2025 Report to the Workers' Compensation Advisory Council (Rates Oversight Commission)

Workers' Compensation Rates in Minnesota

Pursuant to Minn. Stat. § 79.55, subd. 10

March 1, 2025

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Executive Summary

Pursuant to Minnesota Statutes § 79.55, subdivision 10, the Commissioner of Commerce (Commissioner) must issue a report by March 1 of each year that evaluates the competitiveness of the workers' compensation market in Minnesota in order to evaluate whether the competitive rating law is working.

Over the last 10 years, Minnesota Workers' Compensation Insurance Association (MWCIA) pure premiums have been drifting lower, with some recent notable larger decreases. Most of these changes have been close to 1% - 2% decreases with the notable exceptions that in 2017 the pure premiums dropped 12%, in 2018 7%, in 2022 7% and in 2024 10% (see figure 1 on page 5). At the same time, the loss cost multipliers (LCMs) used by the companies (to convert MWCIA advisory pure premiums to rates) have been drifting down during recent years (see figure 2 on page 6). Combining the LCMs and the MWCIA loss costs, the rates charged by insurers have been drifting downwards over the 10-year period. The exceptions are the larger decreases effective January 1, 2017, January 1, 2018, January 1, 2022 and January 1, 2024. It is notable that it does not appear that the carriers adjusted their LCMs significantly in reaction to those years where the MWCIA pure premiums were at a higher level.

Impact of Recent Law Changes to Advisory Pure Premium

In 2021, Minnesota Statutes §§ 79.55, subdivision 10 and 79.61, subdivision 1 were amended to change what MWCIA could include in their published advisory pure premium base rates. The law change also allowed for expediated rulemaking which was used to rescind rules for not allowing Data Service Organizations (DSO) to include trend and loss development to ultimate in the published advisory pure premium base rates. Consequently, MWCIA as the DSO could include loss adjustment expenses in the published advisory pure premium base rates.

Starting in 2023, the MWCIA published advisory pure premium base rates which include loss adjustment expenses, trend, and loss development whereas in all prior years the MWCIA published advisory pure premium base rates which excluded these elements. This results in a fairly significant discontinuity when comparing the 2023 and 2024 LCMs to those used in prior years as those LCMs used in 2023 and 2024 should be lower than those used earlier if all other things were equal, because these elements (loss adjustment expenses, trend and loss development) are already in the MWCIA published advisory pure premium base rates whereas in the past the companies had to load them as part of their LCM. In subsequent sections of this report, more detail will be provided explaining these differences. These sections should also help clarify why the charts previously referenced have distortions for 2023.

Purpose

As noted above, Minnesota Statutes § 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 Rate Oversight Commission concludes that concerns exist regarding the competitiveness of the workers' compensation market in Minnesota, the Rate Oversight Commission must recommend to the legislature appropriate modifications to this chapter.

Background

This MWCIA Ratemaking 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 January 8, 2025, 199 of the 303 carriers had adopted the January 1, 2025, loss costs, representing 79% 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 5, 2024, 247 out of 303 carriers had adopted and had in effect the January 1, 2024, MWCIA pure premiums representing 92% of the voluntary market.

It should be noted that Commerce 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 1.68. (More detail will be provided in a later section describing why the 2023 through 2025 industry average LCMs are so much lower than those found on prior years versions of this report).

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

Commerce reviewed the base rates charged by insurance carriers selling workers' compensation coverage in Minnesota and compared these rates with the pure premium base rates[1] charged by the MWCIA for the time period 2016 – 2025. 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 premiums[2]. 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.

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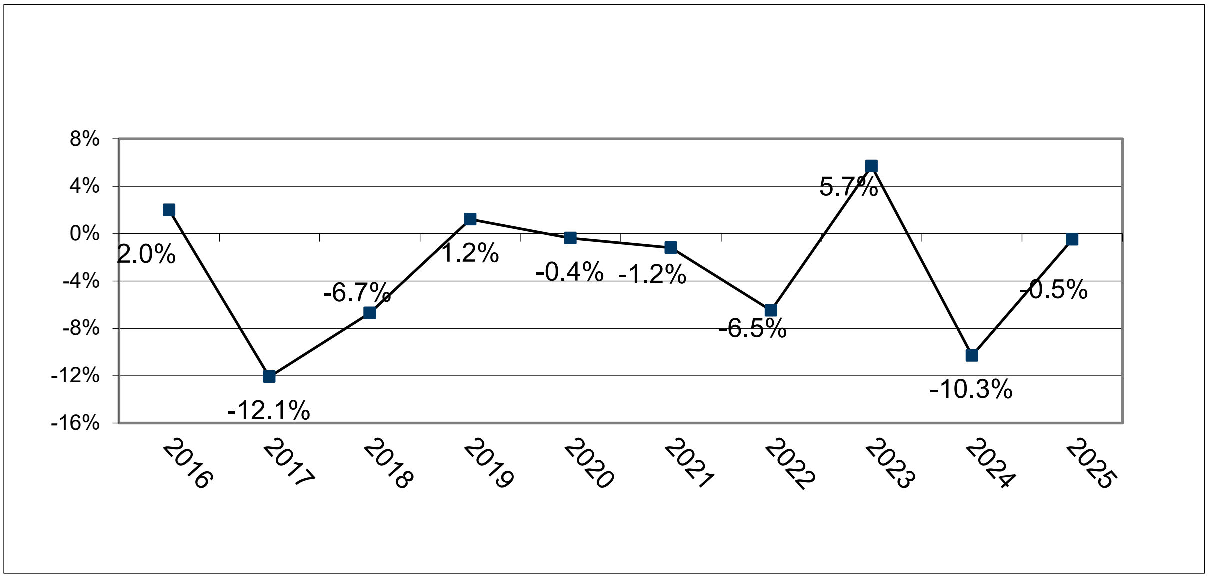
[1] The pure premium is the amount that an insurance carrier would need to charge in order to cover only the workers' compensation benefits (losses) paid to injured workers. These pure premiums, for each employer job classification, are calculated by the MWCIA based on industry experience.

[2] Throughout this report, the terms pure premiums and loss costs are used interchangeably. Due to statutory restrictions until 2023, the pure premiums calculated by MWCIA were not quite the full amount for the loss cost, but they were most of the full amount. No expenses of any type were included until 2023. In 2023 loss adjustment expenses were included in the pure premiums calculated by the MWCIA. In addition, starting in 2023 the pure premiums calculated by MWCIA are the full amount for the loss cost as trend and loss development to ultimate is now included in the pure premiums calculated by the

Figure 1 below shows the changes in MWCIA pure premiums during the past ten years.

Figure 1: Minnesota Workers' Compensation Pure Premium Base Rate Changes



Note that the 2023 MWCIA Advisory Pure Premium change includes the impact of adding the new elements of loss adjustment expenses, trend, and loss development to ultimate as well as the experience change. The 2023 figure on this graph is consistent with what appeared in the 2024 version of this report but differs from the graph on the 2023 version of this report, where the MWCIA Advisory Pure Premium change was for experience and benefits only, which was shown as -9.5%.

During this period, the annual changes to pure premiums due to loss experience were mostly modest decreases in the older years with the exceptions of 2016 (where a small increase occurred) and 2017 and 2018 where larger decreases occurred. Note that the decreases for the last few years have been more significant (especially if you consider that the increase in 2023 was distorted by the addition of the new elements in the pure premiums). The cumulative effect is more significant. Since 2016, pure premium base rates have declined by 26.5%. This decrease would have been significantly larger (over 37%) if the new elements were not added in 2023.

It is important to note that the 2023 change would have been -9.5%, if the new elements – loss adjustment expenses, trend, and loss development to ultimate – continued to be excluded from the MWCIA advisory pure premiums. In other words, the inclusion of these elements caused the MWCIA advisory pure premiums to be 16.8% higher than what they would have been had the 2021 session law not been implemented, which resulted in an overall increase of 5.7% to the MWCIA advisory pure premiums.

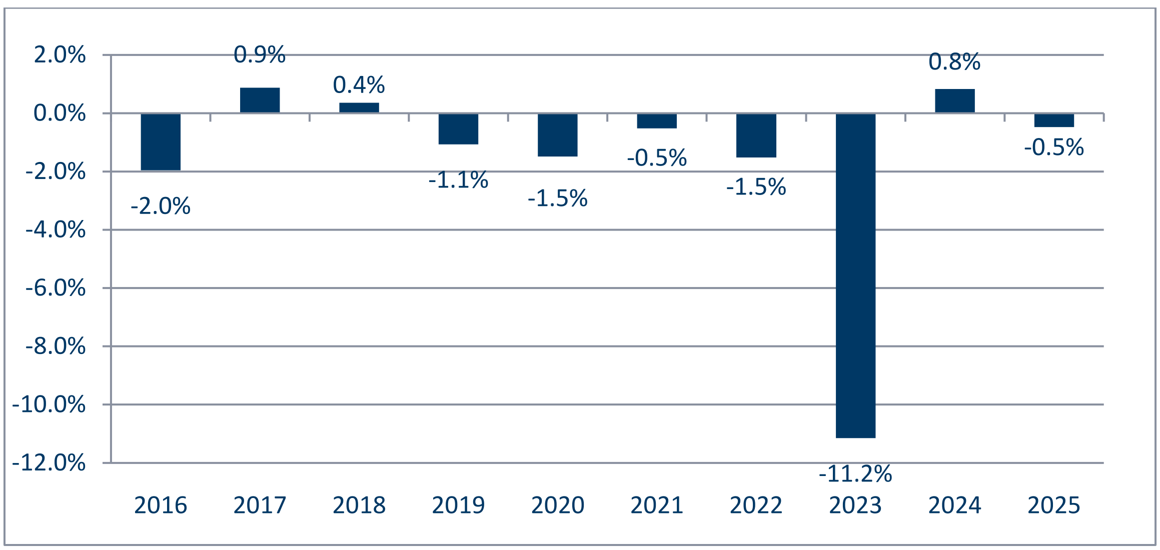
MWCIA. However, certain underwriting expenses including commissions, other acquisition expenses and general expenses are excluded from the MWCIA advisory pure premiums (for the 2025 Ratemaking Report as well as for all editions published in prior years). In addition, considerations for profits and contingencies, investment income and taxes are also excluded. See the Appendix for additional detail.

Please note that the MWCIA pure premiums represent more of the expected losses over the last eight years than they did prior to that. Specifically, the rules used to not allow the MWCIA pure premiums to be developed to ultimate. Prior to 2016, they were developed to 8th report. In 2016 they were developed to 10th report, 2017 to 14th, 2018 to 18th, 2019 to 24th, 2020 through 2022 to 27th, and for 2023 to ultimate. As indicated earlier, the MWCIA pure premium includes loss adjustment expenses and trend whereas these elements were excluded in MWCIA reports for earlier years. As a result, if one compares the MWCIA loss costs in 2015 to those in 2023, the 2023 loss costs represent a greater portion of the losses a carrier would be expected to pay.

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 (other than loss adjustment 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.

Figure 2 below shows the average changes in insurance carrier LCMs during the past 10 years.

Figure 2 Average Multiplier Change



In the 2023 version of this report the 2023 Average Multiplier change is adjusted so that the impact of including the new elements in the MWCIA advisory pure premiums was removed resulting in a 2023 change of +5.9%. No such adjustment was made in this edition of the report or in the 2024 edition of this report.

The rate change is the combined effect of the pure premium change and the multiplier change. For example, the MWCIA pure premium change in 2024 was -10.3%. The average LCM in the filings made during 2024 increased 0.8%. As a result, the overall rate effect for business written in 2024 is approximately -9.5%.

Over the past ten-year period, the average change in LCMs was -1.6% each year. However, there is a major distortion for the change from 2022 to 2023 due to the inclusion of the new elements in the MWCIA pure premiums. If this change for this period was excluded, the average LCM change would have been -0.6% based on the changes for the remaining 9 years. (Please note that 2025 is evaluated in January, while the other years are evaluated in November (2015 through 2017) or August (2018 through 2024).

During the past nine-year period, pure premiums and multipliers – and therefore rates – drifted lower generally. However, it should be noted that in 2017, 2018, 2022, 2023 and 2024, due to the large decrease in the MWCIA pure premiums, the rates decreased by a fairly significant amount. Of interest is what happened in 2023. The combined impact of the LCM changes and the MWCIA advisory pure premium changes was -6.1%, which was not as low as the MWCIA pure premium change for experience and benefits (only) at that time (-9.5%). This could possibly indicate some of the industry participants may be skeptical that expected losses have decreased as much as MWCIA projected. Commerce does not survey industry participants to definitively know the reasons. This might not be unreasonable as MWCIA had to make additional judgmental adjustments for the impact of COVID-19 for their projections.

Regarding the longer-term trend of decreases for the pure premiums and multipliers, 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 produced by the Minnesota Department of Labor and Industry states: *"In 2022, there were:* ***[…]*** *3.7 total paid claims per 100 full-time-equivalent workers, down 45% from 2002."* In last year's version of this report it was noted that the perception by carriers that they would earn less investment income due to prolonged lower interest rates, could be putting upward pressure on LCMs. It appears that there has been a dramatic shift in interest rates and the opposite could be happening now, that is higher interest rates might put pressure on carriers to lower their LCMs. Also, it is still possible that concerns about the still relatively little-known long-term impact of COVID-19 may also be placing some upwards pressure on companies to keep their LCM levels higher particularly for those who specialize in certain health-related industries.

Current Workers' Compensation Environment in Minnesota

The workers' compensation insurance market in Minnesota is competitive. There are over 300 insurance carriers and the largest market share of any one insurer is 10%. It is important to note that many of these companies are affiliated within one group, but usually each company has a different LCM.

Commerce reviewed the LCMs that were in effect and available as of January 8, 2025. As demonstrated by Table 1 below, there is significant variation in the LCMs filed by insurance carriers in Minnesota. If the company does not use the MWCIA 2024 advisory pure premiums by January 8, 2025, for their rates as of January 8, 2025, the LCM for that company is adjusted for the changes in the MWCIA advisory pure premiums in order to put it on the same level as the companies which did adopt the 2025 MWCIA advisory pure premiums.

Table 1: 2025 Loss Cost Multipliers for the Ten Largest Workers' Compensation Writers in Minnesota

2025 Loss Cost Multipliers for the Ten Largest Workers' Compensation Writers in Minnesota (Based on 2023 Written Premium)		
Rank	Company	Loss Cost Multiplier (LCM)
1	SFM Mutual Insurance Company	1.900
2	Zurich American Insurance Company	1.393
3	West Bend Insurance Company	1.575
4	SECURA Insurance Company, WI	1.829
5	Owners Insurance Company	1.628
6	SFM Safe Insurance Company	2.120
7	Federated Mutual Insurance Company	1.832
8	LM Insurance Corporation	0.900
9	Western National Mutual Insurance Company	2.231
10	ACUITY, A Mutual Insurance Company	1.298

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 3% 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 2021 and 2022.

Table 2: Market Shares for the 10 Largest Workers' Compensation Writers in Minnesota

Market Shares for the Ten Largest Workers' Compensation Writers in Minnesota (Based on 2023 Written Premium)			
	2023 Written Premium	Market Share *	2022 Written Premium
Total Voluntary Market	$1,033,808		$994,187
Total Vol. Market Plus Assigned Risk	$1,070,861		$1,030,389
Change in Premium *	4%		
Number of Insurers *	308		297
Assigned Risk Plan	$37,053		$36,202
SFM Mutual	103,805	10%	99,991
Zurich American	37,658	4%	37,604
West Bend Mutual	32,302	3%	33,038
Secura Ins A Mutual Co	28,061	3%	26,653
Owners Ins Co	25,255	2%	24,202
SFM Safe Ins Co	23,525	2%	22,560
Federated Mutual	23,286	2%	24,836
LM Ins Corp	22,994	2%	13,301
Western Natl Mutual	18,023	2%	19,892
Acuity A Mutual Ins Co	17,890	2%	18,213

*Of Voluntary Market

Self-insurance is also a viable option in Minnesota. The 2024 *Workers' Compensation System Report*, issued by the Minnesota Department of Labor and Industry, states that, based on paid indemnity claims, 43% of the total workers' compensation market is self-insured. In prior years to COVID-19 this percentage was closer to 25%. Part of the reason that this measurement appears distorted is that the Workers' Compensation System Report produced by the Minnesota Department of Labor and Industry uses paid indemnity claims to measure the market shares. The 2024 *Workers' Compensation System Report* notes, "Many of the workers covered by the COVID-19 presumption – first responders, corrections workers and health care workers – had self-insured employers."

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 45%. This is the same as the figure given in last year's version of this report, which is extremely favorable for the carriers. These results vary significantly by carrier. Within the top ten voluntary writers, five-year loss ratios vary from 30% to 77%. Based on these observations, Commerce would expect to see more rate decreases than increases in the immediate future.

Observations:

1. The market overall is stable and profitable. The 2017, 2018, 2022 and 2024 MWCIA pure premium changes have been significant and in 2023, the new elements included in the MWCIA advisory pure premiums caused a significant distortion to this pattern which otherwise would have indicated a large

decrease was warranted. Otherwise, for years prior to 2023, the pure premiums had been trending slowly downward, and the company LCMs have not moved significantly.

2. The market is competitive. There are 303 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 0.85 to 2.50. 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), which can fluctuate in size. In September 2011, the premium written in the ARP was $32.1 million. By January 2014, the earned premium for the calendar year ending in September of 2014 had grown to $64.9 million. It gradually decreased until it hit a low point of $30.2 million for the calendar year ending in June of 2021. Since then, it has started increasing again. As of September 30, 2024, the 12-month rolling calendar year earned premium was $36.4 million.
4. The Workers' Compensation Reinsurance Association's (WCRA) accumulated capital 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. Again, in 2020 it increased this time to $1,915 million. At year-end 2021 it was $1,875 million, even after booking a $600 million surplus distribution. At year-end 2022 it decreased to still a heathy $1,450 million. At year-end 2023 it is at $1,861 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.

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 underwriting or general 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 assigned risk plan market share has stabilized. However, based on the number of indemnity claims, the self-insured market may have grown. However, at this point it is difficult to tell whether this actually happened, or whether it just appears this way due to the fact that most of the classes that were covered under the COVID-19 presumption were self-insured, leading to a distortion in the perceived market share if it is based on indemnity claim counts.

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. COVID-19 presents a significant challenge to MWCIA in their pricing analysis. Although the primary data used in the 2025 MWCIA ratemaking report is from a time period after the initial shock, it is still questionable as to how much impact COVID-19 will have on long-term results. At this point, it appears that the impact is not nearly what was initially feared. It should be noted that we have not seen significant departures in loss cost multipliers. If carriers for 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. 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. It should be noted that the presumption legislation has expired. However, it would be prudent to monitor growth in the assigned risk plan for job classes that are perceived as being more vulnerable to COVID-19 claims.

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.