



## news briefs

### **SCF surcharge on statements**

Beginning with workers' compensation policies effective Jan. 1, 2003, the information page will show a surcharge for Minnesota's Special Compensation Fund assessments.

Currently, many insurers including State Fund Mutual build the assessment amount into each employer's premium pricing without specifically identifying it on the statement.

The change in how the assessment is displayed on statements accompanies a change in how the SCF assessment is collected. Under legislation passed earlier this year, SCF assessments for insured employers will be based on pure premium rather than on indemnity payments. Currently, for every dollar of indemnity payments, another 30 cents in assessment is paid to the Special Compensation Fund. Because of legislative withdrawals from the SCF for the state's general fund, SCF assessment collections increased in 2002 from the former 20 percent rate. The exact mechanisms for calculating the assessment and how much it will be are still being developed.

### **DOLI to issue new FROI form**

The Minnesota Department of Labor and Industry is developing a new First Report of Injury form.

The new form, which will ask for a lot of additional information about the insured, replaces the revised First Report form that DOLI issued earlier this year.

DOLI officials said the new form will be issued later this year and that employers will be given several months to phase out the old form and begin using the new one.

Watch for more information about the new First Report form and when SFM will be able to make it available to employers.

## A mixture of diverse trends drives pricing

Pricing is nowhere near the high levels of the early '90s. Not yet anyway. But it has been rising steadily since the late '90s and will continue, it appears, at least for the near term.

National economic distress and rising loss costs are the larger forces underlying the trends driving today's pricing increases. It's important to understand these trends and how they are affecting employers. Even employers with stable loss experience are seeing significant pricing increases and, understandably, ask for explanation.

The following is a concise list of the factors driving pricing in today's market.

### **Claim costs are rising**

- **Higher claims frequency.** Compared to just a few years ago, some employers are experiencing a higher incidence of claims. Significantly, the proportion of those involving loss time is rising, too. Perhaps the result of a tight job market followed by economic downturn.
- **Longer periods of disability.** Some employers seem less inclined or able to bring injured employees back to work. This loss "development" is greater than expected not only on new claims but prior claims, too.
- **Rising medical costs.** Another factor leading to greater-than-expected loss development on new and prior claims. Three main cost drivers: new surgery techniques that have raised costs but not outcomes; pharmaceuticals, including expensive pain management drugs and less interest generally in lower-cost drugs; medical complications, including rising rates of infection and diabetes. Hospital costs are high.
- **More pre-existing risk factors.** Especially obesity, diabetes and an aging workforce. These are contributing to the incidence and severity of injury, and hampering recovery.
- **More social complications.** Chemical dependency, mental health, family problems, and history of violence are impacting and complicating a greater proportion of claims.

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### Website use way up

Since SFM launched its redesigned website and CompOnline® one year ago, more than 1,200 individuals from 119 agencies and 398 employers have registered for CompOnline.

Online injury reporting, a website function that employers do not need to register to use, has risen to an impressive average of more than 30 percent of all First Reports submitted to SFM. One week reached 43 percent.

In the last three months, nearly 2,000 loss runs were requested through CompOnline, and 124 agents and policyholders subscribed for loss runs to be transmitted to them via email on a regular basis.

CompOnline registration forms are available on the website or by calling (952) 838-4200, option 7. SFM claims representatives are available to demonstrate CompOnline features to interested employers.

Items most frequently downloaded or requested through the website include the First Report of Injury form, OSHA 300 log, accident investigation worksheet, SFM's "Rates and premiums" CompTalk, "Back care awareness" poster, and "When an injury occurs" quick reference card.

### Policyholder seminar set

SFM's free, 90-minute "Responding to work injuries" seminar for claims coordinators is scheduled for Oct. 29 in Bloomington.

Invitations will be sent in September to most Twin Cities area policyholders who are new to SFM since May 1. You'll receive notice of your clients who are sent invitations.

Be sure to encourage new policyholders and existing policyholders that have new claims coordinators to attend. They can register online via the "Seminars" tab at [www.sfmic.com](http://www.sfmic.com). Or they can call (952) 838-4294 or (800) 937-1181 ext. 4294.

## calendar

- Sept. 2 Labor Day—SFM closed
- Sept. 10 Primary elections
- Sept. 12 PIA Education Day
- Oct. 29 SFM claims coordinator seminar
- Nov. 5 Election Day

### First half of 2002

## New, renewal business strong

SFM's policy renewal rate through July was a solid 91 percent.

Pricing increases on renewals averaged 20.7 percent.

New business was also strong: 400 new policyholders and more than \$8 million in premium.

The largest group of new policyholders is manufacturing, then construction and the service industry.

Through July, the largest new policy was \$460,000, the smallest \$250.

SFM underwriters quoted more than 30 percent of the applications received, up 6 percent from last year. SFM captured more than 50 percent of the accounts quoted, up 8 percent.

"We're very pleased with the business we are capturing. We're seeing better quality submissions overall this year, which makes our jobs easier thanks to the help of our agents," said Fran Kaitala, vice president, Insurance Operations.

## Letter educates contractors about rules, liabilities when hiring subs

State Fund Mutual soon will be sending letters to contractors alerting them to the steps a contractor is required to take when hiring subcontractors.

Uninsured subcontractors has been a recurring liability problem and, in some individual cases, policyholder audits have resulted in substantially increased premiums. The letter is designed to help educate contractors about the secondary liability they are exposed to if the subcontractor is uninsured and what contractors need to do to protect themselves. Agents should be helping to educate contractors, too.

The letter explains that:

- When the subcontractor uses employees, it is absolutely necessary for the contractor to get a Certificate of Workers' Compensation Insurance from the sub showing coverage in force at the time of the subcontracted work. "If your auditor is not able to verify that the subcontractor had a workers' compensation policy

in force, then the payroll of the subcontractor will be included in the payroll base for calculating your workers' compensation premium," the letter says.

- When the subcontractor works alone and does not provide a Certificate of Workers' Compensation Insurance because he claims to be an independent contractor, then the contractor needs to have the sub provide a Certificate of Insurance for General Liability and complete a "Determination of independent contractor status" form. The form will enable SFM to determine whether the sub meets the legal criteria for "independent contractor."

A copy of the form, along with instructions on when to use it, is included with the letter. Letters will be sent to all SFM policyholders with contractor classifications.

For questions about the letter or about the special liability of contractors, contact your underwriter.

# Piece on e-mods is good grist for discussions with employers

Put a yellow sticky on page 10 of the July *Companion*, next to the chart titled "Impact of an injury on employer's e-mod."

You can use this chart to good advantage when talking with employers about their own loss experiences and what they can do to control their premiums. The example in the chart shows how the employer's response to an injury can make a huge difference in the outcome of the claim and, ultimately, in its impact on the employer's workers' compensation premium.

The chart is part of a larger feature that's a helpful basic primer on e-mods.

"Your e-mod is your greatest opportunity to reduce your workers' compensation premium," the feature begins, and it explains why in easy-to-digest detail.

It also happens to carry some motivational insights on the e-mod-controlling value of return-to-work.

This piece belongs in your "News you can use" folder. For copies of the July *Companion*, call SFM at (952) 838-4325 or (800) 937-1181 ext. 4325, or email [resources@sfmic.com](mailto:resources@sfmic.com).

## ❖ Pricing drivers Continued from front

- **More benefits extending past the presumed retirement age.** '95 legislation established the presumed retirement age of 67 as a trigger for discontinuing PTD benefits. But increasing numbers of older workers near or already beyond that age when injured successfully challenge the presumed retirement age and receive lifetime benefits.
- **More permanent total disability claims.** Probably a result of legislated caps on weekly benefits. Assumptions for savings from legislated changes designed to limit qualifying for PTD benefits that went into calculation of past premium have proven optimistic.
- **Gradual rise in cultural and language barriers.** Claims impacted by interpreter costs and fewer work alternatives.

### Investment income is down

- Lower returns in the investment markets.
- Fewer dollars available to invest because premium collected is paid out sooner.

### Reinsurance costs up, coverage less

- Particularly for employers' liability and other states' coverages. For insurers, risk of terrorism events is acute for workers' com-

pensation, relative to other coverages, because coverage exclusions are not possible and reinsurance is virtually unavailable for these events. Note that Minnesota workers' compensation reinsurance is distinctive in covering terrorism events and in having rates that are actually declining for the same coverage availability, but not all insurers will be pricing for the Minnesota-only risk.

### Extremely low pricing in past decade

- Many Minnesota employers had the benefit of pricing in the past decade that probably was lower than it should have been given the higher-than-expected cost of claims during the latter part of the decade.

This convergence of trends and circumstances is putting continued pressure on workers' compensation pricing. Employers can control some of these factors but not all of them.

Near term, employers, agents and insurers need to work through this challenging period together, taking the initiative where they can to reduce loss costs, and realizing the bottom line for workers' compensation coverage is pricing that adequately reflects the risk.



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