



Minnesota Workers' Compensation
Insurers Association, Inc.
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August 25, 2011

ALL ASSOCIATION MEMBERS

Circular Letter No. 11-1600

**RE: NCCI Item R-1402—2011 Update to Retrospective Rating Plan Parameters—
Excess Loss Factors—and Update to Basic Manual Appendix E**

The Minnesota Department of Commerce has approved the above filing to become effective 12:01 a.m., January 1, 2012 for new and renewal business.

The purpose of this item is twofold. The first piece proposes an update to the Excess Loss Factors in NCCI's 2009 edition of the *Retrospective Rating Plan Manual for Workers' Compensation and Employers Liability Insurance*. Because Minnesota is a loss cost state, Excess Loss Pure Premium Factors are calculated rather than Excess Loss Factors. These factors are routinely updated annually and filed as part of the Minnesota Ratemaking Report. Therefore, we are not including them as part of the captioned item filing.

The second piece proposes a revision Appendix E of NCCI's *Basic Manual for Workers Compensation and Employers Liability Insurance* to reflect revised hazard group assignments for the FELA class codes. The Minnesota **Table of Classifications by Hazard Group – 7 Group Option** is contained in the *Minnesota Basic Manual*. Hazard group assignments are used to establish the proper ELPPF for risks electing a loss limitation under a retrospective rating plan. These proposed revisions to the hazard group assignments will make the hazard grouping for these codes consistent with the source code that is used to calculate their loss costs. Hazard groups are also used in deductible programs.

Attached is an exhibit showing the current and proposed hazard group assignments for the 12 FELA class codes. Please note that strikethroughs indicate deleted text while underlining indicates new or added text. A copy of National Council's original filing memorandum along with NCCI's Exhibits are also included to provide additional background information regarding Item R-1402.

Please direct any questions you may concerning this item to MWCIA's Actuarial Department at (952) 897-1737, option 3, or email at actuarial@mwcia.org.

A NOTICE TO MEMBERSHIP:

MWCIA would like to remind our membership who have filed a Limited power of Attorney with the Minnesota Department of Commerce that no materials referenced in this Circular Letter are required to be independently filed with the Department.

EXHIBIT I
MINNESOTA BASIC MANUAL
APPENDIX D
EFFECTIVE JANUARY 1, 2012

| Current Phraseology | | Proposed Phraseology | |
|----------------------------|-------------------------|-----------------------------|-------------------------|
| Class Code | Hazard Group A-G | Class Code | Hazard Group A-G |
| 6702M | F | 6702M | <u>E</u> |
| 6703M | F | 6703M | <u>E</u> |
| 6704M | F | 6704M | <u>E</u> |
| 7151M | <u>E</u> | 7151M | <u>F</u> |
| 7152M | <u>E</u> | 7152M | <u>F</u> |
| 7153M | <u>E</u> | 7153M | <u>F</u> |
| 8734M | <u>B</u> | 8734M | <u>E</u> |
| 8737M | <u>B</u> | 8737M | <u>E</u> |
| 8738M | <u>B</u> | 8738M | <u>E</u> |
| 8805M | <u>B</u> | 8805M | <u>C</u> |
| 8814M | <u>B</u> | 8814M | <u>C</u> |
| 8815M | <u>B</u> | 8815M | <u>C</u> |

FILING MEMORANDUM

ITEM R-1402—2011 UPDATE TO RETROSPECTIVE RATING PLAN PARAMETERS—EXCESS LOSS FACTORS—AND UPDATE TO BASIC MANUAL APPENDIX E

PURPOSE

This item proposes to update:

- Excess Loss Factors in NCCI's 2009 Edition of the *Retrospective Rating Plan Manual for Workers Compensation and Employers Liability Insurance*¹
- Appendix E of NCCI's *Basic Manual for Workers Compensations and Employers Liability Insurance* to reflect revised hazard group assignments for certain class codes

BACKGROUND

Retrospective rating is a plan for adjusting premium according to the loss experience during the effective period of a policy.

Excess Loss Factors

The Retrospective Rating Plan contains an optional provision—an individual loss limitation—which limits the amount of a loss arising out of any one accident that will be used in the calculation of retrospective premium adjustments. The charge for limiting losses is determined by application of an Excess Loss Factor (ELF).

The ELFs vary by loss limitation and hazard group. The variation in ELFs across hazard groups reflects the varying degrees of severity exposure to occupational hazards inherent to operations associated with each classification. ELFs must be updated periodically for two reasons:

1. ELFs are computed from excess ratios, which reflect the expected percentage of losses above a given loss limit. For any fixed limit, inflation will increase the percentage of losses above that limit. Therefore, excess ratios and ELFs are periodically updated to accurately reflect the effect of inflation on those losses.
2. Overall excess ratios are computed as a weighted average of injury type excess ratios. Thus, excess ratios, and consequently ELFs, must be updated regularly for changes in the mix of injury types.

The proposed state ELFs are based on the data underlying the currently approved NCCI loss cost filing. This data was trended forward to the effective date of the next anticipated NCCI loss cost filing. The proposed ELFs were then computed in the same way as the currently approved ELFs.

Table of Classifications by Hazard Group

Hazard group assignments are used to establish the proper ELF for risks electing a loss limitation under a retrospective rating plan. Class codes are assigned to hazard groups based on their ELFs. This effectively categorizes the relative extent to which workers are exposed to serious occupational injuries.

The Table of Classifications by Hazard Group is located in Appendix E of NCCI's *Basic Manual*. This item revises the hazard group assignments for the FELA (Federal Employers Liability Act) class codes. These revisions will make the hazard grouping for these codes consistent with the source code that is used to

¹ The update to retrospective rating values will also apply to the 2004 edition of NCCI's *Retrospective Rating Plan Manual* for Florida.

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calculate their loss costs/rates. Although Appendix E applies in both the voluntary and assigned risk markets, these revisions to the FELA class codes will not affect the assigned risk market where NCCI is the Plan Administrator since the FELA codes do not apply.

Hazard groups are also used in deductible programs, which are offered in several states on an optional basis. In these states, the premium reduction percentages vary by hazard group. Revised deductible values that incorporate the new hazard group assignments will be included in the next rate or loss cost filing that is effective on or after January 1, 2012. The hazard group assignments are based on the classification, subject to any deductible amount, that produces the largest amount of estimated workers compensation standard premium for that state.

PROPOSAL

In states for which loss costs are developed rather than final rates, this filing proposes to update the ELFs that are used with an optional loss limitation in the Retrospective Rating Plan. This filing also proposes to update the hazard group assignments for the FELA class codes.

- **Exhibit 1** contains the proposed ELFs. For Arizona, Florida, Iowa, Idaho, Virginia and West Virginia, updated ELFs will be included in each state's next rate/loss cost filing.

Note: Some states have Excess Loss Pure Premium Factors, but do not have Excess Loss and Allocated Expense Pure Premium Factors. This includes Georgia, Illinois, Kentucky, Louisiana, Maryland, Oregon and South Dakota.

- **Exhibit 2** provides the proposed hazard group assignments for the FELA class codes where changes are recommended. For Virginia and West Virginia, this update will be included in each state's next loss cost filing.

Arizona State-Specific

It is proposed that Arizona adopt only Exhibit 2 for the updates to the hazard group assignments in Appendix E of NCCI's *Basic Manual*. Updated ELFs will be included in the next rate filing, so Exhibit 1 is not needed at this time.

Florida State-Specific

It is proposed that Florida adopt only Exhibit 2 for the updates to the hazard group assignments in Appendix E of NCCI's *Basic Manual*. Updated ELFs will be included in the next rate filing, so Exhibit 1 is not needed at this time.

Idaho State-Specific

It is proposed that Idaho adopt only Exhibit 2 for the updates to the hazard group assignments in Appendix E of NCCI's *Basic Manual*. Updated ELFs will be included in the next rate filing, so Exhibit 1 is not needed at this time.

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FILING MEMORANDUM

ITEM R-1402—2011 UPDATE TO RETROSPECTIVE RATING PLAN PARAMETERS—EXCESS LOSS FACTORS—AND UPDATE TO BASIC MANUAL APPENDIX E

Iowa State-Specific

It is proposed that Iowa adopt only Exhibit 2 for the updates to the hazard group assignments in Appendix E of NCCI's *Basic Manual*. Updated ELF's will be included in the next rate filing, so Exhibit 1 is not needed at this time.

IMPACT

Excess Loss Factors

The proposed ELF's are necessary to maintain the aggregate expected balance between the retrospectively rated premium and the guaranteed cost premium. If the ELF's were not updated, there would be a natural slippage over time caused by inflation acting to increase the percentage of losses over any fixed loss limit. The proposed ELF's also reflect the updated mix of injury types. These changes are not expected to have any impact on overall premium levels.

Table of Classifications by Hazard Group

It is anticipated that the overall statewide premium impact of the revised hazard group assignments is negligible.

IMPLEMENTATION

In order to implement this item, the attached Exhibits detail the changes required in NCCI's 2009 Edition of the *Retrospective Rating Plan Manual* and Appendix E of NCCI's *Basic Manual*.

This item is applicable to new and renewal voluntary policies and will become effective concurrently with each state's approved rate/loss cost filing for the 2012 filing cycle. For example, this item will be effective January 1, 2012 for approved rate/loss cost filings that have a January 1, 2012 effective date. Similarly, this item will be effective July 1, 2012 for approved rate/loss cost filings that have a July 1, 2012 effective date. If there is no rate/loss cost filing for a state in a given year, this item will take effect on that state's "normal" rate effective date. (The "normal" rate effective date is the anniversary date of the previous year's effective date in that state.)

The following chart shows the anticipated effective dates for each state:

| State | Anticipated Effective Date ¹ |
|----------------------|---|
| Alabama | March 1, 2012 |
| Alaska | January 1, 2012 |
| Arizona ² | January 1, 2012 |
| Arkansas | July 1, 2012 |
| Colorado | January 1, 2012 |

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FILING MEMORANDUM

**ITEM R-1402—2011 UPDATE TO RETROSPECTIVE RATING PLAN PARAMETERS—EXCESS
 LOSS FACTORS—AND UPDATE TO BASIC MANUAL APPENDIX E**

| | |
|----------------------|--|
| Connecticut | January 1, 2012 |
| District of Columbia | November 1, 2011 |
| Florida ² | January 1, 2012 |
| Georgia | March 1, 2012 |
| Hawaii | Effective date is determined upon regulatory approval of the individual carrier's election to adopt this change. This item will be implemented in Hawaii's loss cost filing proposed to be effective January 1 2012. |
| Idaho ² | January 1, 2012 |
| Illinois | January 1, 2012 |
| Indiana | January 1, 2012 |
| Iowa ² | January 1, 2012 |
| Kansas | January 1, 2012 |
| Kentucky | October 1, 2011 |
| Louisiana | May 1, 2012 |
| Maine | January 1, 2012 |
| Maryland | January 1, 2012 |
| Mississippi | March 1, 2012 |
| Missouri | January 1, 2012 |
| Montana | July 1, 2012 |
| Nebraska | February 1, 2012 |
| Nevada | March 1, 2012 |
| New Hampshire | January 1, 2012 |
| New Mexico | January 1, 2012 |
| North Carolina | April 1, 2012 |
| Oklahoma | January 1, 2012 |
| Oregon | January 1, 2012 |
| Rhode Island | June 1, 2012 |
| South Carolina | July 1, 2012 |
| South Dakota | July 1, 2012 |
| Tennessee | March 1, 2012 |

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**ITEM R-1402—2011 UPDATE TO RETROSPECTIVE RATING PLAN PARAMETERS—EXCESS
LOSS FACTORS—AND UPDATE TO BASIC MANUAL APPENDIX E**

| | |
|---------|------------------|
| Utah | December 1, 2011 |
| Vermont | April 1, 2012 |

- ¹ Subject to change depending on the approved effective date of the loss cost filing if a loss cost filing has been submitted for a state.
- ² Updated Excess Loss Factors (ELF) will be included in the state's next rate filing.

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**ITEM R-1402—2011 UPDATE TO RETROSPECTIVE RATING PLAN PARAMETERS—EXCESS
LOSS FACTORS—AND UPDATE TO BASIC MANUAL APPENDIX E**

EXHIBIT 2

BASIC MANUAL—2001 EDITION

APPENDIX E

CLASSIFICATIONS BY HAZARD GROUP

(Applies in: AK, AL, AR, AZ, CO, CT, DC, FL, GA, IA, ID, IL, IN, KS, KY, LA, MD, ME, MO, MS, MT, NC, NE, NH, NM, NV, OK, OR, RI, SC, SD, TN, UT, VT)

TABLE OF CLASSIFICATIONS BY HAZARD GROUP

| Class Code | Applies in: | Discontinued in: | Hazard Group A–G |
|------------|--|------------------|------------------|
| 6702 | AL, AK, AZ, AR, CO, CT, DC, FL, GA, ID, IL, IN, IA, KS, KY, LA, ME, MD, MS, MO, MT, NE, NV, NH, NM, NC, OK, OR, RI, SC, SD, TN, UT, VT, VA, WV | | FE |
| 6703 | AL, AK, AZ, AR, CO, CT, DC, FL, GA, ID, IL, IN, IA, KS, KY, LA, ME, MD, MS, MO, MT, NE, NV, NH, NM, NC, OK, OR, RI, SC, SD, TN, UT, VT, VA, WV | | FE |
| 6704 | AL, AK, AZ, AR, CO, CT, DC, FL, GA, ID, IL, IN, IA, KS, KY, LA, ME, MD, MS, MO, MT, NE, NV, NH, NM, NC, OK, OR, RI, SC, SD, TN, UT, VT, VA, WV | | FE |
| 7151 | AL, AK, AZ, AR, CO, CT, DC, FL, GA, ID, IL, IN, IA, KS, KY, LA, ME, MD, MS, MO, MT, NE, NV, NH, NM, NC, OK, OR, RI, SC, SD, TN, UT, VT, VA, WV | | EF |
| 7152 | AL, AK, AZ, AR, CO, CT, DC, FL, GA, ID, IL, IN, IA, KS, KY, LA, ME, MD, MS, MO, MT, NE, NV, NH, NM, NC, OK, OR, RI, SC, SD, TN, UT, VT, VA, WV | | EF |
| 7153 | AL, AK, AZ, AR, CO, CT, DC, FL, GA, ID, IL, IN, IA, KS, KY, LA, ME, MD, MS, MO, MT, NE, NV, NH, NM, NC, OK, OR, RI, SC, SD, TN, UT, VT, VA, WV | | EF |
| 8734 | AL, AK, AZ, AR, CO, CT, DC, FL, GA, ID, IL, IN, IA, KS, KY, LA, ME, MD, MS, MO, MT, NE, NV, NH, NM, NC, OK, OR, RI, SC, SD, TN, UT, VT, VA, WV | | BE |
| 8737 | AL, AK, AZ, AR, CO, CT, DC, FL, GA, ID, IL, IN, IA, KS, KY, LA, ME, MD, MS, MO, MT, NE, NV, NH, NM, NC, OK, OR, RI, SC, SD, TN, UT, VT, VA, WV | | BE |

ITEM R-1402—2011 UPDATE TO RETROSPECTIVE RATING PLAN PARAMETERS—EXCESS LOSS FACTORS—AND UPDATE TO BASIC MANUAL APPENDIX E

EXHIBIT 2 (CONT'D)

| Class Code | Applies in: | Discontinued in: | Hazard Group A–G |
|------------|--|------------------|------------------|
| 8738 | AL, AK, AZ, AR, CO, CT, DC, FL, GA, ID, IL, IN, IA, KS, KY, LA, ME, MD, MS, MO, MT, NE, NV, NH, NM, NC, OK, OR, RI, SC, SD, TN, UT, VT, VA, WV | | BE |
| 8805 | AL, AK, AZ, AR, CO, CT, DC, FL, GA, ID, IL, IN, IA, KS, KY, LA, ME, MD, MS, MO, MT, NE, NV, NH, NM, NC, OK, OR, RI, SC, SD, TN, UT, VT, VA, WV | | BC |
| 8814 | AL, AK, AZ, AR, CO, CT, DC, FL, GA, ID, IL, IN, IA, KS, KY, LA, ME, MD, MS, MO, MT, NE, NV, NH, NM, NC, OK, OR, RI, SC, SD, TN, UT, VT, VA, WV | | BC |
| 8815 | AL, AK, AZ, AR, CO, CT, DC, FL, GA, ID, IL, IN, IA, KS, KY, LA, ME, MD, MS, MO, MT, NE, NV, NH, NM, NC, OK, OR, RI, SC, SD, TN, UT, VT, VA, WV | | BC |