

July 21, 2016

CIRCULAR LETTER TO ALL MEMBER COMPANIES

Re: Workers Compensation Insurance

NCCI Item E-1404 – Establishment of a Methodology to Calculate Experience Rating Premium Eligibility Amounts

The North Carolina Rate Bureau has filed, and the North Carolina Commissioner of Insurance has approved a modified version of NCCI Item E-1404. The revisions approved for North Carolina, based on this filing, are as follows:

- Revised Experience Rating Plan Rule 2-A-2 for creation of a new table
- Revised Experience Rating Plan Rule 4-C-1 to clarify that North Carolina does not issue preliminary modification for intrastate-rated risk

The approved changes will be applicable to all new and renewal voluntary and assigned risk policies becoming effective on or after April 1, 2017.

The Bureau adopted the indexing methodology for the calculation of experience rating premium eligibility thresholds based on the Average Weekly Wage. However, the Bureau did not adopt the process for automatic annual adjustments. To limit the frequency of minor changes in the experience rating premium eligibility thresholds that would result from automatically adjusting the amounts, the Bureau will perform, as part of our annual loss cost and rate review process, a review of the North Carolina experience rating premium eligibility thresholds. These findings along with a recommendation for any revisions to the premium eligibility thresholds will be presented annually to the Workers Compensation Committee for consideration.

A complete copy of NCCI's Item Filing E-1404 is included for your review.

If you have any questions, contact the NCRB Information Center at 919-582-1056 or via email at wcinfo@ncrb.org.

Sincerely,

Joanna Biliouris

Chief Operating Officer

JB:dms
Attachment
C-16-13

FILING MEMORANDUM

ITEM E-1404-NC—ESTABLISHMENT OF A METHODOLOGY TO CALCULATE EXPERIENCE RATING PREMIUM ELIGIBILITY AMOUNTS

PURPOSE

This item:

1. Establishes an indexing methodology for the calculation of experience rating state premium eligibility amounts and a process for continued annual updates
2. Revises NCCI's *Experience Rating Plan Manual for Workers Compensation and Employers Liability Insurance (Experience Rating Plan Manual)* Rule 2-A-2—State Table of Subject Premium Eligibility Amounts, to reflect the current and up to three years of a state's premium eligibility amounts, as applicable

BACKGROUND

NCCI's Experience Rating Plan (Plan) is a component of the final cost of workers compensation. It provides a method for recognizing the differences among individual risks with respect to safety and loss prevention. It does this by comparing the experience of individual risks with the average risk in the same classification. The Plan uses a risk's past experience to project future losses and provides an incentive for loss reduction and workplace safety.

In accordance with NCCI's *Experience Rating Plan Manual* Rule 2-A-2, a risk qualifies for experience rating when its subject premium, developed in its experience period, meets or exceeds the minimum premium eligibility amount required by a state. These amounts are displayed in the State Table of Subject Premium Eligibility Amounts. Currently, a risk qualifies for experience rating if its subject premium within the most recent 24 months of its experience period equals or exceeds the amount shown in Column A. If a risk does not qualify according to the Column A amount and has more than 24 months of experience within its experience period, it must develop an average annual subject premium amount greater than or equal to the amount shown in Column B in order to qualify for experience rating.

NCCI research has shown that the current premium eligibility amounts are too low. In most states, the premium eligibility amounts have not increased for many years. As a result, the number of experience rated risks has steadily increased. Risks too small for credible experience rating have become eligible for the Plan simply as a result of payroll and premium growth due specifically to wage inflation over time.

To ensure that risks too small for credible experience rating are not eligible for the Plan, the experience rating premium eligibility amounts will be indexed to the change in a state's Average Weekly Wage (AWW). As payroll for the Plan is based on employee wages, the AWW is considered a reasonable benchmark to serve as an index for measuring changes in exposure and to account for wage inflation.

PROPOSAL

This item establishes a methodology for NCCI to calculate and update the experience rating premium eligibility amounts. State-specific premium eligibility amounts will be calculated annually and indexed based on the year-to-year change in a state's AWW, as estimated by the US Bureau of Labor Statistics Quarterly Census of Employment and Wages (QCEW). In the first calculation included in this item, the Column B amount currently in effect for a state is the starting point for the indexing calculation. The Column B amount is multiplied by the year-to-year change in AWW for a state. This intermediate value is then rounded to the

The enclosed materials are copyrighted materials of the National Council on Compensation Insurance, Inc. ("NCCI"). The use of these materials may be governed by a separate contractual agreement between NCCI and its licensees such as an affiliation agreement between you and NCCI. Unless permitted by NCCI, you may not copy, create derivative works (by way of example, create or supplement your own works, databases, software, publications, manuals, or other materials), display, perform, or use the materials, in whole or in part, in any media. Such actions taken by you, or by your direction, may be in violation of federal copyright and other commercial laws. NCCI does not permit or acquiesce such use of its materials. In the event such use is contemplated or desired, please contact NCCI's Legal Department for permission.

FILING MEMORANDUM

ITEM E-1404-NC—ESTABLISHMENT OF A METHODOLOGY TO CALCULATE EXPERIENCE RATING PREMIUM ELIGIBILITY AMOUNTS

nearest \$250 and becomes the state's new proposed Column B premium eligibility amount. The Column A amount continues to be twice the Column B amount.

In subsequent annual calculations, the intermediate value from the prior calculation (before rounding) becomes the new base amount. This new base amount is then multiplied by the subsequent year-to-year change in a state's AWW. After this computation, the \$250 rounding is then applied to determine the new premium eligibility amount for Column B. This process of indexing the prior year base amount will measure the annual change in a state's AWW in a consistent manner each year. Based on the result of the calculation, a state's premium eligibility amounts will either remain the same or increase in a given year. The amounts will not be allowed to decrease from one year to the next. NCCI's subsequent annual calculations of state premium eligibility amounts will be included in each state's loss cost/rate filing. An exhibit of the state's calculated amounts, as displayed in NCCI's *Experience Rating Plan Manual* Rule 2-A-2—State Table of Subject Premium Eligibility Amounts, will be included in the state's loss cost/rate filing, regardless of whether or not the amounts change from the prior year. In the event that no annual loss cost/rate filing is made in a state, NCCI will take into consideration the submission of a separate state filing in order to propose updated premium eligibility amounts that may result from the annual indexed calculation.

State premium eligibility amounts that are proposed to change in this item and/or in subsequent annual calculations will become effective each rate filing effective date for the production of experience rating modifications with rating effective dates (RED) six months after the loss cost/rate effective date. The purpose for this lead time is because NCCI produces experience rating modifications as early as six months before a risk's RED. This will help to ensure that NCCI does not produce, and later have to withdraw, an experience rating modification for an employer who ultimately might not meet the increased premium eligibility amounts.

The following example illustrates the timing of NCCI's subsequent annual calculation and update process for experience rating subject premium eligibility amounts in a state with a loss cost/rate effective date of January 1:

Year of Actual AWW per QCEW	Availability of Actual AWW Value	Approximate Date State Loss Cost/Rate Filing is Made by NCCI	Loss Cost/Rate Filing Effective Date & Effective Date of Production Using Updated Premium Eligibility Amounts	For RED's on and after
2015	4Q2016	3Q2017	1/1/2018	7/1/2018
2016	4Q2017	3Q2018	1/1/2019	7/1/2019

The enclosed materials are copyrighted materials of the National Council on Compensation Insurance, Inc. ("NCCI"). The use of these materials may be governed by a separate contractual agreement between NCCI and its licensees such as an affiliation agreement between you and NCCI. Unless permitted by NCCI, you may not copy, create derivative works (by way of example, create or supplement your own works, databases, software, publications, manuals, or other materials), display, perform, or use the materials, in whole or in part, in any media. Such actions taken by you, or by your direction, may be in violation of federal copyright and other commercial laws. NCCI does not permit or acquiesce such use of its materials. In the event such use is contemplated or desired, please contact NCCI's Legal Department for permission.

FILING MEMORANDUM

**ITEM E-1404-NC—ESTABLISHMENT OF A METHODOLOGY TO CALCULATE
EXPERIENCE RATING PREMIUM ELIGIBILITY AMOUNTS**

The annual calculation of experience rating state premium eligibility amounts proposed in this item will result in the need for more frequent changes to the amounts currently displayed in NCCI's *Experience Rating Plan Manual* Rule 2-A-2—State Table of Subject Premium Eligibility Amounts. Therefore, this item proposes that the State Table of Subject Premium Eligibility Amounts be revised to allow for the display of up to three years of a state's historical premium eligibility amounts. This is in accordance with NCCI's *Experience Rating Plan Manual* Rule 1-D-3, which limits experience rating modification issuance and revision to the current and two preceding experience rating modifications.

State Specific Proposal for Massachusetts

- This item does not propose to establish indexing methodology for the calculation of experience rating premium eligibility amounts in Massachusetts
- This item does propose to revise NCCI's *Experience Rating Plan Manual* Rule 2-A-2—State Table of Subject Premium Eligibility Amounts, to display the current and up to three years of premium eligibility amounts, if applicable, in Massachusetts

State Specific Proposal for Texas

As it relates to experience rating premium eligibility, all references to subject premium in this item mean total manual premium in Texas.

IMPACT

Based on a 2014 rating year countrywide analysis, the annual number of experience rated risks increased by about 3%. The application of indexing methodology to this population would have resulted in a 2% reduction in rated risks. In summary, as a result of the changes proposed in this item, some risks will no longer qualify, but the total number of experience rated risks may continue to grow. In the future, these percentages will vary by state and vary over time based upon the economy and actual year-to-year state-specific wage changes.

There will be no impact for states where the premium eligibility amounts did not change. No statewide premium impact is expected as a result of the changes proposed in this item.

The enclosed materials are copyrighted materials of the National Council on Compensation Insurance, Inc. ("NCCI"). The use of these materials may be governed by a separate contractual agreement between NCCI and its licensees such as an affiliation agreement between you and NCCI. Unless permitted by NCCI, you may not copy, create derivative works (by way of example, create or supplement your own works, databases, software, publications, manuals, or other materials), display, perform, or use the materials, in whole or in part, in any media. Such actions taken by you, or by your direction, may be in violation of federal copyright and other commercial laws. NCCI does not permit or acquiesce such use of its materials. In the event such use is contemplated or desired, please contact NCCI's Legal Department for permission.

FILING MEMORANDUM

**ITEM E-1404-NC—ESTABLISHMENT OF A METHODOLOGY TO CALCULATE
EXPERIENCE RATING PREMIUM ELIGIBILITY AMOUNTS**

EXHIBIT COMMENTS AND IMPLEMENTATION SUMMARY

Exhibit	Exhibit Comments	Implementation Summary
1	Details the revisions to Rule 2-A-2, including the amounts as shown in the State Table of Subject Premium Eligibility Amounts, of NCCI's <i>Experience Rating Plan Manual</i> for all states.	To become effective January 1, 2017 for the production of experience rating modifications with rating effective dates of July 1, 2017 and after.
2	Displays the calculation and effective date of experience rating state premium eligibility amounts in all states except Massachusetts.	Informational only exhibits related to the proposed changes.

The enclosed materials are copyrighted materials of the National Council on Compensation Insurance, Inc. ("NCCI"). The use of these materials may be governed by a separate contractual agreement between NCCI and its licensees such as an affiliation agreement between you and NCCI. Unless permitted by NCCI, you may not copy, create derivative works (by way of example, create or supplement your own works, databases, software, publications, manuals, or other materials), display, perform, or use the materials, in whole or in part, in any media. Such actions taken by you, or by your direction, may be in violation of federal copyright and other commercial laws. NCCI does not permit or acquiesce such use of its materials. In the event such use is contemplated or desired, please contact NCCI's Legal Department for permission.

**ITEM E-1404-NC—ESTABLISHMENT OF A METHODOLOGY TO CALCULATE
EXPERIENCE RATING PREMIUM ELIGIBILITY AMOUNTS**

**EXHIBIT 1
EXPERIENCE RATING PLAN MANUAL—2003 EDITION
RULE 2—EXPERIENCE RATING ELEMENTS AND FORMULA
A. PREMIUM ELIGIBILITY**

2. State Subject Premium Eligibility Amounts

A risk qualifies for experience rating when its subject premium, developed in its experience period, meets or exceeds the minimum eligibility amount shown in the State Table of Subject Premium Eligibility Amounts in Rule 2-A-2-c. Refer to Rule 2-E-1 to determine a risk's experience period.

- a. A risk qualifies for experience rating if its data within the most recent 24 months of the experience period develops a subject premium of at least the amount shown in Column A.
- b. A risk may not qualify according to Rule 2-A-2-a. If it has more than the amount of experience referenced in Rule 2-A-2-a, then to qualify for experience rating the risk must develop an average annual subject premium of at least the amount shown in Column B. Refer to Rule 2-A-3 to determine average annual subject premium.
- c. A risk's rating effective date determines the applicable Column A and Column B subject premium eligibility amounts required to qualify for experience rating. Refer to Rule 2-B for rating effective date determination.

State Table of Subject Premium Eligibility Amounts

	Column A	Column B		Column A	Column B
AL	\$10,000	\$5,000	MS	9,000	4,500
AK	5,000	2,500	MO	7,000	3,500
AZ	6,000	3,000	MT	5,000	2,500
AR	8,000	4,000	NE	6,000	3,000
CO	8,000	4,000	NV	6,000	3,000
CT	11,000	5,500	NH	11,000	5,500
DC	7,000	3,500	NM	9,000	4,500
FL	10,000	5,000	NC	8,000	4,000
GA	10,000	5,000	OK	10,000	5,000
HI	5,000	2,500	OR	5,000	2,500
ID	6,000	3,000	RI	10,000	5,000
IL	10,000	5,000	SC	9,000	4,500
IN	5,000	2,500	SD	7,500	3,750
IA	7,500	3,750	TN	9,000	4,500
KS	6,000	3,000	TX*	10,000	5,000
KY	10,000	5,000	UT	7,000	3,500
LA	10,000	5,000	VT	8,000	4,000
MA	11,000	5,500	VA	7,000	3,500
ME	9,000	4,500	WV**	7,000	3,500
MD	10,000	5,000			

* Effective July 1, 2016

** Effective July 1, 2008: Column A = \$9,000; Column B = \$4,500.

ITEM E-1404-NC—ESTABLISHMENT OF A METHODOLOGY TO CALCULATE EXPERIENCE RATING PREMIUM ELIGIBILITY AMOUNTS

**EXHIBIT 1 (CONT'D)
EXPERIENCE RATING PLAN MANUAL—2003 EDITION
RULE 2—EXPERIENCE RATING ELEMENTS AND FORMULA
A. PREMIUM ELIGIBILITY**

State	Rating Effective Date	Column A (\$)	Column B (\$)
AK	7/1/17 and after	5,000	2,500
	6/30/17 and before	5,000	2,500
AL	9/1/17 and after	10,000	5,000
	8/31/17 and before	10,000	5,000
AR	1/1/18 and after	8,000	4,000
	12/31/17 and before	8,000	4,000
AZ	7/1/17 and after	6,000	3,000
	6/30/17 and before	6,000	3,000
CO	7/1/17 and after	8,500	4,250
	6/30/17 and before	8,000	4,000
CT	7/1/17 and after	11,500	5,750
	6/30/17 and before	11,000	5,500
DC	5/1/18 and after	7,000	3,500
	4/30/18 and before	7,000	3,500
FL	7/1/17 and after	10,500	5,250
	6/30/17 and before	10,000	5,000
GA	9/1/17 and after	10,500	5,250
	8/31/17 and before	10,000	5,000
HI	7/1/17 and after	5,000	2,500
	6/30/17 and before	5,000	2,500
IA	7/1/17 and after	8,000	4,000
	6/30/17 and before	7,500	3,750
ID	7/1/17 and after	6,000	3,000
	6/30/17 and before	6,000	3,000
IL	7/1/17 and after	10,500	5,250
	6/30/17 and before	10,000	5,000
IN	7/1/17 and after	5,000	2,500
	6/30/17 and before	5,000	2,500
KS	7/1/17 and after	6,000	3,000
	1/1/16 to 6/30/17	6,000	3,000
	12/31/15 and before	4,500	2,250
KY	4/1/18 and after	10,500	5,250
	3/31/18 and before	10,000	5,000

ITEM E-1404-NC—ESTABLISHMENT OF A METHODOLOGY TO CALCULATE EXPERIENCE RATING PREMIUM ELIGIBILITY AMOUNTS

**EXHIBIT 1 (CONT'D)
EXPERIENCE RATING PLAN MANUAL—2003 EDITION
RULE 2—EXPERIENCE RATING ELEMENTS AND FORMULA
A. PREMIUM ELIGIBILITY
(Cont'd)**

State	Rating Effective Date	Column A (\$)	Column B (\$)
LA	<u>11/1/17 and after</u>	<u>10,500</u>	<u>5,250</u>
	<u>10/31/17 and before</u>	<u>10,000</u>	<u>5,000</u>
MA	<u>12/1/2003 and after</u>	<u>11,000</u>	<u>5,500</u>
MD	<u>7/1/17 and after</u>	<u>10,000</u>	<u>5,000</u>
	<u>6/30/17 and before</u>	<u>10,000</u>	<u>5,000</u>
ME	<u>10/1/17 and after</u>	<u>9,500</u>	<u>4,750</u>
	<u>9/30/17 and before</u>	<u>9,000</u>	<u>4,500</u>
MO	<u>7/1/17 and after</u>	<u>7,000</u>	<u>3,500</u>
	<u>6/30/17 and before</u>	<u>7,000</u>	<u>3,500</u>
MS	<u>9/1/17 and after</u>	<u>9,000</u>	<u>4,500</u>
	<u>8/31/17 and before</u>	<u>9,000</u>	<u>4,500</u>
MT	<u>7/1/16 to 12/31/17</u>	<u>10,000</u>	<u>5,000</u>
	<u>6/30/16 and before</u>	<u>5,000</u>	<u>2,500</u>
NC	<u>4/1/16 and after</u>	<u>10,000</u>	<u>5,000</u>
	<u>3/31/16 and before</u>	<u>8,000</u>	<u>4,000</u>
NE	<u>8/1/17 and after</u>	<u>6,000</u>	<u>3,000</u>
	<u>7/31/17 and before</u>	<u>6,000</u>	<u>3,000</u>
NH	<u>7/1/17 and after</u>	<u>11,500</u>	<u>5,750</u>
	<u>6/30/17 and before</u>	<u>11,000</u>	<u>5,500</u>
NM	<u>7/1/17 and after</u>	<u>9,000</u>	<u>4,500</u>
	<u>6/30/17 and before</u>	<u>9,000</u>	<u>4,500</u>
NV	<u>9/1/17 and after</u>	<u>6,000</u>	<u>3,000</u>
	<u>8/31/17 and before</u>	<u>6,000</u>	<u>3,000</u>
OK	<u>7/1/17 and after</u>	<u>10,500</u>	<u>5,250</u>
	<u>6/30/17 and before</u>	<u>10,000</u>	<u>5,000</u>
OR	<u>7/1/17 and after</u>	<u>5,000</u>	<u>2,500</u>
	<u>6/30/17 and before</u>	<u>5,000</u>	<u>2,500</u>
RI	<u>2/1/18 and after</u>	<u>10,500</u>	<u>5,250</u>
	<u>1/31/18 and before</u>	<u>10,000</u>	<u>5,000</u>
SC	<u>3/1/18 and after</u>	<u>9,000</u>	<u>4,500</u>
	<u>2/28/18 and before</u>	<u>9,000</u>	<u>4,500</u>
SD	<u>1/1/18 and after</u>	<u>8,000</u>	<u>4,000</u>
	<u>12/31/17 and before</u>	<u>7,500</u>	<u>3,750</u>

ITEM E-1404-NC—ESTABLISHMENT OF A METHODOLOGY TO CALCULATE EXPERIENCE RATING PREMIUM ELIGIBILITY AMOUNTS

**EXHIBIT 1 (CONT'D)
EXPERIENCE RATING PLAN MANUAL—2003 EDITION
RULE 2—EXPERIENCE RATING ELEMENTS AND FORMULA
A. PREMIUM ELIGIBILITY
(Cont'd)**

State	Rating Effective Date	Column A (\$)	Column B (\$)
TN	<u>9/1/17 and after</u>	<u>9,000</u>	<u>4,500</u>
	<u>8/31/17 and before</u>	<u>9,000</u>	<u>4,500</u>
TX¹	<u>1/1/18 and after</u>	<u>10,500</u>	<u>5,250</u>
	<u>12/31/17 and before</u>	<u>10,000</u>	<u>5,000</u>
UT	<u>6/1/18 and after</u>	<u>7,000</u>	<u>3,500</u>
	<u>5/31/18 and before</u>	<u>7,000</u>	<u>3,500</u>
VA	<u>10/1/17 and after</u>	<u>7,000</u>	<u>3,500</u>
	<u>9/30/17 and before</u>	<u>7,000</u>	<u>3,500</u>
VT	<u>10/1/17 and after</u>	<u>8,000</u>	<u>4,000</u>
	<u>9/30/17 and before</u>	<u>8,000</u>	<u>4,000</u>
WV	<u>5/1/18 and after</u>	<u>9,000</u>	<u>4,500</u>
	<u>7/1/08 to 4/30/18</u>	<u>9,000</u>	<u>4,500</u>

¹ Column A and B amounts are Total Manual Premium.

ITEM E-1404—NC—ESTABLISHMENT OF A METHODOLOGY TO CALCULATE EXPERIENCE RATING PREMIUM ELIGIBILITY AMOUNTS

**EXHIBIT 2
CALCULATION OF NORTH CAROLINA EXPERIENCE RATING ELIGIBILITY SUBJECT PREMIUM AMOUNT**

(1)	(2)	(3)	(4)	(5)	(6)	(7)
Year of Actual AWW per QCEW	Actual AWW Amount	Year-to-Year Change in Actual AWW Amount	Cumulative Indexed Amount*	Average Annual Subject Premium (Column B) After Indexing and Rounding	24-Month Subject Premium (Column C) After Indexing and Rounding	Effective Date of Subject Premium Eligibility Amounts For RED's on and After
2013	842		5,000	5,000	10,000	4/1/2016
2014	866	1.0285	5,143	5,250	10,500	10/1/2017

Notes:

*Assumes starting point is average annual subject premium of \$5,000 (for ratings currently in effect) as shown in NCCI's *Experience Rating Plan Manual*, Rule 2-A-2 State Table of Subject Premium Eligibility Amounts, Column B. The average annual subject premium amount is not allowed to decrease. The 2014 AWW is the latest available as of the filing date of Item E-1404.

Calculations:

Column (3) = Column (2) Amount for 2014 Year / Column (2) Amount for 2013 Year
 Column (4) = Column (4) Amount for 2013 Year x Column (3)
 Column (5) = Max{Column (4) for 2014 Year Rounded to Nearest \$250, Column (4) for 2013 Year}
 Column (6) = 2 x Column (5)

Informational EXHIBIT

**ITEM E-1404-NC—ESTABLISHMENT OF A METHODOLOGY TO CALCULATE
EXPERIENCE RATING PREMIUM ELIGIBILITY AMOUNTS**

**EXHIBIT 3
EXPERIENCE RATING PLAN MANUAL—2003 EDITION
NORTH CAROLINA RULE EXCEPTIONS
RULE 4—APPLICATION AND REVISION OF EXPERIENCE RATING MODIFICATIONS
C. Types of Experience Rating Modifications**

1. Preliminary Modifications

Add the following to Rule 4-C-1:

North Carolina does not issue preliminary modifications for intrastate-rated risks.