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March 10, 2000

CIRCULAR LETTER TO ALL MEMBER COMPANIES

**Re: Workers Compensation Insurance
Item B-1361-Basic Manual Updates of Selected Rules and References**

The Bureau has adopted and the North Carolina Commissioner of Insurance has approved proposed changes in the Basic Manual to enhance selected rules and references.

The attached Filing Memorandum describes the changes which have been approved to become effective April 1, 2000, applicable to new and renewal business only.

Very truly yours,

Jerry G. Hamrick

Workers Compensation Manager

JGH:dg

Enclosure

C-00-3

FILING MEMORANDUM

ITEM B-1361—BASIC MANUAL UPDATES OF SELECTED RULES AND REFERENCES

(To be effective 12:01 a.m., April 1, 2000, applicable to new and renewal business only.)

PURPOSE

The purpose of this filing is to enhance selected *Basic Manual* rules and references.

BACKGROUND

NCCI's Business Classification and Rating Services department conducts ongoing research on the various components of the workers compensation classification and rating system. One object of this research is to enable NCCI's publications to contain the most current information available to assist in the underwriting of workers compensation insurance. Listed below are proposed updates to certain current *Basic Manual* rules and interpretations that modernize these items to meet today's business needs.

Item I:

Currently, references regarding the assignment of store classifications based on the gross sales and the type of merchandise sold are located in NCCI's *Scopes Manual*. Prior to the 1996 *Basic Manual* edition, these references were found in the Underwriting Guide section of the 1980 edition of the *Basic Manual*. It has been recommended that NCCI place this material in the *Basic Manual* to indicate the proper application of store classifications based on principal gross receipts and further define the difference between retail versus wholesale stores. It has also been suggested that to provide assistance to *Basic Manual* users in the application of farm classifications, the referenced farm rule be removed from the classification pages of the *Basic Manual* and added to the rule section.

Item II:

Questions have been raised concerning the classification codes that are subject to *Basic Manual* rules involving the following industries: construction/erection, farming, and stores/dealers. Currently, manual rules govern whether more than one classification can be assigned to the job site or location of these industries. In this item, NCCI proposes to specifically identify codes applicable to each of these industries by placing indicators next to each code in the classification pages. This change will permit *Basic Manual* users to easily reference construction/erection, farm, and store/dealer classification codes to the special rules that apply to them.

Item III:

The reference to the premium gradation amounts contained in *Basic Manual* Rule VII.E. is no longer appropriate in many cases. This is due to several factors such as changes in some states from administrative rating to competitive rating, changes in various states in the premium amounts required for discounts, as well as, carriers independently filing their own discount tables. In summation, no one premium discount schedule is currently being universally followed; therefore, the purpose of this item is to revise *Basic Manual* Rule VII.E. and omit references to specific gradation amounts.

Item IV:

Appendix B of the *Basic Manual* contains 10 different premium discount tables. In loss costs states, carriers file to use one of these tables or may file to adopt one of their own tables. While it is not unusual for different states to have different premium

discount tables, traditionally the tables have carried the same gradation amounts (e.g. First \$5,000./ next \$95,000. etc.). Currently, premium discount tables are often based on different gradation amounts.

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Appendix C of the *Basic Manual* contains 4 examples of premium discount calculations involving policies covering in multiple states with different premium discount tables. Two of the examples in this appendix also involve risks where one of the states is written under a retrospective rating plan. None of the examples address the situation involving a policy covering in multiple states where the states have premium discount tables with different premium gradations. Some requests have been received from customers for information regarding the proper methodology for making these calculations. Presently no examples or specific instructions are documented in NCCI manuals. The suggestion has been made that it would be desirable to provide such an example as there appears to be some degree of confusion as to the proper method for calculating premium discount under these circumstances.

Item V:

Basic Manual Rule VI.E.9.—Minimum Premium—Multiple State Policies states that if a policy provides workers compensation insurance in more than one state, the minimum premium to be charged for the policy shall be the single highest of the individual state's minimum premiums. This rule however, does not specify which state's minimum premium applies to a policy when two or more states covered under the policy have the same highest minimum premium amount. It also does not specify that the single highest of the individual state's minimum premium applies even if that state is on an "if any" basis.

Rule VI.D.7.—Expense Constant—Multiple States also provides that the highest expense constant shall be charged even if the state is on an "if any" basis. This rule further states that if two or more states have the same highest expense constant, the expense constant shall be reported for the highest state with the largest amount of premium. Although the intent is for minimum premiums to apply in the same way as expense constants, the rule on minimum premiums does not specifically provide for the situations where the state may be on an "if any" basis and/or two or more states have the same highest minimum premium amount. Amending Rule VI.E.9. will clarify the treatment of minimum premiums when there is a multi-state policy.

Item VI:

Basic Manual Rule VI.E.6. currently does not address the treatment of the minimum premium charged for increased limits when a policy is canceled. NCCI's former workers compensation insurance *Premium Audit Reference Book* indicated that "in the event a policy is canceled midterm, the minimum premium for Additional Medical Coverage or for increased limits for Employers Liability coverage shall be treated the same as a classification minimum premium." Adding this reference to the *Basic Manual* rules will document current cancelation procedures.

Item VII:

Basic Manual Rule VI.E.6.—Minimum Premium—Adjustment Upon Audit indicates that "if the final earned premium is less than the minimum premium determined upon audit, that minimum premium shall be charged. For canceled policies, refer to Rule X." At first, it appears that there is an exception to Rule VI.E.6. for any type of canceled policies, however, this is only true for pro rated cancelations and not for short rated cancelations. **Basic Manual** Rule X.D.—Premium Determination—Cancellation by the Insured, Except When Retiring from Business provides the rule for a canceled policy that includes a short rate penalty. Within this rule, it indicates that "the total premium for the canceled policy shall not be less than the minimum premium." It has been suggested that NCCI should amend Rule X.D. to clarify that if the final earned premium is less than the minimum premium applicable to the policy, that minimum premium shall be charged.

Item VIII:

The example indicated in Rule X.D.8. displays the application of the experience rating modification prior to the application of the short rate percentage. This contradicts the rules sequence found in Rule

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X.D. as Rule X.D. designates the short rate percentage prior to the application of the experience rating

modification. Further, according to the *Workers Compensation Statistical Plan* manual, the short rate penalty is subject to experience rating and therefore, precedes any experience modification factor.

Also, the example referenced in Rule X.D.8. calculates a short rate premium using a policy term originally written for 250 days. Presently, there is no example of a policy originally written for a one-year period. Further, Rule X.D.8. currently references Appendix D for an alternative method of short rate computation. This alternative method utilizes a short rate factor rather than a short rate percentage. The discontinued *Premium Audit Reference Book* provided an example of a short rate calculation using a short rate factor. NCCI has been asked to provide additional short rate calculation examples utilizing a short rate factor and policies that run full term (365 days). This will clarify the two methods of calculating a short rate premium.

Item IX:

Interpretations regarding the application of various state and federal laws pertaining to coverage issues are not within the jurisdiction of NCCI. It is felt that such advice should be referred, but not limited, to legal counsel, carriers, or agents of the insured. NCCI is frequently asked for such information. Presently there is no reference found in the **Basic Manual** that explains NCCI's position on such matters. It has been determined that a reference explaining NCCI's position on such advice would be advisable.

PROPOSAL

It is proposed that the **Basic Manual** rules and references indicated in the attached exhibits be modified or added as indicated.

It is further proposed that these changes become effective 12:01 a.m., April 1, 2000, applicable to new and renewal business only.

IMPACT

This item should have no impact on current premium levels, but will facilitate and document the proper application of *Basic Manual* rules and references.

IMPLEMENTATION

The attached exhibit outlines the changes necessary in the *Basic Manual for Workers Compensation and Employers Liability Insurance*.

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ITEM B-1361—BASIC MANUAL UPDATES OF SELECTED RULES AND REFERENCES

EXHIBIT I (page 1 of 4)

BASIC MANUAL

Rule IV—Classifications

D. Assignment of Classifications

8.

Construction or Erection Operations

Each distinct type of construction or erection operation at a job or location shall be assigned to the classification that specifically describes such operation provided separate

payroll records are maintained for each operation. For purposes of classification, construction or erection classifications are identified in Part Two- Classifications by _ immediately following the code number.

Any such operation for which separate payroll records are not maintained shall be assigned to the highest rated classification that applies to the job or location where the operation is performed.

A separate construction or erection classification shall not be assigned to any operation that is within the scope of another classification assigned to such a job or location.

a. ~~Contracting~~ Construction or Erection Classifications-Insured Subcontractors

(1) A subcontractor who performs a single type of work on a construction project or job shall be classified on the basis of the classification describing the particular type of work involved.

Example of D.8.a.

The insured subcontractor who performs only excavation work in connection with the construction of a sewer would be classified under Excavation, Code 6217, rather than Sewer Construction, Code 6306.

(2) All operations in conjunction with concrete construction

including making and

erecting forms, placing reinforcing steel and stripping forms, when done by subcontractors, shall be assigned to the appropriate concrete construction classification.

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b. Contracting-Construction or Erection Classifications-Uninsured Subcontractors

- - -

Uninsured subcontractors, covered under the principal contractor's policy, are classified on the basis of the classifications that would apply if the work were performed by the

Example of D.8.b.

The uninsured subcontractor who performs only excavation work but is covered under the policy of the principal contractor who is performing the construction of a sewer would be classified under Sewer Construction, Code 6306.

principal's own

employees.

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EXHIBIT I (page 2 of 4)

Farm Operations

10.

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~~For assignment of classifications for farm operation, refer to Part Two—Classification: Farm.~~

For the purpose of the application of workers compensation farm classifications, a farm is defined as any parcel(s) of land used for the purpose of agriculture, horticulture, viticulture, dairying, or stock or poultry raising as a business or commercial venture. A division of payroll may be allowed for each separate and distinct type of commercial farm operation as described by farm classifications, provided that separate records of payroll are maintained. In the event that the payroll records do not reveal clearly an accurate segregation of payroll applicable to farm classifications,

the entire payroll for the farm must be segregated on the basis of proportionate acreages. Each farm classification includes all employees, other than inside domestic workers, including drivers, and all normal repair and maintenance of buildings or equipment performed by the employees of the insured. Such activities as the maintenance of cows, hogs, or chickens for family use; a family orchard or truck garden; and hay or grain crop raised for the purpose of maintaining work animals on the farm must be considered usual and incidental to the operation of any type of farm.

Classifications for which this rule is applicable are identified in Part Two- Classifications by immediately following the code number.

Mercantile Businesses

11.

For the purpose of the application of workers compensation mercantile classifications, a mercantile business is defined as any store or dealer engaged in the sale of goods or merchandise or in the sale of services. For mercantile businesses such as stores or dealers, the classification is determined separately for each location.

The assignment of a classification to a store is based upon the principal type of merchandise sold, and whether the operations are wholesale or retail. The following definitions and instructions are to be observed in determining the appropriate store classification:

1. Type of Merchandise Sold: If a store sells several types of merchandise, each of which may be subject to a different classification, such a store shall be assigned on the basis of the principal category of the merchandise sold. The term "principal" means more than 50% of the gross receipts.

2. Wholesale vs. Retail: Retail applies to the sale of merchandise to the general public for personal or household consumption or use and not for resale. Wholesale applies to the sale of merchandise for resale to others; or to the sale to manufacturers, builders, contractors, or others for use in their business, or as raw materials. A store that sells merchandise on a

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combined wholesale and retail basis shall be assigned to the appropriate store classification depending upon whether the gross receipts are principally from wholesale or retail sales. The term "gross receipts" means gross receipts less receipts derived from the sale of lottery tickets. The term principally means more than 50% of the gross receipts.

EXCEPTION: If it is determined that a store's sales are clearly retail in nature, the appropriate retail store classification may be assigned regardless of the above definition of retail. Examples of this type of situation would be stores selling artwork or art supplies in a shopping mall when the majority of sales are to artists who use the materials in their business or artwork purchased by businesses. In these cases, the stores would clearly be classified as retail except for the ultimate use or purchaser of the products.

Classifications for which this rule is applicable are identified in Part Two- Classifications by immediately following the code number.

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EXHIBIT I (page 4 of 4)

BASIC MANUAL

CLASSIFICATIONS

PART TWO

~~For the purpose of the application of workers compensation farm classifications, a~~

~~farm is defined as any parcel(s) of land used for the purpose of agriculture, horticulture,~~

viticulture, dairying, or stock or poultry raising as a business or commercial venture. A division of payroll may be allowed for each separate and distinct type of commercial farm operation as described by farm classifications, provided that separate records of payroll are maintained. In the event that the payroll records do not reveal clearly an accurate segregation of payroll applicable to farm classifications, the entire payroll for the farm must be segregated on the basis of proportionate acreages. Each farm classification includes all employees, other than inside domestic workers, including drivers, and all normal repair and maintenance of buildings or equipment performed by the employees of the insured. Such activities as the maintenance of cows, hogs, or chickens for family use; a family orchard or truck garden; and hay or grain crop raised for the purpose of maintaining work animals on the farm must be considered usual and incidental to the operation of any type of farm.

The following classifications apply to farming and agricultural operations:

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EXHIBIT II (page 1 of 4)

CLASSIFICATION SAMPLE PAGE

- 4902** **Sporting Goods mfg. NOC**
- 3303** **Spring Mfg. Not wire springs. The mfg. of wire springs shall be rated as Code 3257— Wire goods mfg.**
Sprinkler
- 3634** **Head mfg.** Applies to automatic sprinklers.
- 5188_** **Installation & drivers.** Applies to automatic sprinklers.
- 8279_** **Stable or breeding farm & drivers.** Applies to the training of racehorses, polo ponies, and

horses for exhibition purposes. Includes jockeys and trainers.

4036 Staff or plaster mixing & drivers. No crushing or grinding. Shall not be assigned to a risk engaged in operations described by another classification unless the operations subject to Code 4036 are conducted as a separate and distinct business.

4703 Starch Mfg

State employees NOC. See Municipal.

4251 Stationery Mfg. Mfg. of metal rings, posts, screws, separators, or fittings to be separately rated. Shall not be assigned to a risk engaged in operations described by another classification unless the operations subject to Code 4251 are conducted as a separate and distinct business.

Steam

7539 Heating or power co.—all employees & drivers. all employees & drivers. Includes store employees and meter readers. Construction of buildings to be separately rated.

6319_ Mains or connections construction & drivers. Mains or connections construction & drivers. Includes tunneling at street crossings when not performed under air pressure. All other tunneling to be separately rated as Code 6251 or 6260.

Code 7539—Steam heating or power company shall not be assigned at the same job or location to which Code 6319 applies.

5183_ Pipe or boiler insulating & drivers. Includes shop. Applies to the application of cork or other nonconducting materials.

3507 Shovel, dredge, or construction machinery mfg. NOC

3574 Steam or Air Pressure gauge mfg.

Steamship line or agency— port employees

8726F Superintendents, captains, engineers, stewards or their assistants, pay clerks

Talliers, checking clerks, and employees engaged in mending or repacking of

8709F damaged containers:

8719 Coverage under U.S. Act

Coverage under State Act only

Steel mfg., fabrication, or erection. See Iron or steel

Steel or Iron

8106_ = **Merchant & drivers. Not applicable to junk dealers or iron or steel scrap dealers.**
 Construction Classification = **Scrap dealer & drivers.** Wrecking or salvaging to be separately rated. Shall not be assigned to a risk engaged in operations described by another classification unless the operations subject to Code 8265 are conducted as a separate and distinct business.

8265_

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EXHIBIT II (page 2 of 4)

National Classification Codes Impacted

<i>Class Code</i>	<i>Type</i>	<i>Class Code</i>	<i>Type</i>	<i>Class Code</i>	<i>Type</i>	<i>Class Code</i>	<i>Type</i>
0005_	farm	5462_	construction	7605_	construction	8350_	mercantile
0008_	farm	5472_	construction	7611_	construction	8381_	mercantile
0016_	farm	5473_	construction	7612_	construction	8500_	mercantile
0034_	farm	5474_	construction	7613_	construction	8745_	mercantile
0035_	farm	5478_	construction	7855_	construction	9534_	construction
0036_	farm	5479_	construction	8001_	mercantile	9545_	construction
0037_	farm	5480_	construction	8002_	mercantile	9549_	construction
0042_	construction	5491_	construction	8006_	mercantile	9552_	construction
0050_	construction	5506_	construction	8008_	mercantile		
0079_	farm	5507_	construction	8010_	mercantile		

0083_	farm	5508_	construction	8013_	mercantile		
0113_	farm	5536_	construction	8015_	mercantile		
0170_	farm	5538_	construction	8017_	mercantile		
1322_	construction	5551_	construction	8018_	mercantile		
2587_	mercantile	5606_	construction	8021_	mercantile		
3365_	construction	5610_	construction	8031_	mercantile		
3719_	construction	5645_	construction	8032_	mercantile		
3724_	construction	5651_	construction	8033_	mercantile		
3726_	construction	5703_	construction	8039_	mercantile		
3821_	mercantile	5705_	construction	8044_	mercantile		
4362_	mercantile	6003_	construction	8045_	mercantile		
5020_	construction	6005_	construction	8046_	mercantile		
5022_	construction	6017_	construction	8047_	mercantile		
5037_	construction	6018_	construction	8050_	mercantile		
5040_	construction	6045_	construction	8058_	mercantile		
	construction	6204_	construction	8072_	mercantile		

5057_							
5059_	construction	6206_	construction	8102_	mercantile		
5069_	construction	6213_	construction	8103_	mercantile		
5102_	construction	6214_	construction	8105_	mercantile		
5146_	construction	6216_	construction	8106_	mercantile		
5160_	construction	6217_	construction	8107_	mercantile		
5183_	construction	6229_	construction	8111_	mercantile		
5188_	construction	6233_	construction	8116_	mercantile		
5190_	construction	6235_	construction	8203_	mercantile		
5213_	construction	6236_	construction	8204_	mercantile		
5215_	construction	6237_	construction	8215_	mercantile		
5221_	construction	6251_	construction	8227_	construction		
5222_	construction	6252_	construction	8232_	mercantile		
5223_	construction	6260_	construction	8233_	mercantile		
5348_	construction	6306_	construction	8235_	mercantile		
	construction	6319_	construction	8263_	mercantile		

5402_							
5403_	construction	6325_	construction	8264_	mercantile		
5437_	construction	6400_	construction	8265_	mercantile		
5443_	construction	7538_	construction	8279_	farm		
5445_	construction	7601_	construction	8288_	mercantile		

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EXHIBIT II (page 3 of 4)

State Special Classification Codes Impacted

State	<i>Class Code</i>	<i>Type</i>	State	Class Code	<i>Type</i>
Alabama			Hawaii		
	8027_	mercantile		0019_	farm
	8295_	mercantile		0178_	farm
	8353_	mercantile		9554_	construction
	9553_	construction	Idaho		
					farm

Alaska				0124 _	
	5509 _	construction		9554 _	construction
	5516 _	construction	Illinois		
	9529 _	construction		5539 _	construction
Arizona				8014 _	mercantile
	0006 _	farm		9553 _	onstruction
	0017 _	farm	Louisiana		
	5537 _	construction		0030 _	farm
	8353 _	mercantile		8295 _	mercantile
	9553 _	construction		8353 _	mercantile
Arkansas				8754 _	mercantile
	8295 _	mercantile		9530 _	construction
Colorado			Maine		
	5537 _	construction		8024 _	mercantile
	6257 _	construction	Maryland		
	8027 _	mercantile		8027 _	mercantile

Connecticut			Mississippi		
	5509 _	construction		8295 _	mercantile
	8027 _	mercantile		8353 _	mercantile
	8754 _	mercantile	Missouri		
DC				5067 _	construction
	8027 _	mercantile		5505 _	construction
Florida				5515 _	construction
	0030 _	farm		8034 _	mercantile
	0052 _	farm		8061 _	mercantile
	0173 _	farm		8353 _	mercantile
	5509 _	construction	Montana		
	5613 _	construction		0124 _	farm
	8027 _	mercantile		0131 _	farm
	8061 _	mercantile		5511 _	construction
	8273 _	farm		6365 _	construction

	8274 _	farm	New Mexico		
	8353 _	mercantile		8027 _	mercantile
Georgia				8236 _	mercantile
	8061 _	mercantile	North Carolina		
	8295 _	mercantile		7529 _	construction
	9529 _	construction		8236 _	mercantile
	9553 _	construction			

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EXHIBIT II (page 4 of 4)

State Special Classification Codes Impacted

<i>State</i>	<i>Class Code</i>	<i>Type</i>
Oklahoma		
	5611 _	construction
	6215 _	construction
	8034 _	mercantile

	8048 _	mercantile
	8353 _	mercantile
	8753 _	mercantile
Oregon		
	0117 _	farm
	0124 _	farm
	0169 _	farm
	5511 _	construction
	5537 _	construction
	9554 _	construction
Tennessee		
	5539 _	construction
	8061 _	mercantile
	8295 _	mercantile
	9553 _	construction
Utah		

	0169 _	farm
	5509 _	construction
	5516 _	construction
Virginia		
	0301 _	farm
	5067 _	construction
	8027 _	mercantile

ITEM B-1361—BASIC MANUAL UPDATES OF SELECTED RULES AND REFERENCES

EXHIBIT III

BASIC MANUAL

RULE VII—Premium Discount

-
- **Determination of Premium Discount**

E.

If a policy develops total standard premium in excess of \$5,000 the threshold amount for premium discount authorized by the insurance regulatory authority for use by the carrier, the standard premium is subject to premium discount as follows:

1.	Without Retrospective Rating
	a. Single State Policy
	If a policy provides coverage only in one state, the premium discount for that state shall be determined by applying the <u>appropriate discount percentages</u> on the state rate pages to the total standard premium in excess of the threshold amount. Such discount percentages and <u>threshold amount</u> is that authorized by the <u>appropriate insurance regulatory authority</u> for use by the carrier.
	b. Multiple State Policy
	Premium discount applies on an interstate basis. It shall be determined by applying the <u>appropriate discount percentages</u> on the state rate pages to each state's portion of the <u>first \$5,000, next \$95,000, next \$400,000, and the amount over \$500,000</u> total standard premium <u>in excess of the threshold amount</u> . Such discount percentages and <u>threshold amount</u> is that authorized by the <u>appropriate insurance regulatory authority</u> for use by the carrier. Each state's portion of the <u>threshold amount and varying gradations of premium discount</u> foregoing divisions of total standard premium shall be computed by multiplying the total standard premium in each of the above divisions by the ratio of the state standard premium to the total standard premium. <u>Examples of common premium discount tables are located in Appendix B. Methods of computing premium discount are in Appendix C.</u>
-	-

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EXHIBIT V

BASIC MANUAL

ITEM B-1361—BASIC MANUAL UPDATES OF SELECTED RULES AND REFERENCES

EXHIBIT VI

BASIC MANUAL

E. Minimum Premium

6. Adjustment Upon Audit

The minimum premium is subject to final adjustment and shall be determined upon audit only on the basis of those classifications developing premium. If the final earned premium is less than the minimum premium determined upon audit, that minimum premium shall be charged. If no classification develops premium, the premium charged shall be the minimum premium of Code 8810. For canceled policies, *refer to Rule X*. In the event a policy is canceled midterm, the minimum premium for increased limits for Employers Liability and Federal coverages shall be treated the same as a classification minimum premium.

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EXHIBIT VII

BASIC MANUAL

RULE X—Cancellation

D.	Premium Determination—Cancellation by the Insured, Except When Retiring from Business The premium for the canceled policy shall be based on the Short Rate Cancellation Table in this rule and computed as follows:
	Actual Payroll 1. Determine the payroll developed during the period the policy was in effect.

Extended Payroll and Number of Days

2. a. Extended Payroll

Extend such payroll pro rata based on the number of days for which the policy was written divided by the number of days the policy remained in force to produce the full policy payroll.

Example

A policy written for 250 days that remained in effect for 185 days produced a payroll of \$55,500. Payroll extended for the original policy term— $\$55,500 \times 250/185 = \$75,000$.

b. Extended Number of Days

The extended number of days shall be determined by dividing the number of days the policy was in force by the number of days for which the policy was written and multiplying the quotient by 365 days. (When the policy was written for a one-year period, the extended number of days will equal the number of days the policy remained in force.)

Rates

3. Apply authorized rates to the payroll in 2.a. above.

Short Rate Percentage

4. Based on the extended number of days calculated in 2.b., apply the short rate percentage shown in the Short Rate Cancellation Table in this rule to the premium computed on the basis of the extended payroll in order to determine the short rate portion of the premium..

Experience Rating

5. Apply any experience rating modification in accordance with the rules of the Experience Rating Plan Manual. *Refer to Rule VI-G.*

6. Premium Discount

Apply any premium discount based on the final earned total standard premium.

6.7. Expense Constant

Add the short rate portion of the Expense Constant but not less than \$15. *Refer to Rule VI-D.*

7.8. Minimum Premium

The total earned premium for the canceled policy shall not be less than the annual minimum

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EXHIBIT VIII (page 1 of 2)

8.9. Example of a Short Rate Cancellation

Note: The amounts shown in the following example are for illustration purposes only:

a. Policy Originally Written For Less Than a One-Year Period

A policy originally written for 250 days and in effect for 185 days develops actual payroll of \$300,000, manual rate of \$5.00, minimum premium of \$385, experience modification of .90 and with expense constant of ~~\$160~~200.

1. Payroll extended for full policy term = $\$300,000 \times 250/185 = \$405,405$.

2. Full policy term premium before experience rating = $(\$405,405/\underline{100}) \times \$5.00 = \$20,270$.

3. Extended number of days = $185/250 \times 365 = 270$.

4. Short rate percentage for 270 days = 80%. Refer to Rule X.E.

5. Short rate premium = $\$20,270 \times .80 = \$16,216$.

6. ~~Full policy term~~ Short rate modified premium = $\$16,216 \times .90 = \$14,594$.

7. Less premium discount (first \$5,000, @ 0%, next \$9,594 @ 9.5%) = \$911.

$\$14,594 - \$911 = \$13,683$.

8. Short rate portion of expense constant = $\$200 \times .80 = \160 .

9. Total premium for canceled policy = $\$13,683 + \$160 = \$13,843$.

10. Minimum premium = \$385. Not applicable to this policy.

EXHIBIT VIII (page 2 of 2)

b. Policy Originally Written For a One-Year Period

A policy originally written for 365 days and in effect for 185 days develops actual payroll of \$55,500, manual rate of \$2.00, minimum premium of \$750, experience modification of .95 and with expense constant of \$200.

1. Payroll extended for full policy term = $\$55,500 \times 365/185 = \$109,500$.
2. Full policy term premium before experience rating = $(\$109,500/100) \times \$2.00 = \$2,190$.
3. For a 365 day policy, extended # of days = # of days policy in effect = 185.
4. Short rate percentage for 185 days = 61%. Refer to Rule X.E.
5. Short rate premium = $\$2,190 \times .61 = \$1,336$.
6. Short rate modified premium = $\$1,336 \times .95 = \$1,269$.
7. Less premium discount (first \$5,000, @ 0%) = \$0.
8. Short rate portion of expense constant = $\$200 \times .61 = \122 .
9. Total premium for canceled policy = $\$1,269 + \$122 = \$1,391$.
10. Minimum premium = \$750. Not applicable to this policy.

c. Policy Originally Written For a One-Year Period Using a Short Rate Factor

Refer to Appendix D for an alternative method of short rate computation for policies originally written for a one-year period.

A policy originally written for 365 days and in effect for 185 days develops actual payroll of \$55,500, manual rate of \$2.00, minimum premium of \$750, experience modification of .95 and with expense constant of \$200.

1. Actual premium = $\$55,500/100 \times \$2.00 = \$1,110$
2. Short rate factor for 185 days (See Short Rate Table in Appendix D) =
 $1.2035 - 1.00 = .2035$
3. Short rate charge = (1) x (2) = $\$1,110 \times .2035 = \226 .

(Use Statistical Code 0931 for reporting)

4. Short rate manual premium = (1) + (3) = \$1,110 + \$226 = \$1,336

5. Short rate modified premium = \$1,336 x .95 = \$1,269

6. Less premium discount (first \$5,000, @ 0%) = \$0.

7. Short rate portion of the expense constant = Pro rata portion of expense constant + short rate factor applied to pro rata portion of expense constant = [(\$200/365 x 185) + ((\$200/365 x 185) x .2035)] = \$122

8. Total premium for canceled policy = \$1,269 + \$122 = \$1,391

9. Minimum premium = \$750. Not applicable to this policy.

Assigned Risk Exception: Compute the premium as provided in B. above when an assigned risk policy is being canceled because the insured has replaced coverage through the voluntary market.

ITEM B-1361—BASIC MANUAL UPDATES OF SELECTED RULES AND REFERENCES

EXHIBIT IX

BASIC MANUAL