

November 21, 2006

CIRCULAR LETTER TO ALL MEMBER COMPANIES

Re: Workers Compensation Insurance

Loss Costs Filing

A loss costs reference filing has been filed with and approved by the North Carolina Commissioner of Insurance to become effective April 1, 2007. Pursuant to the provisions of North Carolina General Statute '58-36-100, a copy of the approved reference filing may be obtained from the NCRB web site ([April 1, 2007 loss costs filing](#)).

The approved prospective loss costs are based on historical data that have been developed and trended to their ultimate values and, except for loss adjustment expenses that are specifically authorized to be included in the loss costs by statute, include no provisions for expenses, dividends, profit or contingencies.

Pursuant to NCGS '58-36-100, the prospective loss costs reference filing does not develop or propose minimum premiums, minimum premium formulas, expense constants or premium discount plans. Any amendments to an insurer's current minimum premiums, minimum premium formula, expense constant or premium discount plan must be filed with the North Carolina Department of Insurance.

With regard to the Bureau's prospective loss costs reference filings, NCGS '58-36-100(j) provides as follows:

- (1) If the insurer has filed to have its loss multiplier remain on file, applicable to subsequent reference filings, and a new reference filing is filed and approved and if:
 - a. The insurer decides to use the revision of the prospective loss costs and effective date as filed, then the insurer does not file anything with the Commissioner. Rates are the combination of the prospective loss costs and the on-file loss multiplier and become effective on the effective date of the loss costs.
 - b. The insurer decides to use the prospective loss costs as filed but with a different effective date, then the insurer must notify the Commissioner of its effective date before the effective date of the loss costs.
 - c. The insurer decides to use the revision of the prospective loss costs, but wishes to change its loss multiplier, then the insurer must file a revised reference filing adoption form before the effective date of the reference filing.
 - d. The insurer decides not to revise its rates using the prospective loss costs, then the insurer must notify the Commissioner before the effective date of the loss costs.
- (2) If an insurer has not elected to have its loss multiplier remain on file, applicable to future prospective loss costs reference filings, and a new reference filing is filed and approved, and if:
 - a. The insurer decides to use the prospective loss costs to revise its rates, then the insurer must file a reference filing adoption form, including its effective date.

- b. The insurer decides not to use the revisions, then the insurer does not file anything with the Commissioner.
- c. The insurer decides to change its multiplier, then the insurer must file a reference filing adoption form referencing the current approved prospective loss costs, including its effective date and, if applicable, its loss costs modification factor and supporting documentation. The insurer shall not make a change to its loss cost multiplier based on any reference filing other than the current approved reference filing.

Included in Exhibit III of the filing are approved advisory Miscellaneous Values and Retrospective Rating Plan State Special Rating Values. Pursuant to NCGS '58-36-100(l), as a result of the Commissioner's approval of the miscellaneous and Retrospective Rating Plan values, (i) a carrier may elect to implement the values, in which event the carrier need not file anything with the Commissioner; (ii) a carrier may elect to implement the values with a different effective date, in which event the carrier must notify the Commissioner of its effective date before the effective date of the Bureau filing; (iii) a carrier may elect not to implement the values, in which event the carrier must notify the Commissioner before the effective date of the Bureau filing; or (iv) a carrier may elect to implement the values with modifications, in which event the carrier must file the modifications with the Commissioner, must specify the basis for the modifications and must specify the carrier's proposed effective date, if different from the effective date of the Bureau filing.

With regard to the Loss Elimination Ratios shown with the advisory Miscellaneous Values, a carrier should file with the Commissioner its factor(s) to be applied to the approved Loss Elimination Ratios or its own table of deductible percentages. Similarly, with regard to the Retrospective Rating Plan, each carrier should file its factor(s) to be applied to the Excess Loss Pure Premium Factors and Excess Loss and Allocated Expense Pure Premium Factors or file its own tables. It is the Rate Bureau's interpretation of the statute that, if the factors for these tables have previously been filed and approved, or, if filed on or after September 1, 1997 and not disapproved, and, if the factors will not be revised, they may be applied to the April 1, 2007 tables without a new filing with the Commissioner.

Note: The obligations of carriers with respect to use of the prospective loss costs and use of the advisory Miscellaneous Values and Retrospective Rating Plan State Special Rating Values are different. The statutory provisions with regard to use of the approved prospective loss costs and an insurer's loss multiplier are set forth in NCGS '58-36-100, portions of which have been quoted above. With respect to the advisory Miscellaneous Values and Retrospective Rating Plan State Special Rating Values, a carrier is required to implement those values effective April 1, 2007 unless it makes a filing with the Commissioner indicating that it elects to do otherwise, as described above.

As previously stated, except for loss adjustment expenses, the approved prospective loss costs include no provisions for expenses. For your information, the premium tax is currently 2.5% of premium and the insurance regulatory charge is 5.5% of the premium tax for the 2006 calendar year.

The North Carolina Department of Insurance (a) Reference Filing Adoption Form, (b) Summary of Supporting Information Form - Calculation of Company Loss Costs Multiplier and (c) Summary of Supporting Information Form - Expense Provisions Exhibit, which have been developed for insurers to file their loss costs multipliers and/or amend minimum premium formulas, expense constants or premium discount schedules, may be found under "[Publications](#)" at the Workers Comp Services section of the Rate Bureau's web site.

Note: The Reference Filing Adoption Form should be completed to show NCDOI File Number: PC096981, NCRB Reference Filing Number: September 1, 2006 and NCRB Effective Date: April 1, 2007. Item 7, "Provision for loss based assessments" of the Summary of Supporting Information Form - Calculation of Company Loss Costs Multiplier should be completed to show .000.

Duplicate copies of the reference filing adoption forms (with a postage-paid, self-addressed envelope) are to be submitted to:

Mr. Fred Fuller, Deputy Commissioner
Property and Casualty Division
North Carolina Department of Insurance
1201 Mail Service Center, 430 North Salisbury Street
Raleigh, North Carolina 27699-1201

Pursuant to NCGS '58-36-100, a copy of each insurer's filing must also be sent to the North Carolina Rate

Bureau.

The [April 1, 2007 advisory loss costs](#), residual market rates, rating values and miscellaneous values are posted on our web site at www.ncrb.org. The Rate Bureau's September 1, 2006, filing proposed an average pure premium level increase of 12.4% compared to the advisory loss costs approved effective April 1, 2006. However, as a result of a Settlement Agreement and Consent Order, an average overall change of +7.3% was approved. Therefore, as a result of the manner in which the filing was approved, only (i) the Summary Page, (ii) Exhibit III, Pages S1-S8, (iii) Exhibit III – Retrospective Rating Plan Manual – State Special Rating Values and (iv) Appendix E, Advisory Loss Cost Comparison of the filing have been revised to reflect the approved loss costs. All other exhibits and appendices are those contained in the original filing and explain the calculations which produced an average change of 12.4% in loss costs.

To assist carriers in the mechanics of generating individual class code rates, there is also a file identified as "[April 2007 Loss Costs by Industry Group](#)" in the Workers Comp Services section of our web site which has each class code assigned to one of the following industry groups:

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| 1. Manufacturing Classifications | 7. Per Capita Classifications |
| 2. Contracting Classifications | 8. "a" Rated Classifications |
| 3. Office and Clerical Classifications | 9. Chemical Classifications |
| 4. Goods and Services Classifications | 10. Maritime and Federal Classifications |
| 5. Miscellaneous Classifications | 11. Miscellaneous Disease Classifications |
| 6. "F" Classifications | |

If you would like to have the loss costs and residual market rates on a diskette or CD, please send an e-mail to Donna Guin (dsg@ncrb.org) and we will promptly forward it to you.

Sincerely,

Sue M. Taylor

Director Workers Compensation

SMT:dg

C-06-27