NCRB-NCRF-NCIGA
north carolina
RATE BUREAU
REINSURANCE FACILITY
INSURANCE GUARANTY ASSOCIATION

NORTH CAROLINA RATE BUREAU

December 15, 2015

CIRCULAR LETTER TO ALL MEMBER COMPANIES

Re: Workers Compensation Insurance

R1411- Retrospective Rating Manual Changes

A filing was submitted to the North Carolina Commissioner of Insurance on August 28, 2015 that proposed revisions to the Retrospective Rating Plan. These changes were based on NCCI Item Filing R-1411, and clarify the rules for retrospective rating. This filing was approved by the Commissioner.

These changes are being made in order to clarify the retrospective rating program, and to keep North Carolina's program consistent with changes made to the manual countrywide.

For detail on the changes, please see the attached Exhibit.

Sincerely,

Joanna Biliouris

Chief Operating Officer

JB:dms

Attachments

C-15-23

EXHIBIT 3-A
RETROSPECTIVE RATING PLAN MANUAL—2009 EDITION
RULE 1—GENERAL EXPLANATION
B. DEFINITIONS
1. General Definitions
(Applies in: AL, AZ, CO, CT, DC, GA, HI, IA, ID, IL, IN, KS, KY, LA, MD, ME, MN, MO, MS, MT, NC, NH, NM, NV, OK, RI, SC, SD, TN, UT, VT, WI, WV)

d. ~~Large Risk Alternative Rating Option (LRARO)~~

~~The Large Risk Alternative Rating Option is a flexible retrospective rating plan that is mutually agreed to by the insured and carrier. It is an available option for insureds with an estimated annual standard premium of at least $500,000 individually or in any combination with any commercial casualty insurance line and/or workers compensation and employers liability insurance.~~

~~Refer to Rule 2-E of this manual for state-specific premium eligibility thresholds.~~

EXHIBIT 3-B
RETROSPECTIVE RATING PLAN MANUAL—2009 EDITION
RULE 1—GENERAL EXPLANATION
B. DEFINITIONS
1. General Definitions
(Applies in: AL, AZ, CO, CT, DC, GA, HI, IA, ID, IL, IN, KS, KY, LA, MA, MD, ME, MN, MO, MS, MT, NC, NH, NM, NV, OK, OR, RI, SC, SD, TN, TX, UT, VA, VT, WI, WV)

d. Large Risk Alternative Rating Option (LRARO)

The Large Risk Alternative Rating Option is a flexible retrospective rating plan that is mutually agreed to by the employer and carrier. It is an available option for policies that meet or exceed a specific premium eligibility threshold.

Refer to Rule 2-E for the state-specific premium eligibility thresholds.

EXHIBIT 4-A
RETROSPECTIVE RATING PLAN MANUAL—2009 EDITION
RULE 1—GENERAL EXPLANATION
B. DEFINITIONS
(Applies in: AK, AL, AR, AZ, CO, CT, DC, GA, HI, IA, ID, IL, IN, KS, KY, LA, MA, MD, ME, MN, MO, MS, MT, NC, NE, NH, NM, NV, OK, OR, RI, SC, SD, TN, TX, UT, VA, VT, WI, WV)

2. Elements of the Retrospective Rating Plan Formula

The following formula includes all of the elective elements available under a retrospective rating plan. ~~*See Rule 3 of this manual* f~~ For other variations of the retrospective rating formula*, refer to Rule 3*.

Retrospective Rating Premium = (Basic Premium + Excess Loss Premium + Retrospective ~~Rating~~ Development Premium + Converted Losses) x Tax Multiplier~~.~~

EXHIBIT 4-B
RETROSPECTIVE RATING PLAN MANUAL—2009 EDITION
RULE 1—GENERAL EXPLANATION
B. DEFINITIONS
2. Elements of the Retrospective Rating Plan Formula
(Applies in: AK, AL, AR, AZ, CO, CT, DC, GA, HI, IA, ID, IL, IN, KS, KY, LA, MD, ME, MN, MO, MS, MT, NC, NE, NH, NM, NV, OK, OR, RI, SC, SD, TN, TX, UT, VA, VT, WI, WV)

e. Excess Loss Premium (ELP)

Excess loss premium (ELP) is a charge for election of a loss limitation. ~~The excess loss premium factor~~ It is applied after the basic premium in the retrospective rating plan formula. The ELP calculation is:

~~(Excess Loss Premium~~ ELP = Excess Loss Factor x Standard Premium x Loss Conversion Factor~~)~~

1. **Excess Loss Factors**

   Excess loss factors are used in the calculation of excess loss premium. Excess loss factors are also known as excess loss premium factors.

2. **Excess Loss Factor Determination**

   a. In rate states, ~~where~~ NCCI files ~~full rates, NCCI files~~ the excess loss factors. NCCI also files excess loss and allocated expense factors which include a provision for allocated loss adjustment expenses.

   ~~*Refer to the State Retrospective Rating Value pages for the Excess Loss Pure Premium Factors. Refer to the latest approved state loss cost filing for the LAE% and Loss Assessment%.*~~

   In loss cost states, NCCI files excess loss pure premium factors. Where applicable, NCCI also files excess loss and allocated expense pure premium factors which include a provision for allocated loss adjustment expenses. The excess loss pure premium factors and excess loss and allocated expense pure premium factors must be converted to excess loss factors or excess loss and allocated expense factors using the carrier's expense provisions applicable in each state.

   Refer to the State Special Rating Values pages for the excess loss factors or excess loss pure premium factors.

   b. The ~~conversion~~ formula for converting an excess loss pure premium factor to an excess loss factor is:

   Excess Loss ~~Premium~~ Factor = [(Excess Loss Pure Premium Factor x Expected Loss Ratio) x (1 + Loss Adjustment Expense % + Loss Assessment %)]

   The formula for converting an excess loss and allocated expense pure premium factor to an excess loss and allocated expense factor is:

   Excess Loss and Allocated Expense Factor = (Excess Loss and Allocated Expense Pure Premium Factor x Expected Loss Ratio) x (1 + Loss Adjustment Expense % + Loss Assessment %)

   ~~The Excess Loss Pure Premium Factor, LAE %, and Loss Assessment % are NCCI-provided values.~~

   The carrier determines the Expected Loss Ratio (ELR). ELR is a ratio of pure losses (no LAE) to premium.

EXHIBIT 4-B (CONT'D)
RETROSPECTIVE RATING PLAN MANUAL—2009 EDITION
RULE 1—GENERAL EXPLANATION
B. DEFINITIONS
2. Elements of the Retrospective Rating Plan Formula
(Applies in: AK, AL, AR, AZ, CO, CT, DC, GA, HI, IA, ID, IL, IN, KS, KY, LA, MD, ME, MN, MO, MS, MT, NC, NE, NH, NM, NV, OK, OR, RI, SC, SD, TN, TX, UT, VA, VT, WI, WV)

Refer to the latest approved state loss cost filing for the Loss Adjustment Expense (LAE) % and Loss Assessment %.

~~*Refer to the State Special Rating Values pages for the Excess Loss Factors or Excess Loss Pure Premium Factors.*~~

c. The Table of Classification by Hazard Group is used to determine the excess loss factor. This factor is determined based on the selected loss limitation and the hazard group assignment shown in the Table for the classification producing the largest amount of estimated workers compensation standard premium for each state included in the plan. *Refer to the* ***Basic Manual*** *for the Table of Classification by Hazard Group.*

For ~~insureds~~ employers having USL&HW coverage for non-F-classification codes, the applicable hazard group to use for the determination of an excess loss factor ~~(ELF)~~ is the state classification code hazard group~~, located in NCCI's~~ ~~***Basic Manual***~~~~,~~ increased by two levels. When the state classification hazard group is already at the highest level hazard group, use that highest level hazard group. ~~*Refer to* ***User's Guide*** *for examples.*~~

For the classification codes that include federal coverages (or F-classification codes), use the hazard group assigned to that code.

State Classification Hazard Group	USL&HW Hazard Groups for Non-F-Classification Codes ~~Hazard Groups~~
A	C
B	D
C	E
D	F
E	G
F	G
G	G

Refer to the ***User's Guide*** *for more information about excess loss factors*.

EXHIBIT 4-C
RETROSPECTIVE RATING PLAN MANUAL—2009 EDITION
RULE 1—GENERAL EXPLANATION
B. DEFINITIONS
2. Elements of the Retrospective Rating Plan Formula
(Applies in: AK, AL, AR, AZ, CO, CT, DC, GA, HI, IA, ID, IL, IN, KS, KY, MA, MD, ME, MS, MT, NC, NE, NH, NM, NV, OK, RI, SC, SD, TN, UT, VA, VT, WI, WV)

f. Retrospective Development Premium (RDP)

Retrospective development premium (RDP) is an elective element that varies by state. ~~The RDP~~ It stabilizes premium adjustments for an employer ~~insured~~ written under a retrospective rating plan by anticipating future ~~increases~~ changes in ~~loss costs or rates~~ losses. The RDP calculation is ~~calculated using the following formula~~:

~~Retrospective Development Premium~~ RDP = Standard Premium x Retrospective Development ~~Premium~~ Factor x Loss Conversion Factor~~.~~

1. **Retrospective Development Factor**

   The retrospective development ~~premium~~ factor anticipates a pattern of increasing valuation of losses after the policy is expired. The retrospective development ~~premium~~ factor is included in the first three calculations of the retrospective premium.

2. **Retrospective Development Factor Determination**

   a. NCCI files the retrospective development factors in ~~In~~ states where NCCI files ~~full~~ rates~~, NCCI files the retrospective development factors~~. *~~Refer to the State Special Rating Values pages of this manual for the retrospective development premium factors.~~*

   In loss cost states, NCCI files retrospective ~~development~~ pure premium development factors. The retrospective ~~development~~ pure premium development factors must be converted to retrospective development ~~premium~~ factors using the carrier's expense provisions applicable in each state.

   Refer to the State Special Rating Values pages ~~of this manual~~ for the retrospective development factors or retrospective ~~development~~ pure premium development factors.

   b. The ~~conversion~~ formula for converting a retrospective pure premium development factor to a retrospective development factor is:

   Retrospective Development ~~Premium~~ Factor = Retrospective Pure Premium Development Factor x Expected Loss Ratio x (1 + Loss Adjustment Expense % + Loss Assessment %)

   ~~The Retrospective Pure Premium Development Factor, LAE %, and Loss Assessment % are NCCI provided values.~~ *~~Refer to the State Retrospective Rating Values pages for the Retrospective Pure Premium Development Factors.~~ ~~Refer to the latest approved loss cost filing for the LAE % and Loss Assessment %.~~*

   The carrier determines the Expected Loss Ratio (ELR). ELR is a ratio of pure losses (no LAE) to premium.

   Refer to the latest approved state loss cost filing for the Loss Adjustment Expense (LAE) % and Loss Assessment %.

*~~Refer to **User's Guide** for examples.~~*

EXHIBIT 5-A
RETROSPECTIVE RATING PLAN MANUAL—2009 EDITION
RULE 2—ELIGIBILITY FOR THE PLAN
(Applies in: AL, CO, DC, GA, HI, IA, ID, IL, IN, KS, KY, LA, MD, ME, MS, MT, NC, NM, NV, RI, SC, SD, UT, VT, WI, WV)

E. ~~LARGE RISK ALTERNATIVE RATING OPTION (LRARO)~~

~~The Large Risk Alternative Rating Option provides the carrier and insured the option of negotiating the retrospective rating factors used to calculate premium. An insured is eligible for the LRARO if the estimated standard premium individually or in any combination with any other commercial casualty lines of insurance exceeds an annual standard premium eligibility threshold of $500,000 for the term of a retrospective rating plan.~~

~~The following table lists states with different annual standard premium eligibility thresholds for LRARO.~~

~~LRARO Premium Eligibility Threshold by State~~

~~State~~	~~Annual Standard Premium Eligibility Threshold~~
~~Arizona~~	~~$250,000~~
~~Kansas~~	~~$1,000,000~~
~~Minnesota~~	~~$250,000~~
~~Nevada~~	~~$250,000~~
~~New Hampshire~~	~~$250,000~~
~~North Carolina~~	~~$250,000~~
~~Oregon~~	~~See state rule exception~~

~~A different premium eligibility level may be used if filed by an individual carrier, subject to regulatory approval.~~

EXHIBIT 5-B
RETROSPECTIVE RATING PLAN MANUAL—2009 EDITION
RULE 2—ELIGIBILITY FOR THE PLAN
(Applies in: AL, AZ, CO, CT, DC, FL, GA, HI, IA, ID, IL, IN, KS, KY, LA, MA, MD, ME, MN, MO, MS, MT, NC, NH, NM, NV, OK, OR, RI, SC, SD, TN, TX, UT, VA, VT, WI, WV)

E. LARGE RISK ALTERNATIVE RATING OPTION (LRARO)

The Large Risk Alternative Rating Option (LRARO) provides the carrier and employer the option of negotiating, and mutually agreeing on, the retrospective rating plan premium.

The following table lists the different LRARO premium eligibility thresholds and other requirements by state:

LRARO Table by State

State	Premium Eligibility Threshold	Premium Eligibility Threshold Basis	Other
AL, CO, DC, GA, HI, IA, ID, IL, IN, KY, LA, MD, ME, MS, MT, NM, RI, SC, SD, UT, VT, WV	Estimated annual standard premium exceeds $500,000	Workers compensation standard premium only or in any combination with any other commercial casualty lines of insurance for the term of the plan.	
AZ	Estimated annual standard premium exceeds $250,000	Workers compensation standard premium only or in any combination with general liability, hospital professional liability, commercial automobile, crime, glass, or workers compensation for the term of the plan.	A carrier is not required to offer LRARO under certain conditions. For more information, refer to the Arizona State Rule Exception 2-E. Carriers may not file a different standard premium eligibility threshold in Arizona for LRARO. The maximum premium factor under the plan may not be less than 100%, and the minimum premium factor not less than 25%.
CT	Estimated annual standard premium exceeds $100,000	Workers compensation standard premium only, or, if written on a multiple-lines basis, the workers compensation portion of the standard premium must exceed $100,000.	

EXHIBIT 5-B (CONT'D)
RETROSPECTIVE RATING PLAN MANUAL—2009 EDITION
RULE 2—ELIGIBILITY FOR THE PLAN
(Applies in: AL, AZ, CO, CT, DC, FL, GA, HI, IA, ID, IL, IN, KS, KY, LA, MA, MD, ME, MN, MO, MS, MT, NC, NH, NM, NV, OK, OR, RI, SC, SD, TN, TX, UT, VA, VT, WI, WV)
LRARO Table by State (Cont'd)

State	Premium Eligibility Threshold	Premium Eligibility Threshold Basis	Other
FL	Estimated annual countrywide standard premium of $750,000 or more for workers compensation, of which $100,000 or more must be estimated annual standard premium in Florida	Workers compensation standard premium only.	The employer must have exposure in more than one state. *Refer to Rule 1-B-1-d for carrier eligibility requirements.* *Refer to Rule 3-G for additional information.* *Refer to Rule 4-A for applicable endorsements.*
KS	Estimated annual standard premium exceeds $1,000,000	Workers compensation standard premium only or in any combination with any other commercial casualty lines of insurance for the term of the plan.	
MA	Estimated annual standard premium (excluding ARAP surcharge) exceeds $500,000	Workers compensation standard premium only for the term of the plan.	
MN	Annual written premium of $250,000 or more generated from Minnesota and other states before the application of any large deductible rating plans	Workers compensation premium only.	The carrier must file a certification in the form specified in Minnesota §79.56, subd. 1(b) for each impacted policy with the Minnesota Department of Commerce verifying compliance with the statute.
MO	Estimated annual standard premium exceeds $500,000	Workers compensation standard premium only, or, if written on a multiple-lines basis, the workers compensation portion of the standard premium must exceed $100,000.	
NC	Estimated annual standard premium exceeds $250,000	Workers compensation standard premium only or in any combination with any other commercial casualty lines of insurance for the term of the plan.	

EXHIBIT 5-B (CONT'D)
RETROSPECTIVE RATING PLAN MANUAL—2009 EDITION
RULE 2—ELIGIBILITY FOR THE PLAN
(Applies in: AL, AZ, CO, CT, DC, FL, GA, HI, IA, ID, IL, IN, KS, KY, LA, MA, MD, ME, MN, MO, MS, MT, NC, NH, NM, NV, OK, OR, RI, SC, SD, TN, TX, UT, VA, VT, WI, WV)
LRARO Table by State (Cont'd)

State	Premium Eligibility Threshold	Premium Eligibility Threshold Basis	Other
NH	Estimated annual standard premium exceeds $250,000	Workers compensation standard premium only, or, if written on a multiple-lines basis, the workers compensation portion of the standard premium must be at least $250,000.	
NV	Estimated annual standard premium exceeds $250,000	Workers compensation standard premium only.	The maximum premium factor under the plan may not be less than 100%.
OK	Estimated annual standard premium exceeds $250,000	Any one of the following single lines of insurance: general liability, hospital professional liability, commercial automobile, crime, glass, or workers compensation.	Lower premium eligibility levels may not be selected.
	Estimated annual standard premium exceeds $500,000	Multiple lines basis.	
OR	Carrier-estimated annual standard premium exceeds $500,000	Workers compensation standard premium only.	
	Carrier-estimated annual standard premium exceeds $750,000	Multiple lines in any combination with general liability, hospital professional liability, commercial automobile, crime, glass, or workers compensation, provided the workers compensation portion of standard premium exceeds $500,000.	
TN	Estimated annual standard premium exceeds $250,000	Workers compensation standard premium only.	
	Estimated annual standard premium exceeds $500,000	Multiple lines in any combination with general liability, hospital professional liability, commercial automobile, crime, glass, or workers compensation.	

EXHIBIT 5-B (CONT'D)
RETROSPECTIVE RATING PLAN MANUAL—2009 EDITION
RULE 2—ELIGIBILITY FOR THE PLAN
(Applies in: AL, AZ, CO, CT, DC, FL, GA, HI, IA, ID, IL, IN, KS, KY, LA, MA, MD, ME, MN, MO, MS, MT, NC, NH, NM, NV, OK, OR, RI, SC, SD, TN, TX, UT, VA, VT, WI, WV)
LRARO Table by State (Cont'd)

State	Premium Eligibility Threshold	Premium Eligibility Threshold Basis	Other
TX	Estimated standard premium exceeds $350,000 for an interstate retrospective rating policy, where combination of states is applicable under one policy, and an estimated standard premium of at least $100,000 for an intrastate retrospective rating policy	Workers compensation standard premium only or in combination with any other commercial casualty lines of insurance.	The maximum retrospective premium may not be less than 100% or greater than 500% of standard premium. The minimum retrospective premium may not exceed the guaranteed cost (standard premium after premium discount) that would apply to the insured if the insured were not subject to retrospective rating.
VA	Refer to § 38.2-1903 of the Code of Virginia for the exemption applicable to large risk retrospective rating plans.		
WI	Estimated annual standard premium exceeds $250,000	Workers compensation standard premium only.	For employers with an estimated annual standard premium less than $1,000,000, individually or in any combination with other lines of coverage, the maximum premium under this plan must not be less than 100% of standard premium.
	Estimated annual standard premium exceeds $500,000	Multiple lines in any combination with general liability, hospital professional liability, commercial automobile, crime, glass, or workers compensation.	

*Refer to **User's Guide** for applicable endorsements*.

EXHIBIT 6
RETROSPECTIVE RATING PLAN MANUAL—2009 EDITION
RULE 3—OPERATION OF PLAN
(Applies in: AK, AL, AR, AZ, CO, CT, DC, FL, GA, HI, IA, ID, IL, IN, KS, KY, LA, MA, MD, ME, MN, MO, MS, MT, NC, NE, NH, NM, NV, OK, OR, RI, SC, SD, TN, UT, VA, VT, WI, WV)

C. THE RETROSPECTIVE RATING PREMIUM WITHOUT ELECTIVE PREMIUM ELEMENTS

The premium for an employer ~~insured~~ subject to a retrospective rating plan is determined by the following retrospective rating premium formula.

Retrospective Rating Premium = [Basic Premium + Converted Losses] x Tax Multiplier

The retrospective rating premium will not be less than the minimum retrospective rating premium or more than the maximum retrospective rating premium selected for a retrospective rating plan.

If the ~~insured~~ employer for which a retrospective rating plan is applied includes more than one legal entity, a single retrospective rating premium is calculated on the basis of the combined entities.

Note: ~~Insureds~~ Employers with an estimated annual standard premium of a specified premium eligibility threshold requirement and basis ~~, individually or in any combination with commercial casualty lines of insurance,~~ may be rated under the Large Risk Alternative Rating Option. ~~That~~ This option provides that such ~~insureds~~ employers may be retrospectively rated as mutually agreed upon by the ~~insured~~ employer and carrier. *Refer to Rule 2-E ~~for state-specific average annual standard~~ for premium eligibility thresholds.*

~~*Refer to **User's Guide** for examples.*~~

~~A different premium eligibility level may be used if filed by an individual carrier, subject to regulatory approval.~~

EXHIBIT 8
RETROSPECTIVE RATING PLAN MANUAL—2009 EDITION
NORTH CAROLINA STATE RULE EXCEPTIONS
RULE 4—ADMINISTRATION OF THE PLAN

B. REPORTS OF PREMIUMS AND LOSSES UNDER THE PLAN

The standard premium and losses incurred under a retrospective rating plan policy must be reported in accordance with the *North Carolina Statistical Plan Manual* and NCCI's ***Financial Call Reporting Guidebook***.

For Financial Call reporting instructions on any additional or return premium under the retrospective rating program, *refer to NCCI's* ***Financial Call Reporting Guidebook***.