base" for a more detailed description of insurer and self-insurer exposure bases.
- The total WCRA exposure for the coming year is estimated using statistical projection methods based on historical exposure amounts, applying adjustments when appropriate.

WCRA Actuarial Rate for Funded Coverage

The funded rate calculation divides the projected WCRA losses and expenses for each funded coverage layer by the projected total WCRA exposure. This calculation, performed for each of the three retention levels, yields three percentage rates that reflect the amounts the WCRA needs to charge in order to adequately fund covered losses above the selected retention limits up to and including the prefunded limit. This rate is referred to as the WCRA funded actuarial rate.

Unfunded Rates

For the unfunded layer, a calculation similar to the funded rates is used. Minn. Stat. § 79.35 specifies that the WCRA collect unfunded premium from its members for claim amounts in excess of prefunded limits in the year these losses are actually paid. This will generally not happen until many years after the injury occurs. Since it is "pay-as-you-go" coverage, there is no discounting when calculating the premium rate.

The unfunded rate calculation is as follows.

$$\text{WCRA Annual Rate for Unfunded Coverage} = \frac{\text{Projected Unfunded Losses and Expenses to be Paid in the Year}}{\text{Projected Exposure for the Year}}$$

Numerator:

Projected Unfunded Losses and Expenses to be Paid in the Year includes the following three items.

1. Unfunded Claim Payments: The sum of all expected payments in excess of prefunded limits to be reimbursed by the WCRA in the calendar year.
2. Unfunded Loss Expense: A provision for the loss expense related to claims receiving payments in excess of the prefunded limits.
3. "True-up": A "true-up" provision for unfunded claim payments and loss expenses that reflects previous calendar year variances of actual unfunded payments versus expectations.

Denominator:

Projected Exposure for the Year is the same actuarial exposure base described in the funded rate calculations above.

Member Exposure Base

Background

The premium that the WCRA requires in order to provide adequate reinsurance coverage is charged to each member according to that member's exposure base, or its pro rata share of the WCRA's total projected exposure for the coming year.

Adjusted pure premium for insurers and modified adjusted pure premium for self-insurers are the exposure bases to which the WCRA reinsurance rates are applied to obtain a member's premium. Originally, standard earned premium was used as the exposure base until workers' compensation rates were deregulated in the primary insurance market. Minnesota's competitive rating law became effective January 1, 1984, necessitating the adoption of a new exposure base to replace standard earned premium.

The adjusted pure premium and modified adjusted pure premium exposure bases now in use require that all members use the same standard set of primary rates—pure premium class rates of the MWCIA—for purposes of determining their exposures and WCRA premiums. Experience rating modifications are reflected in both insurer and self-insurer exposure bases.

Exposure Base: Insurers

Adjusted pure premium for insurer members is calendar year earned premium at the MWCIA designated statistical reporting level multiplied by an adjustment factor of 1.2.

The WCRA obtains data on earned premiums for regular plus large deductible business from the member and from the Annual Call for Experience that members submit to the MWCIA. Experience rating modifications of the insurers' individual policyholders are incorporated within the earned premium at designated statistical reporting level data.

Exposure Base: Self-Insurers

For self-insurers, the exposure base is modified adjusted pure premium, determined by multiplying Minnesota workers' covered payroll by classification by the MWCA pure premium class rates to determine pure premium, then multiplying the pure premium amount by an adjustment factor of 1.2.

The result is then multiplied by the experience rating modification factor.

The pure premium exposure for self-insurers is calculated from the Minnesota payroll report, which is due at the WCRA by May 1 each year.

Pure Premium Adjustment Factor

As noted above, an adjustment factor of 1.2 is applied to the pure premium for both insurer and self-insurer members to obtain the adjusted pure premium. This factor adjusts for the fact that at the time the WCRA converted to adjusted pure premium as an exposure base (January 1, 1984), rates in the pure premium base rate schedule were about 20 percent less than the previously effective manual rates. The factor thus provides historical continuity and comparability with the standard earned premium exposure base used in the WCRA's earlier years.

The adjustment factor does not change the relative WCRA premium of any individual member, since it is applied uniformly to all members. Rather, it functions solely to allow comparison between the adjusted pure premium exposure base and the previously used standard earned premium exposure base. By using this factor, WCRA rates are generated from a relatively consistent exposure base, allowing members to evaluate the rates more easily and accurately.

Revising the Estimated Exposure Base

When the WCRA initially calculates estimated exposure for a member, it uses the most recent, actual exposure figures available. Generally, the actual exposure amount from the most recently completed calendar year is used by the WCRA to estimate exposure for the coming year. For example, estimated exposure for 2011, calculated in December 2010, would use actual exposure amounts from calendar year 2009. A WCRA member may request that its estimated exposure base be revised to better reflect current premium or payroll levels, if two requirements are met.

1. The member's revised estimated exposure base must be at least 15 percent greater or less than the original estimate.
2. The member must provide a revised exposure base report with corroborating documentation to substantiate the requested revision.

If these conditions are met, the WCRA will calculate a revised exposure base and adjust the premiums calculated accordingly.

Exposure Base Audits

The WCRA requests sufficient information annually from each member to conduct a thorough analysis of its actual exposure base. The WCRA routinely performs onsite audits to obtain additional information and to ensure that members are reporting data correctly. Any change in a member's exposure base resulting from audit information will be reflected as an audit adjustment to the member's reinsurance premium.

Payroll Report Instructions

Self-insurer members are required to electronically report payroll data annually to the WCRA. This data is used to reconcile self-insurer premium from estimated to actual. Samples of the reporting screens and definitions are provided in the forms section of this Guide.

Experience Rating for Self-Insurers

Background

The WCRA uses a self-insurer experience rating plan to make the exposure bases of insurers and self-insurers equitable. This plan also addresses the concern of many self-insurers that their premiums should reflect, at least in part, their individual claims experience. While the insurers' exposure base has always reflected the experience rating modifications of their individual policyholders, the self-insurer members' exposure base did not contain an experience rating factor prior to January 1, 1994. After a two-year trial period to experience-rate the self-insurers' exposure base, the WCRA Board of Directors adopted a permanent experience rating plan for WCRA self-insurer members effective January 1, 1996.

All WCRA self-insurer members participate in the experience rating plan. The WCRA calculates a calendar year experience rating modification factor for each self-insurer member, which is used to adjust the self-insurer's exposure base for that year. The same factor is applied to the self-insurer's estimated and actual exposure base for the calendar year.

The WCRA Self-Insurer Experience Rating Plan

The self-insurer's experience rating modification factor is based on the Revised Experience Rating Plan developed by the National Council on Compensation Insurance (NCCI) and utilized by the Minnesota Workers' Compensation Insurance Association (MWCIA) for Minnesota workers' compensation insurers.

Some self-insurer members may not have sufficient or correct payroll or loss data to allow calculation of an experience rating modification factor. In these cases, the WCRA will assign an experience rating modification factor of 1.05 or add .05 (whichever is greater) for the first year in which insufficient data is reported, and increase it by .05 for each subsequent year. If after three consecutive premium years a private self-insurer member does not supply the required data, the WCRA will notify the Minnesota Department of Commerce and recommend that the member's workers' compensation self-insurance authority be reevaluated. If a public self-insurer member does not supply the required information after three years, the WCRA will notify the state auditor or legislative auditor, as appropriate, of the member's failure to comply with these reporting requirements.

Retention Limits

Background

The Minnesota law that established the WCRA in 1979 ("Enabling Act") requires the WCRA to accept the risk for 100 percent of liability for a member's claim under Chapter 176 in excess of the member's retained liability, or retention limit. The WCRA retention limit is applied on a per-occurrence basis by member, and each member is responsible for 100 percent of liability up to its selected retention limit subject to certain limited exceptions. There are no coverage exclusions for claims resulting from terroristic acts or acts of war.

Before 1996, members could choose between two retention levels, with the low level indexed to the Statewide Average Weekly Wage (SAWW) and the high level fixed at \$200,000 higher than the low level. These limits have risen gradually over time as a result of increasing wages in the state.

Effective in 1996, the Enabling Act was amended to define the high retention level as two times the low level, and a new "super" retention level was added, which is four times the low retention level.

All WCRA reinsurance agreements are written on a calendar year basis, with a standard coverage period of January 1 to December 31. For members who begin coverage during the year, the policies expire on December 31, and then renew with a January 1 effective date.

Retention Limit Notification

New WCRA members are notified of their retention limit options as part of the licensing process conducted by the Minnesota Department of Commerce. The Department of Commerce will not approve authority to self-insure until the WCRA receives a completed Retention Level Selection Form from the prospective self-insured entity.

Each fall, the WCRA uses the Retention Level Change form to notify members of the retention limit options and approved reinsurance rates for the upcoming year.

Selecting A Retention Level

The WCRA reimburses members for individual claim losses exceeding a member's chosen retention limit. In making your selection, carefully review the financial liability for each limit. When selecting the high or super retention level over the low retention level, your organization will want to carefully consider the substantial additional liability your organization will have to assume if you experience any serious workers' compensation claims.

All insurer members that are affiliated or part of a holding company must choose the same retention level, since the Enabling Act requires that they be treated as a single entity when exercising the rights and duties of WCRA membership. A number of factors can influence a member's choice among the low, high, or super retention levels.

1. *WCRA Reinsurance Premium.* Premiums for each year are based on the member's exposure base and the premium rate which corresponds with the member's selected retention level. (See calculations in "Billing Procedures.")
2. *Member Financial Resources.* A member's annual budget and financial resources influence the relative value of choosing an additional layer of retained loss exposure. Members should also consider the nature and frequency of anticipated injuries, the payout pattern of expected

claims, and their tolerance for risk. Medical costs and indemnity benefits of the Minnesota workers' compensation laws may result in a very fast claim payout pattern on some types of injuries, which could be a significant consideration for some members.

3. *Reinsurance on a Per-Occurrence Basis.* The fact that the WCRA retention limit is applied on a per-occurrence basis rather than a per-claimant basis is another important consideration. For example, if *several* employees were simultaneously injured in the same industrial accident, the retention limit would be applied once to the entire claim, rather than individually for each employee injured in the accident. An exception to this policy occurs where several members of an affiliated group of insurers sustain losses in a single occurrence, in which case those members may choose to aggregate their claims and seek reimbursement for losses in excess of the WCRA's highest retention limit in effect on the date of the injury. Occupational disease is another exception to this rule. In such cases, a separate retention limit applies for each claimant for purposes of claim reimbursement.
4. *Limitations on Member Purchase of Reinsurance.* Members who select the low retention level are free to purchase reinsurance from other organizations for losses below that limit. However, Minn. Stat. § 79.34, subd. 2, specifies that members who select the high and super retention levels may not purchase reinsurance from other reinsurance organizations for losses below their selected retention limit. **Exceptions:** The statute lists five exceptions under which this prohibition does not apply:
 - A WCRA member may purchase reinsurance from another WCRA member which is controlled by or under common control with the member.
 - Aggregate stop loss reinsurance may be purchased to cover the portion of claims payments below the selected retention limit for which the WCRA would not be responsible. Such purchases are permissible if the total of all claims paid or incurred by the member (i.e., claim costs on all workers' compensation up to the selected retention limit) exceed a dollar amount or a percentage of the member's premiums written or earned as stated in the reinsurance agreement.
 - An insurer member may purchase reinsurance through a pooling arrangement with other insurers, as long as the workers' compensation reinsurance provided is incidental to participation in the pool and not a result of providing workers' compensation insurance directly.
 - An insurer member may purchase reinsurance from a captive reinsurer of a single one of the member's insureds when the member's insured is controlled by or under common control of the insured as long as that reinsurance is limited to all claims of the member's insured. If the captive reinsurer subsequently makes a retrocession agreement (reinsurance purchased by a reinsurer), the retrocession must be consistent with the first three bulleted items above.
 - A self-insurer member may purchase reinsurance from a reinsurer that is part of the same conglomerate or holding company as the self-insurer member. If the reinsurer subsequently makes a retrocession agreement, the retrocession must be consistent with the first three bulleted items above.
5. *Penalties.* The statute provides that the Commissioner of the Minnesota Department of Labor and Industry may impose certain financial sanctions against a WCRA member that has purchased reinsurance in a manner inconsistent with these provisions. After giving the member notice and an opportunity for a hearing, a member found to be in violation may be required to pay the State of Minnesota a penalty no greater than twice the difference between

the WCRA's reinsurance premium charged to the low retention level and the selected retention level that applies to the member for the year(s) for which the prohibited reinsurance was in effect. In addition, the member will be required to continue its membership in the WCRA at the selected retention level.

Changing a Retention Level

Members are not allowed to change retention levels during the coverage year. If a member wishes to change its retention level for the upcoming coverage year, the WCRA must receive the Retention Level Selection form postmarked by December 1. These forms are provided to members by the WCRA on or before October 1. If no form is returned, or it is postmarked after December 1, the retention level currently in effect is retained for the upcoming year.

Self-Insurer Rating Loss Run Entry

Reporting Information to the Association

The WCRA sends a request for loss data to each self-insured member or group (See the sample at the end of this Guide.) The experience rating modification factor will be based on this information, which generally represents three years of loss data from the member.

Billing Procedures

Background

The WCRA bills members an estimated reinsurance premium every December for the coming year. A member's estimated premium is determined by multiplying its estimated exposure base by the reinsurance rate applicable to the retention level chosen by the member.

To calculate the estimated reinsurance premium, the WCRA uses an actuarial projection of its total exposure in the coming year. Each member is charged estimated premiums based on its pro rata share of the WCRA's total projected exposure. The pro rata share is based on the most recent actual exposure base figures available, which are usually for the period two years prior to the coverage year being billed.

See "Member Exposure Base" for circumstances under which a member can revise its estimated exposure base for billing purposes and for more detailed explanations of members' exposure bases. See "Reinsurance Premium Rates" for an explanation of how rates for the different retention levels are computed each year.

General Formulas for Exposure Base and Premiums

Different data sources are used to calculate the exposure of self-insurers and insurers. That information is captured in the adjusted pure premium or the modified adjusted pure premium, the figures used as the exposure bases in the premium calculations.

For Insurers

Adjusted pure premium is used to determine the exposure base for insurer members of the WCRA. It is determined by taking calendar year earned premium at the MWCIA designated statistical reporting level and subtracting premiums for employer's liability increased limits coverage. The result is the WCRA standard earned premium exposure, which is then multiplied by an adjustment factor of 1.2. (See "Member Exposure Base" for a discussion of the 1.2 adjustment factor.)

Members report calendar year earned premium information to the WCRA and in the Annual Call for Experience submitted to the MWCIA. The data reflects an insurer member's regular and large deductible business and incorporates the experience rating of its individual policyholders.

This calculated exposure base is then multiplied by the reinsurance rate in effect for the retention level selected by the member, resulting in the premium charge, as follows.

$$\begin{aligned} &\text{Calendar Year Earned Premium at the WCRA Standard Earned Premium Level} \times 1.2 \\ &= \text{Adjusted Pure Premium} \end{aligned}$$

$$\begin{aligned} &\text{Adjusted Pure Premium} \times \text{WCRA Reinsurance Rate} \\ &= \text{WCRA Reinsurance Premium} \end{aligned}$$

For Self-Insurers

Modified adjusted pure premium is used as the exposure base for self-insurers. Pure premium is calculated by multiplying the Minnesota workers' payroll by classification by the MWCIA pure premium class rates. This amount is then multiplied by an adjustment factor of 1.2 to arrive at a members' adjusted pure premium.

A self-insurer member's adjusted pure premium is then modified by an experience rating modification factor to obtain the modified adjusted pure premium. The product of that figure and the rate in effect for the selected retention level yields the premium charged.

A 2 percent premium tax is applied to WCRA reinsurance premiums collected from self-insurer members in accordance with legislation enacted in 1987. Since 1988, this expense has been included in the WCRA reinsurance rates charged for self-insurer members.

The premium is thus calculated according to the following general formula:

$$\begin{aligned} &\text{Payroll by Classification (in hundreds of dollars)} \times \text{Pure Premium Class Rate} \times 1.2 \\ &= \text{Adjusted Pure Premium (before experience rating)} \end{aligned}$$

$$\begin{aligned} &\text{Adjusted Pure Premium} \times \text{Experience Rating Factor} \\ &= \text{Modified Adjusted Pure Premium} \end{aligned}$$

$$\begin{aligned} &\text{Modified Adjusted Pure Premium} \times \text{WCRA Reinsurance Rate (including premium tax)} \\ &= \text{WCRA Reinsurance Premium} \end{aligned}$$

Exposure Adjustment Factor

Before estimating member premiums, the WCRA first calculates the ratio of total projected exposure for the coming year to total reported exposure figures (available from two years prior). The resulting factor is then applied to each member's exposure base from two years prior to calculate the estimated exposure base.

Using 2011 to illustrate, as of June 30, 2010, the actuarial projection during 2010 of 2011 total WCRA exposure was \$1,344,000,000, and the 2009 total WCRA exposure was \$1,290,000,000. The exposure adjustment factor applied to each member's 2009 exposure base in order to estimate the 2011 premiums was 1.042, calculated as follows.

$$\$1,344,000,000 / \$1,290,000,000 = 1.042$$

The exposure adjustment factor can be greater than, equal to, or less than 1.00.

Calculating Estimated Premiums

Estimated premiums are calculated and billed to members every December for coverage during the following year.

For Insurers

Using 2011 as an example, the 2011 estimated premium is calculated as follows.

$$\begin{aligned} &2009 \text{ Earned Premium at the WCRA Standard Earned Premium Level} \times 1.2 \\ &= 2009 \text{ Adjusted Pure Premium} \end{aligned}$$

$$\begin{aligned} &2009 \text{ Adjusted Pure Premium} \times 2011 \text{ Exposure Adjustment Factor (1.042)} \\ &= 2011 \text{ Estimated WCRA Exposure Base} \end{aligned}$$

$$\begin{aligned} &2011 \text{ Estimated WCRA Exposure Base} \times 2011 \text{ WCRA Reinsurance Rate} \\ &= 2011 \text{ Estimated WCRA Reinsurance Premium} \end{aligned}$$

For Self-Insurers

Using 2011 as an example, the formula used in calculating a self-insurer's 2011 estimated premium is as follows.

$$\begin{aligned} &2009 \text{ Payroll by Classification (in hundreds of dollars)} \times 2011 \text{ Pure Premium Class Rate} \times 1.2 \\ &= 2011 \text{ Estimated Adjusted Pure Premium (before experience rating)} \end{aligned}$$

$$\begin{aligned} &2011 \text{ Estimated Adjusted Pure Premium} \times 2011 \text{ Experience Rating Factor} \\ &\quad \times 2011 \text{ Exposure Adjustment Factor (1.042)} \\ &= 2011 \text{ Estimated WCRA Exposure Base} \end{aligned}$$

$$\begin{aligned} &2011 \text{ Estimated WCRA Exposure Base} \\ &\quad \times 2011 \text{ WCRA Reinsurance Rate (including premium tax)} \\ &= 2011 \text{ Estimated WCRA Reinsurance Premium} \end{aligned}$$

Actual Premiums

Every May, the WCRA calculates a reinsurance premium adjustment when the actual adjusted pure premium exposure figures for the previous year become available. For example, the WCRA billed its members for 2011 premiums in December 2010. The most recent exposure base figures available at the time of billing were for calendar year 2009. The 2011 premium is adjusted based on the actual 2011 data available after the close of the year. In most cases, 2011 premium calculations will be finalized by July 2012, one and one-half years after the original estimate.

Annual Adjustment

The premium notices issued each June include any adjustment for the previous coverage year's reinsurance premium. If the estimated premium was less than the actual premium, the member's payment to the WCRA for the additional premium is due by August 1. If the estimated premium was greater than the actual premium, the WCRA applies this credit to any remaining premiums due. If a credit balance remains, the WCRA automatically refunds this amount to the member.

Sample Calculations

The following sample reinsurance premium adjustment calculations are for an insurer member at the low retention limit, using hypothetical "company" figures, 2011 exposure levels, and 2011 reinsurance rates.

Calculation 1: Estimated 2011 Reinsurance Premium (prepared December 2010)	
2011 estimated WCRA exposure base	\$ 12,149,672
2011 insurer reinsurance rate for low retention	x .09929
Estimated 2011 WCRA premium	\$1,206,340.93

Calculation 2: Actual 2011 Reinsurance Premium (prepared May 2012)	
2011 actual WCRA exposure base	\$ 13,816,926
2011 insurer reinsurance rate for low retention	x .09929
Actual 2011 WCRA premium	\$1,371,882.58

Calculation 3: 2011 Annual Adjustment (billed July 2012)	
2011 actual WCRA premium	\$1,371,882.58
Less estimated 2011 WCRA premium	-1,206,340.93
2011 Annual Adjustment	\$ 165,541.65

WCRA Payment Procedures

Lockbox Address — Premium payments sent in check form only

WORKERS COMP REINSURANCE
P.O. Box 860025
Minneapolis, MN 55486-0025

Wire or ACH Transfer of Funds — All addenda information should be sent in CCD format

ABA Routing Transit #091000022
U.S. Bank
Saint Paul, MN 55101
Beneficiary Account #: 104790527121
Beneficiary Account Name: WCRA

Banking Address — Premium payments sent via overnight mail, Federal Express, etc. only

WORKERS COMP REINSURANCE
U.S. Bank – Lockbox 860025
EP-MN-01LB
1200 Energy Park Drive
Saint Paul, MN 55108

Installment Payments and Due Dates

Premium bills may be paid in one lump sum or in four equal quarterly installments. It is not necessary to notify the WCRA of your payment option. If the payment received by February 1 is an installment payment, the WCRA will automatically send out notices for the remaining quarterly premiums due April 1, July 1, and October 1. The WCRA mails premium notices approximately 25 days prior to the due date.

Interest Charges on Late Payments

Members can avoid interest charges by paying premiums by the due date indicated on the billing. Late payment interest will accrue at a rate of 1.5 percent compounded monthly for any payment received after the due date. Following is a billing example for a premium payment that was due on February 1 and premium was not received as of February 2.

<u>Description</u>	<u>Due Date</u>	<u>Amount Due</u>
Renewal Installment (1 of 1)	2/1/2011	\$225,998.53
Unfunded Layer Installment	2/1/2011	<u>6,638.71</u>
<i>Subtotal</i>		\$232,637.24
Late Fee on Past Due Premium	3/1/2011	<u>3,489.56</u>
<i>Total Amount Due</i>		<u>\$236,126.80</u>

WCRA Premium Audits

The WCRA annually audits 20 percent of its membership with exposure to assist members with proper reporting and to help them learn more about WCRA services. The WCRA premium audit staff initiates contact with members to schedule audits and identify documentation they will need to review during their visit to the member's workplace.