



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

May 17, 2012

ALL ASSOCIATION MEMBERS

Circular Letter No. 12-1614

RE: NCCI Item E-1402 – Revisions to the Experience Rating Plan Primary/Excess Split Point Value and Maximum Debit Modification Formula

The Minnesota Department of Commerce has approved the above filing to become effective 12:01 a.m., January 1, 2013, for new and renewal business.

The purpose of this item is to adjust the primary/excess loss split point and the maximum debit modification formula used in MWCIA's Experience Rating Plan in order to maintain the Plan's optimal performance. These changes require revisions to the ***Minnesota Experience Rating Plan Manual***.

The \$5,000 primary/excess split point has not changed for approximately 20 years. In this time period, the average cost per case has tripled. In this filing we are proposing to increase the split point over the next three years to \$10,000 effective 1-1-2013, \$13,500 effective 1-1-2014, and an indexed \$15,000 effective 1-1-2015. The index will be computed by comparing the annual countrywide total average cost per case to its Minnesota counterpart. After the initial two years of adjustments, MWCIA will review this comparison and make annual recommendations for changes in future values.

The current maximum debit modification formula was first introduced in 1997 and had a hard minimum of 1.00 which seems too restrictive compared to the proposed formula which has a hard minimum of 1.10.

Analyses of the impact on employers' experience modification factors reveal the following expectations:

- There will be no measurable change in the overall average statewide experience modification level in 2013
- 82% of current rated insureds will either see modification decreases, or increases of no more than 2%
- 12% of current rated insureds will see modification increases between 2% and 10% - with an average around +5%
- 6% of current rated insureds will see modification increases of more than 10% - these changes will primarily affect businesses with current modifications exceeding 1.25
- Future results will be much less significant; it's expected that only 5% of rated insureds will see additional modification increases of more than 5% from 2014 through 2015

The attached exhibits illustrate all changes necessary to the ***Minnesota Experience Rating Plan Manual*** and the ***Minnesota Experience Rating Plan Manual's User Guide***. 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 E-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.

EXHIBIT I

MINNESOTA EXPERIENCE RATING PLAN MANUAL

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CURRENT PHRASEOLOGY		PROPOSED PHRASEOLOGY
<p>RULE 2—EXPERIENCE RATING ELEMENTS & FORMULA</p> <p>C. ELEMENTS OF EXPERIENCE RATING FORMULA AND WORKSHEET</p> <p>6. Actual Primary Losses</p> <p>Actual Primary Losses reflect claim frequency and are the portion of the actual incurred losses that are used at full value in the experience rating calculation subject to a maximum primary value.</p> <p>For each loss equal to or less than \$5,000, the entire amount is used as the primary value. For each loss over \$5,000, the primary value is capped at \$5,000.</p> <p>For each medical-only claim the primary amount is reduced by 70%</p>		<p>RULE 2—EXPERIENCE RATING ELEMENTS & FORMULA</p> <p>C. ELEMENTS OF EXPERIENCE RATING FORMULA AND WORKSHEET</p> <p>6. Actual Primary Losses</p> <p>Actual Primary Losses reflect claim frequency and are the portion of the actual incurred losses that are used at full value in the experience rating calculation subject to a maximum primary value.</p> <p>For each loss equal to or less than <u>\$10,000</u>, the entire amount is used as the primary value. For each loss over <u>\$10,000</u>, the primary value is capped at <u>\$10,000</u>.</p> <p>For each medical-only claim the primary amount is reduced by 70%.</p>

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<p>13. Limitation of Losses Employed in a Rating Losses are limited to the per claim or multiple claim limitations found in Minnesota's Table of Weighting Values located in the current Minnesota Ratemaking Report. For interstate rating purposes, refer to each state's Table of Weighting Values in NCCI's <i>Experience Rating Plan Manual</i> for information on other state's weighting values.</p> <p>a. Single and Multiple Claim Limitation</p>	<p>13. Limitation of losses Employed in a Rating</p> <p style="text-align: center;">SAME</p>																
<p style="text-align: center;"><u>Basic Loss Limitation Table</u></p> <table> <tr> <th>If...</th><th>Then...</th></tr> <tr> <td>A medical- only loss exists</td><td> <ul style="list-style-type: none"> The actual incurred loss and actual primary loss amounts are reduced by 70% </td></tr> <tr> <td>An accident involves only one person</td><td> <ul style="list-style-type: none"> The loss is subject to the per claim accident limitation The actual primary loss is subject to the maximum primary value of \$5,000, even if the loss does not exceed the per accident limitation </td></tr> <tr> <td>An employers liability- only loss exists</td><td> <ul style="list-style-type: none"> The loss is subject to the employers liability per claim accident limitation The actual primary loss is subject to the maximum primary value of \$5,000, even if the loss does not exceed the employers liability per claim accident limitation </td></tr> </table>	If...	Then...	A medical- only loss exists	<ul style="list-style-type: none"> The actual incurred loss and actual primary loss amounts are reduced by 70% 	An accident involves only one person	<ul style="list-style-type: none"> The loss is subject to the per claim accident limitation The actual primary loss is subject to the maximum primary value of \$5,000, even if the loss does not exceed the per accident limitation 	An employers liability- only loss exists	<ul style="list-style-type: none"> The loss is subject to the employers liability per claim accident limitation The actual primary loss is subject to the maximum primary value of \$5,000, even if the loss does not exceed the employers liability per claim accident limitation 	<p style="text-align: center;"><u>Basic Loss Limitation Table</u></p> <table> <tr> <th>If...</th><th>Then...</th></tr> <tr> <td>A medical- only loss exists</td><td> <ul style="list-style-type: none"> SAME </td></tr> <tr> <td>An accident involves only one person</td><td> <ul style="list-style-type: none"> SAME The actual primary loss is subject to the maximum primary value of <u>\$10,000</u>, even if the loss does not exceed the per accident limitation </td></tr> <tr> <td>An employers liability- only loss exists</td><td> <ul style="list-style-type: none"> SAME The actual primary loss is subject to the maximum primary value of <u>\$10,000</u>, even if the loss does not exceed the employers liability per claim accident limitation </td></tr> </table>	If...	Then...	A medical- only loss exists	<ul style="list-style-type: none"> SAME 	An accident involves only one person	<ul style="list-style-type: none"> SAME The actual primary loss is subject to the maximum primary value of <u>\$10,000</u>, even if the loss does not exceed the per accident limitation 	An employers liability- only loss exists	<ul style="list-style-type: none"> SAME The actual primary loss is subject to the maximum primary value of <u>\$10,000</u>, even if the loss does not exceed the employers liability per claim accident limitation
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CURRENT PHRASEOLOGY		PROPOSED PHRASEOLOGY	
Loss Limitation for Accidents Involving Two or More Persons Table 1		Loss Limitation for Accidents Involving Two or More Persons Table 1	
If an accident involves two or more persons, and...	Then...	If an accident involves two or more persons, and...	Then...
The total of the losses exceeds the multiple claim accident limitation	<ul style="list-style-type: none">• The total losses are subject to the multiple claim accident limitation• The actual primary loss for these accidents is limited to \$10,000, even if the losses do not exceed the multiple claim accident limitation	SAME	<ul style="list-style-type: none">• SAME• The actual primary loss for these accidents is limited to \$20,000, even if the losses do not exceed the multiple claim accident limitation
The total of the losses does not exceed the multiple claim accident limitation, and none of the individual losses within the total exceed the state per claim accident limitation	<ul style="list-style-type: none">• The individual losses are used at full value• The total actual primary losses for the accident are limited to \$10,000.		SAME

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CURRENT PHRASEOLOGY		PROPOSED PHRASEOLOGY	
<u>Loss Limitation for Accidents Involving Two or More Persons Table 2</u>		<u>Loss Limitation for Accidents Involving Two or More Persons Table 2</u>	
If an accident involves two or more persons, and the total of the losses does not exceed the multiple claim accident limitation, but an individual loss within the total exceeds the state per claim accident limitation, and...	Then the individual loss is limited to the state per claim accident limitation and...	SAME	SAME
The total of the remaining losses exceeds \$ 5,000	<ul style="list-style-type: none">The remainder of the losses are used at full valueThe total actual primary losses for the accident are limited to \$10,000	The total of the remaining losses exceeds \$ <u>10,000.</u>	<ul style="list-style-type: none">SAMEThe total actual primary losses for the accident are limited to, \$<u>20,000.</u>
The total of the remaining losses does not exceed \$ 5,000	<ul style="list-style-type: none">The remainder of the losses are used at full valueThe actual primary loss is limited to \$5,000 for the individual limited lossNo actual primary loss limitation applies for the remainder of the losses.	The total of the remaining losses does not exceed \$ <u>10,000.</u>	<ul style="list-style-type: none">SAMEThe actual primary loss is limited to \$<u>10,000</u> for the individual limited lossSAME

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a. Disease Loss Limitation Disease losses are subject to per claim and multiple claim limitations. A limitation on total disease losses may also apply to an individual policy. This is in addition to the claim limitations already applied to individual disease losses under Rule 2-C-13-a		SAME
(1) To apply the disease loss policy limitation:		SAME
(a) Determine if an employer's individual policy total limited and non-limited actual incurred disease losses exceed the policy disease limit of triple the per claim accident limitation shown in the <i>Table of Weighting Values</i> located in the current Minnesota Ratemaking Report , plus 40% of the employer's total expected losses for the experience period. If the employer's specific threshold is exceeded, the disease losses are limited to such threshold, and		SAME
(b) The actual primary losses for disease losses are limited to \$10,000—twice the normal maximum primary value, plus 40% of the employer's total expected primary losses for the experience period.		(b) The actual primary losses for disease losses are limited to, <u>\$20,000</u> —twice the normal maximum primary value plus 40% of the employer's total expected primary losses for the experience period.
(c) Round the result of (b) to the nearest whole number.		SAME

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RULE 2—EXPERIENCE RATING ELEMENTS & FORMULA		RULE 2—EXPERIENCE RATING ELEMENTS & FORMULA
D. EXPERIENCE RATING FORMULA		D. EXPERIENCE RATING FORMULA
2. Maximum Debit Modification Experience rating modification factors determined by the formula in Rule 2-D-1 are subject to a cap if the debit modification exceeds a specific amount. The employer-specific maximum debit modification is determined as follows:		SAME
Maximum Debit Modification = $1 + \{(0.00005)[(\text{Total Expected Losses}) + (2)(\text{Total Expected Losses})/(G)]\}$		Maximum Debit Modification = $1.10 + (0.0004 \times (\text{Total Expected Losses})/G)$
The maximum debit modification for an interstate employer is limited to the cap for the state with the largest amount of expected losses.		SAME
“G” is a factor equal to the average cost per claim for losses used in experience rating, divided by 1000. “G” is located in the current Minnesota Ratemaking Report . <i>Refer to the Minnesota User’s Guide for an example.</i>		“G” is a <u>value</u> equal to the average cost per claim for losses used in experience rating, divided by 1000. “G” is located in the current Minnesota Ratemaking Report . <i>Refer to the Minnesota User’s Guide for an example.</i>

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C. ELEMENTS OF EXPERIENCE RATING FORMULA AND WORKSHEET 1. Loss Limitation for Single and Multiple Claims—Example for Rule 2-C-13-a	C. ELEMENTS OF EXPERIENCE RATING FORMULA AND WORKSHEET 1. Loss Limitation for Single and Multiple Claims—Example for Rule 2-C-13-a																																								
<p>c. Minnesota’s Per Claim Accident Limitation</p> <p>Assume in this example that Minnesota’s per claim limit is \$97,500. Company A has three claims from three separate accidents:</p> <table><tr><th>Loss</th><th>Actual Incurred</th><th>Actual Incurred Limited</th><th>Actual Primary</th></tr><tr><td>1</td><td>\$175,000</td><td>\$97,500</td><td>\$5,000</td></tr><tr><td>2</td><td>\$12,000</td><td>\$12,000</td><td>\$5,000</td></tr><tr><td>3</td><td><u>\$5,000</u></td><td><u>\$5,000</u></td><td><u>\$5,000</u></td></tr><tr><td>Total</td><td>\$192,000</td><td>\$114,500</td><td>\$15,000</td></tr></table> <p>Because Loss 1 exceeds the \$97,500 limit, it is reduced to that amount. Both Losses 2 and 3 are used at full value. Each actual primary loss is \$5,000, totaling \$15,000.</p>	Loss	Actual Incurred	Actual Incurred Limited	Actual Primary	1	\$175,000	\$97,500	\$5,000	2	\$12,000	\$12,000	\$5,000	3	<u>\$5,000</u>	<u>\$5,000</u>	<u>\$5,000</u>	Total	\$192,000	\$114,500	\$15,000	<p>c. Minnesota’s Per Claim Accident Limitation</p> <p style="text-align: center;">SAME</p> <table><tr><th>Loss</th><th>Actual Incurred</th><th>Actual Incurred Limited</th><th>Actual Primary</th></tr><tr><td>1</td><td>\$175,000</td><td>\$97,500</td><td><u>\$10,000</u></td></tr><tr><td>2</td><td>\$12,000</td><td>\$12,000</td><td><u>\$10,000</u></td></tr><tr><td>3</td><td><u>\$10,000</u></td><td><u>\$10,000</u></td><td><u>\$10,000</u></td></tr><tr><td>Total</td><td>\$192,000</td><td>\$114,500</td><td>\$15,000</td></tr></table> <p>Because Loss 1 exceeds the \$97,500 limit, it is reduced to that amount. Both Losses 2 and 3 are used at full value. Each actual primary loss is <u>\$10,000</u>, totaling <u>\$30,000</u>.</p>	Loss	Actual Incurred	Actual Incurred Limited	Actual Primary	1	\$175,000	\$97,500	<u>\$10,000</u>	2	\$12,000	\$12,000	<u>\$10,000</u>	3	<u>\$10,000</u>	<u>\$10,000</u>	<u>\$10,000</u>	Total	\$192,000	\$114,500	\$15,000
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<p>2. Loss Limitations for Accidents Involving Two or More Persons — Examples for Rule 2-C-13-a</p> <p>Minnesota also has a multiple claim accident limitation, which is double the per claim accident limitation. For example, if the per claim limit is \$103,500, the multiple claim limitation would be \$207,000. The multiple claim limitation is another layer of protection that this Plan provides. It ensures that the impact of a catastrophic accident (one incident involving two or more claims) is lessened.</p>		<p style="text-align: center;">SAME</p>
<p>a. In this example, assume a warehouse fire occurs, resulting in four injured workers with individual claim amounts of \$150,000, \$127,000, \$85,000 and \$60,000, totaling \$422,000.</p>		<p style="text-align: center;">SAME</p>
<p>These four claims would be reported in a manner identifying them as individual claims from the same accident. This ensures that the experience rating modification calculation will limit the \$422,000 in claims to \$207,000. In addition, the actual primary loss is limited to \$40,000 for the 4 claims, rather than the \$20,000 (\$5,000 each) that would normally apply for four claims of this size.</p>		<p>These four claims would be reported in a manner identifying them as individual claims from the same accident. This ensures that the experience rating modification calculation will limit the \$422,000 in claims to \$207,000. In addition, the actual primary loss is limited to <u>\$20,000</u> for the 4 claims, rather than the \$40,000 (\$10,000 each) that would normally apply for four claims of this size.</p>

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b. Assume Minnesota's per claim limit is \$98,000; and the state multiple claim limit is \$196,000.				SAME			
c. Assume Company <i>B</i> has four claims resulting from a single accident:				c. Assume Company <i>B</i> has four claims resulting from a single accident:			
Loss	Actual Incurred	Actual Incurred Limited	Actual Primary Limited	Loss	Actual Incurred	Actual Incurred Limited	Actual Primary Limited
1	\$125,000	Multiple Claim Limit	Actual Primary Limit	1	\$125,000	Multiple Claim Limit	Actual Primary Limit
2	\$121,000			2	\$121,000		
3	\$145,000			3	\$145,000		
4	\$50,000			4	\$50,000		
Total	\$441,000	\$196,000	\$10,000	Total	\$441,000	\$196,000	\$20,000
The multiple claim limitation reduced the amount of the actual incurred losses used in the experience rating calculation by \$245,000 and the actual primary losses by \$10,000.				The multiple claim limitation reduced the amount of the actual incurred losses used in the experience rating calculation by \$245,000 and the actual primary losses by \$20,000.			

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<div>d. As a comparison if each loss were a result of four separate accidents the losses would be limited individually and used in the calculation as follows:</div> <table><tr><th>Loss</th><th>Actual Incurred</th><th>Actual Incurred</th><th>Actual Primary</th></tr><tr><td>1</td><td>\$125,000</td><td>\$98,000</td><td>\$5,000</td></tr><tr><td>2</td><td>\$121,000</td><td>\$98,000</td><td>\$5,000</td></tr><tr><td>3</td><td>\$145,000</td><td>\$98,000</td><td>\$5,000</td></tr><tr><td>4</td><td>\$50,000</td><td>\$50,000</td><td>\$5,000</td></tr><tr><td>Total</td><td>\$441,000</td><td>\$344,000</td><td>\$20,000</td></tr></table> <div>The limitation of the three losses exceeding the single per claim amount of \$98,000 results in \$344,000 in actual incurred losses and \$20,000 in actual primary losses being used in the experience rating calculation</div>	Loss	Actual Incurred	Actual Incurred	Actual Primary	1	\$125,000	\$98,000	\$5,000	2	\$121,000	\$98,000	\$5,000	3	\$145,000	\$98,000	\$5,000	4	\$50,000	\$50,000	\$5,000	Total	\$441,000	\$344,000	\$20,000	<div>d. As a comparison if each loss were a result of four separate accidents the losses would be limited individually and used in the calculation as follows:</div> <table><tr><th>Loss</th><th>Actual Incurred</th><th>Actual Incurred</th><th>Actual Primary</th></tr><tr><td>1</td><td>\$125,000</td><td>\$98,000</td><td><u>\$10,000</u></td></tr><tr><td>2</td><td>\$121,000</td><td>\$98,000</td><td><u>\$10,000</u></td></tr><tr><td>3</td><td>\$145,000</td><td>\$98,000</td><td><u>\$10,000</u></td></tr><tr><td>4</td><td>\$50,000</td><td>\$50,000</td><td><u>\$10,000</u></td></tr><tr><td>Total</td><td>\$441,000</td><td>\$344,000</td><td><u>\$40,000</u></td></tr></table> <div>The limitation of the three losses exceeding the single per claim amount of \$98,000 results in \$344,000 in actual incurred losses and <u>\$40,000</u> in actual primary losses being used in the experience rating calculation.</div>	Loss	Actual Incurred	Actual Incurred	Actual Primary	1	\$125,000	\$98,000	<u>\$10,000</u>	2	\$121,000	\$98,000	<u>\$10,000</u>	3	\$145,000	\$98,000	<u>\$10,000</u>	4	\$50,000	\$50,000	<u>\$10,000</u>	Total	\$441,000	\$344,000	<u>\$40,000</u>
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<div>3. Disease Loss limitation — Examples for Rule 2-C-13-b</div> <div>Assume that under Minnesota’s State Act the per claim limit is \$100,000 and the multiple claim limit is \$200,000.</div>	<div>3. Disease Loss limitation — Examples for Rule 2-C-13-b</div> <div>SAME</div>																																																

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<p>a. Single Loss Example ABC Company has:</p> <ul style="list-style-type: none"> • A disease loss valued at \$175,000 • Total expected losses of \$50,000 • Total expected primary losses of \$20,000 <p>(1) As a first layer of protection, the actual incurred loss is limited to Minnesota's per claim accident limitation of \$100,000. The actual primary loss is limited to \$5,000</p>		<p>a. Single Loss Example ABC Company has:</p> <ul style="list-style-type: none"> • A disease loss valued at \$175,000 • Total expected losses of \$50,000 • Total expected primary losses of \$20,000 <p>(1) As a first layer of protection, the actual incurred loss is limited to Minnesota's per claim accident limitation of \$100,000. The actual primary loss is limited to <u>\$10,000</u></p>
<p>(2) As a second layer of protection, the policy in which the disease loss incurred is also subject to further limitation.</p>		<p>(2) SAME</p>
<p>The policy's total actual incurred disease losses are limited as follows:</p> <ul style="list-style-type: none"> • (3 x Minnesota's Per Claim Limit) + 40% of the employer's total expected losses= • (3 x \$100,000) + (\$50,000 x 40%) = • \$300,000 + \$10,000= \$310,000 		<p>The policy's total actual incurred disease losses are limited as follows:</p> <ul style="list-style-type: none"> • (3 x Minnesota's Per Claim Limit) + 40% of the employer's total expected losses= • (3 x \$100,000) + (\$50,000 x 40%) = • \$300,000 + <u>\$20,000</u>= <u>\$320,000</u>

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<p>The policy's total actual primary disease losses are limited as follows:</p> <ul style="list-style-type: none"> • \$10,000 + 40% of the employer's total expected primary losses= • \$10,000 + (20,000 x 40%) = • \$10,000 + \$8,000= \$18,000 		<p>The policy's total actual primary disease losses are limited as follows:</p> <ul style="list-style-type: none"> • <u>\$20,000</u> + 40% of the employer's total expected primary losses= • <u>\$20,000</u> + (20,000 x 40%) = • <u>\$20,000</u> + \$8,000= <u>\$28,000</u>
<p>By the nature of the first layer of protection, ABC Company's disease loss of \$175,000 does not exceed the policy actual incurred loss disease limitation of \$340,000. Also, ABC Company's policy actual primary disease loss limitation of \$48,000 is not met because of the \$5,000 actual primary loss limitation under the first layer of protection. Therefore, the \$175,000 disease loss is limited as follows:</p> <ul style="list-style-type: none"> • \$100,000 actual incurred loss • \$5,000 actual primary loss 		<p>By the nature of the first layer of protection, ABC Company's disease loss of \$175,000 does not exceed the policy actual incurred loss disease limitation of <u>\$320,000</u>. Also, ABC Company's policy actual primary disease loss limitation of <u>\$28,000</u> is not met because of the <u>\$10,000</u> actual primary loss limitation under the first layer of protection. Therefore, the \$175,000 disease loss is limited as follows:</p> <ul style="list-style-type: none"> • \$100,000 actual incurred loss • <u>\$10,000</u> actual primary loss
<p>b. Multiple Loss Example — Minnesota's Multiple Claim Accident Limitation XYZ Company has:</p> <ul style="list-style-type: none"> • A single policy with three disease losses resulting from the same accident • Total expected losses of \$450,000 • Total expected primary losses of \$100,000 		<p>b. Multiple Loss Example — Minnesota's Multiple Claim Accident Limitation</p> <p style="text-align: center; font-size: 1.5em;">SAME</p>

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CURRENT PHRASEOLOGY				PROPOSED PHRASEOLOGY																																			
<p>(1) As a first layer of protection, the actual incurred losses are limited to Minnesota's multiple claim accident limitation of \$200,000. The actual primary loss is limited to \$10,000.</p>				<p>(1) As a first layer of protection, the actual incurred losses are limited to Minnesota's multiple claim accident limitation of \$200,000. The actual primary loss is limited to <u>\$20,000</u>.</p>																																			
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<p>The policy's total actual incurred disease losses are limited as follows:</p> <ul style="list-style-type: none">• (3 x State Act Per Claim Limit) + 40% of the employer's total expected losses =• (3 x \$100,000) + (\$450,000 x 40%) =• \$300,000 + \$180,000 = \$480,000				<p>SAME</p>																																			
<p>The policy's total actual primary disease losses are limited as follows:</p> <ul style="list-style-type: none">• \$10,000 + 40% of the employer's total expected primary losses=• \$10,000 + (\$100,000 x 40%) =• \$10,000 + \$40,000 = \$50,000				<p>The policy's total actual primary disease losses are limited as follows:</p> <ul style="list-style-type: none">• <u>\$20,000</u> + 40% of the employer's total expected primary losses=• <u>\$20,000</u> + (\$100,000 x 40%) =• <u>\$20,000</u> + \$40,000 = <u>\$60,000</u>																																			

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<p>By the nature of the first layer of protection, XYZ Company's disease losses of \$240,000 do not exceed the policy actual incurred loss disease loss limitation of \$480,000. Also, under XYZ Company's policy, the actual primary disease loss limitation of \$50,000 is not met because of the \$40,000 actual primary loss limitation under the first layer of protection. Therefore, the \$240,000 disease losses are limited as follows:</p> <ul style="list-style-type: none"> • \$200,000 actual incurred loss • \$40,000 actual primary loss 		<p>By the nature of the first layer of protection, XYZ Company's disease losses of \$240,000 do not exceed the policy actual incurred loss disease loss limitation of \$480,000. Also, under XYZ Company's policy, the actual primary loss limitation of <u>\$60,000</u> is not met because of the <u>\$20,000</u> actual primary loss limitation under the first layer of protection. Therefore, the \$240,000 disease losses are limited as follows:</p> <ul style="list-style-type: none"> • \$200,000 actual incurred loss • <u>\$20,000</u> actual primary loss
<p>c. Multiple Loss Example — Losses Not Limited In this example, XYZ Company has:</p> <ul style="list-style-type: none"> • A single policy with three disease losses resulting from the same accident • Total expected losses of \$300,000 • Total expected primary losses of \$45,000 		<p>c. Multiple Loss Example — Losses Not Limited</p> <p style="text-align: center;">SAME</p>

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<p>(1) In this situation, the total of the three losses does not exceed Minnesota's multiple claim accident limitation, but the first loss does exceed Minnesota's single claim accident limitation. Therefore, as a first layer of protection, the largest loss is limited to \$100,000 while the remaining two losses are used in the calculation at full value. As a second layer of protection, the actual primary loss is limited to a total of \$40,000. Although the total of the three losses does not exceed the multiple claim limitation, the actual primary losses are not treated as individual losses at \$5,000 each. If they were each treated individually, the total actual primary loss would be \$45,000.</p> <table> <tr> <th>Loss</th><th>Actual Incurred</th><th>Actual Incurred Limited</th><th>Actual Primary Limited</th></tr> <tr> <td>1</td><td>\$175,000</td><td>\$100,000</td><td></td></tr> <tr> <td>2</td><td>\$10,000</td><td>\$10,000</td><td></td></tr> <tr> <td>3</td><td>\$5,000</td><td>\$5,000</td><td></td></tr> <tr> <td>Total</td><td>\$190,000</td><td>\$115,000</td><td>\$10,000</td></tr> </table>		Loss	Actual Incurred	Actual Incurred Limited	Actual Primary Limited	1	\$175,000	\$100,000		2	\$10,000	\$10,000		3	\$5,000	\$5,000		Total	\$190,000	\$115,000	\$10,000	<p>(1) In this situation, the total of the three losses does not exceed Minnesota's multiple claim accident limitation, but the first loss does exceed Minnesota's single claim accident limitation. Therefore, as a first layer of protection, the largest loss is limited to \$100,000 while the remaining two losses are used in the calculation at full value. As a second layer of protection, the actual primary loss is limited to a total of <u>\$20,000</u>. Although the total of the three losses does not exceed the multiple claim limitation, the actual primary losses are not treated as individual losses at <u>\$10,000</u> each. If they were each treated individually, the total actual primary loss would be <u>\$30,000</u>.</p> <table> <tr> <th>Loss</th><th>Actual Incurred</th><th>Actual Incurred Limited</th><th>Actual Primary Limited</th></tr> <tr> <td>1</td><td><u>\$150,000</u></td><td>\$100,000</td><td></td></tr> <tr> <td>2</td><td><u>\$20,000</u></td><td><u>\$20,000</u></td><td></td></tr> <tr> <td>3</td><td><u>\$10,000</u></td><td><u>\$10,000</u></td><td></td></tr> <tr> <td>Total</td><td><u>\$180,000</u></td><td><u>\$130,000</u></td><td><u>\$20,000</u></td></tr> </table>		Loss	Actual Incurred	Actual Incurred Limited	Actual Primary Limited	1	<u>\$150,000</u>	\$100,000		2	<u>\$20,000</u>	<u>\$20,000</u>		3	<u>\$10,000</u>	<u>\$10,000</u>		Total	<u>\$180,000</u>	<u>\$130,000</u>	<u>\$20,000</u>
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(2) As an additional layer of protection, the policy in which the disease losses were incurred is also subject to further limitation.	(2) SAME
<p>The policy's total actual incurred disease losses are limited as follows:</p> <ul style="list-style-type: none"> • (3 x Minnesota's Per Claim Limit) + 40% of the employer's total expected losses = • (3 x \$100,000) + (\$300,000 x 40%) = • \$300,000 + \$120,000 = \$420,000 <p>The policy's total actual primary disease losses are limited as follows:</p> <ul style="list-style-type: none"> • \$10,000 + 40% of the employer's total expected primary losses = • \$10,000 + (\$45,000 x 40%) = • \$10,000 + \$18,000 = \$28,000 <p>XYZ Company's disease losses of \$190,000 do not exceed the policy actual incurred loss disease limitation of \$420,000. Also, XYZ Company's policy actual primary disease loss limitation of \$28,000 is not met because of the \$10,000 actual primary loss limitation under the first layer of protection. Therefore, the \$190,000 disease losses are limited as follows:</p> <ul style="list-style-type: none"> • \$115,000 actual incurred loss • \$10,000 actual primary loss 	<p>The policy's total actual incurred disease losses are limited as follows:</p> <p style="text-align: center;">SAME</p> <p>The policy's total actual primary disease losses are limited as follows:</p> <ul style="list-style-type: none"> • <u>\$20,000</u> + 40% of the employer's total expected primary losses = • <u>\$20,000</u> + (\$45,000 x 40%) = • <u>\$20,000</u> + \$18,000 = <u>\$38,000</u> <p>XYZ Company's disease losses of <u>\$180,000</u> do not exceed the policy actual incurred loss disease limitation of \$420,000. Also, XYZ Company's policy actual primary disease loss limitation of <u>\$38,000</u> is not met because of the <u>\$20,000</u> actual primary loss limitation under the first layer of protection. Therefore, the <u>\$180,000</u> disease losses are limited as follows:</p> <ul style="list-style-type: none"> • <u>\$130,000</u> actual incurred loss • <u>\$20,000</u> actual primary loss

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<p>D. EXPERIENCE RATING FORMULA</p> <p>3. Maximum Debit Modification Factor — Example for Rule 2-D-2</p> <p>Experience rating debit modification factors are limited to an employer-specific maximum debit modification.</p> <p>Consider ABC Company:</p> <p>Total Expected Losses (C) = \$5,000</p> <p>Total Expected Primary Losses (D) = \$1,200</p> <p>Actual Losses (A) = \$30,000</p> <p>Actual Primary Losses (B) = \$25,000</p> <p>Weighting Value (E) = 0.05</p> <p>Ballast Value (F) = 11250</p> <p>G Factor = 4.50</p>		<p>D. EXPERIENCE RATING FORMULA</p> <p>3. Maximum Debit Modification Factor — Example for Rule 2-D-2</p> <p style="text-align: center;">SAME</p>

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$\frac{(A - C)(E) + (B - D)(1 - E)}{1 + C + F} = \frac{(30,000 - 5,000 \times .05) + (25,000 - 1,200) \times (1 - .05)}{1 + 5,000 + 11,250} = 2.47$ <p>To calculate ABC Company's maximum debit modification:</p> $1 + \{[(0.00005)((\text{Total Expected Losses}) + (2)(\text{Total Expected Losses}) / (G))]\}$ $1 + \{[(0.00005)((5,000) + (2)(5,000) / (4.50))]\} =$ $1 + \{[(0.00005)((5,000) + (10,000) / (4.50))]\} =$ $1 + \{[(0.00005)((5,000) + (2,222.22))]\} =$ $1 + \{[(0.00005)(7,222.22)]\} =$ $1 + 0.36 = 1.36 \text{ maximum debit modification}$ <p>This employer's maximum debit modification is 1.36. The calculated experience rating modification is 2.47. Since it exceeds the maximum debit modification, the 1.36 factor applies.</p>	$\frac{(A - C)(E) + (B - D)(1 - E)}{1 + C + F} = \frac{(30,000 - 5,000) \times (.05) + (25,000 - 1,200) \times (1 - .05)}{1 + 5,000 + 11,250} = 2.47$ <p>To calculate ABC Company's maximum debit modification:</p> $1.10 + [(0.0004) \times (\text{Total Expected Losses}) / (G)]$ $1.10 + \{[(0.0004)((5,000) / (4.50))]\} =$ $1.10 + \{[(0.0004)(1111.11)]\} =$ $1.10 + .44 = 1.54 \text{ maximum debit modification}$ <p>This employer's maximum debit modification is <u>1.54</u>. The calculated experience rating modification is 2.47. Since it exceeds the maximum debit modification, the <u>1.54</u> factor applies.</p>



Circular

AUGUST 3, 2011

ANNOUNCEMENT

CIF-2011-14

Countrywide—Announcement of Item E-1402—Revisions to the Experience Rating Plan Primary/Excess Split Point Value and Maximum Debit Modification Formula

ACTION NEEDED

Please review the changes outlined in the attachments to this circular for impact on your company's systems and procedures. Also review the *Status of Item Filings* circular for state approval of this item.

Arkansas law does not permit NCCI to file rules and rates on its members' behalf. Therefore, insurance carriers must make an independent filing with the Arkansas Insurance Department electing to adopt, or not adopt, an item filing filed by NCCI and subsequently approved by the Department. When such a filing is made with the Department, make sure that the NCCI item filing number (not the NCCI circular number) is referenced.

In Arkansas, residual market carrier must adhere to what is filed by the Plan Administrator. Therefore, this requirement does not apply in the residual market.

Caution: At the time of distribution of this circular, this item has been filed with the regulator **but is not yet approved**. This information is provided for your convenience and analysis. Please do not use the information until the regulator has approved the filing. Additionally, this item has been submitted to the independent bureaus of Indiana and North Carolina for their consideration.

BACKGROUND

This Item proposed to adjust the primary/excess loss split point and the maximum debit modification formula used in NCCI's Experience Rating Plan (Plan) in order to maintain the Plan's optimal performance. These changes require revisions to NCCI's *Experience Rating Plan Manual for Workers Compensation and Employers Liability Insurance (Experience Rating Plan Manual)* Rule 2—Experience Rating Elements and Formula.

IMPACT

Primary/Excess Split Point

There is no overall statewide premium impact from the proposed change to the primary/excess split point.

Maximum Debit Modification Formula

The overall statewide premium impact from the proposed change to the maximum debit modification formula is negligible.

This item is applicable to new and renewal voluntary and assigned risk policies. It will become effective concurrently with each state's approved rate/loss cost filing effective on or after January 1, 2013. Refer to the attached version of Item E-1402 for state-specific effective dates and for complete details of this item.

NCCI ACTION

NCCI's *Status of Item Filings* circular will provide you with the latest information on the approval of Item E-1402 in addition to all NCCI item filings. The *Status of Item Filings* circular is updated weekly at ncci.com.

NCCI will release updated pages of the *Experience Rating Plan Manual* prior to the effective date. If you would like to subscribe to any of our manuals, please call our Customer Service Center at 800-NCCI-123 (800-622-4123).

**PERSON TO
CONTACT**

If you have any questions, please contact:

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FILING MEMORANDUM

ITEM E-1402—REVISIONS TO THE EXPERIENCE RATING PLAN PRIMARY/EXCESS SPLIT POINT VALUE AND MAXIMUM DEBIT MODIFICATION FORMULA

PURPOSE

The purpose of this item is to adjust the primary/excess loss split point and the maximum debit modification formula used in NCCI's Experience Rating Plan (Plan) in order to maintain the Plan's optimal performance. These changes require revisions to NCCI's *Experience Rating Plan Manual for Workers Compensation and Employers Liability Insurance (Experience Rating Plan Manual)* Rule 2—Experience Rating Elements and Formula.

BACKGROUND

Primary/Excess Split Point

The dollar value that splits a loss into its primary and excess portions is known as the primary/excess split point. Currently, in the Plan, the first \$5,000 of a loss is considered primary, and the portion of the loss above \$5,000 is considered excess. This is an important distinction because actual primary losses are given full weight in the experience rating formula. Actual excess losses only receive partial weight.

The \$5,000 split point has not changed for approximately 20 years. During this time, the Plan has seen the average dollar amount per claim approximately triple, as shown in **Informational Exhibit 1**. Because of this, the portion of each claim that flows into the experience rating formula at full value (primary loss amount) is much smaller than what it used to be 20 years ago. The result is that the Plan is giving less weight to each employer's actual experience. Consequently, the Plan formula has become less responsive, and individual employer experience rating modifications have gravitated toward the all-risk average over time.

Recent performance tests of the Plan confirm the above observation. This testing generally shows that the group of employers receiving a credit should receive a slightly larger credit and the group of employers receiving a debit should receive a slightly larger debit. **Informational Exhibit 2** provides the results from NCCI's standard quintile test for Policy Year (PY) 2006 and can be interpreted as follows:

- Risks are placed into one of five groups based on their 2006 experience rating modification, with the risks on the left receiving the lowest experience rating modifications and the risks on the right receiving the highest experience rating modifications.
- While the 2006 experience rating modification would have been based on experience from 2002–2004, this exhibit is showing the PY 2006 experience that actually emerged. The five groups on the left half of this exhibit are shown **prior to** the application of the experience rating modification. The five groups on the right half of this exhibit are shown **after** the application of the experience rating modification.
- The left half of this exhibit reveals that the Plan was generally able to identify the better-than-average and worse-than-average risks. The risks receiving the lowest experience rating modifications subsequently had the best experience. The risks receiving the highest experience rating modifications subsequently had the worst experience. The left half of this exhibit also shows that the Plan was not as successful in distinguishing between the middle three groups of employers.
- If the Plan were performing at an optimal level, the loss ratios shown on the right half of this exhibit would be 100% for all five groups. This is because employers that had 20% lower losses (for example) would receive a 20% experience rating credit. Because the left-most group (on the right half of this exhibit) is significantly less than 100%, this indicates that this group did not receive a large enough experience

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FILING MEMORANDUM

ITEM E-1402—REVISIONS TO THE EXPERIENCE RATING PLAN PRIMARY/EXCESS SPLIT POINT VALUE AND MAXIMUM DEBIT MODIFICATION FORMULA

rating credit (their standard premium was too high). In a similar fashion, the right-most group (on the right half of this exhibit) is significantly greater than 100%, indicating that this group did not receive a large enough experience rating debit (their standard premium was too low).

Maximum Debit Modification Formula

Currently, under *Experience Rating Plan Manual* Rule 2-D-2, experience rating modifications are subject to the following risk-specific cap where “E” refers to the expected losses for an individual risk, and the value of “G” is the statewide average cost of a claim in units of 1,000:

$$1 + [0.00005 \times (E + 2E/G)]$$

Currently, only 2% of risks in the Plan reach this cap.

From inspection, it is evident that this formula has a hard minimum of 1.00. That is, this formula approaches a cap value of 1.00 for very small risk sizes. Given that this formula places a **maximum** cap on experience rating modifications, a value that approaches 1.00 seems too restrictive.

Also, to be optimal, this formula could better account for differences across states in claim severities. For example, two identical employers in two different states would ideally be subject to the same experience rating modification cap. The current formula only partially addresses this issue.

PROPOSAL

The following changes are proposed to NCCI's Experience Rating Plan:

1. Increase the primary/excess split point to an inflation-adjusted \$15,000 over a three-year transition period, and continue to increase this amount thereafter on an annual basis using a countrywide inflation index.
 - a. In year one, initially increase the primary/excess split point to \$10,000, to become effective concurrently with each state's approved rate/loss cost filing on or after January 1, 2013
 - b. In year two, increase the primary/excess split point to \$13,500, concurrently with each state's approved rate/loss cost filing
 - c. In year three, and annually thereafter, concurrent with each state's approved rate/loss cost filing, increase the primary/excess split point to the indexed value for \$15,000. The index would estimate annual countrywide severity changes between the average loss date for experience rating modifications in the initial year of implementation and the effective year.

Informational Exhibit 3 restates the results from NCCI's standard quintile test for PY 2006 using the proposed \$15,000 split point. Comparing this exhibit to **Informational Exhibit 2**, it is apparent that the \$15,000 split point is superior at distinguishing between the middle three groups (see left side of both exhibits). The right side of these exhibits also reveals the superiority of the \$15,000 split point since the **Informational Exhibit 3** loss ratios are much closer to 100% for all groups, indicating that the magnitude of the credits and debits using a \$15,000 split point is appropriate. **Informational Exhibit 2** shows that the credits and debits using the current \$5,000 split point are too small.

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FILING MEMORANDUM

ITEM E-1402—REVISIONS TO THE EXPERIENCE RATING PLAN PRIMARY/EXCESS SPLIT POINT VALUE AND MAXIMUM DEBIT MODIFICATION FORMULA

The applicable primary/excess split point value will be shown on each state's Experience Rating Values pages.

2. Revise the maximum debit modification formula to $1.10 + 0.0004 \times E/G$. This proposed formula improves on the current formula in both of the areas noted in the **Background** section of this filing memorandum as follows:
 - a. The proposed formula has a hard minimum of 1.10 rather than 1.00. A maximum debit that approaches 10% is more reasonable than a 0% debit.
 - b. The proposed formula more fully accounts for differences across states in claim severities. The variable term in this formula ($0.0004 \times E/G$) incorporates the G-value and produces an experience rating modification cap that fully accounts for state differences in claim severities. Under the proposed formula, two identical employers in two different states would be subject to the same experience rating modification cap.

Informational Exhibit 4 provides a comparison of the current and proposed experience rating modification caps for various G-values. The experience rating modification caps would continue to vary by state. The exhibit also shows the G-values that had been filed as of March 1, 2011 in each state.

IMPACT

Primary/Excess Split Point

There is no overall statewide premium impact from the proposed change to the primary/excess split point.

The average experience rating modification across all employers will not change due to these increases in the split point. This is because there will be corresponding changes to the Discount Ratio (D ratio), which determines the expected excess losses used in the experience rating modification formula. In general, both experience rating credits and experience rating debits will become larger. These credits and debits will offset each other on a statewide basis. In addition, the overall average experience rating modification (the experience rating off-balance) is monitored on a state-by-state basis. Experience rating values are adjusted in the annual rate/loss cost filings to achieve the targeted overall experience rating modification value.

On an individual risk basis, most employers currently receiving credit experience rating modifications will receive larger credits under the proposal. Most employers currently receiving debit experience rating modifications will receive larger debits under the proposal.

Informational Exhibit 5 provides an estimate of what the Plan's distribution of risks, payroll, and expected losses by experience rating modification change would be under the initial \$10,000 split point. This exhibit shows that 93% of risks will receive less than a 10-point change in their experience rating modification under the initial \$10,000 split point. This exhibit also reflects the proposed change to the maximum debit modification formula.

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ITEM E-1402—REVISIONS TO THE EXPERIENCE RATING PLAN PRIMARY/EXCESS SPLIT POINT VALUE AND MAXIMUM DEBIT MODIFICATION FORMULA

Maximum Debit Modification Formula

The overall statewide premium impact from the proposed change to the maximum debit modification formula is negligible.

Informational Exhibit 4 provides a comparison of the current and proposed caps for various G-values. **Informational Exhibit 6** shows the estimated number of risks in the Plan that would be impacted by the maximum debit modification formula change.

IMPLEMENTATION

In order to implement this item, the attached exhibits detail the changes required in NCCI's *Experience Rating Plan Manual*:

- **Exhibit 1** contains national rule changes
- **Exhibit 2** contains state-specific rule changes
- **Informational Exhibits 1–6** provide additional, nonfiled technical information related to the proposed changes

This item will become effective concurrently with each state's approved rate/loss cost filing effective on or after January 1, 2013. For example, this item will become effective January 1, 2013 with approved rate/loss cost filings that have a January 1, 2013 effective date. Similarly, this item will become effective July 1, 2013 with approved rate/loss cost filings that have a July 1, 2013 effective date.

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**ITEM E-1402—REVISIONS TO THE EXPERIENCE RATING PLAN PRIMARY/EXCESS SPLIT
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The following chart shows the proposed effective dates for each state:

State	Proposed Effective Date*
Alabama	March 1, 2013
Alaska	January 1, 2013
Arizona	January 1, 2013
Arkansas	July 1, 2013
Colorado	January 1, 2013
Connecticut	January 1, 2013
District of Columbia	November 1, 2013
Florida	January 1, 2013
Georgia	March 1, 2013
Hawaii	January 1, 2013
Idaho	January 1, 2013
Illinois	January 1, 2013
Indiana	January 1, 2013
Iowa	January 1, 2013
Kansas	January 1, 2013
Kentucky	October 1, 2013
Louisiana	May 1, 2013
Maine	January 1, 2013
Maryland	January 1, 2013
Massachusetts	TBD
Mississippi	March 1, 2013
Missouri	January 1, 2013
Montana	July 1, 2013
Nebraska	February 1, 2013
Nevada	March 1, 2013
New Hampshire	January 1, 2013
New Mexico	January 1, 2013

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**ITEM E-1402—REVISIONS TO THE EXPERIENCE RATING PLAN PRIMARY/EXCESS SPLIT
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State	Proposed Effective Date*
North Carolina	April 1, 2013
Oklahoma	January 1, 2013
Oregon	January 1, 2013
Rhode Island	June 1, 2013
South Carolina	July 1, 2013
South Dakota	July 1, 2013
Tennessee	March 1, 2013
Utah	December 1, 2013
Vermont	April 1, 2013
Virginia	April 1, 2013
West Virginia	November 1, 2013

* Subject to change

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**ITEM E-1402—REVISIONS TO THE EXPERIENCE RATING PLAN PRIMARY/EXCESS SPLIT
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EXHIBIT 1

EXPERIENCE RATING PLAN MANUAL—2003 EDITION

RULE 2—EXPERIENCE RATING ELEMENTS AND FORMULA

C. ELEMENTS OF EXPERIENCE RATING FORMULA AND WORKSHEET

**(Applies in: AL, AR, AZ, CT, DC, FL, HI, IA, ID, IL, IN, KS, KY, MD, ME, MO, MS, MT, NC, NE,
NH, NM, NV, OK, RI, SC, SD, TN, UT, VA, VT, WV)**

6. Actual Primary Losses

Actual Primary Losses are the portion of the actual incurred losses that are used at full value in the experience rating calculation. For each actual incurred loss, the amount up to ~~\$5,000~~ the applicable state primary/excess split point value is considered primary.

Refer to the Experience Rating Values state pages of this Plan for the applicable state primary/excess split point value.

For each medical-only claim, the primary amount is reduced by 70%.

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RULE 2—EXPERIENCE RATING ELEMENTS AND FORMULA

C. ELEMENTS OF EXPERIENCE RATING FORMULA AND WORKSHEET

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

7. Expected Excess Losses

Expected Excess Losses are determined by subtracting the total expected primary losses from the total expected losses. Within the experience rating modification calculation, the expected excess losses represent the benchmark level of losses in total, for the portion of all claims in excess of ~~\$5,000~~ the applicable state primary/excess split point value. It is against this benchmark that individual employers are compared, based on their actual excess losses.

Refer to the Experience Rating Values state pages of this Plan for the applicable state primary/excess split point value.

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C. ELEMENTS OF EXPERIENCE RATING FORMULA AND WORKSHEET

12. RATABLE EXCESS

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

b. Actual Ratable Excess Losses

Actual Ratable Excess Losses are determined by multiplying the weighting value times the actual excess losses. The result is rounded to the nearest whole number. For each actual incurred loss exceeding ~~\$5,000~~ the applicable state primary/excess split point value, only a portion of the loss amount above ~~\$5,000 (the excess portion)~~ the applicable state primary/excess split point value is used. Within the experience rating calculation, the actual ratable excess losses represent, in total, the amount of actual excess losses to be used.

Refer to the Experience Rating Values state pages of this Plan for the applicable state primary/excess split point value.

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C. ELEMENTS OF EXPERIENCE RATING FORMULA AND WORKSHEET
13. LIMITATION OF LOSSES EMPLOYED IN A RATING

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

(*See Exhibit 2 State Exceptions to the Basic Loss Limitation Table in AK, CO, GA, LA, MA, OR)

a. Single and Multiple Claim Limitation
Basic Loss Limitation Table

If . . .	Then . . .
A medical-only loss (injury type 6) exists	The actual incurred loss, actual primary loss, and actual excess loss amounts are reduced by 70%
An accident involves only one person	<ul style="list-style-type: none"> The loss is subject to the per claim accident limitation The actual primary loss is subject to the maximum primary value of \$5,000 <u>the applicable state primary/excess split point value</u>, even if the loss does not exceed the per claim accident limitation
An employers liability-only loss exists	<ul style="list-style-type: none"> The loss is subject to the employers liability per claim accident limitation The actual primary loss is subject to the maximum primary value of \$5,000 <u>the applicable state primary/excess split point value</u>, even if the loss does not exceed the employers liability per claim accident limitation

Loss Limitations for Accidents Involving Two or More Persons Table 1

If an accident involves two or more persons, and . . .	Then . . .
The total of the losses exceeds the multiple claim accident limitation	<ul style="list-style-type: none"> The total losses are subject to the multiple claim accident limitation The actual primary loss for these accidents is limited to \$10,000 <u>two times the applicable state primary/excess split point value</u>, even if the losses do not exceed the multiple claim accident limitation
The total of the losses does not exceed the multiple claim accident limitation, and none of the individual losses within the total exceeds the state per claim accident limitation	<ul style="list-style-type: none"> The individual losses are used at full value The total actual primary losses for the accident are limited to \$10,000 <u>two times the applicable state primary/excess split point value</u>

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EXHIBIT 1 (CONT'D)
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C. ELEMENTS OF EXPERIENCE RATING FORMULA AND WORKSHEET
13. LIMITATION OF LOSSES EMPLOYED IN A RATING
 (Applies in: AK*, AL, AR, AZ, CO*, CT, DC, FL, GA*, HI, IA, ID, IL, IN, KS, KY, LA*, MA*, MD,
 ME, MO, MS, MT, NC, NE, NH, NM, NV, OK, OR*, RI, SC, SD, TN, UT, VA, VT, WV)
 (*See Exhibit 2 State Exceptions to the Basic Loss Limitation Table in AK, CO, GA, LA,
 MA, OR)

Loss Limitations for Accidents Involving Two or More Persons Table 2

If an accident involves two or more persons, and the total of the losses does not exceed the multiple claim accident limitation, but an individual loss within the total exceeds the state per claim accident limitation, and . . .	Then the individual loss is limited to the state per claim accident limitation and . . .
The total of the remaining losses exceeds \$5,000 the applicable state primary/excess split point value	<ul style="list-style-type: none"> The remainder of the losses are used at full value The total actual primary losses for the accident are limited to \$10,000 two times the applicable state primary/excess split point value
The total of the remaining losses does not exceed \$5,000 the applicable state primary/excess split point value	<ul style="list-style-type: none"> The remainder of the losses are used at full value The actual primary loss is limited to \$5,000 the applicable state primary/excess split point value for the individually limited loss No actual primary loss limitation applies for the remainder of the losses

Refer to the User's Guide for examples.

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C. ELEMENTS OF EXPERIENCE RATING FORMULA AND WORKSHEET

13. LIMITATION OF LOSSES EMPLOYED IN A RATING

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

b. Disease Loss Limitation

Disease losses are subject to per claim and multiple claim limitations. A limitation on total disease losses may also apply to an individual policy. This is in addition to the claim limitations already applied to individual disease losses under Rule 2-C-13-a.

(1) To apply the disease loss policy limitation:

(a) Determine if a risk's individual policy total limited and nonlimited actual incurred disease losses exceed the policy disease limit of triple the per claim accident limitation shown in the Tables of Weighting Values, plus 120% of the risk's total expected losses for the experience period. If the risk-specific threshold is exceeded, the disease losses are limited to such threshold, and

(b) The actual primary losses are limited to ~~\$10,000~~ two times the applicable state primary/excess split point value, plus 40% of the risk's total expected primary losses for the experience period.

(c) Round the result of (b) to the nearest whole number.

(2) A policy's total disease losses may not meet the risk-specific policy limitation amount as determined in (1)(a) above, but exceed the limitation shown in (1)(b). In such circumstances, Rule 2-C-13-a applies.

*Refer to the **User's Guide** for examples.*

(3) For risks that do not have an experience period of 36 months, determine policy disease losses as follows:

To determine the . . .	Combine the disease losses of all policies within the experience period having an effective date . . .
Most recent policy year	Within 24 months prior to the rating effective date
Middle policy year	More than 24 months but not exceeding 36 months prior to the rating effective date
Oldest policy year	More than 36 months prior to the rating effective date

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D. EXPERIENCE RATING FORMULA**

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

2. Maximum Debit Modification

Experience rating modification factors determined by the formula in Rule 2-D-1 are subject to a cap if the debit modification exceeds a specific amount. The risk-specific maximum debit modification is determined as follows:

Maximum Debit Modification = $1.10 + (0.0004 \times E/G)1 + \{(0.00005)(\text{Total Expected Losses}) + (2)(\text{Total Expected Losses})/(G)\}$

The maximum debit modification for an interstate risk is limited to the cap for the state with the largest amount of expected losses.

"E" is the risk's total expected losses.

"G" is a factor value equal to a state's average cost per claim for losses used in experience rating, divided by 1000. "G" is located in the Experience Rating Values state pages of this Plan.

*Refer to the **User's Guide** for an example.*

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C. ELEMENTS OF EXPERIENCE RATING FORMULA AND WORKSHEET
(Applies in: AK)

6. Actual Primary Losses

Change Rule 2-C-6 as follows:

Actual Primary Losses are the portions of the actual incurred losses that are used at full value in the experience rating calculation. For each actual incurred loss, the amount up to ~~\$5,000~~ the applicable state primary/excess split point value is considered primary.

Refer to the Experience Rating Values state pages of this Plan for the applicable state primary/excess split point value.

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C. ELEMENTS OF EXPERIENCE RATING FORMULA AND WORKSHEET
13. LIMITATION OF LOSSES EMPLOYED IN A RATING
(Applies in: AK)

a. Single and Multiple Claim Limitation

Change the Basic Loss Limitation Table of Rule 2-C-13-a as follows:

Basic Loss Limitation Table

If . . .	Then . . .
An accident involves only one person	<ul style="list-style-type: none">• The loss is subject to the per claim accident limitation• The actual primary loss is subject to the maximum primary value of \$5,000 the applicable state primary/excess split point value, even if the loss does not exceed the per claim accident limitation
An employers liability-only loss exists	<ul style="list-style-type: none">• The loss is subject to the employers liability per claim accident limitation• The actual primary loss is subject to the maximum primary value of \$5,000 the applicable state primary/excess split point value, even if the loss does not exceed the employers liability per claim accident limitation

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C. ELEMENTS OF EXPERIENCE RATING FORMULA AND WORKSHEET
(Applies in: CO)

6. Actual Primary Losses

Change Rule 2-C-6 as follows:

Actual Primary Losses are the portions of the actual incurred losses that are used at full value in the experience rating calculation. For each actual incurred loss, the amount up to ~~\$5,000~~ the applicable state primary/excess split point value is considered primary.

Refer to the Experience Rating Values state pages of this Plan for the applicable state primary/excess split point value.

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13. LIMITATION OF LOSSES EMPLOYED IN A RATING
(Applies in: CO)

a. Single and Multiple Claim Limitation

Change the Basic Loss Limitation Table of Rule 2-C-13-a as follows:

Basic Loss Limitation Table

If . . .	Then . . .
An accident involves only one person	<ul style="list-style-type: none">• The loss is subject to the per claim accident limitation• The actual primary loss is subject to the maximum primary value of \$5,000 the applicable state primary/excess split point value, even if the loss does not exceed the per claim accident limitation
An employers liability-only loss exists	<ul style="list-style-type: none">• The loss is subject to the employers liability per claim accident limitation• The actual primary loss is subject to the maximum primary value of \$5,000 the applicable state primary/excess split point value, even if the loss does not exceed the employers liability per claim accident limitation

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C. ELEMENTS OF EXPERIENCE RATING FORMULA AND WORKSHEET
(Applies in: FL)

13. Limitation of Losses Employed in a Rating

Add the following to Rule 2-C-13:

c. Contract Medical Losses

The Indicated Allocation Value is defined as $100 + 100G$, where G is an index of the average cost per claim. This value is used to split the reported contract medical losses into primary and excess components.

For each reported claim other than medical only, this value is initially allocated to primary loss. Then restrictions are imposed on the allocation process, as indicated below, limiting the amount of contract medical loss that can be considered primary.

The Allocated Primary Value is defined as the total amount of contract medical loss to be included as part of actual primary losses in the calculation of the modification, and is limited to the total contract medical loss reported for each policy. Thus, the allocated primary value equals the sum of the indicated allocation values for all claims, subject to the restrictions below.

(1) Single and Multiple Claim Limitation**(a) An Accident Involving One Person**

An accident involving an injury to one person is limited to the accident limitation in the Tables of Weighting and Ballast Values. The actual primary loss for such an accident is subject to the maximum primary value of ~~\$5,000~~ the applicable state primary/excess split point value, including the indicated allocation value. For example, assume that the applicable state primary/excess split point value equals \$10,000, and suppose that G equals 4, resulting in an indicated allocation value of \$500. Then for an individually reported claim of ~~\$4,600~~ \$9,600, only \$400 of the \$500 can be allocated to actual primary losses.

(b) Accidents Involving Two or More Persons

Accidents involving injuries to two or more persons are limited to the multiple claim accident limitation in the Tables of Weighting and Ballast Values, which is twice the normal accident limitation. The actual primary loss plus the sum of the indicated allocation values for all claims resulting from such an accident is limited to ~~\$10,000~~ twice the normal maximum primary value of two times the applicable state primary/excess split point value.

(2) Disease Loss Limitation

Disease losses for each policy are limited to triple the accident limitation shown in the Tables of Weighting and Ballast Values, plus 120% of the risk's total expected losses for the experience period. For each policy, the actual primary loss for disease losses, including the sum of the indicated allocation values for all disease claims, is limited to ~~\$10,000~~ two times the applicable state primary/excess split point value plus 40% of the risk's total expected primary losses for the experience period.

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C. ELEMENTS OF EXPERIENCE RATING FORMULA AND WORKSHEET
(Applies in: GA)**

6. Actual Primary Losses

Change Rule 2-C-6 as follows:

Actual Primary Losses are the portions of the actual incurred losses that are used at full value in the experience rating calculation. For each actual incurred loss, the amount up to ~~\$5,000~~ the applicable state primary/excess split point value is considered primary.

Refer to the Experience Rating Values state pages of this Plan for the applicable state primary/excess split point value.

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13. LIMITATION OF LOSSES EMPLOYED IN A RATING
(Applies in: GA)

a. Single and Multiple Claim Limitation

Change the Basic Loss Limitation Table of Rule 2-C-13-a as follows:

Basic Loss Limitation Table

If . . .	Then . . .
An accident involves only one person	<ul style="list-style-type: none">• The loss is subject to the per claim accident limitation• The actual primary loss is subject to the maximum primary value of \$5,000 <u>the applicable state primary/excess split point value</u>, even if the loss does not exceed the per claim accident limitation
An employers liability-only loss exists	<ul style="list-style-type: none">• The loss is subject to the employers liability per claim accident limitation• The actual primary loss is subject to the maximum primary value of \$5,000 <u>the applicable state primary/excess split point value</u>, even if the loss does not exceed the employers liability per claim accident limitation

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C. ELEMENTS OF EXPERIENCE RATING FORMULA AND WORKSHEET
(Applies in: LA)**

6. Actual Primary Losses

Change Rule 2-C-6 as follows:

Actual Primary Losses are the portion of the actual incurred losses that are used at full value in the experience rating calculation. For each actual incurred loss, the amount up to ~~\$5,000~~ the applicable state primary/excess split point value is considered primary.

Refer to the Experience Rating Values state pages of this Plan for the applicable state primary/excess split point value.

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C. ELEMENTS OF EXPERIENCE RATING FORMULA AND WORKSHEET
13. LIMITATION OF LOSSES EMPLOYED IN A RATING
(Applies in: LA)

a. Single and Multiple Claim Limitation

Change the Basic Loss Limitation Table of Rule 2-C-13-a as follows:

Basic Loss Limitation Table

If . . .	Then . . .
An accident involves only one person	<ul style="list-style-type: none">• The loss is subject to the per claim accident limitation• The actual primary loss is subject to the maximum primary value of \$5,000 <u>the applicable state primary/excess split point value</u>, even if the loss does not exceed the per claim accident limitation
An employers liability-only loss exists	<ul style="list-style-type: none">• The loss is subject to the employers liability per claim accident limitation• The actual primary loss is subject to the maximum primary value of \$5,000 <u>the applicable state primary/excess split point value</u>, even if the loss does not exceed the employers liability per claim accident limitation

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C. ELEMENTS OF EXPERIENCE RATING FORMULA AND WORKSHEET
(Applies in: MA)

6. Actual Primary Losses

Change Rule 2-C-6 as follows:

Actual Primary Losses are the portion of the Actual Incurred Losses that are used at full value in the experience rating calculation. For each actual incurred loss, the amount up to ~~\$5,000~~ the applicable state primary/excess split point value is considered primary.

Refer to the Experience Rating Values state pages of this Plan for the applicable state primary/excess split point value.

**ITEM E-1402—REVISIONS TO THE EXPERIENCE RATING PLAN PRIMARY/EXCESS SPLIT
POINT VALUE AND MAXIMUM DEBIT MODIFICATION FORMULA**

EXHIBIT 2
EXPERIENCE RATING PLAN MANUAL—2003 EDITION
RULE 2—EXPERIENCE RATING ELEMENTS AND FORMULA
C. ELEMENTS OF EXPERIENCE RATING FORMULA AND WORKSHEET
13. LIMITATION OF LOSSES EMPLOYED IN A RATING
(Applies in: MA)

a. Single and Multiple Claim Limitation

Change Basic Loss Limitation Table of Rule 2-C-13-a as follows:

- Basic Loss Limitation Table

If . . .	Then . . .
An accident involves only one person	<ul style="list-style-type: none">• The loss is subject to the per claim accident limitation• The actual primary loss is subject to the maximum primary value of \$5,000 the <u>applicable state primary/excess split point value</u>, even if the loss does not exceed the per claim accident limitation
An employers liability-only loss exists	<ul style="list-style-type: none">• The loss is subject to the employers liability per claim accident limitation• The actual primary loss is subject to the maximum primary value of \$5,000 the <u>applicable state primary/excess split point value</u>, even if the loss does not exceed the employers liability per claim accident limitation

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(Applies in: OR)

6. Actual Primary Losses

Change Rule 2-C-6 as follows:

Actual Primary Losses are the portion of the Actual Incurred Losses that are used at full value in the experience rating calculation. For each actual incurred loss, the amount up to ~~\$5,000~~ the applicable state primary/excess split point value is considered primary.

Refer to the Experience Rating Values state pages of this Plan for the applicable state primary/excess split point value.

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(Applies in: OR)

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Change the Basic Loss Limitation Table of Rule 2-C-13-a as follows:

Basic Loss Limitation Table

If . . .	Then . . .
An accident involves only one person	<ul style="list-style-type: none">• The loss is subject to the per claim accident limitation• The actual primary loss is subject to the maximum primary value of \$5,000 <u>the applicable state primary/excess split point value</u>, even if the loss does not exceed the per claim accident limitation
An employers liability-only loss exists	<ul style="list-style-type: none">• The loss is subject to the employers liability per claim accident limitation• The actual primary loss is subject to the maximum primary value of \$5,000 <u>the applicable state primary/excess split point value</u>, even if the loss does not exceed the employers liability per claim accident limitation

**ITEM E-1402—REVISIONS TO THE EXPERIENCE RATING PLAN PRIMARY/EXCESS SPLIT
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RULE 2—EXPERIENCE RATING ELEMENTS AND FORMULA
(Applies in: VA)**

C. ELEMENTS OF EXPERIENCE RATING FORMULA AND WORKSHEET

13. Limitation of Losses Employed in a Rating

b. Disease Loss Limitation

Change Rule 2-C-13-b(1) as follows:

- (1) A risk's individual policy total limited and nonlimited actual incurred disease losses must exceed the policy disease limit of the per claim accident limitation shown in the Tables of Weighting Values, plus 40% of the risk's total expected losses for the experience period, and

Change Rule 2-C-13-b(2) as follows:

- (2) Limit the actual primary losses to ~~\$20,000~~ four times the applicable state primary/excess split point value, plus 40% of the risk's total expected primary losses for the experience period.

Changes in Average Claim Cost Over Time

Experience Rating Plan losses at first report

<u>Midpoint of Experience</u>	<u>Average Claim Cost</u>
12/15/88	\$2,527
11/11/89	\$2,777
01/07/91	\$3,157
11/20/91	\$3,321
12/11/92	\$3,418
11/28/94	\$3,409
08/29/95	\$3,432
10/28/96	\$3,571
10/15/97	\$3,693
08/08/98	\$3,850
01/14/00	\$4,306
06/22/00	\$4,508
03/05/02	\$5,349
02/15/03	\$5,861
03/26/04	\$6,267
03/02/05	\$6,419
03/24/06	\$6,803
03/06/07	\$7,224
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01/01/11	\$8,787 *

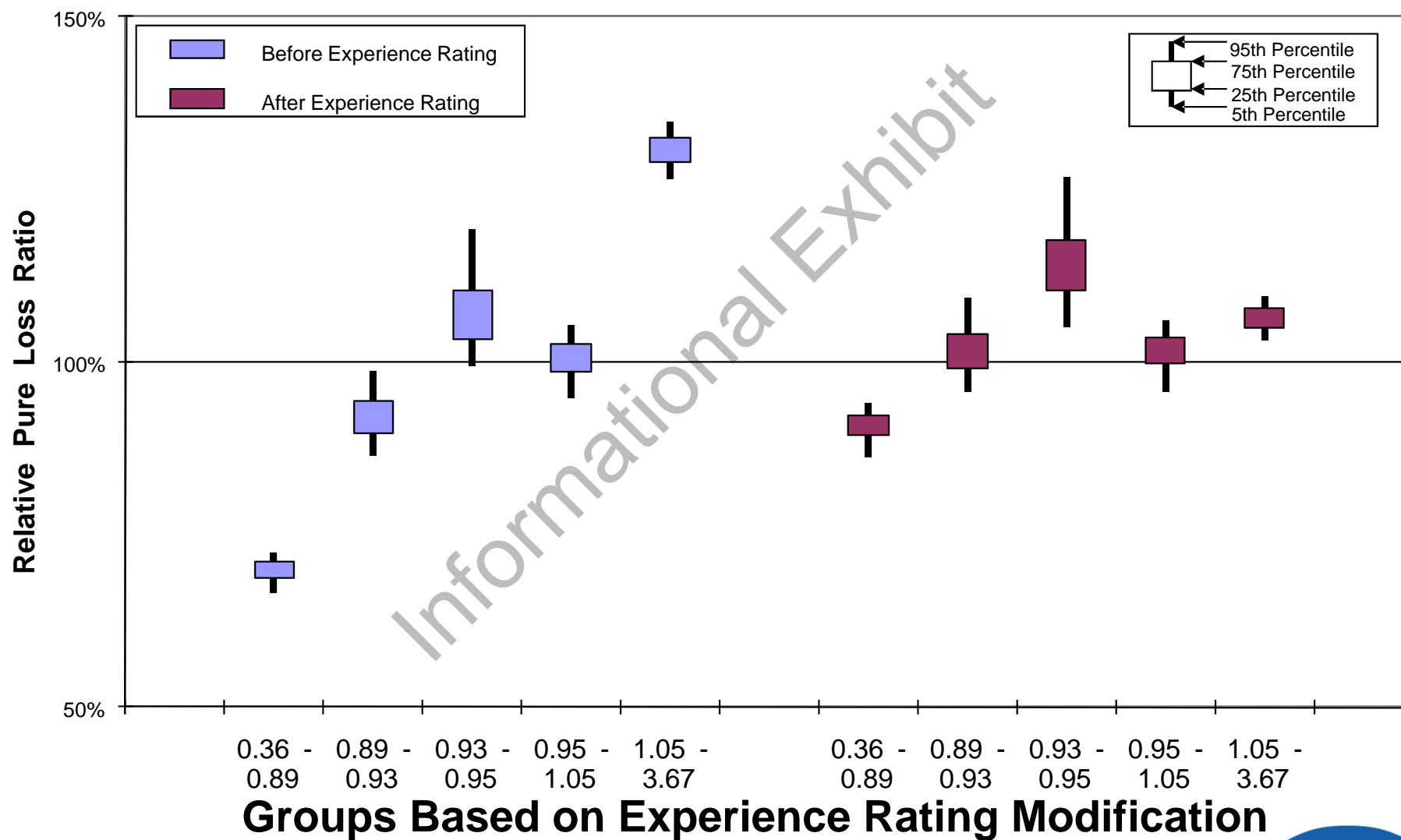
Note:

- 12/15/88 is approximately the average loss date for experience ratings when the split point was last changed
- 1/1/11 is the average loss date for experience ratings under the proposed split point in states where this filing becomes effective on 1/1/13
- Over this time period, claim costs have more than tripled, from \$2,527 to \$8,787

* Assuming a 5.25% annual trend from 3/6/07 to 1/1/11

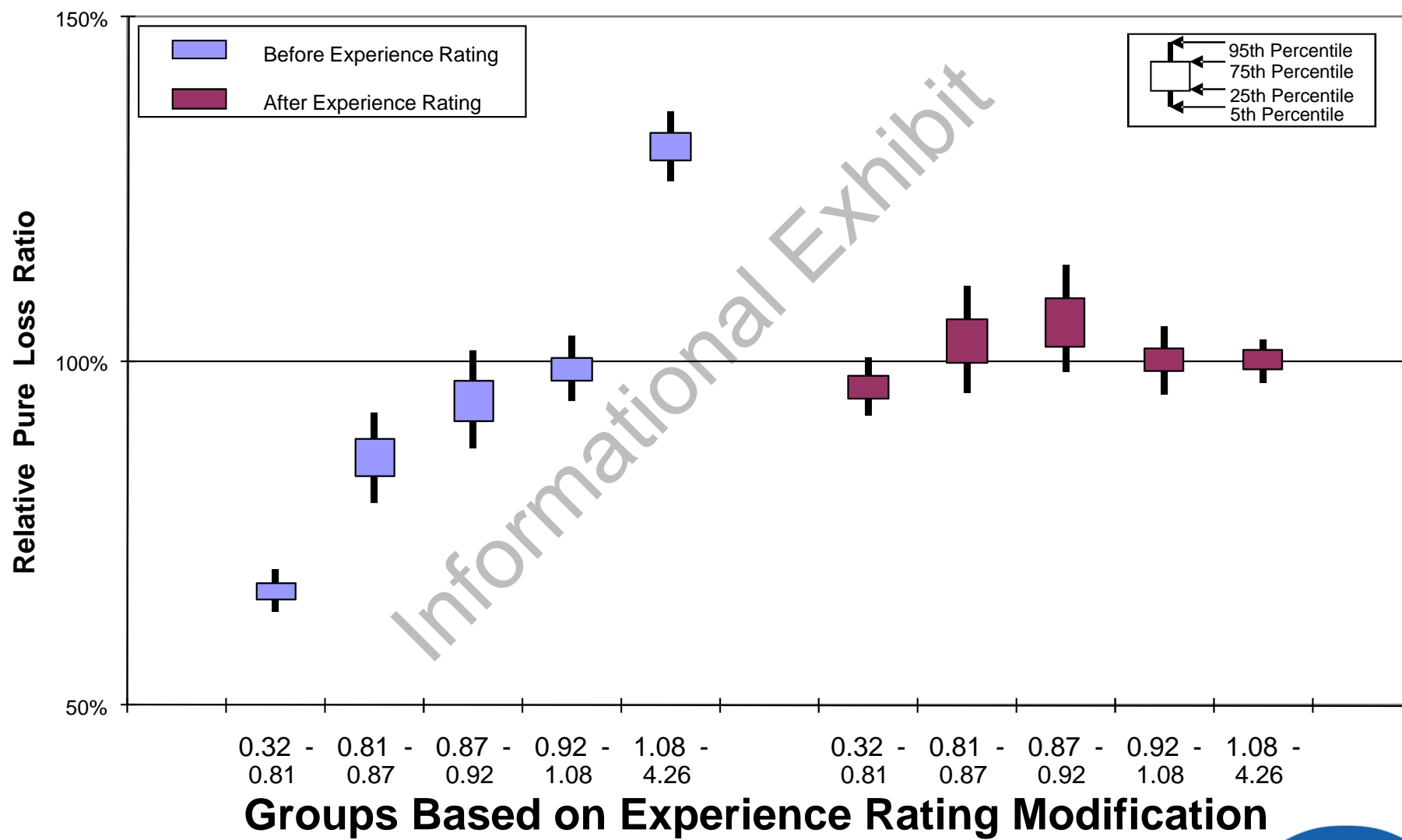
Quintile Analysis: Current \$5,000 Split Point

Policy Year 2006 experience under NCCI's ER Plan, indexed for severity inflation



Quintile Analysis: Indicated \$15,000 Split Point

Policy Year 2006 experience under NCCI's ER Plan, indexed for severity inflation



Current Formula: $1 + 0.00005(E+2E/G)$

Proposed Formula: $1.1 + 0.0004(E/G)$

Expected Losses (E)	G (SACC) = 5		G (SACC) = 7		G (SACC) = 10	
	Current	Proposed	Current	Proposed	Current	Proposed
500	1.04	1.14	1.03	1.13	1.03	1.12
1,000	1.07	1.18	1.06	1.16	1.06	1.14
2,500	1.18	1.30	1.16	1.24	1.15	1.20
5,000	1.35	1.50	1.32	1.39	1.30	1.30
6,667	1.47	1.63	1.43	1.48	1.40	1.37
7,500	1.53	1.70	1.48	1.53	1.45	1.40
10,000	1.70	1.90	1.64	1.67	1.60	1.50
15,000	2.05	2.30	1.96	1.96	1.90	1.70
20,000	2.40	2.70	2.29	2.24	2.20	1.90
25,000	2.75	3.10	2.61	2.53	2.50	2.10
30,000	3.10	3.50	2.93	2.81	2.80	2.30
40,000	3.80	4.30	3.57	3.39	3.40	2.70
50,000	4.50	5.10	4.21	3.96	4.00	3.10
75,000	6.25	7.10	5.82	5.39	5.50	4.10
100,000	8.00	9.10	7.43	6.81	7.00	5.10

The G-value is the State Average Claim Cost (SACC) in units of 1,000. These are the latest G-values by state: (as of 3/1/11)

<u>State Code</u>	<u>G (SACC)</u>	<u>State Code</u>	<u>G (SACC)</u>	<u>State Code</u>	<u>G (SACC)</u>
AL	7	KY	6.35	OR	6.1
AZ	5.5	LA	13	RI	6.85
AR	5.6	ME	5.3	SC	11.35
CO	6.85	MD	8.9	SD	6
CT	9.25	MS	8.75	TN	8.15
DC	11.5	MO	9.55	UT	4.45
FL	7.2	MT	8.45	VT	7.45
GA	9.55	NE	7.75	VA	7.9
ID	5.9	NV	6.5	WV	6.2
IL	14.8	NH	7.3	HI	8.5
IA	7.9	NM	8.3	AK	11.15
KS	7.05	OK	11.65		

Distribution of Differences Between Old and New Mod Values

Impact of \$10,000 Split Point on NCCI's ER Plan 2009 Intrastate Mods

Impact of changing the split point to \$10,000 and implementing new cap formula on intrastate mods effective in 2009; split points indexed for severity inflation

Change in Mod	Percentage of			Average Mod	
	Risks	Payroll	Expected Losses	Current	Proposal
Change < -0.25	0.0%	0.0%	0.0%	---	---
-0.25 <= Change < -0.20	0.0%	0.0%	0.0%	---	---
-0.20 <= Change < -0.15	0.0%	0.0%	0.0%	---	---
-0.15 <= Change < -0.10	0.0%	0.0%	0.0%	1.31	1.19
-0.10 <= Change < -0.05	8.1%	12.5%	13.8%	0.83	0.77
-0.05 <= Change < -0.02	38.3%	31.9%	33.0%	0.89	0.85
-0.02 <= Change <= 0.02	35.8%	33.6%	33.5%	0.99	0.98
0.02 < Change <= 0.05	4.3%	8.4%	8.0%	1.14	1.18
0.05 < Change <= 0.10	6.5%	7.4%	6.8%	1.21	1.29
0.10 < Change <= 0.15	4.5%	3.6%	2.9%	1.30	1.42
0.15 < Change <= 0.20	1.6%	1.4%	1.1%	1.40	1.58
0.20 < Change <= 0.25	0.5%	0.6%	0.5%	1.50	1.73
0.25 < Change	0.4%	0.5%	0.4%	1.69	2.01

Note: excludes large deductible policies

ER Mod Cap Impact Analysis

Impact of Mod Caps on NCCI's ER Plan 2009 Intrastate Mods

Proposed includes new mod cap formula and \$10K split point; split points indexed for severity inflation

Expected Loss (E)		Total Intrastate Risks	Number of Risks Reaching Current Mod Cap	Number of Risks Reaching Proposed Mod Cap
1	1,000	187	10	2
1,000	5,000	128,904	6,788	8,646
5,000	10,000	166,352	3,154	5,316
10,000	20,000	120,013	312	1,048
20,000	50,000	85,418	8	64
50,000	100,000	30,323	0	1
100,000	200,000	13,815	0	0
200,000	500,000	5,950	0	0
Over	500,000	1,284	0	0
Total		552,246	10,272	15,077
Percentage		100.0%	1.9%	2.7%

Note: excludes large deductible policies