

August 25, 2010

CIRCULAR LETTER TO ALL MEMBER COMPANIES

Re: Workers Compensation Insurance

NCCI Item B-1420-Revisions to Basic Manual  
 Classifications and Rules

The North Carolina Rate Bureau has adopted and the North Carolina Commissioner of Insurance has approved the adoption of changes to **NCCI's Basic Manual for Workers Compensation and Employers Liability Insurance**. The effective date is April 1, 2011, and will impact all new and renewal voluntary and assigned risk business.

The purpose of this filing is to revise or clarify the formulas used to calculate payroll for partners and sole proprietors and formulas used to determine minimum and maximum payroll amounts for executive officers as shown in NCCI's **Basic Manual for Workers Compensation and Employers Liability Insurance**.

Title	Exhibit	Page
Rule 2 E – Executive Officers, Members of Limited Liability Companies, Partners and Sole Proprietors – 1) Executive Officers b) Premium Determination	1	7
Rule 2 E – Executive Officers, Members of Limited Liability Companies, Partners and Sole Proprietors – 3) Partners or Sole Proprietors	2	8
Appendix F – State Payroll Determination Formula	3	10

The attached exhibits explain the changes in more detail.

Contact the Information Center at 919-582-1056 or via email at [wcinfo@ncrb.org](mailto:wcinfo@ncrb.org), if you require additional information.

Sincerely,

Sue Taylor

Director of Insurance Operations

ST:dms  
 Attachments  
 C-10-13  
 NCRI-126759943

## FILING MEMORANDUM

### ITEM B-1420—REVISIONS TO BASIC MANUAL RULE 2-E-1-B—EXECUTIVE OFFICERS PREMIUM DETERMINATION, 2-E-3—PARTNERS AND SOLE PROPRIETORS, AND CREATION OF APPENDIX F

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#### PURPOSE

This item:

- Revises the procedure for determining the premium basis for partners and sole proprietors
- Revises the average weekly minimum individual payroll limitation for executive officers
- Revises the weekly maximum payroll limitation for executive officers in Louisiana from a fixed value to a formula
- Creates *Basic Manual for Workers Compensation and Employers Liability Insurance* Appendix F

#### BACKGROUND

##### Partners and Sole Proprietors

Item B-1170, effective May 1, 1981, revised the procedure for determining the premium basis for partners and sole proprietors. Prior to the approval of Item B-1170, a fixed amount of payroll was used as the premium basis for these individuals (\$15,600 for most states, and \$10,400 for others).

Item B-1170 created a formula to calculate the payroll for premium determination for partners and sole proprietors. The formula was based on the average annual wage in the state multiplied by a fixed state factor. The state factor was derived by dividing the fixed amount above by the state's annual wage and was intended to reduce the impact of changing the payroll determination from the fixed amount to the formula proposed in Item B-1170.

NCCI has reviewed the payroll determination for partners and sole proprietors and has found that the state factor is no longer necessary. Removing the state factor will align the premium paid more closely to the benefits provided.

##### Executive Officers

Item B-1171, effective May 1, 1981, revised the procedure to calculate the minimum individual payroll limitation for executive officers. Prior to the approval of Item B-1171, a fixed amount of minimum payroll was used by state.

Item B-1171 created formulas to calculate the weekly minimum individual payroll limitation for executive officers. The minimum payroll limitation formula was based on half (a factor of 0.5) the average weekly wage in most states. Because executive officers' salaries and bonuses continue to increase, the weekly minimum individual payroll set by B-1171 no longer reflects adequate payroll exposure for executive officers. According to recent surveys performed, only a small portion of executive officers' payroll is written at the weekly minimum individual payroll.

NCCI has determined that the weekly minimum individual payroll for executive officers should be equal to the state average weekly wage (SAWW) that is used for determination of benefits. Increasing the weekly minimum individual payroll limitation will align the premium paid more closely to the benefits provided.

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#### PROPOSAL

It is proposed that the:

- Annual payroll determination for partners and sole proprietors be revised to be equal to the SAWW multiplied by 52, which is used for determination of benefits
  - Weekly minimum individual payroll limitation for executive officers be revised to be equal to the SAWW
- The amounts will be reviewed prior to each state's loss cost/rate filing and adjusted according to any indicated change in wage level.

It is further proposed that Appendix F be adopted, which provides the state payroll determination formula for partners/sole proprietors and the executive officer weekly minimum and maximum payroll limitation formula.

#### Arizona State-Specific:

No changes are being proposed to the current Arizona payroll determination formula for partners and sole proprietors. Appendix F displays the current formula.

#### Colorado State-Specific:

It is proposed that the payroll determination formula for partners, sole proprietors, and executive officers be revised to be equal to the SAWW multiplied by 52.

#### Florida State-Specific:

It is proposed that the weekly minimum payroll limitation formula for executive officers of the construction industry remain at half (0.5) of the weekly minimum payroll limitation formula for executive officers of the nonconstruction industry.

#### Idaho State-Specific:

No changes are being proposed to the current Idaho payroll determination formula for partners and sole proprietors. Appendix F displays the current formula.

#### Iowa State-Specific:

No changes are being proposed to the current Iowa payroll determination formula for partners and sole proprietors and the executive officer weekly minimum payroll limitation formula. Appendix F displays the current formula.

#### Missouri State-Specific:

No changes are being proposed to the current Missouri payroll determination formula for partners, sole proprietors, and executive officers. Appendix F displays the current formula.

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#### Montana State-Specific:

No changes are being proposed to the current Montana payroll determination formula for partners and sole proprietors and the executive officer weekly minimum payroll limitation formula. Appendix F displays the current formula.

#### Nevada State-Specific:

No changes are being proposed to the current Nevada payroll determination for partners, sole proprietors, and executive officers. Appendix F displays the current formula.

#### New Hampshire State-Specific:

No changes are being proposed to the current New Hampshire executive officer weekly payroll limitation formula for unincorporated associations. Appendix F displays the current formula.

#### Rhode Island State-Specific:

NCCI does not produce a payroll determination amount for partners and sole proprietors.

#### Tennessee State-Specific:

No changes are being proposed to the current Tennessee minimum and maximum payroll determination formula for partners and sole proprietors in the construction industry. Appendix F displays the current formula.

### IMPACT

It is anticipated that the overall statewide premium impact of this item is negligible. The SAWW used will be consistent with the SAWW used for determination of benefits.

#### Alaska State-Specific:

It is proposed that Alaska revise the premium determination for partners and sole proprietors to SAWW multiplied by 52. To minimize the impact this may have on individual insureds, NCCI is proposing that Alaska implement a transition program. Initially, the change in the premium determination amount will be limited to an increase of 25% over the prior year's amount. Once the premium determination amount reaches the SAWW multiplied by 52, it will be set equal to the SAWW multiplied by 52.

#### Oregon State-Specific:

It is proposed that Oregon revise the premium determination for partners and sole proprietors to the SAWW multiplied by 52. To minimize the impact this may have on individual insureds, NCCI is proposing that Oregon implement a transition program. Initially, the change in the premium determination amount will be limited to an increase of 25% over the prior year's amount. Once the premium determination amount reaches the SAWW multiplied by 52, it will be set equal to the SAWW multiplied by 52.

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## FILING MEMORANDUM

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#### Virginia State-Specific:

It is proposed that Virginia revise the premium determination for partners and sole proprietors to the SAWW multiplied by 52. To minimize the impact this may have on individual insureds, NCCI is proposing that Virginia implement a transition program. Initially, the change in the premium determination amount will be limited to an increase of 25% over the prior year's amount. Once the premium determination amount reaches the SAWW multiplied by 52, it will be set equal to the SAWW multiplied by 52.

#### IMPLEMENTATION

In order to implement this item, the attached exhibits detail the changes required in NCCI's *Basic Manual*.

- **Exhibits 1–2** contain the reference in the rules to the newly created Appendix.
- **Exhibit 3** contains the new Appendix F, which provides the state payroll determination formula for partners/sole proprietors and the executive officer weekly minimum and maximum payroll limitation formula. **Note:** The appendix provides the executive officer weekly maximum payroll limitation; however, this item is not changing that current formula.
- **Exhibit 4** contains state-specific Rule 2-E items, if applicable.

This item is applicable to new and renewal voluntary and assigned risk policies, and it will become effective concurrently with each state's approved rate/loss cost filing for the 2011<sup>1</sup> filing cycle. For example, this item will be effective January 1, 2011 for approved rate/loss cost filings that have a January 1, 2011 effective date. Similarly, this item will be effective July 1, 2011 for approved rate/loss cost filings that have a July 1, 2011 effective date. If there is no rate/loss cost filing for a state in a given year, this item will take effect on that state's "normal" rate effective date. (The "normal" rate effective date is the anniversary date of the state's previous year's rate effective date.)

The following chart shows the proposed effective dates for each state:

State	Proposed Effective Date*
Alabama	March 1, 2011
Alaska	January 1, 2011
Arizona	January 1, 2011
Arkansas	July 1, 2011
Colorado	January 1, 2011
Connecticut	January 1, 2011
District of Columbia	November 1, 2010

<sup>1</sup> Except in the District of Columbia, Kentucky, Utah, and West Virginia, where it is the 2010 filing cycle.

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ITEM B-1420—REVISIONS TO BASIC MANUAL RULE 2-E-1-B—EXECUTIVE OFFICERS  
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State	Proposed Effective Date*
Florida	January 1, 2011
Georgia	March 1, 2011
Hawaii	This item will be implemented in Hawaii's loss cost filing proposed to be effective January 1, 2011. The effective date will be determined upon regulatory approval of the individual carrier's election to adopt this change.
Idaho	January 1, 2011
Illinois	January 1, 2011
Indiana	January 1, 2011
Iowa	January 1, 2011
Kansas	January 1, 2011
Kentucky	October 1, 2010
Louisiana	May 1, 2011
Maine	January 1, 2011
Maryland	January 1, 2011
Mississippi	March 1, 2011
Missouri	All rate changes related to this filing are proposed to be effective January 1, 2011 for the voluntary and assigned risk markets.
Montana	July 1, 2011
Nebraska	February 1, 2011
Nevada	March 1, 2011
New Hampshire	January 1, 2011
New Mexico	January 1, 2011
North Carolina	April 1, 2011
Oklahoma	January 1, 2011
Oregon	January 1, 2011
Rhode Island	June 1, 2011

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State	Proposed Effective Date*
South Carolina	If there is no rate/loss cost filing for South Carolina in a given year, this item will take effect on South Carolina's "normal" rate effective date. (The "normal" rate effective date is the anniversary date of the state's previously approved rate/loss cost filing.)
South Dakota	July 1, 2011
Tennessee	March 1, 2011
Utah	December 1, 2010
Vermont	April 1, 2011
Virginia	April 1, 2011
West Virginia	November 1, 2010

\* Subject to change

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**ITEM B-1420—REVISIONS TO BASIC MANUAL RULE 2-E-1-B—EXECUTIVE OFFICERS  
PREMIUM DETERMINATION, 2-E-3—PARTNERS AND SOLE PROPRIETORS, AND CREATION  
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**EXHIBIT 1  
BASIC MANUAL—2001 EDITION  
RULE 2—PREMIUM BASIS AND PAYROLL ALLOCATION  
E. EXECUTIVE OFFICERS, MEMBERS OF LIMITED LIABILITY COMPANIES, PARTNERS,  
AND SOLE PROPRIETORS**

**1. Executive Officers**

**(Applies in: AK, AL, AR, AZ, CO, CT, DC, FL, GA, HI, IA, ID, IL, IN, KS, KY, LA, MD, ME, MO,  
MS, MT, NC, NE, NH, NM, NV, OK, OR, RI, SC, SD, TN, UT, VA, VT, WV)**

**b. Premium Determination**

Premium for executive officers is based on their total payroll, subject to the following limitations and the requirements of Rule 2-D:

- (1) The minimum individual payroll for an executive officer is shown on the individual state pages in the *Basic Manual*.
- (2) The maximum individual payroll for an executive officer is shown on the individual state pages in the *Basic Manual*.
- (3) The payroll limitations in b(1) and b(2) apply to the average weekly payroll of each executive officer for the number of weeks the officer was employed during the policy period.
- (4) Payroll is subject to minimum and maximum limitations and *included* when . . .
  - The executive officer does not perform any duties but frequently visits the premises.
  - The executive officer frequently visits the premises of the risk for business conferences, directors' meetings, or similar duties, even if the officer is an employee or officer of another risk in the operations of which he/she takes an active interest.
  - The officer receives no salary; however, a regular salary is credited to him or her on the books. In this instance the amount credited must be included in payroll.
  - The officer receives no salary, either drawn or credited, or the audit records fail to disclose the salary. In this instance the amount to be included in the payroll is the applicable minimum per Rule 2-D.
- (5) Payroll is *excluded* when . . .
  - The executive officer is elected for the value of his/her name or because of stock holdings, has no duties, and does not visit the premises, except perhaps to attend directors' meetings.
  - The executive officer ceases to perform any duties and does not visit the premises, except perhaps to attend directors' meetings.

For the applicable state weekly minimum and maximum individual payroll limitation formula, refer to Appendix F.



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EXHIBIT 2  
BASIC MANUAL—2001 EDITION  
RULE 2—PREMIUM BASIS AND PAYROLL ALLOCATION  
E. EXECUTIVE OFFICERS, MEMBERS OF LIMITED LIABILITY COMPANIES, PARTNERS,  
AND SOLE PROPRIETORS

(Applies in: AK, AL, AR, CO, CT, DC, FL, GA, HI, ID, IL, IN, KS, KY, LA, MD, ME, MO, MS, MT,  
NC, NE, NH, NM, NV, OK, OR, RI, SC, SD, TN, UT, VA, VT, WV)

**3. Partners or Sole Proprietors**

Premium for each partner or sole proprietor treated as an employee is based on the payroll amount shown on the state pages. For the applicable state payroll determination formula, refer to Appendix F. Payroll of partners or sole proprietors must be assigned to classifications and rates under the rules that apply to employees. To determine if a partner or sole proprietor is to be treated as an employee, *refer to Election of Coverages Reference Table in User's Guide.*

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**EXHIBIT 3  
BASIC MANUAL—2001 EDITION  
APPENDIX F**

(Applies in: AK, AL, AR, AZ, CO, CT, DC, FL, GA, HI, IA, ID, IL, IN, KS, KY, LA, MD, ME, MO, MS, MT, NC, NE, NH, NM, NV, OK, OR, RI, SC, SD, TN, UT, VA, VT, WV)

**STATE PAYROLL DETERMINATION FORMULA**

Appendix F provides the state payroll determination formula for partners/sole proprietor and the executive officer weekly minimum and maximum payroll limitation formula.

**STATE PAYROLL DETERMINATION FORMULA TABLE**

State	Effective Date	Partners/Sole Proprietor Payroll Determination <sup>1</sup>	Executive Officer Weekly Payroll Limitation		Comments
			Minimum <sup>2</sup>	Maximum <sup>1</sup>	
AK	1/1/2011	SAWW x 52	SAWW	SAWW x 2	
AL	3/1/2011	SAWW x 52	SAWW	SAWW x 4	
AR	7/1/2011	SAWW x 52	SAWW	SAWW x 4	
AZ	1/1/2011	Assumed Minimum Monthly Wage Assumed Maximum Monthly Wage	SAWW	SAWW x 4	Refer to the Arizona Miscellaneous Values for the applicable partner/sole proprietor Assumed Monthly Wage (AMW)
CO	1/1/2011	SAWW x 52	SAWW x 52		No minimum or maximum weekly payroll limitation for executive officers
CT	1/1/2011	SAWW x 52	SAWW	Fixed Wage	Refer to the Connecticut Miscellaneous Values for the applicable executive officer maximum weekly payroll limitation
DC	11/1/2010	SAWW x 52	SAWW	SAWW x 4	
FL	1/1/2011	SAWW x 52	Nonconstruction Industry: SAWW Construction Industry: SAWW x 0.5	SAWW x 3	
GA	3/1/2011	SAWW x 52	SAWW	SAWW x 4	
HI	1/1/2011	SAWW x 52	SAWW	SAWW x 4	
IA	1/1/2011	Minimum = SAWW x 0.5 Maximum = SAWW x 4	SAWW x 0.5	SAWW x 4	
ID	1/1/2011	Fixed Wage	SAWW	SAWW x 4	Refer to the Idaho Miscellaneous Values for the applicable partner/sole proprietor wage
IL	1/1/2011	SAWW x 52	SAWW	SAWW x 4	

**ITEM B-1420—REVISIONS TO BASIC MANUAL RULE 2-E-1-B—EXECUTIVE OFFICERS  
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**EXHIBIT 3 (CONT'D)  
BASIC MANUAL—2001 EDITION  
APPENDIX F**

(Applies in: AK, AL, AR, AZ, CO, CT, DC, FL, GA, HI, IA, ID, IL, IN, KS, KY, LA, MD, ME, MO,  
MS, MT, NC, NE, NH, NM, NV, OK, OR, RI, SC, SD, TN, UT, VA, VT, WV)  
**STATE PAYROLL DETERMINATION FORMULA TABLE (Cont'd)**

State	Effective Date	Partners/Sole Proprietor Payroll Determination <sup>1</sup>	Executive Officer Weekly Payroll Limitation		Comments
			Minimum <sup>2</sup>	Maximum <sup>1</sup>	
<u>IN</u>	<u>1/1/2011</u>	<u>SAWW x 52</u>	<u>SAWW</u>	<u>SAWW x 4</u>	
<u>KS</u>	<u>1/1/2011</u>	<u>SAWW x 52</u>	<u>SAWW</u>	<u>SAWW x 4</u>	
<u>KY</u>	<u>10/1/2010</u>	<u>SAWW x 52</u>	<u>SAWW</u>	<u>SAWW x 4</u>	
<u>LA</u>	<u>5/1/2011</u>	<u>SAWW x 52</u>	<u>SAWW</u>	<u>SAWW x 3</u>	
<u>MD</u>	<u>1/1/2011</u>	<u>SAWW x 52</u>	<u>SAWW</u>	<u>SAWW x 4</u>	
<u>ME</u>	<u>1/1/2011</u>	<u>SAWW x 52</u>	<u>SAWW</u>	<u>SAWW x 4</u>	
<u>MO</u>	<u>1/1/2011</u>	<u>SAWW x 52 x 0.9</u>	<u>SAWW x 52 x 0.9</u>		No minimum or maximum weekly payroll limitation for executive officers
<u>MS</u>	<u>3/1/2011</u>	<u>SAWW x 52</u>	<u>SAWW</u>	<u>SAWW x 5 x 0.6667</u>	
<u>MT</u>	<u>7/1/2011</u>	Minimum = Fixed Wage Maximum = <u>SAWW x 52 x 1.5</u>	Fixed Wage	<u>SAWW x 1.5</u>	Refer to the Montana Miscellaneous Values for the applicable partner/sole proprietor minimum yearly wage and the executive officer minimum weekly payroll limitation
<u>NC</u>	<u>4/1/2011</u>	<u>SAWW x 52</u>	<u>SAWW</u>	<u>SAWW x 2</u>	
<u>NE</u>	<u>2/1/2011</u>	<u>SAWW x 52</u>	<u>SAWW</u>	<u>SAWW x 4</u>	
<u>NH</u>	<u>1/1/2011</u>	<u>SAWW x 52</u>	Corporation: <u>SAWW</u> Unincorporated Association: <u>SAWW x 0.5</u>	Corporation: <u>SAWW x 4</u> Unincorporated Association: <u>SAWW x 2</u>	
<u>NM</u>	<u>1/1/2011</u>	<u>SAWW x 52</u>	<u>SAWW</u>	<u>SAWW x 4</u>	
<u>NV</u>	<u>3/1/2011</u>	<u>Deemed or Elective Wage</u>	<u>Deemed Wage</u>	<u>Deemed Wage</u>	Refer to the Nevada Miscellaneous Values for the applicable partner/sole proprietor deemed or elective wage and the executive officer minimum and maximum deemed payroll limitation
<u>OK</u>	<u>1/1/2011</u>	<u>SAWW x 52</u>	<u>SAWW</u>	<u>SAWW x 4</u>	
<u>OR</u>	<u>1/1/2011</u>	<u>SAWW x 52</u>	<u>SAWW</u>	<u>SAWW x 4</u>	

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EXHIBIT 3 (CONT'D)  
BASIC MANUAL—2001 EDITION  
APPENDIX F

(Applies in: AK, AL, AR, AZ, CO, CT, DC, FL, GA, HI, IA, ID, IL, IN, KS, KY, LA, MD, ME, MO,  
MS, MT, NC, NE, NH, NM, NV, OK, OR, RI, SC, SD, TN, UT, VA, VT, WV)  
STATE PAYROLL DETERMINATION FORMULA TABLE (Cont'd)

State	Effective Date	Partners/Sole Proprietor Payroll Determination <sup>1</sup>	Executive Officer Weekly Payroll Limitation		Comments
			Minimum <sup>2</sup>	Maximum <sup>1</sup>	
RI	6/1/2011	N/A	SAWW	SAWW x 4	In accordance with Rhode Island statute, partners and sole proprietors are excluded from the definition of employee, and there are no provisions for them to opt-in to workers compensation coverage
SC	7/1/2011	SAWW x 52	SAWW	SAWW x 4	
SD	7/1/2011	SAWW x 52	SAWW	SAWW x 4	
TN	3/1/2011	Nonconstruction Industry: SAWW x 52 Construction Industry: Minimum = SAWW x 52 x 0.5 Maximum = SAWW x 52 x 1.47	SAWW	SAWW x 4	
UT	12/1/2010	SAWW x 52	SAWW	SAWW x 4	
VA	4/1/2011	SAWW x 52	SAWW	SAWW x 2	
VT	4/1/2011	SAWW x 52	SAWW	SAWW x 4	
WV	11/1/2010	SAWW x 52	SAWW	SAWW x 4	

<sup>1</sup> Rounded to nearest \$100.00

<sup>2</sup> Rounded to nearest \$50.00