



Minnesota Workers' Compensation
Insurers Association, Inc.
7701 France Avenue South ▪ Suite 450
Minneapolis, MN 55435-3200

October 11, 2006

ALL ASSOCIATION MEMBERS

Circular Letter No. 06-1495

RE: NCCI Item B-1399A—Amendment to Class Filing B-1399—Exposure Transition Program

The Minnesota Department of Commerce has approved the above filing to become effective 12:01 a.m., January 1, 2007 for new and renewal business.

The purpose of the above filing is to amend the portion of filing B-1399 that deals with how the rates are to be calculated after the transfer of all helicopter flying crew to Code 7425.

Filing Item B-1399—Revisions to Basic Manual Classifications for the Aviation Industry was approved by the Minnesota Department of Commerce to become effective January 1, 2007. In part, Item B-1399 proposed transferring the exposure for all helicopter flying operations to Code 7425.

Since the release of NCCI's original filing of Item B-1399, several insurance regulators have contacted NCCI concerning the premium impact of this change in their state. In Minnesota, Code 7425 has a much higher pure premium base rate than the other classifications codes that helicopter flying crews were previously classified under. As such, MWCIA now recommends the development of a pure premium base rate for Code 7425 that is equal to Code 7422's pure premium base x 1.25. Any rate increase caused by this formula change will be subject to a cap equal to the original rate for Code 7425 (before the implementation of this rule). The exposure transition process for code 7425 will apply until sufficient data (at least one full year) develops under this redefined code's phraseologies sufficient to allow a pure premium base rate to be derived for Code 7425 based on its own experience.

Exhibit I displays the revised pure premium base rate for Code 7425 effective January 1, 2007, along with the revised Ratio to State Average DSR Pure Premium, Expected Loss Rate and D-Ratio.

A copy of NCCI's original filing memorandum is included to provide additional background information on Item B-1399A. Please keep in mind that Item B-1399 was not approved for use in Minnesota until January 1, 2007.

Outlined below is information on how member carriers should proceed, depending on the status of their 2007 rate filing and whether they intend to write workers compensation business under Code 7425:

- **[For Carriers Who Have Already Submitted a 2007 Filing to the Minnesota Department of Commerce and Do Intend on Using Code 7425:](#)** Carriers who have already submitted a 2007 rate filing to the Minnesota Department of Commerce, that

intend to utilize the new pure premium base rate for Code 7425, (Code 7422's pure premium base rate x 1.25), will need to submit a new filing, with the appropriate filing fee, to the Minnesota Department of Commerce by **November 1, 2006**, for rates effective January 1, 2007.

- **[For Carriers Who Have Already Submitted a 2007 Filing to the Minnesota Department of Commerce but Do Not Intend on Using Code 7425:](#)** Carriers who have already submitted their 2007 filings, and who do *not* intend to write workers compensation business under code 7425, do *not* need to submit new filings to the Minnesota Department of Commerce.
- **[For Carriers Who Have Not Yet Submitted a 2007 Filing to the Minnesota Department of Commerce but Do Intend on Using Code 7425:](#)** Carriers who have not yet submitted a 2007 filing, but plan on making a filing with the Minnesota Department of Commerce by **November 1, 2006**, should use the new pure premium base rate for Code 7425 when preparing their filings, for rates effective January 1, 2007.

Please direct any questions you may have regarding this filing to MWCIA's Actuarial Services' staff at 952.897.1737 (option 3) or via email at actuarial@mwcia.org.



Exhibit I

Pure Premium Base Rate Revision for Code 7425
Effective 1-1-07

<u>Class Code</u>	<u>DSR Pure Premium Base Rate</u>	<u>Ratio to State Average DSR Pure Premium</u>	<u>Expected Loss Rate</u>	<u>D Ratio</u>
7422	1.74	1.6	.73	.16
	x 1.25			
7425	<u>2.18</u>	2.0	.91	.16

FILING MEMORANDUM

ITEM B-1399-A—AMENDMENT TO CLASS FILING B-1399 – EXPOSURE TRANSITION PROGRAM

Background

Effective July 1, 2006, Item B-1399 includes a recommendation to assign the flying crew of all helicopter operations to newly defined Code 7425. As described in Item B-1399, this change is expected to better align all helicopter operations with their associated work hazards. Risks that will be reassigned to Code 7425 are currently in the following aviation classifications:

- Code 7405—Air Carrier—Scheduled or Supplemental: Flying Crew
- Code 7409—Aerial Application, Seeding, Herding, or Scintillometer Surveying: Flying Crew
- Code 7420—Public Exhibition Involving Stunt Flying, Racing or Parachute Jumping: Flying Crew
- Code 7421—Transportation of Personnel in Conduct of Employer's Business: Flying Crew
- Code 7422—NOC—Other Than Helicopters: Flying Crew
- Code 7431—Air Carrier—Commuter: Flying Crew

The resulting reassignment of individual risk payroll to Code 7425 could not be determined using any currently available data source. However, it is expected that a majority of the risks to be reassigned to Code 7425 will come from Code 7422, which currently includes both fixed-wing and rotary aircraft conducting operations such as patrol, photography, mapping, survey work, air ambulance, and taxi or sightseeing.

No modifications or adjustments to filed loss costs or rates for Code 7425 were proposed in Item B-1399. In that filing, it was explained that the loss cost or rate for the newly defined Code 7425 would eventually reflect the underlying experience of all risks with payroll and loss experience assigned to that classification. Since NCCI's submission of Item B-1399 to insurance departments, several regulators have contacted NCCI concerning the premium impact of this change. In the majority of states, Code 7425 has a higher loss cost/rate than Code 7422.

Based upon further review of the potential premium impact of the reassignment of all helicopter operations to Code 7425, NCCI is now recommending a change to the loss cost/rate for Code 7425. In making this recommendation, the goal of NCCI is to select a loss cost/rate for Code 7425 that encompasses the moving of risks from several classifications into the new helicopter operations classification, and takes into account the hazards associated with this exposure based on National Transportation Safety Board (NTSB) statistics.

Proposal

Since the majority of risks will be reclassified from Code 7422 to Code 7425, the current approved loss cost/rate for Code 7425 will be modified effective 7/1/2006. It will be set equal to Code 7422's loss cost/rate x 1.25, subject to a cap equal to the original loss cost/rate for Code 7425 (prior to this 7/1/2006 modification). In subsequent state loss cost/rate filings, the loss cost/rate of Code 7425 will be equal to its prior year's loss cost/rate multiplied by the upper swing limit for the miscellaneous industry group, subject to a cap equal to the original loss cost/rate for Code 7425 (prior to the 7/1/06 modification). Once the loss cost/rate meets this cap, the loss cost/rate will be calculated in the standard manner (based on experience within Code 7425) in subsequent rate filings. Depending on when this occurs, the experience within Code 7425 may reflect data under the old phraseology or a combination of the old and new phraseology.

This exposure transition process will apply until sufficient data (at least one full year) develops within Code 7425 under the new phraseology for the loss cost/rate base to be derived from its own experience. The attached exhibit contains examples of this exposure transition process.

FILING MEMORANDUM

ITEM B-1399-A—AMENDMENT TO CLASS FILING B-1399 – EXPOSURE TRANSITION PROGRAM

Impact

The impact to individual risks will vary depending on the current code payroll assignments of those risks and the amount of payroll transferred from the various aviation class codes to Code 7425. It is generally expected that most of the risks will transfer from Code 7422 to Code 7425. The other aviation classifications listed in the background section of this filing may experience lower loss costs/rates as a result of the transition to Code 7425.

Implementation

NCCI recommends that the proposed changes to Code 7425 be implemented in conjunction with class item filing B-1399, **effective 12:01a.m. on July 1, 2006 applicable to new and renewal voluntary and assigned risk policies.**

Exceptions:

- In Hawaii, the effective date is determined upon regulatory approval of the individual carrier's election to adopt the change
- In Virginia, this item will be implemented for policies effective on or after 12:01a.m. July 1, 2006, voluntary and assigned risk policies

FILING MEMORANDUM

ITEM B-1399-A—AMENDMENT TO CLASS FILING B-1399 – EXPOSURE TRANSITION PROGRAM

Example 1

(Data shown is for illustrative purposes only and not specific to any state)

Effective Date	Code 7422	Code 7425	Comment
1/1/2006	3.19	5.75	
7/1/2006		3.99	Code 7422 rate x 1.25 (3.99=3.19x1.25) capped at 5.75
1/1/2007		4.99	prior Code 7425 rate x upper swing (4.99=3.99x1.25*) capped at 5.75
1/1/2008		5.75	prior Code 7425 rate x upper swing (6.24=4.99x1.25*) capped at 5.75
1/1/2009			Code 7425's rate will be based on own experience. The five years of data used in the class experience will reflect the former phraseology.
1/1/2010			Code 7425's rate will be based on own experience. The latest year of data used in the class experience will reflect the new phraseology (older four reports will still reflect former phraseology).

Example 2

(Data shown is for illustrative purposes only and not specific to any state)

Effective Date	Code 7422	Code 7425	Comment
1/1/2006	5.92	31.09	
7/1/2006		7.40	Code 7422 rate x 1.25 (7.40=5.92x1.25) capped at 31.09
1/1/2007		9.25	prior Code 7425 rate x upper swing (9.25=7.40x1.25*) capped at 31.09
1/1/2008		11.56	prior Code 7425 rate x upper swing (11.56=9.25x1.25*) capped at 31.09
1/1/2009		14.45	prior Code 7425 rate x upper swing (14.45=11.56x1.25*) capped at 31.09
1/1/2010			With a full year of data under the new phraseology, Code 7425's rate may be based on its own experience. If experience not sufficient, the transitioning will still apply.

* A 25% upper swing limit for the miscellaneous industry group has been used for presentational purposes.