



October 24, 2008

CIRCULAR LETTER TO ALL MEMBER COMPANIES

Re: Workers Compensation Insurance

Item B-1409-Revisions to ***Basic Manual for Workers Compensation and Employers Liability Insurance***

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 approval is effective October 21, 2008, and will impact all new and renewal business written on or after April 1, 2011 in class codes for specific industries.

The two industries impacted are shown in the table below:

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The attached exhibits explain in more detail the changes.

Contact the Information Center at 919-582-1056 or via email at wcinfo@ncrb.org, if you require additional information.

Sincerely,

Sue Taylor

Director of Insurance Operations

ST:dg

WC-08-20

**ITEM B-1409—REVISIONS TO BASIC MANUAL CLASSIFICATIONS AND APPENDIX E-
CLASSIFICATIONS BY HAZARD GROUP**

EXHIBIT 1—FACT SHEET

BAKERY, COOKIES, & CRACKERS

PROPOSAL

The focus of the proposed changes for this industry is to combine operations into classifications that reflect exposures common to those operations.

NCCI recommends the following national treatment for classifications:

1. Revise the phraseology of Code 2003—Bakery & Drivers, Route Supervisors to Bakery— Salespersons & Drivers. This will clarify the application of salespersons or drivers who stock the shelves at their customer's location when they deliver product.

The phraseology note of Code 2003 will also be revised to clarify the treatment of a bakery with a retail store operation versus a retail store operation where no baking is done on the premises.

2. Discontinue Code 2001—Cracker Mfg. and reassign the exposure to Code 2003—Bakery— Salespersons & Drivers.
3. Revise the phraseology of Code 2002—Macaroni Mfg. to Pasta or Noodle Mfg.
4. Discontinue the cross-reference phraseology for Code 2003—Doughnut Mfg. & Drivers and include it in the phraseology note of Code 2003.

Hawaii Specific:

NCCI recommends that Hawaii discontinue their state special cross-reference for Code 2003—Cookie Bakery & Drivers and adopt the new national treatment of Code 2003.

Maine Specific:

NCCI recommends that Maine discontinue their state special cross-reference for Code 2003—Bakery & Drivers, Route Supervisors and Code 9083—Doughnut Shop—Retail and adopt the new national treatment of Code 2003. This will result in no change in application.

Montana Specific:

NCCI recommends that Montana not adopt the national treatment and retain their state special phraseologies of Code 2003—Bakery Wholesale & Drivers and Code 2004—Bakery Retail—All Operations. The note for Code 2004 is being amended for consistency to correctly spell the word doughnut.

At the time of this filing, no experience has been reported for national Code 2001—Cracker Mfg. in Montana. Since Code 2001 is being discontinued, any experience that may develop prior to the effective date of this filing will be allocated to Montana state special Code 2003—Bakery Wholesale & Drivers or Code 2004—Bakery Retail—All Operations.

Oregon Specific:

NCCI recommends that Oregon discontinue their state special cross-references for Code 2003—Bakery & Drivers, Route Supervisors, Code 8017—Bakeries—Retail Store Sales, and Code 9079—Specialty Baked Goods Shops & Drivers and adopt the new national treatment of Code 2003. This will not result in any change in application or assignment from the current application. Bakeries with restaurant operations will continue to be assigned to Code 9079 in Oregon.

**ITEM B-1409—REVISIONS TO BASIC MANUAL CLASSIFICATIONS AND APPENDIX E-
CLASSIFICATIONS BY HAZARD GROUP**

EXHIBIT 1—FACT SHEET (CONT'D)

Virginia Specific:

NCCI recommends that Virginia update the Scope descriptions for Code 2016, Code 2095, Code 9082, and Code 9083 to reflect the changes being made.

BACKGROUND AND BASIS FOR CHANGE

There are three distinct types of products produced by bakeries. They are baked goods with one, a short shelf life, two, a longer shelf life, and three, those made to be frozen prior to distribution.

Examples of goods with a short shelf life of several weeks include bread, cake, rolls, bread stuffing or crumbs, unfrozen sweet yeast goods (doughnuts, sweet rolls, and coffee cake), soft cakes, pies, and pastries. Examples of bakery goods with a longer shelf life of several months include cookies, crackers, toaster pastries, ice cream cones or cups, and pretzels. Frozen bakery items have an extended shelf life. Frozen bakery items include frozen baked goods, cookies and crackers, raw uncooked breads, cookie dough, frozen pies, sweet yeast goods, soft cakes, and pastries.

There are common steps in the production of any baked good. Both dry and frozen ingredients are mixed to produce the dough. The dough is individually formed and shaped for each item to be baked. Fillings may be added to pies in this stage. Hand tools such as cookie cutters, knives, rolling pins, etc. may be used, and/or the dough can be placed into pans, muffin tins, etc.

The formed dough is then stored in one of three places: It is refrigerated temporarily while waiting for space in the oven to be baked, frozen for use at a later time, or stored in a warm moist area where yeast products are allowed to rise prior to baking. All products are baked with the exception of doughnuts, which are deep fried. Most baked items are allowed to cool after being baked and then packaged for shipment.

The processes used to manufacture tortillas are similar to those used for baking bread. Both involve mixing dough, forming, shaping, baking, cooling and packaging. To make flour tortillas, the dough is mixed, extruded to the correct size, allowed to rise for a short period, flattened, quickly baked, sorted, and packaged. The process to make corn tortillas is slightly different, starting with the mixing of the dough. The corn-based dough is cooked prior to extrusion and does not need to rise. It is quickly baked, cooled, sorted, and packaged. The majority of the operations are wholesale, but some are retail as well.

Pasta also has three distinct types of products: fresh gourmet type, dry and packaged, and frozen. The fresh gourmet type has a short shelf life. Both dry and packaged and frozen have extended shelf lives. Bakery products and pasta products have similarities in categories of products produced and their shelf lives. Pasta manufacturers make a variety of products that include spaghetti, macaroni, vermicelli, and noodle products.

The largest portion of pasta sales comes from the dry and packaged portion with the frozen pasta segment being the fastest growing. Most of the pasta is made from water and special semolina flour that is milled from Durum wheat. Other ingredients, coloring, fillings, and flavorings, may be added to the mix to make a wide range of pasta, which comes in many shapes and sizes. Noodles differ from the other pasta products in that eggs are added to the mixture in their production.

Large wholesale commercial bakeries are highly mechanized with considerable hand packaging operations and delivery of their products on a large scale to wholesale customers. Retail bakery operations tend to be more hands-on in the manufacturing process, less mechanized, and they have a walk-in customer base.

**ITEM B-1409—REVISIONS TO BASIC MANUAL CLASSIFICATIONS AND APPENDIX E-
CLASSIFICATIONS BY HAZARD GROUP**

EXHIBIT 1—FACT SHEET (CONT'D)

IMPACT

This item proposes that Code 2001—Cracker Mfg. be discontinued and its experience combined into newly defined national Code 2003. A review has been conducted using the latest approved loss cost or rate filing experience to determine the need for a loss cost or rate transition program. Based on the result of this review, a two-year transition is being proposed. Using a transition will help minimize the impact to both individual risk premium charges and overall statewide premium.

The other changes to this industry primarily consists of the consolidation of cross—references into the actual classification wording and this consolidation is not expected to result in a reclassification of risk payroll or change in loss costs, rates, or premium.

Hawaii Specific:

It is proposed that Hawaii eliminate the state special wording currently existing for Code 2003 and adopt the national proposal. The elimination of the state special phraseology is not expected to result in additional changes in premium beyond the national proposal to combine Code 2001 into Code 2003.

Maine Specific:

It is proposed that Maine eliminate the state special wording currently existing for Code 2003 and Code 9083 and adopt the national phraseology for both codes. The elimination of the state special phraseologies is not expected to result in additional changes in premium beyond the national proposal to combine Code 2001 into Code 2003.

Montana Specific:

It is proposed that Montana eliminate national Code 2001—Cracker Mfg. There is no proposal to change the current existing state special wording for Code 2003 or Code 2004. Due to the lack of data in Code 2001 in Montana, this proposal will have no impact on individual risks or statewide premium.

Oregon Specific:

It is proposed that Oregon adopt the national treatment by eliminating the state special cross-reference phraseologies regarding this industry that are currently included in Codes 2003, 8017, and 9079. The elimination of the state special phraseologies are not expected to result in a reassignment of payroll or in a premium change beyond that stated in the national proposal in regard to combining Code 2001 into Code 2003.

Virginia Specific:

NCCI recommends that Virginia update the Scope descriptions for Code 2016, Code 2095, Code 9082, and Code 9083. These changes are not anticipated to result in any reclassification of risk payroll or result in a change in loss cost, rate, or premium.

No transition program proposal is being made in Virginia for the recommendation to discontinue and combine Code 2001 into newly defined Code 2003.

**ITEM B-1409—REVISIONS TO BASIC MANUAL CLASSIFICATIONS AND APPENDIX E-
CLASSIFICATIONS BY HAZARD GROUP**

EXHIBIT 1—FACT SHEET (CONT'D)

IMPLEMENTATION

This item is applicable to new and renewal voluntary and assigned risk policies, and will become effective concurrently with each state's approved rate/loss cost filing for the 2011 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.

This fact sheet includes a two-year transition program. The following pages include the actual transition program rules along with an example of the transition program calculations. The rules give additional detail to the initiation and final implementation dates associated with this transition program.

ITEM B-1409—REVISIONS TO BASIC MANUAL CLASSIFICATIONS AND APPENDIX E-
CLASSIFICATIONS BY HAZARD GROUP

EXHIBIT 1—NATIONAL CLASSIFICATIONS
BASIC MANUAL—2001 EDITION
BAKERY, COOKIES, & CRACKERS
CLASSIFICATIONS

CURRENT NATIONAL PHRASEOLOGY TO REMAIN EFFECTIVE UNTIL THE COMPLETION DATE OF
THE TRANSITION PROGRAM * OF THIS ITEM

2003 BAKERY & DRIVERS, ROUTE SUPERVISORS

TO BE IMPLEMENTED ON THE COMPLETION DATE OF THE
TRANSITION PROGRAM FOR EACH STATE

2003 ~~BAKERY—SALESPERSONS & DRIVERS, ROUTE SUPERVISORS~~

Code 2003 is assigned to the manufacture of three categories of bakery items: baked goods, cookies and crackers, and cooked or uncooked frozen items. Baked goods include, but are not limited to, bread, bagels, cake, sweet yeast goods (doughnuts and sweet rolls), pies, pizza dough, and tortillas (corn or flour). Cookies and crackers include, but are not limited to toaster pastries, ice cream cones, wafers, matzoth, and soft pretzels. Cooked or uncooked frozen bakery items include, but are not limited to frozen pies, sweet yeast goods, bread, cookie or pizza dough, and pastries.

If an insured qualifies for Code 2003 and Code 8017, or Code 2003 and a restaurant class, a division of payroll for employees exposed to both baking and store or baking and restaurant operations is permitted, provided that conditions described in *Basic Manual* are met. If a bakery operates a store that sells baked goods for on-premises consumption or both on- and off-premises consumption, that store is classified to the appropriate restaurant code. The assignment of a restaurant class under these circumstances is not dependent on the percentage of goods consumed on or away from the premises. If a bakery operates a store that sells baked goods exclusively for off-premises consumption, that store is assigned to Code 8017.

Retail bakery and doughnut stores (no baking done on premises) that sell baked goods exclusively for off premises consumption will be separately rated to Code 8017. Retail bakery and doughnut stores that additionally prepare food or have on-premises consumption must be separately rated to the appropriate restaurant code.

Additional food preparation done by a retail bakery and doughnut stores (no baking done on premises) to enhance their products for breakfast, lunch, or dinner must be separately rated to the appropriate restaurant code. Examples of enhancements to bakery products include but are not limited to the addition of eggs, lunchmeats, bacon, lettuce, etc. Providing beverages (includes, but not limited to coffee, tea, fountain sodas, milk, prepackaged drinks, etc.) or prepackaged self serve condiments (includes, but not limited to butter, cream cheese, jams, spreads, etc.) to customers is not considered an enhancement.

* For all applicable states, the two year transition program will be initiated concurrent with each state's approved rate/loss cost filing effective date for 2011 filing cycle. Refer to the state chart in the implementation section of the Memorandum.

ITEM B-1409—REVISIONS TO BASIC MANUAL CLASSIFICATIONS AND APPENDIX E-
CLASSIFICATIONS BY HAZARD GROUP

EXHIBIT 1—NATIONAL CLASSIFICATIONS
BASIC MANUAL—2001 EDITION
BAKERY, COOKIES, & CRACKERS
CLASSIFICATIONS

CURRENT NATIONAL PHRASEOLOGY TO REMAIN EFFECTIVE UNTIL THE COMPLETION DATE OF
THE TRANSITION PROGRAM * OF THIS ITEM

2001 CRACKER MFG.

TO BE IMPLEMENTED ON THE COMPLETION DATE OF THE
TRANSITION PROGRAM FOR EACH STATE

~~2001 CRACKER MFG.~~

* For all applicable states, the two year transition program will be initiated concurrent with each state's approved rate/loss cost filing effective date for 2011 filing cycle. Refer to the state chart in the implementation section of the Memorandum.

ITEM B-1409—REVISIONS TO BASIC MANUAL CLASSIFICATIONS AND APPENDIX E-
CLASSIFICATIONS BY HAZARD GROUP

EXHIBIT 1—NATIONAL CLASSIFICATIONS
BASIC MANUAL—2001 EDITION
BAKERY, COOKIES, & CRACKERS
CLASSIFICATIONS

2002 ~~MACARONI MFG.~~

ITEM B-1409—REVISIONS TO BASIC MANUAL CLASSIFICATIONS AND APPENDIX E-
CLASSIFICATIONS BY HAZARD GROUP

EXHIBIT 1—NATIONAL CLASSIFICATIONS
BASIC MANUAL—2001 EDITION
BAKERY, COOKIES, & CRACKERS
CLASSIFICATIONS

2002 PASTA OR NOODLE MFG.

Code 2002 includes, but is not limited to, spaghetti, macaroni, noodles, and other pasta products whose main ingredients are water and flour. Other ingredients, coloring, fillings, and flavorings may be added to the mix to make a wide range of pasta that comes in many shapes and sizes. Noodles differ from the other pasta products in that eggs are added to the mixture in their production.

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CLASSIFICATIONS BY HAZARD GROUP

EXHIBIT 1—NATIONAL CLASSIFICATIONS
BASIC MANUAL—2001 EDITION
BAKERY, COOKIES, & CRACKERS
CLASSIFICATIONS

CURRENT NATIONAL PHRASEOLOGY TO REMAIN EFFECTIVE UNTIL THE COMPLETION DATE OF
THE TRANSITION PROGRAM * OF THIS ITEM

DOUGHNUT

2003 **Mfg. & Drivers**

9083 **Shop—Retail.** Applies to shops engaged in the preparation and sale of doughnuts, coffee, or other items for consumption on or away from the premises. If the shop does not qualify as Code 9083—Restaurant: Fast Food, classify as Code 9082—Restaurant NOC.

TO BE IMPLEMENTED ON THE COMPLETION DATE OF THE
TRANSITION PROGRAM FOR EACH STATE

~~**DOUGHNUT**~~

2003 ~~**Mfg. & Drivers**~~

9083 **DOUGHNUT Shop—Retail.** Applies to shops engaged in the preparation and sale of doughnuts, coffee, or other items for consumption on or away from the premises. If the shop does not qualify as Code 9083—Restaurant: Fast Food, classify as Code 9082—Restaurant NOC.

* For all applicable states, the two year transition program will be initiated concurrent with each state's approved rate/loss cost filing effective date for 2011 filing cycle. Refer to the state chart in the implementation section of the Memorandum.

**ITEM B-1409—REVISIONS TO BASIC MANUAL CLASSIFICATIONS AND APPENDIX E-
CLASSIFICATIONS BY HAZARD GROUP**

EXHIBIT 1—BAKERY, COOKIES, & CRACKERS

TWO-YEAR TRANSITION PROGRAM RULES

(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, VT, WV)

The following are the rules of the two-year transition program implementing the rates/loss costs and rating values for Codes 2001 and 2003. NCCI will administer this program through each state's specific rate/loss cost classification experience filing revision process.

The state rate/loss cost filing revision where this transition program will initiate will be the first filing made with an effective date on or after the state approved effective date of this item filing. If a state rate/loss cost revision filing is made prior to the approval of this item, then that state's experience filing revision will not reflect the first year transition values. Instead the first year transition will be made to coincide with the next experience filing revision after the item approval is made and whose proposed effective date is on or after the approved item's effective date.

The following outlines the steps needed to implement the rates/loss costs and rating values for Codes 2001 and 2003 within each of the classification rate/loss cost filings. An example of the two-year transition program calculation, including the weight value calculation, is shown in subsequent pages of this exhibit.

- A. Risks will continue to be classified to either Code 2001 or 2003 as appropriate until the elimination of Code 2001 in the second state rate/loss cost annual experience filing revision from which this transition program was initiated.

- B. As part of the first NCCI state rate/loss cost experience filing revision where this transition program is initiated, the payroll-weighted rate/loss cost of Codes 2001 and 2003 will be calculated using the latest available year's payroll and the standard calculated rate/loss cost of the two individual codes. If the payroll-weighted rate/loss cost is within the swing limits determined for Codes 2001 and 2003, then each of these codes will take on the rate/loss cost of the payroll-weighted rate/loss cost. Rating values will be determined by the same payroll weighting.

If the payroll-weighted rate/loss cost is outside of the filing's swing limits for any of the codes, then the rate/loss cost for each of the codes will be determined by a methodology weighting together (1) the payroll weighted rate/loss cost and (2) the standard calculated rate/loss cost for each code. The ratio used in this methodology will be first determined by calculating the maximum weighting value given to the payroll weighted rate/loss cost in order to keep the rates for Codes 2001 and 2003 within the swing limits of the filing. However, a 50% minimum weighting value must be used, regardless of the swing limits to execute the transition program within two years. Rating values will be calculated in a similar manner.

- C. As part of the second NCCI state rate/loss cost classification experience filing revision, Code 2001 will be eliminated. All insured operations previously assigned to Code 2001 will then be assigned to Code 2003. The rate/loss cost for newly defined Code 2003 will be the payroll weighted rate/loss cost of Code 2001 and Code 2003 using this filing's latest available year of payroll and the standard calculated rate/loss cost of the two individual codes. Rating values will be determined by the same payroll weighting.

ITEM B-1409—REVISIONS TO BASIC MANUAL CLASSIFICATIONS AND APPENDIX E-
CLASSIFICATIONS BY HAZARD GROUP

EXHIBIT 1—BAKERY, COOKIES, & CRACKERS

EXAMPLE OF TWO-YEAR TRANSITION PROGRAM CALCULATION

(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, VT, WV)

Note: The rates/loss costs used in the following example are for illustration purposes only and are not the actual rates/loss costs in use, nor do they represent expected actual rates/loss costs for the codes indicated.

In the following example, the “Payroll-Weighted Rate/Loss Cost” for each year can be calculated by using the “NCCI Initially Calculated Rate/Loss Cost” and the payroll for the latest available year.

The following assumptions are made for this example:

	Code XXX1	Code XXX2	Code XXX3
Payroll \$	400,000	700,000	3,000,000
Rate/Loss Cost	21.00	10.50	11.81

The “Payroll-Weighted Rate/Loss Cost” is calculated as follows:

$$\frac{[(400,000 \times 21.00) + (700,000 \times 10.50) + (3,000,000 \times 11.81)]}{(400,000 + 700,000 + 3,000,000)} = 12.48$$

Additionally, the swing limits are assumed to be plus or minus 25%. **Please note:** The weight value used represents the largest possible value keeping the rate/loss cost changes within the swing limits. The weight value below is subject to a minimum of 0.50 for the first year and 1.00 for the second year without regard to swing limits in order to transition the rates/loss costs within two years.

	Weight Value	Class Code	Payroll-Weighted Rate/Loss Cost		NCCI Initially Calculated Rate/Loss Cost		Final NCCI Rate/Loss Cost
Filing Effective in First Year	0.57*	XXX1	(0.57 x 12.48)	+	(0.43 x 21.00)	=	16.14
		XXX2	(0.57 x 12.48)	+	(0.43 x 10.50)	=	11.63
		XXX3	(0.57 x 12.48)	+	(0.43 x 11.81)	=	12.19
Filing Effective in Second Year	1.00	XXX1	(1.00 x 12.48)	+	(0.00 x 19.78)	=	12.48
		XXX2	(1.00 x 12.48)	+	(0.00 x 12.25)	=	12.48
		XXX3	(1.00 x 12.48)	+	(0.00 x 11.57)	=	12.48

* See “Example of Two-Year Weight Value Calculation” for more details.

**ITEM B-1409—REVISIONS TO BASIC MANUAL CLASSIFICATIONS AND APPENDIX E-
CLASSIFICATIONS BY HAZARD GROUP**

EXHIBIT 1—BAKERY, COOKIES, & CRACKERS (CONT'D)

EXAMPLE OF TWO-YEAR TRANSITION PROGRAM EXPECTED LOSS RATE (ELR)

(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, VT, WV)

Note: The ELRs in the following example are for illustration purposes only and are not the actual ELRs in use, nor do they represent expected actual ELRs for the codes indicated.

In the following example, the “Payroll-Weighted ELR” for each year can be calculated by using the “NCCI Initially Calculated ELR” and the payroll for the latest available year.

The following assumptions are made for this example:

	Code XXX1	Code XXX2	Code XXX3
Payroll \$	400,000	700,000	3,000,000
ELR	7.00	3.50	3.94

The “Payroll-Weighted ELR” is calculated as follows:

$$\frac{[(400,000 \times 7.00) + (700,000 \times 3.50) + (3,000,000 \times 3.94)]}{(400,000 + 700,000 + 3,000,000)} = 4.16$$

Additionally, the swing limits are assumed to be plus or minus 25%. **Please note:** The weight value used represents the largest possible value keeping the rate/loss cost changes within the swing limits. The weight value below is subject to a minimum of 0.50 for the first year and 1.00 for the second year without regard to swing limits in order to transition the rates/loss costs within two years.

	Weight Value	Class Code	Payroll-Weighted ELR		NCCI Initially Calculated ELR		Final NCCI ELR
Filing Effective in First Year	0.57*	XXX1	(0.57 x 4.16)	+	(0.43 x 7.00)	=	5.38
		XXX2	(0.57 x 4.16)	+	(0.43 x 3.50)	=	3.88
		XXX3	(0.57 x 4.16)	+	(0.43 x 3.94)	=	4.07
Filing Effective in Second Year	1.00	XXX1	(1.00 x 4.16)	+	(0.00 x 6.59)	=	4.16
		XXX2	(1.00 x 4.16)	+	(0.00 x 4.08)	=	4.16
		XXX3	(1.00 x 4.16)	+	(0.00 x 3.86)	=	4.16

* See “Example of Two-Year Weight Value Calculation” for more details.

**ITEM B-1409—REVISIONS TO BASIC MANUAL CLASSIFICATIONS AND APPENDIX E-
CLASSIFICATIONS BY HAZARD GROUP**

EXHIBIT 1—BAKERY, COOKIES, & CRACKERS (CONT'D)

EXAMPLE OF TWO-YEAR TRANSITION PROGRAM D RATIOS

(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, VT, WV)

Note: The D ratios in the following example are for illustration purposes only and are not the actual D ratios in use, nor do they represent expected actual D ratios for the indicated.

In the following example, the “Payroll-Weighted D Ratios” for each year can be calculated by using the “NCCI Initially Calculated D Ratios” and the payroll for the latest available year.

The following assumptions are made for this example:

	Code XXX1	Code XXX2	Code XXX3
Payroll \$	400,000	700,000	3,000,000
D Ratios	0.23	0.20	0.24

The “Payroll-Weighted D Ratio” is calculated as follows:

$$\frac{[(400,000 \times 0.23) + (700,000 \times 0.20) + (3,000,000 \times 0.24)]}{(400,000 + 700,000 + 3,000,000)} = .23$$

Additionally, the swing limits are assumed to be plus or minus 25%. **Please note:** The weight value used represents the largest possible value keeping the rate/loss cost changes within the swing limits. The weight value below is subject to a minimum of 0.50 for the first year and 1.00 for the second year without regard to swing limits in order to transition the rates/loss costs within two years.

	Weight Value	Class Code	Payroll-Weighted D Ratio		NCCI Initially Calculated D Ratio		Final NCCI D Ratio
Filing Effective in First Year	.57*	XXX1	(0.57 x 0.23)	+	(0.43 x 0.23)	=	0.23
		XXX2	(0.57 x 0.23)	+	(0.43 x 0.20)	=	0.22
		XXX3	(0.57 x 0.23)	+	(0.43 x 0.24)	=	0.23
Filing Effective in Second Year	1.00	XXX1	(1.00 x 0.23)	+	(0.00 x 0.22)	=	0.23
		XXX2	(1.00 x 0.23)	+	(0.00 x 0.22)	=	0.23
		XXX3	(1.00 x 0.23)	+	(0.00 x 0.24)	=	0.23

* See “Example of Two-Year Weight Value Calculation” for more details.

ITEM B-1409—REVISIONS TO BASIC MANUAL CLASSIFICATIONS AND APPENDIX E-
CLASSIFICATIONS BY HAZARD GROUP

EXHIBIT 1—BAKERY, COOKIES, & CRACKERS (CONT'D)

EXAMPLE OF TWO-YEAR WEIGHT VALUE CALCULATION

(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, VT, WV)

In the following example, the rates/loss costs are calculated for each class code by utilizing successively higher weight values until the largest weight value is found that keeps the rates/loss costs within swing limits. However, depending on which year of the transition the filing is effective, this weight value is subject to minimums **without regard to swing limits**. These minimums are 0.50 for the first year and 1.00 for the second year. For the purposes of illustration, the codes are represented as XXX1, XXX2, and XXX3.

Note: The Weight Value Calculation in the following example are for illustration purposes only and are not the actual Weight Value Calculation in use, nor do they represent expected actual Weight Value Calculation for the codes indicated.

The following assumptions are made for this example:

1. The swing limits are plus or minus 25%
2. The rates/loss costs are as follows:

	Rate/Loss Cost for Code XXX1	Rate/Loss Cost for Code XXX2	Rate/Loss Cost for Code XXX3
Current Approved Filing	21.49	11.32	11.05
First Transition Year	16.14	11.63	12.19

Weight Calculation Table						
Year 1	Code XXX1		Code XXX2		Code XXX3	
Weight Value	Calculated Rate/Loss Cost Given Weight Value	Rate/Loss Cost Change %	Calculated Rate/Loss Cost Given Weight Value	Rate/Loss Cost Change %	Calculated Rate/Loss Cost Given Weight Value	Rate/Loss Cost Change %
0.50	16.74	-22.1%	11.49	1.5%	12.15	10.0%
0.51	16.65	-22.5%	11.51	1.7%	12.15	10.0%
0.52	16.57	-22.9%	11.53	1.9%	12.16	10.0%
0.53	16.48	-23.3%	11.55	2.0%	12.17	10.1%
0.54	16.40	-23.7%	11.57	2.2%	12.17	10.1%
0.55	16.31	-24.1%	11.59	2.4%	12.18	10.2%
0.56	16.23	-24.5%	11.61	2.6%	12.19	10.3%
0.57	16.14	-24.9%	11.63	2.7%	12.19	10.3%
0.58	16.06	-25.3%	11.65	2.9%	12.20	10.4%
0.59	15.97	-25.7%	11.67	3.1%	12.21	10.5%
0.60	15.89	-26.1%	11.69	3.3%	12.21	10.5%
0.61	15.80	-26.5%	11.71	3.4%	12.22	10.6%
continues						

**ITEM B-1409—REVISIONS TO BASIC MANUAL CLASSIFICATIONS AND APPENDIX E-
CLASSIFICATIONS BY HAZARD GROUP**

EXHIBIT 2—FACT SHEET**FOOD SUNDRY****PROPOSAL**

The focus of the proposed changes for this industry is to consolidate cross-reference phraseologies of Code 6504 and to introduce a new classification for Potato Chip, Popcorn & Snack Chip Mfg. NOC.

NCCI recommends the following national treatment for classifications:

1. Revise the phraseology of Code 6504—Food Sundries Mfg. NOC to Food Products Mfg. NOC.
2. Discontinue the following cross-references and include them in the phraseology note of Code 6504.

Baking Powder Mfg.	Mayonnaise Mfg.
Coconut Shredding Or Drying	Nut Cleaning Or Shelling
Coffee Cleaning, Roasting, Or Grinding	Peanut Butter Mfg.
Flour Mixing And Blending—No Milling	Spice Mills
Malted Milk Mfg.—From Powdered Milk, Sugar, Malt, Cocoa	Yeast Mfg.

3. Discontinue cross-reference phraseologies Potato Chip Mfg. and Popcorn Mfg. from Code 6504 and reassign exposure to newly created Code 6503—Potato Chip, Popcorn & Snack Chip Mfg. NOC.

Hawaii Specific:

NCCI recommends Hawaii discontinue their state special cross—references for Code 6504—Miso Mfg. and Code 6504—Poi Mfg. The phraseology note of Code 6504 will be revised to include these products.

Oklahoma Specific:

NCCI recommends that Oklahoma not adopt the national treatment but instead revise Oklahoma state special Code 6513—Food Sundries Mfg. NOC & Salespersons, Drivers to clarify the assignment of manufactured products

NCCI recommends that Oklahoma adopt new national Code 6503—Potato Chip, Popcorn & Snack Chip Mfg. NOC in addition to state special Code 6513.

Oregon Specific:

NCCI recommends that Oregon discontinue state special cross-reference for Code 6504—Food Sundries Mfg. NOC and adopt the national treatment.

Virginia Specific:

NCCI recommends that Virginia update the Scope descriptions for Code 2016, Code 2095, Code 9082, and Code 9083.

BACKGROUND AND BASIS FOR CHANGE

Within Code 6504—Food Sundries Mfg. NOC there is a wide range of manufacturing techniques that include the wet mixing of products, dry grinding of products, cooking of products, chemical blending of imitation products, dehydrating, manufacture of pizza dough, foam packing peanuts made from potato starch, and packaging of sandwiches for sale on a wholesale basis as a sample of included items. Other products that are included in this classification are artificial sweeteners that are made from a chemical process or flaked sugar, tortilla and corn chips, and salsa manufacturing. Depending on the production method, this may

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EXHIBIT 2—FACT SHEET (CONT'D)

include a dry mixing or milling process, or a wet mixing or blending process that can be baked, cooked, fried, or crushed, and packaged as needed.

The range of products in this classification has increased beyond simple preparation. Code 6504 was once the simple preparation or packaging of already manufactured items. This NOC exception (code of last resort) is now the rule and no longer the exception. It is the first choice in assigning insureds in the food sundries business for both human and animals instead of the code of last resort.

There are several characteristics that these products share in common. Most of these products are produced in highly automated plants that are set up to produce each of the products in large bulk quantity. There are extensive packaging operations that are equally automated with items prepared and sold in bulk to wholesale customers who use these products as ingredients in other products or as retail consumer-sized packaging that can be purchased in supermarkets or food stores.

IMPACT

This item proposes to establish new national Code 6503—Potato Chip & Other Snack Chip Mfg. & Drivers. It is also proposed that the initial loss cost or rate and experience rating values be that of Code 6504 until Code 6503 establishes sufficient experience to determine its own loss cost or rate. It is expected that most experience generated for the new code will come from Code 6504. This proposal is, therefore, not expected to cause a significant change in statewide or individual risk premium. The new class code's loss cost or rate will eventually reflect the new phraseology wording and underlying experience of all risks with payroll and loss experience assigned to that classification.

The other changes in phraseology for Code 6504, which primarily consist of consolidating multiple cross-reference wording into the actual code phraseology, are for clarification only and are not expected to result in a change in statewide or individual risk premium.

Hawaii Specific:

This item proposes that Hawaii discontinue the state special phraseology "Miso Mfg." and "Poi Mfg." in Code 6504 and adopt the national treatment. The new national phraseology of Code 6504 will specifically reference the manufacturing of these products. This should not cause a change in individual risk or statewide premium.

Oklahoma Specific:

This item proposes that Oklahoma not adopt national Code 6504 and instead continue to use Oklahoma state special Code 6513. The recommended changes to phraseology for Code 6513 are for clarification only and are not expected to result in a change in statewide or individual risk premium.

The proposal does recommend that Oklahoma adopt the new national Code 6503. The initial loss cost or rate and experience rating values for Code 6503 will be that of Oklahoma state special Code 6513 until Code 6503 establishes sufficient experience to determine its own loss cost or rate. It is expected that most experience generated for the new code will come from Code 6513. This is, therefore, not expected to cause a significant change in statewide or individual risk premium.

Oregon Specific:

It is proposed that Oregon adopt the national treatment by eliminating state special reference phraseology currently applicable to Code 6504. The elimination of the state special phraseology is not expected to result in a change in individual risk or statewide premium.

Virginia Specific:

NCCI recommends that Virginia update the Scope descriptions for Code 2016, Code 2095, Code 9082, and Code 9083. These changes are not anticipated to result in any reclassification of risk payroll or result in a change in loss cost, rate, or premium.

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EXHIBIT 2—FACT SHEET (CONT'D)

IMPLEMENTATION

This item is applicable to new and renewal voluntary and assigned risk policies, and will become effective concurrently with each state's approved rate/loss cost filing for the 2011 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.

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EXHIBIT 2—NATIONAL CLASSIFICATIONS
BASIC MANUAL—2001 EDITION
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CLASSIFICATIONS

6504 ~~FOOD PRODUCTS-SUNDRIES-MFG. NOC~~

~~No cereal~~ All milling must be separately rated. Includes, but is not limited to, cleaning, grinding, sorting, or mixing of coffee, sugars, confections, pastry flours, spices, or nuts; baking powder manufacturing; coconut shredding or drying; coffee cleaning, roasting, or grinding; flour mixing and blending (no milling); malted milk manufacturing (from powdered milk, sugar, malt, cocoa); mayonnaise manufacturing; nut cleaning or shelling; peanut butter manufacturing; spice mills; and yeast manufacturing. Miso and poi manufacturing are also included.

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EXHIBIT 2—NATIONAL CLASSIFICATIONS
BASIC MANUAL—2001 EDITION
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6504 ~~BAKING POWDER MFG.~~

~~.Mfg. of ingredients to be separately rated. Assign to the appropriate chemical Code 4828 or
Code 4829. Can mfg. to be separately rated as Code 3220.~~

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6504 ~~COCONUT SHREDDING OR DRYING~~

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~~COFFEE~~

6504 ~~Cleaning, Roasting, or Grinding~~

5192 ~~Service Companies—All Operations & Salespersons, Drivers. Applies to the sale and delivery of coffee, tea, hot chocolate mixes, dehydrated soups, etc. to business establishments and the installation, service or repair of coffeemakers and similar equipment. Includes storage, shop and outside operations. Catering operations to be separately rated.~~

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5192 **COFFEE SERVICE COMPANIES—ALL OPERATIONS & SALESPERSONS, DRIVERS**

Applies to the sale and delivery of coffee, tea, hot chocolate mixes, dehydrated soups, etc. to business establishments and the installation, service or repair of coffeemakers and similar equipment. Includes storage, shop, and outside operations. Catering operations to be separately rated.

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6504 ~~FLOUR MIXING AND BLENDING—NO MILLING~~

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- 2065 **MALTED MILK MFG.**
 Includes dehydration of milk.
- 6504 ~~From Powdered Milk, Sugar, Malt, Cocoa~~

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6504 ~~MAYONNAISE MFG.~~

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6504 ~~NUT CLEANING OR SHELLING~~

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6504 ~~PEANUT BUTTER MFG.~~

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6504 ~~SPICE MILLS~~

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6504 ~~YEAST MFG.~~

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6503 POTATO CHIP, POPCORN & SNACK CHIP MFG. NOC

All milling must be separately rated.

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6504 ~~POPCORN MFG.~~

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6504 ~~POTATO CHIP MFG.~~

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EXHIBIT 3

**BASIC MANUAL—2001 EDITION
APPENDIX E
CLASSIFICATIONS BY HAZARD GROUP**

TABLE OF CLASSIFICATIONS BY HAZARD GROUP

Class Code	Applies In:†	Discontinued In:†	Hazard Group A–G	Hazard Group 1–4*
2001	AL, AK, AZ, AR, CO, CT, DC, FL, GA, HI, ID, IL, IN, IA, KS, KY, LA, ME, MD, MS, MO, MT, NE, NH, NM, NV, NC, OK, OR, RI, SC, SD, TN, UT, VT, VA, WV	AL, AK, AZ, AR, CO, CT, DC, FL, GA, HI, ID, IL, IN, IA, KS, KY, LA, ME, MD, MS, MO, MT, NE, NH, NM, NV, NC, OK, OR, RI, SC, SD, TN, UT, VT, VA, WV	B	1
6503	AL, AK, AZ, AR, CO, CT, DC, FL, GA, HI, ID, IL, IN, IA, KS, KY, LA, ME, MD, MS, MO, MT, NE, NH, NM, NV, NC, OK, OR, RI, SC, SD, TN, UT, VT, VA, WV		B	1

† Upon approval of this item, each state will have its state-specific effective date indicated.

* Carriers that elect to use NCCI's four hazard groups must make a filing in each state to adopt the four hazard groups referenced in this item.