NCRB-NCRF-NCIGA

north carolina
RATE BUREAU
REINSURANCE FACILITY
INSURANCE GUARANTY ASSOCIATION

North Carolina Rate Bureau

October 26, 2011

CIRCULAR LETTER TO ALL MEMBER COMPANIES

Re: Workers Compensation Insurance

NCCI Item RM-W-8040-Revision to Basic Manual Rule 4-C –
Loss Sensitive Rating Plan (LSRP)

The North Carolina Rate Bureau recently filed and the North Carolina Commissioner of Insurance approved changes to NCCI's ***Basic Manual for Workers Compensation and Employers Liability Insurance*** based on information shown in the above referenced NCCI item filing. The effective date of the approved changes is January 1, 2012.

The purpose of Item **RM-W-8040** is to: (1) revise the LSRP eligibility threshold from $200,000 to $250,000, (2) revise the renewal quote notification requirement to make it applicable to all assigned risk renewals and (3) increase the basic premium factor from .30 to .40.

The attached circular provides a more detailed explanation of 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:dms

Attachments

C-11-13

FILING MEMORANDUM

ITEM RM-W-8040—REVISIONS TO BASIC MANUAL RULE 4-C–LOSS SENSITIVE RATING PLAN (LSRP)

(To be effective 12:01 a.m. on January 1, 2012, applicable to new and renewal assigned risk policies only.)

PURPOSE

This item revises ***Basic Manual for Workers Compensation and Employers Liability Insurance*** Rule 4-C—Loss Sensitive Rating Plan (LSRP) to:

- Raise the eligibility threshold from $200,000 to $250,000
- Revise the renewal quote notification requirement to apply to all assigned risk policies
- Increase the basic premium factor from 0.30 to 0.40

BACKGROUND

In 1994, NCCI filed several individual state-specific LSRP rules, which created a mandatory assigned risk retrospective rating program for employers having residual market premium equal to or exceeding a minimum threshold ($200,000 in most states). LSRP may impact the amount of premium owed after the policy has expired and after all of the losses incurred during the policy term have been valued.

LSRP does not change the coverage provided by the policy. As with any retrospective rating plan, LSRP is not a specific type of policy but rather a type of pricing program. Unlike manual rates and experience rating, which are based on an employer's past experience, a retrospective rating plan like LSRP is based on an employer's actual loss experience incurred during the policy term. The premium for a policy subject to LSRP is reevaluated for several years after the expiration of the policy.

The purpose of LSRP is to:

- Encourage workplace safety and loss prevention
- Provide incentives for employers with favorable loss experience through lower premiums
- Provide a disincentive for employers with unfavorable loss experience through higher premiums
- Depopulate the residual market by encouraging employers to obtain coverage in the voluntary market

LSRP provides large employers with a financial incentive to promote workplace safety and reduce losses by requiring employers to accept greater financial responsibility for the losses they incur. LSRP adjusts the premium for an employer's residual market policy based on losses incurred during the policy term. The intent is to charge or return premium that closely reflects the actual experience of the employer. The ultimate impact of LSRP on any given policy will depend on the employer's losses per policy period over time.

The application of LSRP encourages employers with large assigned risk workers compensation premiums to obtain coverage in the voluntary market. LSRP removes the potential financial advantage that guaranteed-cost residual market coverage might otherwise provide for large employers with poor loss experience. Currently, LSRP standard premium equal to or greater than $200,000 is required in most states for a policy to qualify for LSRP because employers with payroll that generate premium of that size are expected to have a sufficient number of claims to allow loss prevention services to be effective.

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ITEM RM-W-8040—REVISIONS TO BASIC MANUAL RULE 4-C–LOSS SENSITIVE RATING PLAN (LSRP)

Effective in 2006, Item RM-W-8028—Rule 4-C—Assigned Risk Mandatory Loss Sensitive Rating Plan (LSRP) created a national LSRP rule in NCCI's ***Basic Manual***. Effective January 1, 2011, Item RM-W-8035—Workers Compensation Insurance Plan (WCIP) Loss Sensitive Rating Plan (LSRP) Basic Manual Rule 4-C Enhancement clarified LSRP rules to ensure users' comprehension.

Neither Item RM-W-8028 nor Item RM-W-8035 revised any of the factors or the formula used to calculate LSRP. The basic premium factor and eligibility thresholds have remained unchanged since the creation of individual state-specific LSRP rules in 1994.

NCCI's recently completed research of policies issued for the period of 2005–2008 revealed that more than 60% of the policies subject to LSRP developed the LSRP minimum premium and paid less premium than a guaranteed-cost residual market policy. This situation reduces the incentive for employers to obtain coverage in the voluntary market. Due to the success of LSRP and other depopulation efforts, there are currently only a small number of accounts nationally in the residual market that have over $250,000 in premium. Based on NCCI's research, as well as the fact that LSRP has been in effect since 1994 without change to its factors and/or the formula, this is a suitable time to review the LSRP factors and results.

Assigned carriers are required to indicate on renewal quotes that payment of the renewal deposit constitutes knowledge and acceptance of the possible application of LSRP to the policy. At this time, the requirement is for employers with standard premium of $150,000 or more. Because WC 00 04 17 B—Assigned Risk Loss Sensitive Rating Plan Notification Endorsement is applied to all assigned risk policies regardless of premium size, it is also appropriate to include the notification on all renewal quotes, regardless of premium size.

NCCI's actuarial staff conducted a complete review of the LSRP program and calculations. It has been determined that inflation has had an impact on the effectiveness of LSRP. The basic premium factor contains a provision for expenses and a net insurance charge that reflects the net savings or charge resulting from the application of a minimum and maximum premium. In the assigned risk market, the basic premium factor is determined by NCCI for all risks in the LSRP program.

When LSRP was initially filed in 1994, the 0.30 basic premium factor reflected the average insured in the assigned risk market with premium greater than or equal to $200,000. Since that time, inflation and the impact of rate filings have eroded the employer size implied by a $200,000 premium level. This $200,000 threshold now represents a smaller employer than it did in 1994. The result is a higher indicated insurance charge and, thus, a higher basic premium factor. Raising the eligibility threshold will reduce the extent to which the basic premium factor must be increased.

Individual state loss development factors will continue to be updated in state rate filings, which will include a factor for the 4th adjustment. Including LSRP premium development at the 4th adjustment more accurately matches premiums to expected losses due to the long-tailed nature of workers compensation insurance claims. Adding development premium to the 4th adjustment also reduces the required increase to the basic premium factor.

In order for LSRP to continue to act as a depopulation tool for large employers, to remain an effective safety incentive, and to reduce the variation of losses for those employers subject to LSRP, the eligibility threshold and basic premium factor should be increased. No changes to the minimum or maximum premium factors

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ITEM RM-W-8040—REVISIONS TO BASIC MANUAL RULE 4-C–LOSS SENSITIVE RATING PLAN (LSRP)

are proposed by this item. The eligibility increase ensures that this mandatory program is applied only to large premium employers.

PROPOSAL

In order to properly balance LSRP, recognize the impact of inflation and rate filings over time, and more closely align premium and expected losses under the program, this item proposes that the LSRP's:

- Eligibility threshold be revised to apply to assigned risk policies that meet or exceed LSRP standard premium of $250,000
- Renewal quote notification requirement be revised to apply to all assigned risk policies
- Basic premium factor be revised to 0.40

Indiana State-Specific:

It is proposed that Indiana revise their state exceptions to Rules 4-C-2-a and 4-C-11-c(1) to be consistent with the national revisions, and eliminate their current state exception to Rule 4-C-4-d and adopt the national revisions.

New Hampshire State-Specific:

It is proposed that New Hampshire eliminate their current state exceptions (including the optional selection for employers with LSRP standard premium of $100,000 to $174,999) and adopt the national revisions.

IMPACT

The ultimate impact of LSRP will depend on the individual employer's losses over time and the extent to which employers obtain coverage in the voluntary market. With lower-than-expected loss experience, the employer's final premium is typically less than standard; it is more than standard with higher-than-expected loss experience.

Currently, there are only a handful of accounts above $250,000 in premium in the residual market states where NCCI is the Plan Administrator. The increase in the LSRP eligibility threshold from $200,000 to $250,000 may have a premium impact for risks that will no longer be eligible for LSRP. However, there is no material impact to statewide premium as a result of this item.

IMPLEMENTATION

The following is a summary of the changes required to NCCI's ***Basic Manual***:

- **Exhibit 1** contains revisions to Rule 4-C-2-a
- **Exhibit 2** contains revisions to Rule 4-C-4-d
- **Exhibit 3** contains revisions to Rule 4-C-5-c(1)
- **Exhibit 4** contains revisions to Rule 4-C-11-c
- **Exhibits 5–7** contain Rules 4-C-2-a, 4-C-4-d, and 4-C-11-c state-specific revisions

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ITEM RM-W-8040—REVISIONS TO BASIC MANUAL RULE 4-C–LOSS SENSITIVE RATING PLAN (LSRP)

In applicable NCCI Plan Administered states, references to LSRP premium eligibility in each state's Assigned Risk Workers Compensation Premium Algorithm are being discontinued with Item RM-W-8038—Establishment of Basic Manual Rule 4-G—Available Coverages.

EXHIBIT 1
BASIC MANUAL—2001 EDITION
RULE 4–WORKERS COMPENSATION INSURANCE PLAN RULES
C. LOSS SENSITIVE RATING PLAN
(Applies in AL, CT, DC, GA, ID, IL, KS, MS, NC, NH, NV, OR, SC, SD, VT, WV)

2. Eligibility

a. Eligibility for LSRP is determined in accordance with the Eligibility Tables below. *Refer to Rule 4-C-5-c(12) for the definition of LSRP standard premium. Refer to the* ***User's Guide*** *for examples.*

Eligibility Table 1

If a single-state employer has operations in . . .	Then . . .
• One LSRP-approved state, and • Has a single-state WCIP policy covering such operations in the state	The single-state WCIP policy must meet or exceed LSRP standard premium of $250,000 ~~200,000~~
• One LSRP-approved state, and • Has two or more WCIP policies covering such operations in the state, and • The two or more policies are written by the same assigned carrier	The combined LSRP standard premium of all policies written by the same assigned carrier must meet or exceed $250,000 ~~200,000~~

Eligibility Table 2

If a multistate employer has operations in . . .	Then . . .
• Two or more LSRP-approved states, and • Has one multistate WCIP policy covering such operations in those states	The combined LSRP standard premium of all **states** on the policy must meet or exceed: • $250,000 ~~200,000~~ • The premium eligibility requirement for the LSRP state generating the largest LSRP standard premium if such state's eligibility requirement is less than $250,000 ~~200,000~~
• Two or more LSRP-approved states, and • Has multiple WCIP policies covering such operations in those states, and • The two or more policies are written by the same assigned carrier	The combined LSRP standard premium of all **policies** written by the same assigned carrier must meet or exceed: • $250,000 ~~200,000,~~ or • The premium eligibility requirement for the LSRP state generating the largest LSRP standard premium if such state's eligibility requirement is less than $250,000 ~~200,000~~

b. It may not always be possible for a single carrier to provide coverage for all requested states; additional policies issued by more than one carrier may be necessary. *Refer to Rule 4-C-5-b(3) for more information about policy issuance and corresponding deposits.*

c. WCIP policies issued in non-LSRP-approved jurisdictions are not subject to LSRP and are not combinable with WCIP policies in LSRP-approved jurisdictions for eligibility purposes.

d. LSRP eligibility may be impacted by ownership or combinability status in accordance with NCCI's ***Experience Rating Plan Manual***.

EXHIBIT 2
BASIC MANUAL—2001 EDITION
RULE 4–WORKERS COMPENSATION INSURANCE PLAN RULES
C. LOSS SENSITIVE RATING PLAN
(Applies in AL, CT, DC, GA, ID, IL, IN, KS, MS, NC, NH, NV, OR, SC, SD, VT, WV)

4. Assigned Carrier Responsibilities

Assigned carrier responsibilities include, but are not limited to:

a. Administering, managing, and applying LSRP in accordance with these rules to:
   (1) Individual LSRP policies within an LSRP-approved jurisdiction.
   (2) Other WCIP policies related through common majority ownership as defined in NCCI's ***Experience Rating Plan Manual***.

b. Providing the employer with a full explanation and potential impact of LSRP at policy issuance, in accordance with Rules 4-C-6-b(2) and (3).

c. Completing preliminary physical and final physical audits for all new business qualifying for LSRP (and any other audit requirements for renewal business) in accordance with NCCI's ***Assigned Carrier Performance Standards***.

d. Indicating on all renewal quotes to employers ~~with premium of $ 150,000 or more~~ that payment of the renewal deposit constitutes knowledge and acceptance of the possible application of LSRP to the policy(ies).

e. Attaching all appropriate LSRP endorsement(s) to the policy(ies) in accordance with Rule 4-C-6-b(3).

f. Filing for Proof of Claim when it receives notification that the employer has declared bankruptcy; for information about off-cycle valuations, *refer to Rule 4-C-9-e*.

g. Performing valuations of losses in accordance with Rule 4-C-9.

h. Calculating all LSRP premiums.

i. Collecting or returning any LSRP premium and/or LSRP contingency deposit.

EXHIBIT 3
BASIC MANUAL—2001 EDITION
RULE 4–WORKERS COMPENSATION INSURANCE PLAN RULES
C. LOSS SENSITIVE RATING PLAN
5. LSRP DEFINITIONS
c. ELEMENTS OF THE LSRP
(Applies in AL, CT, DC, GA, ID, IL, IN, KS, MS, NC, NH, NV, OR, SC, SD, VT, WV)

(1) Basic Premium Factor (BPF)

The basic premium factor (BPF) is a fixed factor of 0.40 ~~30~~ used to determine the basic premium.

EXHIBIT 4
BASIC MANUAL—2001 EDITION
RULE 4–WORKERS COMPENSATION INSURANCE PLAN RULES
C. LOSS SENSITIVE RATING PLAN
11. PROFESSIONAL EMPLOYER ORGANIZATIONS (PEO) AND TEMPORARY ARRANGEMENTS
(Applies in AL, CT, DC, GA, ID, IL, KS, MS, NC, NH, NV, OR, SC, SD, VT, WV)

c. Eligibility

(1) Eligibility for LSRP for PEOs, its individual clients, and temporary arrangement employers is determined in accordance with the Eligibility Tables below. *Refer to Rule 4-C-5-c(12) for the definition of LSRP standard premium.*

Eligibility Table 1

If a single-state employer has operations in . . .	**Then . . .**
• One LSRP-approved state, and • Has a single-state WCIP policy covering such operations in the state	The single-state WCIP policy must meet or exceed LSRP standard premium of $250,000 ~~200,000~~
• One LSRP-approved state, and • Has two or more WCIP policies covering such operations in the state, and • The two or more policies are written by the same assigned carrier	The combined LSRP standard premium of all policies written by the same assigned carrier must meet or exceed $250,000 ~~200,000~~

Eligibility Table 2

If a multistate employer has operations in . . .	**Then . . .**
• Two or more LSRP-approved states, and • Has one multistate WCIP policy covering such operations in those states	The combined LSRP standard premium of all **states** on the policy must meet or exceed: • $250,000 ~~200,000,~~ or • The premium eligibility requirement for the LSRP state generating the largest LSRP standard premium if such state's eligibility requirement is less than $250,000 ~~200,000~~
• Two or more LSRP-approved states, and • Has multiple WCIP policies covering such operations in those states, and • The two or more policies are written by the same assigned carrier	The combined LSRP standard premium of all **policies** written by the same assigned carrier must meet or exceed: • $250,000 ~~200,000,~~ or • The premium eligibility requirement for the LSRP state generating the largest LSRP standard premium if such state's eligibility requirement is less than $250,000 ~~200,000~~

(2) It may not always be possible for a single carrier to provide coverage for all requested states; additional policies issued by more than one carrier may be necessary. *Refer to Rule 4-C-5-b(3) for more information about policy issuance and corresponding deposits.*

(3) WCIP policies issued in non-LSRP-approved jurisdictions are not subject to LSRP and are not combinable with WCIP policies in LSRP-approved jurisdictions for eligibility purposes.

EXHIBIT 4 (CONT'D)
BASIC MANUAL—2001 EDITION
RULE 4–WORKERS COMPENSATION INSURANCE PLAN RULES
C. LOSS SENSITIVE RATING PLAN
11. PROFESSIONAL EMPLOYER ORGANIZATIONS (PEO) AND TEMPORARY ARRANGEMENTS
(Applies in AL, CT, DC, GA, ID, IL, KS, MS, NC, NH, NV, OR, SC, SD, VT, WV)

(4) LSRP eligibility may be impacted by ownership or combinability status in accordance with NCCI's ***Experience Rating Plan Manual***.

(5) LSRP standard premium is determined in accordance with Rule 4-C-5-c(12); however, the policy type/type of arrangement must be considered when determining LSRP standard premium as referenced in the Arrangement Type Eligibility Table below.

Arrangement Type Eligibility Table

Policy Type/Type of Arrangement	**LSRP eligibility is determined . . .**
PEO master policy	Using LSRP standard premium for the entire master policy (PEO and clients)
PEO multiple coordinated policy (MCP)	• For PEOs (excluding clients), using LSRP standard premium of any PEO policy written in accordance with Rule 4-B-4-b(2) or other applicable state-specific WCIP MCP rule • For individual clients of PEOs, using LSRP standard premium separately for each individual client PEO policy written in accordance with Rule 4-B-4-b(1) or other applicable state-specific WCIP MCP rule
Temporary Arrangement	Using LSRP standard premium for the entire temporary arrangement policy