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March 10, 2000

CIRCULAR LETTER TO ALL MEMBER COMPANIES

**Re: Workers Compensation Insurance
Item B-1364 - Basic Manual Rule IV - D.4.**

The Bureau has adopted and the North Carolina Commissioner of Insurance has approved a proposal to clarify the intent of Basic Manual Rule IV-D.4 - Assignment of Additional Basic Classification.

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

Very truly yours,

Jerry G. Hamrick
Workers Compensation Manager

JGH:dg

Enclosure

C-00-6

FILING MEMORANDUM

ITEM B-1364 BASIC MANUAL RULE IV-D.4.: ASSIGNMENT OF ADDITIONAL BASIC CLASSIFICATIONS

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

PURPOSE:

The purpose of this filing is to clarify the intent of **Basic Manual** Rule IV-D.4, Assignment of Additional Basic Classifications.

BACKGROUND:

The objective of NCCI's Workers Compensation Classification System is to group employers with the same or similar operations into classification(s) that reflects the group's operations. The purpose of these groupings is to enable NCCI to collect data so that loss costs or rates may be calculated for employers with similar operations. To help meet this objective NCCI periodically reviews **Basic Manual** rules that impact classification procedures to determine which, if any, should be considered for elimination, modernization or clarification. In this item, NCCI clarifies **Basic Manual** Rule IV-D.4., a rule that describes under which circumstances more than one basic classification may be assigned to a single employer.

The following list highlights major enhancements that are proposed by this filing to clarify the intent of **Basic Manual** Rule IV-D.4. :

- _ Certain terms used in this rule that are not defined elsewhere in the **Basic Manual** are defined in this rule.
- _ Readers are referred to specific **Basic Manual** rules that define other terms used within this rule.
- _ Bookkeeping requirements are modified to the maintaining of payroll records rather than the previous "separate financial records" requirement.
- _ Section IV-D.4.c. is completely revised to clearly express this rule's intent.

PROPOSAL

There are two exhibits attached:

Exhibit 1 is the present content of **Basic Manual** Rule IV-D.4.

Exhibit 2 is the proposed content of **Basic Manual** Rule IV-D.4

It is proposed that the text in Exhibit 1 be eliminated and replaced by the text in Exhibit 2.

IMPACT

No impact on premium is expected to occur as a result of this proposed change.

IMPLEMENTATION

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

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ITEM B-1364 BASIC MANUAL RULE IV-D.4.: ASSIGNMENT OF ADDITIONAL BASIC CLASSIFICATIONS

Exhibit 1

Current Version of Basic Manual Rule IV-D.4.

4. Assignment of Additional Basic Classification

a. The following conditions under which more than one basic classification may be assigned to an individual insured:

~~(1) The insured's business is described by a basic classification that requires certain operations or employees to be separately rated.~~

~~(2) The insured engages in construction or erection operations, farm operations, repair operations, or operates a mercantile business. (See Rule IV-D.8., 9., 10., and 11. for conditions under which additional basic classifications may be assigned for these operations.)~~

~~(3) The insured operates more than one business in a state.~~

~~b. For purposes of this rule, an insured is operating more than one business in a state if portions of the insured's total business operations in a state are separate undertakings or enterprises. To qualify as a separate undertaking or enterprise, the portion of the insured's business to be separately rated must be:~~

~~(1) An operation that is ordinarily not within the scope of the insured's principal business.~~

~~(2) An operation that could still exist as a separate business if the insured's other operations in a state ceased to exist.~~

~~(3) An operation that meets all of the following three criteria:~~

~~(a) Separate financial records, including but not limited to, general ledger, cash receipts and cash disbursement records and payroll records are maintained for each business.~~

~~(b) Each business is physically separated by structural partitions.~~

~~(c) The assignment of the separate classification is not prohibited by wording of that classification or any other classifications assigned to the policy.~~

~~If conditions (1), (2), and all portions of (3) above are met, the insured is considered to be operating more than one business for classification purposes and a separate basic classification may be assigned to each operation qualified as a separate business.~~

~~c. If all of the above conditions do not exist:~~

~~(1) All employees shall be assigned to the classification applicable to the principal business if the classification for the principal business carries a rate which is the same or higher than that for the classification of the secondary business.~~

~~(2) The secondary business shall be assigned to the classification which describes that business if such classification carries a rate higher than that applicable to the principal business.~~

~~d. Policies with more than one classification may involve employees working in connection with the several classifications. Payroll assignment for such employees is subject to Rule IV-E.~~

ITEM B-1364 BASIC MANUAL RULE IV-D.4.: ASSIGNMENT OF ADDITIONAL BASIC CLASSIFICATIONS

Exhibit 2

Proposed Version of Basic Manual Rule IV-D.4.

Rule IV-D.4. Assignment of Additional Basic Classification

The word "operation" used within this rule also means *activity, enterprise, process, secondary business* or *undertaking* in either the singular or plural form.

a. More than one basic classification may be assigned to an insured who meets conditions (1), (2) or (3):

(1) The insured's principal business is described by a basic classification that requires certain operations or employees to be separately rated. (Refer to Rule IV-B. 6. for the definition of "principal business" and Rule IV-C.3.k. for the definition of "to be separately rated.")

(2) The insured conducts one or more of the following operations:

construction or erection

farming

employee leasing

labor contracting

temporary labor services

mercantile business

(Refer to Rule IV-D.8., 9., 10., and 11. for conditions under which additional basic classifications may be assigned for these operations.)

(3) The insured conducts more than one operation in a state.

a. For purposes of this rule, an insured is conducting more than one operation in a state if portions of the insured's operations in that state are not contemplated by the classification applicable to the insured's principal business. To qualify for a separate classification the insured's additional operation must:

(1) be able to exist as a separate business if the insured's principal business in the state ceased to exist.

(2) be located in a separate building or on a separate floor in the same building or on the same floor physically separated from the principal business by

structural partitions. Employees engaged in the principal business must be protected from the operating hazards of the separate additional operation.

(3) maintain proper payroll records. (Refer to Rule IV-E.2.b. for the description of proper payroll records.)

b. If the separate additional operation is not contemplated by the classification applicable to the insured's principal business and meets all the conditions listed above in (3) a., the insured is considered to be engaged in an additional operation and a separate basic classification may be assigned to each operation so qualified.

ITEM B-1364 BASIC MANUAL RULE IV-D.4.: ASSIGNMENT OF ADDITIONAL BASIC CLASSIFICATIONS

Exhibit 2

Proposed Version of Basic Manual Rule IV-D.4.

c0 If the additional operation does not meet all conditions listed above in (3)a. and is not contemplated by the classification applicable to the insured's principal business and has a rate:

(1) *lower* than the insured's principal business, assign this operation to the same classification as the insured's principal business.

(2) *higher* than or

equal to the insured's principal business, assign this operation to the classification that describes the additional operation.

[Examples from the manual will be added here]

d. Policies with more than one classification may include employees working under several classifications. Payroll assignment for such employees is subject to Rule IV-E.