

August 26, 2005

CIRCULAR LETTER TO ALL MEMBER COMPANIES

Re: Workers Compensation Insurance

Item B-1391 – Revisions to Basic
Classifications

The Bureau has adopted and the North Carolina Commissioner of Insurance has approved changes to several class codes as outlined in NCCI Item B-1391.

The attached Filing Memorandum describes the changes which have been approved. Also attached is a quick summary of the filing and an Addendum to Fact Sheet #10 with the proposed rates and loss costs information.

This filing has split effective dates. The changes resulting from Fact Sheet #10 will be effective December 1, 2005, applicable to new and renewal business. The effective date for all other fact sheets will be April 1, 2006, also applicable to both new and renewal business. All member companies are required to adopt this circular on the effective dates listed above.

Sincerely,

Sue Taylor

Director of Workers Compensation

ST:dg

C-05-9

REVISION TO THE TABLE OF CONTENTS FOR NCCI B-1391

The North Carolina Rate Bureau is forwarding NCCI Item B-1391 to the North Carolina Department of Insurance for their approval. The filing materials received by the North Carolina Rate Bureau from NCCI were intended for countrywide distribution and included several pages that were state specific to states other than North Carolina. These pages were removed from the attached filing submittal. As a result, the following table of contents should replace the table of contents found on Page 1 of the Filing Memorandum for Item.

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FILING MEMORANDUM

ITEM B-1391—REVISION TO BASIC MANUAL CLASSIFICATIONS

(To be effective 12:01 a.m. on January 1, 2005, applicable to new and renewal business only.)

PURPOSE

The purpose of this item is to eliminate or enhance selected *Basic Manual* classifications and *Basic Manual* classification advisory notes to reflect current business and industry needs relative to these items. The following industries are impacted by the proposal:

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BACKGROUND

The workers compensation system groups employers with similar operations so loss costs or rates may be produced to reflect overall employee exposure to injury. NCCI periodically reviews individual classifications and groups of classifications by industry to determine which, if any, should be considered for elimination, modernization, uniformity, and clarification. This item includes proposals for the individual classifications identified in each exhibit.

PROPOSAL

It is proposed that:

The classifications and classification advisory notes indicated in the attached exhibits be eliminated, modernized or clarified as shown.

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ITEM B-1391—REVISION TO BASIC MANUAL CLASSIFICATIONS

IMPACT

This item will foster the uniform and equitable treatment of risks within each industry.

IMPLEMENTATION

In order to implement this item, the attached exhibits outline the changes required in NCCI's *Basic Manual for Workers Compensation and Employers Liability Insurance* and the *Retrospective Rating Plan Manual*.

BAG OR SACK MANUFACTURING

FACT SHEET 1

PROFILE OF CLASSIFICATION PROPOSED FOR ELIMINATION

CODE 2576—CANVAS GOODS MFG.—NOC—SHOP
CODE 2578—BAG OR SACK MFG.—CLOTH

Code to absorb the experience:

CODE 2501—CLOTHING MANUFACTURING

Basis for elimination:

Code 2576—Canvas Goods Mfg.—NOC—Shop and Code 2578—Bag or Sack Mfg.—Cloth were reviewed as part of the industry review being conducted by NCCI. Code 2578 was originally established in 1926 because it was believed that the manufacture of fabric bags on a large scale did not exhibit the same exposure as the usual and customary sewing risk, such as making clothes. Codes 2578 and 2576 are very similar in that they both include the manufacture of bags. The only difference is the type of fabric used to make the bags. Both codes include laying out the patterns and fabric, cutting it to size and sewing the pieces together. Similar supplies and processes are contemplated in both codes.

Effective July 1, 1944, the phraseology for Code 2578 was changed to Bag or Sack Mfg.—Cotton, burlap or gunny. (Bag renovating or repairing to be separately rated.) Prior to this date, insureds engaged in the manufacture of new bags as well as bag renovating or repair (in physically separate areas without interchange of labor) were classified to Code 2575—Bag Renovating including sewing. The rate for Code 2575 was substantially higher than the rate of Code 2578 and the Manual Committee did not believe that it was fair to penalize insureds that had physically separate departments for bag renovating and operated without interchange of labor.

In June 1979, Code 2575 was discontinued and the experience combined with Code 2578.

Code 2501—Clothing Manufacturing has been used for many years and covers much of the usual and customary sewing. Over the years, many industries that once had distinct classification codes were discontinued and placed into Code 2501. Some products include umbrellas, quilts, cushions or pillows, cloth caps, fur goods, straw hats, millinery (women's hats), draperies, stuffed animals, and necktie manufacturing. There is a wide variety of products as well as fabric types considered in this code.

The research and analysis of this industry indicates the bag manufacturing process is the same regardless of the type of fabric used. Codes 2578, 2576 and 2501 are similar in operations by receiving raw materials, cutting to size, sewing and assembling the products. Hardware and zippers may also be attached to this merchandise. Additionally, the equipment found in these businesses is similar and includes power cutters, commercial sewing machines, scissors, and small hand tools. Like in Code 2501, many risks classified to Codes 2578 and 2576 manufacture a variety of products.

An actuarial study conducted by NCCI recommends that a transition program is not necessary for the combination of these codes.

BAG OR SACK MANUFACTURING

EXHIBIT 1

BASIC MANUAL

CLASSIFICATIONS

Effective 12:01 a.m., January 1, 2005

~~2576~~ CANVAS GOODS MFG.—SHOP

~~The installation, removal, or repair of awnings, tents, or other canvas products away from the shop shall be classified as Code 5102—Canvas goods erection. Unless payroll records are accurately maintained, showing the amount of payroll expended for shop work, the entire payroll shall be assigned to Code 5102—Canvas goods erection.~~

~~2578~~ BAG OR SACK MFG.—CLOTH

~~Applies to the mfr. of cotton, burlap, or gunny bags or sacks.~~

2501 CLOTHING, CANVAS AND RELATED PRODUCTS MFG. NOC

The installation, removal, or repair of awnings, tents, or other canvas products away from the shop shall be classified as Code 5102—Canvas Goods Erection. Unless payroll records are accurately maintained, showing the amount of payroll expended for shop work, the entire payroll shall be assigned to Code 5102—Canvas Goods Erection.

2501 AWNING OR TENT MFG.—SHOP

The installation, removal or repair of awnings or tents away from the shop shall be classified to 5102—Awning Erection. Unless payroll records are accurately maintained, showing the amount of payroll expended for shop work, the entire payroll shall be assigned to Code 5102—Awning Erection.

2501 BAG RENOVATING

Applies to the renovating or repairing of cotton, burlap, or gunny bags or sacks and includes sewing.

2501 BAG OR SACK MFG.—CLOTH

Applies to the manufacture of cotton, burlap or gunny bags or sacks.

2501 SAILMAKING

Applies to shop operations.

BAG OR SACK MANUFACTURING

EXHIBIT 1

BASIC MANUAL

Deductible Insurance

Table of Classifications by Hazard Group

Code No.	Hazard Group
2576	#
2578	#

RETROSPECTIVE RATING PLAN MANUAL

Part Four F

Table of Classifications by Hazard Group

Code No.	Hazard Group
2576	#
2578	#

LINOTYPE PRINTING

FACT SHEET 2

BASIC MANUAL RULES

PROFILE OF CLASSIFICATION PROPOSED FOR ELIMINATION

CODE 4308—LINOTYPE OR HAND COMPOSITION

Code to absorb the experience:

CODE 4299—PRINTING

Basis for elimination:

A routine review determined the need to analyze the Linotype and Hand Composition classification code of 4308. Linotype machines replaced hand composition in the late 1900s. These older methods of printing have been minimized due to technological advances.

A review of these older methods of printing showed minimal use of Code 4308. Audited payroll reported for Code 4308 has continuously decreased due to a limited number of specialty shops providing these services.

The hand typesetting and linotype printing method is currently contemplated under Code 4299—Printing. There appears to be insufficient exposure to support the industry in two codes. The claim data indicates similar exposures in both codes.

Linotype or hand composition as a distinct industry appears to be virtually nonexistent.

An actuarial study conducted by NCCI recommends that a transition program is not necessary for the combination of these codes.

LINOTYPE PRINTING

EXHIBIT 2

BASIC MANUAL

CLASSIFICATIONS

Effective 12:01 a.m., January 1, 2005

~~4308 LINOTYPE OR HAND COMPOSITION~~

~~Shall not be assigned to a risk engaged in operations described by another classification unless the operations subject to Code 4308 are conducted as a separate and distinct business.~~

LINOTYPE PRINTING

EXHIBIT 2

BASIC MANUAL

Deductible Insurance

Table of Classifications by Hazard Group

Code No.	Hazard Group
4308	#

RETROSPECTIVE RATING PLAN MANUAL

Part Four F

Table of Classifications by Hazard Group

Code No.	Hazard Group
4308	#

ICE MANUFACTURING

FACT SHEET 3

BASIC MANUAL RULES

PROFILE OF CLASSIFICATION PROPOSED FOR ELIMINATION

CODE 2150—ICE MANUFACTURING

Code to absorb the experience:

CODE 8203—ICE DEALER AND DRIVERS

Basis for elimination:

Ice manufacturing has evolved since the inception of Codes 2150 and 8203. Code 2150 is assigned to an ice manufacturer producing ice blocks and products made from ice blocks. Any delivery done by an ice block manufacturer is assigned to Code 8203. Code 8203 is assigned to an ice manufacturer producing tube ice through automated machines, a distribution center away from the ice manufacturing plant, ice harvesting and the delivery of ice. Two ice manufacturing codes are no longer necessary.

NCCI classifies ice sculpting to Code 2150 by analogy. Ice sculptors may use templates to produce rough cuts from blocks of ice weighing 300 lbs. or more. Once the rough cut is made, a variety of electric carving tools are used to provide the detailed finish of the sculpture. The electric carving tools used include ice picks, chisels and a drill with attachments of various shapes and sizes. When the sculpture is complete, ice flakes and whiteness are removed with water. These sculptures can be found in competitions, weddings or special events.

A review of ice manufacturing business operations and products was conducted. The industry is no longer divided between the production of ice blocks and ice products as contemplated in the current codes. Ice blocks are generally produced upon special request and in conjunction with packaged ice, crushed ice and cubed ice. The automated process and machinery used may differ depending on the ice product. Ice manufacturers may provide delivery as a service; however, some may subcontract the delivery.

The claims data indicates that the production of ice blocks and ice products incur similar losses. The manufacturing process for both is automated with limited manual intervention, and workers are exposed to the same type of hazards. In addition to combining the two codes, NCCI recommends removing this industry from the Mercantile Group. By adding the manufacturing exposures to the distributing code, the exposure dissimilates from exposures normally seen in a store environment.

An actuarial study conducted by NCCI recommends that a transition program is not necessary for the combination of these codes.

ICE MANUFACTURING

EXHIBIT 3

BASIC MANUAL

CLASSIFICATIONS

Effective 12:01 a.m., January 1, 2005

- ICE**
- 2150** ~~Mfg. Drivers to be separately rated under Code 8203—Ice dealer.~~
- 8203◆** **ICE MFG. OR DISTRIBUTION Dealer & DRIVERS**
- 8203◆** ~~Harvesting & Storing, Drivers~~

ICE MANUFACTURING

EXHIBIT 3

BASIC MANUAL

Deductible Insurance

Table of Classifications by Hazard Group

Code No.	Hazard Group
2150	#

RETROSPECTIVE RATING PLAN MANUAL

Part Four F

Table of Classifications by Hazard Group

Code No.	Hazard Group
2150	#

FIVE-AND-DIME STORES

FACT SHEET 4

BASIC MANUAL RULES

PROFILE OF CLASSIFICATION PROPOSED FOR ELIMINATION

CODE 8050—STORE: FIVE AND TEN CENT

Code to absorb the experience:

CODE 8017—STORE: RETAIL NOC

Basis for elimination:

The analysis was initiated as a result of a routine review. These stores have existed since the late 1800s. The first five-cent store was established in February 1879 in New York. The store sold leftover items for five cents. The store failed within a week. As a result, the idea was expanded to include merchandise for ten cents. The second store was opened in Pennsylvania in April 1879. This was the first store to put merchandise out for the shopping public to handle, select, and purchase. In earlier shops, customers presented the clerk with a list of items, which were kept behind the counter. The stores eventually incorporated lunch counters and also served as general gathering places, a precursor to the modern shopping mall food court. Five-and-dime stores were characterized by their method of displaying each type of merchandise on separate counters. They provided small items such as stationary, giftware, toilet articles, light hardware and toys. The items were sold without delivery service. There were multiple registers throughout the store generally situated in each area or department, and the sales clerks served as both cashiers and wrappers.

Over the years, five-and-dime stores have evolved into the larger retail chains and also the popular dollar stores. The new era of discount stores include operations not considered in Code 8050. There are now central areas for cashiering and customer service. The clerks are stocking and assisting customers possibly helping to transport large articles such as automotive, hardware or electronics to the customer's vehicle.

In reviewing the policy data, a large number of policies are classified to Code 8050. Many of the policies under the code are dollar stores, which are contemplated in Code 8017. Other stores classified to Code 8050 include variety and craft stores. Code 8050 includes about \$11.4 million in payroll that is possibly misclassified as a result of dollar stores using the code. This represents about 22% of the total payroll for Code 8050.

Comparing the claims for Codes 8050 and 8017 proves the similarity. Through the classification system, those employers with similar exposures are grouped together. The rates charged then truly reflect the exposure to loss common to those employers. Severity and frequency are very similar between Codes 8050 and 8017. Both codes are listed as mercantile operations and should show similar experience. However, the experience should differ enough to allow for distinct exposure. In this case, the exposure to loss is very similar.

In 2003, Code 8050 showed an estimate of close to \$51 million in payroll for the entire code in all states with only 635 policies. In reviewing the detailed report for 2003 for Code 8050, only four stores had the word "five" or "dime" in the insured's name. Dollar stores represent \$11.4 million with 179 policies and should be properly classified to Code 8017.

FIVE-AND-DIME STORES

FACT SHEET 4

BASIC MANUAL RULES (cont'd)

Based on the research and analysis of this code, it is recommended that Code 8050 be eliminated and all policies previously classified to Code 8050 be placed into Code 8017. This recommendation will simplify the class system and eliminate a code with low credibility. Combining the codes will alleviate the potential for classification problems. Additionally, combining a low credibility code with a highly credible code will increase the health of the class system. Five-and-dime stores do not exist today as they have evolved into discount stores. As a result, a separate code should not exist for these stores.

An actuarial study conducted by NCCI recommends that a transition program is not necessary for the combination of these codes.

FIVE-AND-DIME STORES

EXHIBIT 4

BASIC MANUAL

CLASSIFICATIONS

Effective 12:01 a.m., January 1, 2005

STORE

8050 8017 **Five and Ten Cent.** Applicable to store locations at which are sold a variety of small wares such as stationery, giftware, toilet articles, light hardware, toys, housewares, confectionery, ready-to-wear clothing and accessories, etc. Sales are usually for cash without delivery service. Stores are sometimes distinguished by advertising price ranges of "5¢ & 10¢" or "5¢ to \$1.00."

FIVE-AND-DIME STORES

EXHIBIT 4

BASIC MANUAL

Deductible Insurance

Table of Classifications by Hazard Group

Code No.	Hazard Group
8050	#

RETROSPECTIVE RATING PLAN MANUAL

Part Four F

Table of Classifications by Hazard Group

Code No.	Hazard Group
8050	#

RESTAURANT

FACT SHEET 5

BASIC MANUAL RULES

PROFILE OF CLASSIFICATION PROPOSED FOR CLARIFICATION

CODE 9083—RESTAURANT: FAST FOOD

Basis for proposal:

Codes 9082—Restaurant NOC, 9083—Restaurant: Fast Food, and 9084—Bars, Discotheque, Lounge, Nightclub or Tavern became effective on January 1, 1996. A routine review of this industry was warranted to determine if any outstanding issues exist.

These three codes took the place of Code 9079—Restaurant NOC because three distinct types of restaurant operations were found to be homogenous. A current issue is a fast food establishment that sells alcoholic beverages. The scope of Code 9083 currently excludes fast food restaurants that sell alcoholic beverages. If alcohol sales are less than 50% of total receipts, Code 9083 has been assigned. Wording in the scope may need to be amended since the sale of alcohol in fast food restaurants is becoming more common.

Language changes to the scope have also been identified as an issue. The scope of Code 9083 contains language that can be cleared up to avoid confusion.

A review of the fast food industry identified that select fast food restaurants sell alcohol as part of their limited menu. Some of these fast food restaurants are required to sell alcohol as part of their franchise agreement. In most cases, food receipts outweigh alcohol receipts supporting the position that the operation continues to be a true fast food restaurant.

In addition to industry research, claims and payroll data were evaluated. A comparison of claims data shows causes of injuries expected in the restaurant industry. High payroll has been reported developing credible data and stable rates.

NCCI is recommending a change to the phraseology and scope of Code 9083. This change will remove the reference to alcoholic beverages. Code 9083 will be modified within the description to include the selling of alcoholic beverages. The determining factor will be the percentage of alcohol sold. Changes to the language in the scopes of Code 9083 will be made.

RESTAURANT

EXHIBIT 5

BASIC MANUAL

CLASSIFICATIONS

Effective 12:01 a.m., January 1, 2005

9083 RESTAURANT: FAST FOOD

~~Applicable-~~ **Assigned** to risks that prepare and serve food and nonalcoholic beverages for on or off premises consumption. Shall not be assigned to a risk that ~~sells alcoholic beverages or employs wait staff.~~

Includes musicians or entertainers. Restaurants operated by a hotel or motel to be separately rated as Code 9058. Shall not be assigned to a risk engaged in operations described by another classification unless the operations subject to Code 9083 are conducted as a separate and distinct business.

REAL ESTATE APPRAISAL

FACT SHEET 6

BASIC MANUAL RULES

PROFILE OF CLASSIFICATION PROPOSED FOR CLARIFICATION

CODE 8721—REAL ESTATE APPRAISAL COMPANY—OUTSIDE EMPLOYEES

Code to be eliminated for this industry use:

CODE 8742—REAL ESTATE AGENCY—OUTSIDE EMPLOYEES & COLLECTORS

Basis for proposal:

Code 8721—Real Estate Appraisal Company—Outside Employees became effective on July 1, 1995. An analysis was initiated to ensure that Code 8721—Real Estate Appraisal Company—Outside Employees is being used as expected. Payroll reported for Code 8721 has been low possibly due to a number of reasons including the industry being small and defined and the high use of independent contractors.

The state of Oregon currently classifies employees of real estate appraisal companies and agencies to Code 8742 Salespersons, Collectors or Messengers – Outside. Prior to the implementation of Code 8721 outside employees of real estate appraisal companies were classified to Code 8720 Inspection of Risks for Insurance or Valuation Purposes NOC.

In New Hampshire, residential real estate appraisers of 1 – 4 family dwellings are classified to Code 8742 Salespersons, Collectors or Messengers – Outside and commercial real estate appraisers are classified to Code 8720 Inspection of Risks for Insurance or Valuation Purposes NOC.

Nevada has a state special for real estate brokers providing elective coverage under Code 8744.

The original extent of the analysis was to review the real estate appraising industry. Upon our research, a review of the real estate industry was conducted to determine if combining both types of businesses was feasible.

After analyzing the claims and audited payroll, similarities were found between real estate appraisers and real estate outside employee operations and exposures.

NCCI's recommendation is to remove real estate agency outside employees from Code 8742—Salespersons, Collectors or Messengers—Outside and assign them to Code 8721—Real Estate Appraisal Company—Outside Employees. NCCI also recommends removing the state special references in Oregon, New Hampshire and Nevada to create uniformity countrywide. Adding these businesses to Code 8721 allows them to be grouped with businesses having similar operations and exposures.

REAL ESTATE APPRAISAL

EXHIBIT 6

BASIC MANUAL

CLASSIFICATIONS

Effective 12:01 a.m., January 1, 2005

REAL ESTATE

- 8742 8721** **Agency—Outside Employees & Collectors.** Care, custody and maintenance or construction work to be separately rated.
- 8742 8721** **Appraisal Company—Outside Employees**

COMMERCIAL RESTAURANT EQUIPMENT INSTALLATION

FACT SHEET 7

BASIC MANUAL RULES

PROFILE OF CLASSIFICATION PROPOSED FOR MODERNIZATION AND CLARIFICATION

Current Phraseology:

CODE 9519—HOUSEHOLD APPLIANCES—ELECTRICAL—INSTALLATION, SERVICE OR REPAIR & DRIVERS.

CODE 5191—OFFICE MACHINE OR APPLIANCE INSTALLATION, INSPECTION, ADJUSTMENT OR REPAIR

Includes shop. Mfg. operations to be separately rated

Proposed Phraseology Change:

CODE 9519—HOUSEHOLD AND COMMERCIAL APPLIANCES—ELECTRICAL—INSTALLATION, SERVICE OR REPAIR & DRIVERS

CODE 5191—OFFICE MACHINE INSTALLATION, INSPECTION, ADJUSTMENT OR REPAIR

Includes shop. Mfg. operations to be separately rated

Basis for modernization and clarification:

The analysis was originated as the result of a dispute over the proper classification assigned to a company that repairs, services and installs restaurant equipment.

The inception date of Code 5190—Electrical Wiring—Within Buildings & Drivers is unknown. It is assumed that this code originated at the time NCCI was organized in 1922. In 1929, the Manual Committee of NCCI changed the phraseology from “Electrical Fixtures and Appliances, including wiring” to “Electrical Wiring—Within Buildings.” The changes were made to clearly indicate that wiring operations were the type of risks intended in Code 5190.

This code was amended several times by the Manual and Underwriting Committee. Prior to 1991 the exposure to installation and repair of commercial appliances such as dishwashers, electric ovens, food mixers and fry kettles was added to this classification.

Code 5191—Office Machine or Appliance Installation, Inspection, Adjustment, or Repair was established in 1920. Code 5191 contemplates the installation, inspection, adjustment or repair of all types of office machines and appliances. In November 1988 the following exposures were added: X-ray equipment installation, piano tuning away from shop, fire alarm systems, scales installation, soap dispenser installation, and service and repair of meat slicing equipment.

Code 5146—Furniture or Fixtures Installation—Portable—NOC (established 1920) contemplates the installation of furniture or fixtures in stores or offices. The assembly and installation uses hand tools and attaching devices such as screws, nuts and bolts. Generally, the manufactured parts are received from outside sources in a “ready cut” or “knockdown” state and are assembled at the site of installation.

Code 9519—Household Appliances—Electrical Installation, Service or Repair & Drivers (established 1920) includes both shop and outside employees who service or repair small or large household or domestic-type appliances.

COMMERCIAL RESTAURANT EQUIPMENT INSTALLATION

FACT SHEET 7

BASIC MANUAL RULES (cont'd)

It is impossible to segregate the industry from others because there is no specific code for this type of operation.

The installation, service and repair of commercial and household equipment are a similar process. The main difference is in the size and level of complexity of the appliances. Hand tools such as pliers, screwdrivers, power drills, wire cutters and wrenches are used in household and commercial installations, service and repair. Most of the work is completed at the customer's location.

COMMERCIAL RESTAURANT EQUIPMENT INSTALLATION

EXHIBIT 7

BASIC MANUAL

CLASSIFICATIONS

Effective 12:01 a.m., January 1, 2005

HOUSEHOLD

9519 HOUSEHOLD AND COMMERCIAL APPLIANCES—ELECTRICAL—INSTALLATION, SERVICE OR REPAIR & DRIVERS

Includes shop or outside employees and incidental parts department employees. Electrical wiring to be separately classified to Code 5190. Television, radio, video, and audio equipment installation, service, or repair to be separately classified to Code 9516.

5191 OFFICE MACHINE OR APPLIANCE INSTALLATION, INSPECTION, ADJUSTMENT OR REPAIR

Includes shop. Mfg. operations to be separately rated

AUTO DISMANTLING AND RECYCLING

FACT SHEET 8

BASIC MANUAL RULES

PROFILE OF CLASSIFICATION PROPOSED FOR MODERNIZATION AND CLARIFICATION

Current Phraseology:

Code 3821 ♦—AUTOMOBILE DISMANTLING & DRIVERS. Includes store operations and the salvage or junking of parts.

Proposed Phraseology Change:

Code 3821—AUTOMOBILE RECYCLING & DRIVERS. Includes the dismantling, salvaging or junking of parts. Store employees who do not engage in other operations are assigned to Code 8046.

Basis for modernization and clarification:

An analysis of the auto dismantling industry, also referred to as auto recycling, was initiated as the result of an appeal. There were questions regarding the inclusion of counter and parts employees to Classification Code 3821—Auto Dismantling & Drivers. This code has been in effect since 1927. Because Code 3821 is currently a mercantile classification, the assignment of another store classification code is not allowed if both operations are conducted at the same location.

Counter and parts employees of an auto dismantler generally perform their job duties in a store. These stores are located at the same location but are physically separated from the dismantling yard. Parts sales are critical to an auto recycling business and the consumer benefit of purchasing used auto parts and accessories is the price and selection. Counter employees' duties may include answering telephones, greeting and assisting customers, checking inventory on computers, pulling smaller parts from the warehouse or having parts pulled by yard or warehouse employees, and taking payments.

The auto dismantling industry has evolved into a sophisticated market and technology driven industry. Many of these businesses sell parts via the Internet through a virtual store to individuals, auto repair shops, dealerships and new parts stores.

Representatives of the industry, carriers and an agent have assisted in the review of this industry. Auto dismantling is an industry that has been in existence for more than 75 years. It consists of the disassembly, cleaning, inspection, sorting and reassembly of salvageable automobile parts and accessories. Doors, engines, motors, seats, headlights, bumpers and tires are examples of the types of parts removed from vehicles, trucks, buses and motorcycles.

Claims data indicates that the types of injuries reported for store employees vary significantly when compared to yard employees. This variance may be due to the difference in exposure and duties. Yard employees are exposed to forklifts, hoisting devices, removal of fluids, and tools.

Due to the evolution of the auto dismantling industry, store operations are similar to a store that sells new automobile parts and accessories. Parts handled are used and unboxed as opposed to new and boxed.

AUTO DISMANTLING AND RECYCLING

FACT SHEET 8 (CONT'D)

NCCI's recommendation is to remove Code 3821 from the mercantile classification and store employees who do not engage in other operations would be classified to Code 8046 Store: Automobile Parts and Accessories NOC & Drivers. This companion code will be applicable to counter and parts employees who are engaged solely in store operations. Their duties may include answering telephones, greeting and assisting customers, checking inventory on computers, pulling smaller parts from an inside parts warehouse or having parts pulled by yard or warehouse employees and taking payments. If these employees engage in other operations then all payroll would be assigned to Code 3821.

In addition, the phraseology of Code 3821 will be amended to read: Auto Recycling & Drivers. This change will reflect consistency with the industry terminology.

AUTO DISMANTLING AND RECYCLING

EXHIBIT 8

BASIC MANUAL

CLASSIFICATIONS

Effective 12:01 a.m., January 1, 2005

AUTOMOBILE

- 3821◆- **Dismantling Recycling & Drivers.** Includes ~~store operations and~~ the dismantling, salvaging, or junking of parts. Store employees who do not engage in other operations and have no yard exposure are assigned to Code 8046.
- 8046◆ **Recycling.** Store employees who do not engage in other operations and have no yard exposure.

HEATING, VENTILATION, AIR-CONDITIONING AND REFRIGERATION

FACT SHEET 10

BASIC MANUAL RULES

PROFILE OF CLASSIFICATION PROPOSED FOR MODERNIZATION AND CLARIFICATION

Code to be created nationally:

CODE 5537●—HEATING, VENTILATION, AIR-CONDITIONING, AND REFRIGERATION SYSTEMS—
INSTALLATION, SERVICE AND REPAIR & DRIVERS

Code to be eliminated in all states except AZ, CO, IA, ID, MA, MT, NV, OR, SC, WI:

CODE 5536●—HEATING AND AIR-CONDITIONING DUCT WORK—SHOP AND OUTSIDE—& DRIVERS. All
experience from Code 5536 will be moved to Code 5537.

Basis for creation, modernization and clarification:

With the exception of Arizona, Colorado, Idaho, Montana, Nevada and Oregon, the nationally accepted procedure for classifying heating, ventilation, air-conditioning and refrigeration (HVACR) is using multiple codes with a range of rates. Codes 3724, 5183, 5190, 5538 and 5536 are currently used to cover the diversity of operations within this industry. The codes are considered construction classifications and used by a wide group of businesses that may have no exposure to any type of heating, ventilation, air-conditioning or refrigeration installation, service or repair.

In 1981, Arizona adopted a state special Code 5537—Heating and Air-Conditioning and Refrigeration Systems—Shop and Outside & Drivers to include all aspects of air-conditioning and heating installation and repair. This filing also eliminated Code 5536.

Code 5537 is applicable to installation, service and repair of both residential and commercial/industrial heating, air-conditioning and refrigeration systems. Portable units are separately rated.

This classification was also adopted in Colorado because of perceived difficulties in record keeping due to interchange of employees between operations assigned to different classifications.

In 1991, the NCCI Underwriting Committee, although presented with historical information as well as industry requests, voted to continue use of the multiple classification approach. The committee was concerned with the varied exposures and the ability of the insured to pay premium more tailored to its individual hazard and exposure. The committee felt the all-inclusive classification would be more generic and would not provide as refined an assignment. The committee also felt that adoption of a single classification approach would adversely impact those insureds performing the less hazardous operations.

Oregon (January 1993), Montana (July 1999), Nevada (July 1999), and Idaho (July 2001) also adopted Code 5537 as a state special.

In 2003, NCCI was asked to review the heating and air-conditioning industry to determine if a national approach using a single code such as 5537 is feasible. When Code 5537 was implemented at the direction of state regulating authorities, little investigation was done to determine exposures to include. The rates were adopted from Code 5538 and allowed to develop their own experience. The HVACR industry has evolved with smaller, more efficient units requiring less intensive installation and repair. Once, an employee may have replaced a condenser or motor weighing 40 pounds. Today, many of the units are controlled by circuitry and run by lightweight aluminum parts.

HEATING, VENTILATION, AIR-CONDITIONING AND REFRIGERATION

FACT SHEET 10

BASIC MANUAL RULES (cont'd)

Current classification procedures require the insured to maintain verifiable payroll records to allow allocation of payroll to various class codes. It is difficult for a business to keep track of the payroll if the employees perform many tasks at one location. Installing, repairing and servicing heating, air-conditioning, ventilation or refrigeration units require the employee to be adept as a plumber, electrician, sheet metal worker, machinist etc. They may change tasks literally from minute to minute.

Another issue compounding the problem is the assignment of the proper sheet metal code. Code 3066 states "Sheet metal collecting jackets for hot air furnaces, air-conditioning ducts, culverts, drains, skylights, gutters, downspouts, water troughs, grain bins, and sectional buildings fabricated at the shop also fall within this classification." Code 5538 states "Sheet metal work, except duct work performed on non-portable air-conditioning units, is classified to Code 5538. Refer to Code 5536 for those insureds engaged in the fabrication, erection or installation of duct work for heating or air-conditioning systems." Code 5536 states "Code 5536 is applicable to fabrication, erection or installation of duct work for heating or air-conditioning systems. Ducts contemplated by Code 5536 include but are not limited to those fabricated from sheet metal, fiberglass, vinyl or other types of plastic materials." Code 5536 is only applicable when not used in conjunction with Code 5538.

All of the various classifications and their applications are confusing and cumbersome to utilize. It seems burdensome to require the insured to bear responsibility for the proper classification of their business operations.

In addition to being confusing and cumbersome, the current application of multiple classification codes can produce premium and modification inequity between otherwise similar businesses. Many businesses do not have the staff to keep proper payroll records and are bound to use the highest rated class code, thereby skewing the expected losses. The experience mod will ultimately be affected as well as the data for an entire industry.

The industry involving heating, air-conditioning, ventilation and refrigeration sales, service and installation is now substantial enough to warrant consideration for a new classification code. Historically, the introduction of new codes required some sort of conversion from one code to another. The new code adopted a rate identical to another code until the new code established enough data to produce credible ratemaking figures. This method of establishing a rate structure has shown to be equitable since the premium impact is virtually level at implementation and earns a new rate as risks are classified properly and the payroll and premium grow.

The codes used to classify HVACR risks are diverse and diluted with exposures that bear little or no resemblance to the exposures associated with HVACR. This creates several problems. First, it is extremely difficult to determine which class code to assign to a risk. Equally important is the requirement for the insured and carrier to segregate payroll. This burden can be costly and cumbersome. Second, the insured does not receive the benefit of being classified with similar exposures. This is evident when it is time to establish an experience rating. The insured may have several codes on its policy, none of which adequately represents the risk as a whole. The expected loss ratios vary between codes and play a significant role in the promulgation of the experience rating.

HEATING, VENTILATION, AIR-CONDITIONING AND REFRIGERATION

FACT SHEET 10

BASIC MANUAL RULES (cont'd)

This industry is seeking a new national classification. In the states adopting the all-inclusive code, the rates decreased as the credibility of the code increased. There is no distinction between commercial and residential. With commercial and residential exposures considered in one code, the experience includes both high and low hazards. This approach more closely follows the intent of NCCI industrial classifications and groupings.

Rate determination:

Code 5537 will be derived as a credibility weighted average of the indicated, national, and present on rate level pure premiums. The indicated pure premium will initially be based on the reassigned data from code 5536, until experience develops within code 5537. The national experience will be based on code 5537's experience in the NCCI states that currently include Montana, Nevada, Oregon, Arizona and Colorado. The initial present on rate level pure premium will be based on code 5538.

HEATING, VENTILATION, AIR-CONDITIONING AND REFRIGERATION

EXHIBIT 10

BASIC MANUAL

CLASSIFICATIONS

Effective 12:01 a.m., January 1, 2005

AIR-CONDITIONING SYSTEMS

Non-Portable:

- 5190** ~~Cleaning, Oiling or Adjusting & Drivers.~~ Installation, dismantling or overhauling of compressors to be separately rated.
- 5536** ~~Ductwork—Shop and Outside & Drivers.~~ Applies to fabrication, erection, installation or repair operations. Shall not be assigned to the same job or location to which Code 5538 applies.
- 3724** ~~Machinery Installation or Repair of Compressors, Motors or Other Machinery & Drivers~~
- 5183** ~~Plumbing & Drivers~~
- 5538** ~~Sheet Metal & Drivers~~

**5537• HEATING, VENTILATION, AIR-CONDITIONING AND REFRIGERATION SYSTEMS—
INSTALLATION, SERVICE AND REPAIR & DRIVERS**

Applicable to installation, service and repair including residential and commercial. Division of payroll between Code 5537 and any other contracting classification is not permitted when all or a majority portion of the work for an HVAC contract is performed by a single contractor. Separately rate portable air-conditioning units to Code 9519.

HEATING, VENTILATION, AIR-CONDITIONING AND REFRIGERATION

EXHIBIT 10

BASIC MANUAL

Deductible Insurance

Table of Classifications by Hazard Group

Code No.	Hazard Group
5537	III

RETROSPECTIVE RATING PLAN MANUAL

Part Four F

Table of Classifications by Hazard Group

Code No.	Hazard Group
5537	III

HEATING, VENTILATION, AIR-CONDITIONING AND REFRIGERATION

EXHIBIT 10

BASIC MANUAL

CLASSIFICATIONS

Effective 12:01 a.m., January 1, 2005

~~**5536 HEATING AND AIR-CONDITIONING DUCTWORK SHOP & DRIVERS**~~

~~Applies to fabrication, erection, installation, or repair operations. Shall not be assigned to the same job or locations to which Code 5538 applies.~~

HEATING, VENTILATION, AIR-CONDITIONING AND REFRIGERATION

EXHIBIT 10

BASIC MANUAL

Deductible Insurance

Table of Classifications by Hazard Group

Code No.	Hazard Group
5536	III

RETROSPECTIVE RATING PLAN MANUAL

Part Four F

Table of Classifications by Hazard Group

Code No.	Hazard Group
5536	III

SUMMARY OF FILING

The following is a quick summary of Item B-1391:

- FS 1: Back or Sack Manufacturing. Eliminate class codes 2576 and 2578 and combine into class code 2501.
- FS 2: Linotype Printing. Eliminate class code 4308 and combine into class code 4299.
- FS 3: Ice Manufacturing. Eliminate class code 2150 and combine into class code 8203. Also transfer class code 8203 from a mercantile code to a manufacturing code.
- FS 4: Five-and-Dime Stores. Eliminate class code 8050 and combine into class code 8017.
- FS 5: Restaurant. Revise the scope of class code 9083.
- FS 6: Real Estate Appraisal and Agency. Move Real Estate Agency outside employees from class code 8742 to class code 8721.
- FS 7: Commercial Restaurant Equipment Installation: Modernization and clarification of class codes 9519 and 5191.
- FS 8: Auto Dismantling and Recycling: Modernization and clarification of class code 3821. Also, transfer class code 3821 from mercantile to manufacturing.
- FS 10: Heating, Ventilation, Air-Conditioning and Refrigeration: Create class code 5537. Eliminate class code 5536 and transfer into class code 5537.

ADDENDUM TO FACT SHEET 10

The filing material for Fact Sheet 10 – Heating, Ventilation, Air-Conditioning and Refrigeration does not include the proposed rates and loss costs, etc. These are listed below:

<u>Class Code</u>	<u>5537</u>
Loss Cost	5.40
Assigned Risk Rate	9.34
Assigned Risk Minimum Premium	850
ELR	2.80
D-Ratio	0.19
Ex-Med Ratio	0.32