A State Fund Mutual Companies publication for insurance agents

APRIL - MAY 2001

agent agenda

Insurance identification cards

SFM now provides policyholders with insurance identification cards to improve communications among healthcare providers, employers and SFM.

An injured employee should present this card to the healthcare provider when seeking treatment. It identifies State Fund Mutual as the insurer, gives SFM's contact information and instructs the provider to direct treatment authorization and billing to State Fund Mutual.

Each policyholder will receive a supply of eight identification cards with the April *Companion*, which they should receive the last week of the month.

You are encouraged to call employers' attention to the cards and encourage them to use them. If you would like to order cards to show or give to employers, call SFM Policyholder Services at (952) 838-4325 or (800) 937-1181 ext. 4325, or email: info@sfmic.com.

State penalties at record high

The Minnesota Department of Labor and Industry collected a record high $1.5 million in workers' compensation penalties in fiscal 2000, up from $1.3 million in 1999. The number of penalties also rose, from 3,011 in 1999 to 3,349 in 2000.

Over three-quarters of penalties collected are due to late filing of First Reports, late first payments and late denials. Penalties are assessed to insurers, but an insurer may pass a penalty on to the policyholder whose late reporting or other actions caused it.

Most penalties are preventable. Encourage your clients to report all injuries to SFM accurately, completely and timely—within five days. This allows SFM enough time to investigate, determine liability and pay or deny the claim within state deadlines.

State Fund Mutual COMPANIES

agent agenda is published bimonthly by State Fund Mutual Companies, 3500 West 80th Street, Suite 700, Bloomington, MN 55431-4434. Inquiries about the publication, call (952) 838-4285 or e-mail info@sfmic.com.

President	Patricia R. Johnson
VP of Insurance Operations	Frances M. Kaitala
Editor	Mark A. Ladwig
Assistant Editor	Jennifer Kopp

Board of Directors: Richard J. Marshik, chair; Truman L. Jeffers, vice chair; Tamara G. Garcia, Patricia R. Johnson, Gretchen B. Maglich, Eugene R. Merriam, L. Mark Michel, F. Clayton Tyler, Matthew P. Winkel

Reversing trends dig in, put pressure on pricing

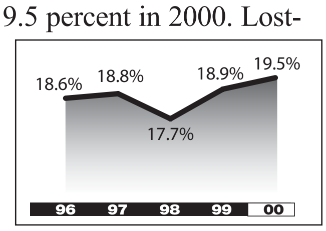
Pricing on renewal business during first quarter 2001 was up 17 percent overall, moving pricing closer to that needed to keep step with increasing costs of claims.

However, with incoming loss trends continuing to show signs of rising incidence of lost-time claims, pricing for the rest of the year will need to rise still more to keep pace.

"Earlier this year, we'd established a pricing target of 12 percent, and our producers have done a really great job in coming through at 17 percent. Their extra effort, as it turns out, has been essential with loss costs trends becoming more firmly established, the slowing economy, and still declining investment rates. All that affects not only the risk we insure today but how we anticipate that risk will look in the months ahead," said Fran Kaitala, vice president, SFM Insurance Operations.

Lost-time trends

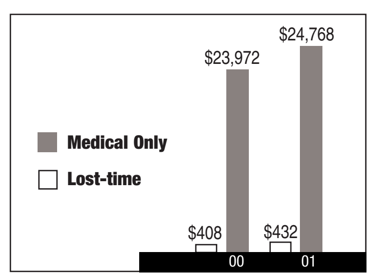
The trend in lost-time claims continues an increase in incidence that began in 1998. Lost-time claims accounted for 17.7 percent of SFM claims in 1998, 18.9 percent in 1999 and 19.5 percent in 2000. Lost-time claims are a whole lot more costly than medical-only claims, not just in benefit costs but in state assessments on benefits and the cost of handling and resolving those claims. So, even a slight shift in the mix of claims toward more lost-time adds up to considerable additional cost.



The incidence of lost-time claims rose last year to 19.5 percent of all SFM claims.

SFM's claims experience appears to reflect larger state and even national trends.

In addition to the rise in lost-time claims, SFM is seeing steeper medical cost increases—especially in back and other ortho surgeries. Weekly benefit maximums rose rather significantly with legislative changes last year, too. Rising costs prompted a modest increase in reserves for some claims from prior accident years, leading to potential higher estimates for current and future claim costs as well.



SFM's average medical-only claim this year is projected to cost $432 compared to the average lost-time claim at $24,768. Lost-time claims are increasing in cost and incidence, adding up to considerable additional expense. Figures include benefits, defense, SCF assessment and claims handling costs.

Pricing target: 20 percent overall

For the rest of 2001, SFM's book of business will need to be priced about 20 percent higher overall to reach its profitability target, a level for agents to keep in mind as accounts come up for renewal.

"As always, we price accounts individually rather than increase pricing across-the-board," Kaitala said. "For employers who've controlled their losses, pricing will be lower than the 20 percent target. For others, it'll be higher. Underwriters will be sure to give agents an early alert on cases of significant pricing increase or non-renewal."

During the 1990s, when claim costs were trending downward and investment returns contributed more, employers grew accustomed to years of pricing declines. A little perspective is important for employers

Continued on back

Ergonomics rule update

Following congressional action last month repealing a new federal ergonomics regulation, the U.S. secretary of labor pledged to begin rulemaking on a more balanced regulation.

State Fund Mutual President and CEO Pat Johnson said employers should take common sense steps now to improve their track records and workplaces. "Employers who address ergonomics now will make it a non-issue when an official rule materializes again," she said.

Your role is important. You can help prepare employers by encouraging them to:

- Make sure they're tuned in to employees who are developing ergonomic problems, and, when an injury occurs, that they're responsive to the risk to other employees doing the same job.
- Accommodate recovery and return to work after an ergonomic injury.
- Eliminate ergonomic hazards. Depending on the type of work involved, that might include evaluating, readjusting and maybe even re-engineering workstations. For some businesses, employee training helps. Encourage employers to seek help from professionals if they don't have the expertise for these.

Your advice can help employers pay attention to their risk for ergonomic injuries, which are growing in incidence and impact on workers' compensation costs and which they'll be having to deal with under whatever new federal standard comes along.

Assigned Risk Plan

The Minnesota Assigned Risk Plan's growth during latter 2000 is continuing into 2001.

The ARP dipped during the first half of 2000 to July's 24,006 policies and $17.4 million premium in force. By year-end, that had grown to 32,220 policies and $25.8 million premium in force, and by February 2001 to 32,357 policies and $29.7 million premium in force.

ARP's peak policy count was 44,245 in September 1994. Its peak premium volume was $154.6 million in late 1992.

June is safety month

Help SFM and other organizations promote public safety awareness by officially recognizing June as National Safety Month.

SFM encourages you to participate in the awareness effort by encouraging your clients to make an extra effort to control workplace accidents and injuries by identifying hazards and educating employees.

SFM offers chiropractors network

SFM now offers policyholders the Preferred Chiropractors Network to help control workers' compensation chiropractic treatment costs—and it doesn't require enrollment or cost a thing.

The network is a listing of chiropractors who understand work injuries and return-to-work. Employers can choose a provider from the preferred chiropractor directory and suggest employees go there for treatment.

Policyholders with four or more claims in the last 12 months will receive Preferred Chiropractors Network packets in the mail in late April. These packets will include a listing of preferred chiropractors for policyholders to choose from.

SFM has made this preferred chiropractors program available through an arrangement with Health Services Management Inc., St. Paul.

Encourage employers to use the network. Order packets by calling SFM Policyholder Services at (952) 838-4325 or (800) 937-1181 ext. 4325, or email: info@sfmic.com.

WCRA checks to be distributed

Policyholders entitled to Workers' Compensation Reinsurance Association excess funds should expect to receive their checks in August.

$56.7 million in excess funds is being distributed to insured Minnesota employers by the WCRA based on their share of 2000 *earned* premium.

Some employers mistakenly presume their check amounts are based on the premium amount for the policy issued during 2000. Actually, per law, the checks are based on 2000 earned premium, which is the amount of the premium paid for coverage during that calendar year. So the checks were calculated using an employer's estimated premium attributable to calendar 2000, which may be portions of more than one policy in effect during that calendar year.

Further, the earned premium amount may have been increased or decreased by any audit changes that were processed in 2000.

In the past, agents occasionally have gotten questions from employers whose checks didn't correlate with what they expected to receive. To help explain it, review the example of how the excess funds are calculated. This is the method set by the WCRA per state law.

Calculation example

Earned premium calculation			
Est annual premium effective 6/1/99-5/31/00		$	36,000
Est annual premium effective 6/1/00-5/31/01		$	37,800
Earned on 1999 policy	$36,000 x (151/365)	$	14,893
Earned on 2000 policy	$37,800 x (213/365)	$	22,059
Audit addition on 1999 policy		$	1,500
Total earned premium in cal. yr. 2000		$	38,452
WCRA premium refund calculation			
Total to be refunded to policyholders		$	56,700,000
Divided by total MN cal. yr. 2000 earned prem. (est.)		/	800,000,000
Ratio of refund to total MN earned premium			7.09%
Times policyholder cal. yr. 2000 earned prem.		x	38,452
Equals total estimated refund for policyholder		**$**	**2,725**

❖ *Pricing* Continued from front

now as trends change and pricing of their coverage readjusts: At year-end 2000, pricing was still 47 percent lower than pricing was in 1991.

Retaining better customers

Loss performance on SFM's renewed business is significantly better than the performance of accounts that have not renewed. Individual account underwriting has helped keep better performers. And new business has performed very well.

"Overall improvement in the quality of insured business and in pricing are key underwriting barometers as claims trends turn," Kaitala said. "They're important to us growing in financial strength so we can grow in this hardening market. In this environment of market swings, we remain strong—and so we're please to see the first quarter's good underwriting indicators keeping us on track."

Through first quarter, SFM wrote 126 new policyholders totaling $2.2 million, compared to 138 policyholders for $1.3 million a year ago.

Policyholder retention was 89 percent, dipping slightly from year-end, while premium retention on renewals was up slightly to 95 percent.