Minnesota Workers' Compensation
Insurers Association, Inc.
7701 France Avenue South ▪ Suite 450
Minneapolis, MN 55435-3203

July 26, 2016

ALL ASSOCIATION MEMBERS

Circular Letter No. 16-1691

RE: NCCI Item R-1411-–2015 Update to the Retrospective Rating Plan Hazard Group Differentials and Manual Rules

The Minnesota Department of Commerce has approved the above filing to become effective 12:01 a.m., June 6, 2016 for new and renewal business.

The purpose of this item is to revise the Hazard Group Differentials (commonly referred to as Relativities) and several national and state-specific rules NCCI's ***Retrospective Rating Plan Manual for Workers' Compensation and Employers Liability Insurance***. Updated Hazard Group Differentials were filed and published in the ***2016 Minnesota Ratemaking Report***. This filing updated the national and state-specific rules only.

Large Risk Alternative Rating Option (LRARO) is a flexible retrospective rating plan that is mutually agreed to by the employer and carrier. It provides the employer and carrier the option of negotiating the retrospective rating factors used to calculate premium. National Rules 1-B-1-d and 2-E in ***NCCI's Retrospective Rating Plan Manual*** provide the details related to LRARO. An employer is eligible for the LRARO if the estimated standard premium, individually or in combination with any other commercial casualty lines of insurance, exceeds an annual standard premium eligibility threshold of $500,000 for the term of a retrospective rating plan. However, a number of states have a different LRARO premium eligibility threshold. To provide a single, comprehensive source of information regarding the LRARO, the following must be revised:

- Remove the threshold amount in rule 1-B-1-d located in the Minnesota exception pages.
- Include in NCCI's national pages, LRARO premium eligibility threshold amounts for all states in a table in Rule 2-E in addition to state-specific requirements regarding the application of LRARO

Additional miscellaneous updates to the following national rules are also needed. They are:

- 1-B-2—Elements of the Retrospective Rating Plan Formula to reference "Retrospective Development Premium" instead of "Retrospective Rating Development Premium"
- 1-B-2-e—Excess Loss Premium (ELP) to make minor language revisions for consistency with the rating values pages and revise the reference to the ***Retrospective Rating Plan manual User's Guide (Users Guide)***

- 1-B-2-f—Retrospective Development Premium (RDP) to clarify that the RDP stabilizes premium adjustments by anticipating future changes in losses, make minor language revisions for consistency with the rating values pages, and eliminate the reference to the ***User's Guide***
- 3-C—The Retrospective Rating Premium Without Elective Premium Elements to make minor language revisions for consistence with LRARO rule changes
- 4-B—Reports of Premiums and Losses Under the Plan to clarify that reporting requirements for any additional or return premium are located in NCCI's ***Financial Call Reporting Guidebook***

There will be no statewide premium impact as a result of the LRARO and miscellaneous rule changes proposed in this item.

The attached exhibits showing the current and proposed language. 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-1411.

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 3-A
RETROSPECTIVE RATING PLAN MANUAL—2009 EDITION

CURRENT LANGUAGE	PROPOSED LANGUAGE
RULE 1—GENERAL EXPLANATION	**RULE 1—GENERAL EXPLANATION**
B. DEFINITIONS	**B. DEFINITIONS**
1. General Definitions	**1. General Definitions**
d. Large Risk Alternative Rating Option (LRARO) The large Risk Alternative Rating Option is a flexible retrospective rating plan that is mutually agreed to by the ~~insured~~ and carrier~~. It is an available option for insureds with an estimated annual standard premium of at least $500,000 individually or in any combination with any commercial casualty insurance line and/or workers compensation and employers liability insurance.~~ Refer to Rule 2-E of this manual for state specific premium eligibility thresholds.	**d. Large Risk Alternative Rating Option (LRARO)** The large Risk Alternative Rating Option is a flexible retrospective rating plan that is mutually agreed to by the employer and carrier. It is an available option for policies that meet or exceed a specific premium eligibility threshold. Refer to Rule 2-E of this manual for state specific premium eligibility thresholds.

EXHIBIT 4-A
RETROSPECTIVE RATING PLAN MANUAL—2009 EDITION

CURRENT LANGUAGE	PROPOSED LANGUAGE
RULE 1—GENERAL EXPLANATION	**RULE 1—GENERAL EXPLANATION**
B. DEFINITIONS	**B. DEFINITIONS**
2. Elements of the Retrospective Rating Plan Formula The following formula includes all of the elective elements available under a retrospective rating plan. ~~See Rule 3 of this manual f~~or other variations of the retrospective rating formula. Retrospective Rating Premium = (Basic Premium + Excess Loss Premium + Retrospective ~~Rating~~ Development Premium + Converted Losses) x Tax Multiplier~~.~~	**2. Elements of the Retrospective Rating Plan Formula** The following formula includes all of the elective elements available under a retrospective rating plan. For other variations of the retrospective rating formula, refer to Rule 3. Retrospective Rating Premium = (Basic Premium + Excess Loss Premium + Retrospective Development Premium + Converted Losses) x Tax Multiplier

EXHIBIT 4-B
RETROSPECTIVE RATING PLAN MANUAL—2009 EDITION

CURRENT LANGUAGE	PROPOSED LANGUAGE
RULE 1—GENERAL EXPLANATION	**RULE 1—GENERAL EXPLANATION**
B. DEFINITIONS	**B. DEFINITIONS**
2. Elements of the Retrospective Rating Plan Formula	**2. Elements of the Retrospective Rating Plan Formula**
e. Excess Loss Premium (ELP) Excess loss premium is a charge for election of a loss limitation. ~~The excess loss premium factor~~ is applied after the basic premium in the retrospective rating plan formula. ~~(Excess Loss Premium~~ = Excess Loss Factor x Standard Premium x Loss Conversion Factor~~)~~ a. In states ~~where~~ NCCI files ~~full rates, NCCI files~~ the excess loss factors. ~~*Refer to the State Retrospective Rating Value pages for the Excess Loss Pure Premium Factors. Refer to the latest approved state loss cost filing for the LAE% and Loss Assessment%.*~~ In loss cost states, NCCI files excess loss pure premium factors. The excess loss pure premium factors must be converted to excess loss factors using the carrier's expenses provision applicable in each state.	**e. Excess Loss Premium (ELP)** Excess loss premium (ELP) is a charge for election of a loss limitation. It is applied after the basic premium in the retrospective rating plan formula. The ELP calculation is: ELP = Excess Loss Factor x Standard Premium x Loss Conversion Factor **1. Excess Loss Factors** Excess loss factors are used in the calculation of excess loss premium. Excess loss factors are also known as excess loss premium factors. **2, Excess Loss Factor Determination** a. In rate states, NCCI files the excess loss factors. NCCI also files excess loss and allocated expense factors which include a provision for allocated loss adjustment expenses. In loss cost states, NCCI files excess loss pure premium factors. Where applicable, NCCI also files excess loss and allocated expense pure premium factors which include a provision for allocated loss adjustment expenses. The excess loss pure premium factors and excess loss and allocated expense pure premium factors must be converted to excess loss factors or excess loss and allocated expense factors using the carrier's expenses provision applicable in each state. *Refer to the State Retrospective Rating Value pages for the excess loss pure premium factors.*

b. The ~~conversion~~ formula is: Excess Loss ~~Premium~~ Factor = [(Excess Loss Pure Premium Factor x Expected Loss Ratio) x (1 + Loss Adjustment Expense% + Loss Assessment%)] ~~The Excess Loss Pure Premium Factor, LAE%, and Loss Assessment% are NCCI-provided values.~~ The carrier determines the Expected Loss Ratio (ELR). ELR is a ratio of pure losses (no LAE) to premium. *~~Refer to the State Special Rating Values pages for the Excess Loss Factors or Excess Loss Pure Premium Factors.~~*	b. The formula for converting an excess loss pure premium factor to an excess loss factor is: Excess Loss Factor = [(Excess Loss Pure Premium Factor x Expected Loss Ratio) x (1 + Loss Adjustment Expense% + Loss Assessment %)] The formula for converting an excess loss and allocated expense pure premium factor to an excess loss and allocated expense factor is: Excess Loss Factor and Allocated Expense Factor = (Excess Loss Allocated Expense Pure Premium Factor x Expected Loss Ratio) x (1 + Loss Adjustment Expense% + Loss Assessment %) The carrier determines the Expected Loss Ratio (ELR). ELR is a ratio of pure losses (no LAE) to premium. *Refer to the latest approved state loss cost filing for the Loss Adjustment Expense (LAE) % and the Loss Assessment %.*
c. The Table of Classification by Hazard Group is used to determine the excess loss factor. This factor is determined based on the selected loss limitation and the hazard group assignment show in the Table for the classification producing the largest amount of estimated workers compensation standard premium for each state included in the plan. *Refer to the **Basic Manual** for the Table of Classification by Hazard Group*. For ~~insureds~~ having USL&HW for non-F-classification codes, the applicable hazard group to use for the determination of an excess loss factor ~~(ELF)~~ is the state classification code hazard group~~, located in the NCCI' Basic Manual,~~ increased two levels. When the state classification hazard group is already at the highest level hazard group, use that highest level hazard group. *~~Refer to **User's Guide** for examples.~~*	c. The Table of Classification by Hazard Group is used to determine the excess loss factor. This factor is determined based on the selected loss limitation and the hazard group assignment show in the Table for the classification producing the largest amount of estimated workers compensation standard premium for each state included in the plan. *Refer to the **Basic Manual** for the Table of Classification by Hazard Group*. For employers having USL&HW coverage for non-F-classification codes, the applicable hazard group to use for the determination of an excess loss factor is the state classification code hazard group increased by two levels. When the state classification hazard group is already at the highest level hazard group, use that highest level hazard group.

For the classification codes that include federal coverages (or F-classification codes), use the hazard group assigned to that code.

State Classification Hazard Group	USL&HW for Non-F-Classification Codes ~~Hazard Groups~~
A	C
B	D
C	E
D	F
E	G
F	G
G	G

For the classification codes that include federal coverages (or F-classification codes), use the hazard group assigned to that code.

State Classification Hazard Group	USL&HW Hazard Groups for Non-F-Classification Codes
A	C
B	D
C	E
D	F
E	G
F	G
G	G

Refer to the User's Guide for more information about excess loss factors.

EXHIBIT 5B
RETROSPECTIVE RATING PLAN MANUAL—2009 EDITION

CURRENT LANGUAGE	PROPOSED LANGUAGE
RULE 2—ELIGIBILITY FOR THE PLAN	**RULE 2—ELIGIBILITY FOR THE PLAN**
E. LARGE RISK ALTERNATIVE RATING OPTION (LRARO) The Large Risk Alternative Rating Option (LRARO) provides the carrier and ~~insured~~ the option of ~~negotiating the retrospective rating factors used to calculate premium. An insured is eligible for the LRARO if the estimated standard premium individually or in any combination with any other commercial casualty lines of insurance exceeds an annual standard premium eligibility threshold of $500,000 for the term of a retrospective rating plan.~~ The following table lists states with different ~~annual standard~~ premium eligibility thresholds ~~for LRARO~~.	**E. LARGE RISK ALTERNATIVE RATING OPTION (LRARO)** The Large Risk Alternative Rating Option (LRARO) provides the carrier and employer the option of negotiating, and mutually agreeing on, the retrospective rating plan premium. The following table lists the different LRARO premium eligibility thresholds and other requirements by state:

Current language:

LRARO ~~PREMIUM ELIGIBILITY THRESHOLD~~ BY STATE	
State	**~~Annual Standard Premium Eligibility Threshold~~**
Minnesota	$250,000

Proposed language:

LRARO TABLE BY STATE			
State	**Premium Eligibility Threshold**	**Premium Eligibility Threshold Basis**	**Other**
MN	Annual written premium of $250,000 or more generated from Minnesota and other states before the application of any large deductible rating plans	Workers compensation premium only	The carrier must file a certification in the form specified in Minnesota §79.56, subd. 1(b) for each impacted policy with the Minnesota Department of Commerce verifying compliance with the statute.

EXHIBIT 6
RETROSPECTIVE RATING PLAN MANUAL—2009 EDITION

CURRENT LANGUAGE	PROPOSED LANGUAGE
RULE 3—OPERATION OF PLAN	**RULE 3—OPERATION OF PLAN**
C. THE RETROSPECTIVE RATING PREMIUM WITHOUT ELECTIVE PREMIUM ELEMENTS The premium for an ~~insured~~ subject to a retrospective rating plan is determined by the following retrospective rating premium formula. Retrospective Rating Premium = [Basic Premium + Converted Losses] x Tax Multiplier The retrospective rating premium will not be less than the minimum retrospective rating premium or more than the maximum retrospective rating premium selected for a retrospective rating plan. If the ~~insured~~ for which a retrospective rating plan is applied incudes more than one legal entity, a single retrospective rating premium is calculated on the basis of the combined entities. **Note**: ~~Insureds~~ with an estimated annual standard premium of a specified premium eligibility threshold, ~~individually or in any combination with commercial casualty lines of insurance~~, may be rated under the Large Risk Alternative Rating Option. ~~That~~ option provides that such ~~insureds~~ may be retrospectively rated as mutually agreed upon by the ~~insured~~ and carrier. *Refer to Rule 2-E for ~~state specific average annual standard~~ premium thresholds.* ~~Refer to User's Guide for Examples~~ ~~A different premium eligibility level may be used if filed by an individual carrier, subject to regulatory approval~~.	**C. THE RETROSPECTIVE RATING PREMIUM WITHOUT ELECTIVE PREMIUM ELEMENTS** The premium for an employer subject to a retrospective rating plan is determined by the following retrospective rating premium formula. Retrospective Rating Premium = [Basic Premium + Converted Losses] x Tax Multiplier The retrospective rating premium will not be less than the minimum retrospective rating premium or more than the maximum retrospective rating premium selected for a retrospective rating plan. If the employer for which a retrospective rating plan is applied incudes more than one legal entity, a single retrospective rating premium is calculated on the basis of the combined entities. **Note**: Employers with an estimated annual standard premium of a specified premium eligibility threshold requirement and basis, may be rated under the Large Risk Alternative Rating Option. This option provides that such employers may be retrospectively rated as mutually agreed upon by the employer and carrier. *Refer to Rule 2-E for premium eligibility thresholds.*

EXHIBIT 7
RETROSPECTIVE RATING PLAN MANUAL—2009 EDITION

CURRENT LANGUAGE	PROPOSED LANGUAGE
RULE 4—ADMINISTRATION OF THE PLAN	**RULE 4—ADMINISTRATION OF THE PLAN**
B. REPORTS OF PREMIUMS AND LOSSES UNDER THE PLAN The standard premiums and losses incurred under a retrospective rating plan policy~~(s)~~ must be reported in accordance with ~~the~~ ***Statistical Plan***. ~~A~~ny additional or return premium under the retrospective rating program ~~must be reported to NCCI through~~ ~~***Financial Calls Online (FCOL)***~~***.***	**B. REPORTS OF PREMIUMS AND LOSSES UNDER THE PLAN** The standard premium and losses incurred under a retrospective rating plan policy must be reported in accordance with NCCI's ***Statistical Plan*** and ***Financial Call Reporting Guidebook***. For Financial Call reporting instructions on any additional or return premium under the retrospective rating program, *refer to NCCI's* ***Financial Call Reporting Guidebook.***

EXHIBIT 8
RETROSPECTIVE RATING PLAN MANUAL—2009 EDITION

MINNESOTA STATE RULE EXCEPTION

CURRENT LANGUAGE	PROPOSED LANGUAGE
RULE 2—ELIGIBILITY FOR THE PLAN	**RULE 2—ELIGIBILITY FOR THE PLAN**
E. ~~**LARGE RISK ALTERNATIVE RATING OPTION (LRARO)**~~ ~~Change Rule 2-E as follows:~~ ~~The Large Risk Alternative Rating Option provides that a risk may be retrospectively rated as mutually agreed upon by the carrier and insured. It is an available option for all risks that generate $250,000 or more in annual written workers compensation premium from Minnesota and other states before the application of any large deductible rating plans, provided that the carrier files a certification in the form specified in Minnesota Statute 79.56, subd. 1(b) for each impacted policy with the Minnesota Department of Commerce verifying compliance with the statute.~~	NONE

National Council on
Compensation
Insurance

Terri Robinson
State Relations Executive
Regulatory Services Division

(P) 501-753-5180 (F) 561-893-5655
Email: Terri_Robinson@ncci.com

June 15, 2015

Mr. Brandon Miller, President
Minnesota Workers' Compensation Insurers Association
7701 France Avenue South, Suite 450
Minneapolis, Minnesota 55435-3200

Re: **Item R-1411—2015 Update to the Retrospective Rating Plan Hazard Group Differentials and Manual Rules**

Dear Mr. Miller:

We are filing the above captioned item in a number of NCCI jurisdictions. The attached filing memorandum describes the proposed changes.

This filing memorandum is proprietary and copyrighted by NCCI. NCCI grants your organization permission to copy, use and modify the filing memorandum as necessary for filing in your jurisdiction on the condition that the materials are reprinted for distribution or sale only to members of your organization and only for use in your state. In addition, the modified pages must bear the following copyright legend:

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NCCI maintains a report for use by our common members that contains the approval status of national and state item filings (*Status of Item Filings Circular*). Please notify Michelle Smith by phone (561-893-3016) or e-mail (michelle_smith@ncci.com) if your organization files and receives approval of this item. This information will be reflected in the *Status of Item Filings Circular*, which is located on our web site and to which you have been given access.

Sincerely,

Terri Robinson

Terri Robinson
State Relations Executive

TR:ah

Attachment

FILING MEMORANDUM

ITEM R-1411—2015 UPDATE TO THE RETROSPECTIVE RATING PLAN HAZARD GROUP DIFFERENTIALS AND MANUAL RULES

PURPOSE

This item revises the Hazard Group Differentials (commonly referred to as Relativities) and several national and state-specific rules in NCCI's ***Retrospective Rating Plan Manual for Workers Compensation and Employers Liability Insurance (Retrospective Rating Plan Manual)***.

BACKGROUND

A retrospective rating plan adjusts the premium for an employer's policy on the basis of losses incurred during the term of that policy. At the simplest level, an employer's retrospective rating premium (RRP) is determined by the formula RRP = (BP + LCF * L) * TM, where:

RRP	=	Retrospective Rating Premium, subject to minimum and maximum amounts
BP	=	Basic Premium
LCF	=	Loss Conversion Factor, generally reflecting loss adjustment expense
L	=	Actual Incurred Loss during the effective policy period
TM	=	Tax Multiplier

The RRP is not known until after the policy has expired and the actual losses are fully developed. The basic premium contains provisions for the expenses of the carrier. It also includes a net insurance charge, which results from the maximum and minimum limitations on the RRP. The net insurance charge reflects the charge to compensate for the possibility that the RRP will exceed the maximum premium amount. It also reflects the savings resulting from the possibility that the RRP will be less than the minimum premium amount. The net insurance charge is the difference between the charge for the maximum and the savings from the minimum.

Appendix B—Table of Insurance Charges in NCCI's ***Retrospective Rating Plan Manual*** contains the excess ratios needed to quantify the insurance charge and savings described above. The ratio of the loss limit to expected losses—the entry ratio—is used to identify the values in the Table of Insurance Charges. The charges depend not only on the maximum and minimum subject losses but also on the size of the employer. This is because the expected variation in losses is lower for larger employers.

Hazard Group Differentials

The variation in the loss ratios for employers in the lower hazard groups generally should be smaller than the variation for employers in the higher hazard groups. The Hazard Group Differential factors adjust for this difference by placing lower hazard group employers in a higher Expected Loss Range and higher hazard group employers in a lower Expected Loss Range than would otherwise be the case. This adjustment affects the column selection in the Table of Insurance Charges, which then impacts the basic premium portion of the retrospective policy premium. The Hazard Group Differentials should be updated regularly to reflect changes in the circumstances (e.g., state statutory benefit levels and inflation) underlying each state's severity.

FILING MEMORANDUM

ITEM R-1411—2015 UPDATE TO THE RETROSPECTIVE RATING PLAN HAZARD GROUP DIFFERENTIALS AND MANUAL RULES

The Hazard Group Differential is determined by dividing the countrywide average cost per case by the average cost per case for the state and hazard group. For Michigan, Texas, West Virginia, and Wisconsin, a credibility formula is applied for determining each state's average cost per case using a sum of the latest five years of lost-time claim counts relative to a standard of 155,000 to achieve 100% credibility. The complement of credibility (i.e., 1.0 – state credibility) is applied to the countrywide average cost per case for the hazard group.

Large Risk Alternative Rating Option (LRARO)

LRARO is a flexible retrospective rating plan that is mutually agreed to by the employer and carrier. It provides the employer and carrier the option of negotiating the retrospective rating factors used to calculate premium. National Rules 1-B-1-d and 2-E in NCCI's ***Retrospective Rating Plan Manual*** provide the details related to LRARO.

In most states, an employer is eligible for the LRARO if the estimated standard premium, individually or in combination with any other commercial casualty lines of insurance, exceeds an annual standard premium eligibility threshold of $500,000 for the term of a retrospective rating plan. However, a number of states have a different LRARO premium eligibility threshold.

The LRARO Premium Eligibility Threshold by State table (Table) in Rule 2-E of NCCI's ***Retrospective Rating Plan Manual*** provides a listing of some, but not all, of the states with different LRARO premium eligibility thresholds. In addition, some states have state-specific requirements for applying the LRARO. These are located in the various state rule exceptions to national Rules 1-B-1-d and 2-E. To provide a single, comprehensive source of information regarding the LRARO, the following must be revised:

- Remove the threshold amount in Rule 1-B-1-d
- Include the following in the Table in Rule 2-E:
  - LRARO premium eligibility threshold amounts for all states
  - Additional state-specific requirements regarding the application of the LRARO

Miscellaneous Updates

The following national rules in NCCI's ***Retrospective Rating Plan Manual*** must be revised:

- 1-B-2—Elements of the Retrospective Rating Plan Formula to reference "Retrospective Development Premium" instead of "Retrospective Rating Development Premium"
- 1-B-2-e—Excess Loss Premium (ELP) to make minor language revisions for consistency with the rating values pages and revise the reference to the ***Retrospective Rating Plan Manual User's Guide (User's Guide)***
- 1-B-2-f—Retrospective Development Premium (RDP) to clarify that the RDP stabilizes premium adjustments by anticipating future changes in losses, make minor language revisions for consistency with the rating values pages, and eliminate the reference to the ***User's Guide***
- 3-C—The Retrospective Rating Premium Without Elective Premium Elements to make minor language revisions for consistency with LRARO rule changes

- 4-B—Reports of Premiums and Losses Under the Plan to clarify that reporting requirements for any additional or return premium are located in NCCI's ***Financial Call Reporting Guidebook***

PROPOSAL

This item proposes to revise the Hazard Group Differentials and several national and state-specific rules in NCCI's ***Retrospective Rating Plan Manual***.

Note: Appendix A—Table of Expected Loss Ranges in NCCI's ***Retrospective Rating Plan Manual*** is not being updated with this item. Typically, the Hazard Group Differentials and the Expected Loss Ranges are updated at the same time; however, a review of recent changes in countrywide claim severities indicates that a change to the Expected Loss Ranges is not needed. The current Appendix A, which became effective on January 1, 2013, will continue to apply.

IMPACT

Hazard Group Differentials

Retrospective rating should produce premium that is equitably distributed to all employers but, on average, close to the guaranteed cost premium. The Hazard Group Differentials changes maintain the aggregate expected balance, although the impact will vary slightly for each employer. For most employers electing retrospective rating, the impact on final premium from these changes is expected to be negligible. The improved equity afforded by retrospective rating from this change will result in no change to the insurance charges for many employers.

The statewide impact will be negligible. The program is designed to be revenue-neutral countrywide. The development of Hazard Group Differentials in each state is provided in Informational Exhibit 2.

LRARO and Miscellaneous Updates

There will be no statewide premium impact as a result of the LRARO and miscellaneous rule changes proposed in this item.

EXHIBIT COMMENTS AND IMPLEMENTATION SUMMARY

In all states except Hawaii, this item will become effective for new and renewal voluntary policies only effective on and after 12:01 a.m. on January 1, 2016.

This item will be implemented in Hawaii's loss cost filing proposed to be effective January 1, 2016. The effective date is determined upon regulatory approval of the individual carrier's election to adopt this change.

The following exhibits impact NCCI's ***Retrospective Rating Plan Manual***:

FILING MEMORANDUM

ITEM R-1411—2015 UPDATE TO THE RETROSPECTIVE RATING PLAN HAZARD GROUP DIFFERENTIALS AND MANUAL RULES

Exhibit	Exhibit Comments
1	• Displays the revised Hazard Group Differentials • Applies in all states except MA, MN, VA* • *In Virginia, the Hazard Group Differentials are included in the annual experience filing
2	• Informational exhibits describing the development of the Hazard Group Differentials for each state • Applies in all states except MA, MN, VA* • *In Virginia, the informational exhibits are included in the annual experience filing
3-A	• Details the elimination of Rule 1-B-1-d • Applies in all states except AK, AR, FL, MA, MI, NE, OR, TX, VA
3-B	• Displays the establishment of Rule 1-B-1-d • Applies in all states except AK, AR, FL, MI, NE
4-A	• Details the revisions to Rule 1-B-2 • Applies in all states except FL, MI
4-B	• Details the revisions to Rule 1-B-2-e • Applies in all states except FL, MA, MI
4-C	• Details the revisions to Rule 1-B-2-f • Applies in all states except FL, LA, MI, MN, MO, OR, TX
5-A	• Details the elimination of Rule 2-E • Applies in all states except AK, AR, CT, FL, MA, MI, MN, MO, NE, NH, OK, OR, TN, TX, VA
5-B	• Displays the establishment of Rule 2-E • Applies in all states except AK, AR, MI, NE
6	• Details the revisions to Rule 3-C • Applies in all states except MI, TX
7	• Details the revisions to Rule 4-B • Applies in all states except MA, MI
8	Details the revisions to Arizona State Rule Exception 2-E
8	Details the elimination of Connecticut State Rule Exception 2-E

FILING MEMORANDUM

ITEM R-1411—2015 UPDATE TO THE RETROSPECTIVE RATING PLAN HAZARD GROUP DIFFERENTIALS AND MANUAL RULES

Exhibit	Exhibit Comments
8-A	Details the revisions to Florida State Rule Exception 1-B-2
8-B	Details the revisions to Florida State Rule Exception 1-B-2-e
8-C	Details the revisions to Florida State Rule Exception 1-B-2-f
8-D	Details the elimination of Florida State Rule Exception 2-E
8-E	• Details the revisions to Florida State Rule Exception 4-A • Updates the endorsement numbers for Florida-specific retrospective rating endorsements for consistency with NCCI's ***Forms Manual for Workers Compensation and Employers Liability Insurance***
8-F	• Details the revisions to the Florida Retrospective Workers Compensation Premium Algorithm • Eliminates the Aircraft Seat Surcharge reference because the surcharge has been discontinued in Florida
8-G	• Details the revisions to Rule 3-D in Florida and Texas • Eliminates the reference to the ***User's Guide*** since the example has been removed
8-H	• Details the revisions to Rule 3-E-3 in Florida and Texas • Eliminates the reference to the ***User's Guide*** since the example has been removed
8-I	• Details the revisions to Rule 3-F-2 in Florida and Texas • Eliminates the reference to the ***User's Guide*** since the example has been removed
8-A	Details the elimination of Massachusetts State Rule Exception 1-B-1-d
8-B	Details the elimination of Massachusetts State Rule Exception 2-E
8-C	Details the revisions to Massachusetts State Rule Exception 4-B
8	Details the elimination of Minnesota State Rule Exception 2-E
	Details the elimination of Missouri State Rule Exception 2-E
8	Details the elimination of Nevada State Rule Exception 2-E
	Details the elimination of New Hampshire State Rule Exception 2-E
	Details the elimination of Oklahoma State Rule Exception 2-E
8-A	Details the elimination of Oregon State Rule Exception 1-B-1-d
8-B	Details the elimination of Oregon State Rule Exception 2-E
8	Details the elimination of Tennessee State Rule Exception 2-E

FILING MEMORANDUM

ITEM R-1411—2015 UPDATE TO THE RETROSPECTIVE RATING PLAN HAZARD GROUP DIFFERENTIALS AND MANUAL RULES

Exhibit	Exhibit Comments
8-A	Details the elimination of Texas State Rule Exception 1-B-1-d
8-B	Details the elimination of Texas State Rule Exception 2-E
8-C	Displays the establishment of Rule 3-C in Texas
8-D	Details the elimination of Texas State Rule Exception 3-C
8-A	Details the revisions to Virginia State Rule Exception 1-B-1-d
8-B	Details the elimination of Virginia State Rule Exception 2-E
8-A	Details the revisions to Wisconsin State Rule Exception 2-F
8-B	Details the elimination of Wisconsin State Rule Exception 3-C

ITEM R-1411—2015 UPDATE TO THE RETROSPECTIVE RATING PLAN HAZARD GROUP DIFFERENTIALS AND MANUAL RULES

EXHIBIT 1
RETROSPECTIVE RATING PLAN MANUAL—2009 EDITION
STATE SPECIAL RATING VALUES
1. Hazard Group Differentials
(Applies in: AK, AL, AR, AZ, CO, CT, DC, FL, GA, HI, IA, ID, IL, IN, KS, KY, LA, MD, ME, MI, MO, MS, MT, NC, NE, NH, NM, NV, OK, OR, RI, SC, SD, TN, TX, UT, VT, WI, WV)

	Hazard Group						
State	A	B	C	D	E	F	G
AK	1.21	0.96	0.89	0.75	0.63	0.53	0.45
AL	1.40	1.09	0.99	0.82	0.68	0.57	0.46
AR	1.92	1.50	1.36	1.14	0.94	0.79	0.64
AZ	1.92	1.49	1.34	1.11	0.90	0.75	0.59
CO	2.08	1.66	1.53	1.28	1.08	0.90	0.76
CT	1.34	1.06	0.99	0.82	0.70	0.58	0.49
DC	1.34	1.06	0.97	0.81	0.68	0.57	0.47
FL	2.10	1.63	1.47	1.23	1.01	0.84	0.67
GA	1.47	1.15	1.05	0.88	0.73	0.61	0.50
HI	2.57	2.06	1.93	1.61	1.39	1.16	1.01
IA	1.25	1.00	0.93	0.78	0.66	0.55	0.47
ID	1.82	1.46	1.35	1.13	0.96	0.81	0.69
IL	1.14	0.91	0.85	0.72	0.62	0.51	0.45
IN	1.65	1.33	1.25	1.05	0.91	0.77	0.68
KS	1.63	1.29	1.19	1.00	0.84	0.70	0.59
KY	1.75	1.38	1.26	1.05	0.88	0.73	0.60
LA	0.90	0.72	0.67	0.56	0.48	0.40	0.35
MD	1.42	1.12	1.04	0.86	0.73	0.61	0.51
ME	1.72	1.37	1.27	1.06	0.90	0.75	0.64
MI	1.88	1.49	1.38	1.16	1.00	0.84	0.73
MO	1.65	1.30	1.19	1.00	0.83	0.69	0.57
MS	1.84	1.46	1.34	1.12	0.94	0.79	0.66
MT	1.61	1.24	1.11	0.92	0.75	0.63	0.49
NC	1.27	1.00	0.91	0.76	0.63	0.53	0.43
NE	1.58	1.24	1.13	0.94	0.78	0.65	0.53
NH	1.37	1.10	1.03	0.87	0.75	0.62	0.55
NM	1.23	0.99	0.92	0.77	0.65	0.55	0.47
NV	1.61	1.23	1.08	0.89	0.71	0.59	0.44
OK	1.59	1.26	1.16	0.96	0.81	0.66	0.55
OR	2.71	2.15	1.97	1.64	1.38	1.15	0.95
RI	1.98	1.59	1.48	1.24	1.07	0.89	0.77
SC	1.60	1.26	1.17	0.97	0.82	0.69	0.58
SD	1.68	1.29	1.15	0.95	0.77	0.64	0.50
TN	1.99	1.58	1.45	1.21	1.02	0.85	0.72
TX	2.70	2.07	1.86	1.66	1.43	1.17	0.88
UT	1.63	1.27	1.15	0.95	0.78	0.65	0.52
VT	1.38	1.10	1.03	0.86	0.73	0.61	0.53
WI	1.66	1.31	1.22	1.02	0.88	0.74	0.64
WV	1.86	1.48	1.34	1.13	0.96	0.79	0.67

ITEM R-1411—2015 UPDATE TO THE RETROSPECTIVE RATING PLAN HAZARD GROUP DIFFERENTIALS AND MANUAL RULES

EXHIBIT 2
DEVELOPMENT OF INDIANA HAZARD GROUP DIFFERENTIALS FOR HAZARD GROUPS A TO G

Five years of historical experience is trended, on-leveled, and developed to estimate the severities for each state, hazard group, and claim group. The observed data for 36 states is input into a Bayesian multilevel model which produces fitted severities by state, hazard group, and claim group. Similarly, a second Bayesian multilevel model produces fitted claim counts from the same observed data by state, hazard group, and claim group. For a given hazard group, state severities are calculated by weighting the fitted severities by claim group together using fitted claim counts. The fitted severities and fitted claim counts by state are consistent with the values underlying NCCI's excess loss factor methodology.

The severities for all states are weighted together to calculate the average countrywide severity. The state and hazard group differentials are calculated by dividing the countrywide severity by the individual state hazard group severities.

(1) Hazard Group	(2) Indiana Fitted Severities	(3) Countrywide Average Severity	(4) = (3) / (2) Indicated State and Hazard Group Differentials
A	36,347		1.65
B	45,053		1.33
C	47,960		1.25
D	56,995		1.05
E	65,908		0.91
F	78,549		0.77
G	88,989		0.68
All		60,093	

The current state and hazard group differentials are effective January 1, 2015, per R-1409.

Hazard Group	Current Differentials Effective 1/1/2015	Proposed Differentials Effective 1/1/2016
A	1.77	1.65
B	1.42	1.33
C	1.34	1.25
D	1.13	1.05
E	0.97	0.91
F	0.82	0.77
G	0.72	0.68

Note: The underlying data source for the above calculations is NCCI's ***Statistical Plan for Workers Compensation and Employers Liability Insurance (Statistical Plan)***, excluding medical-only claims. The ***Statistical Plan*** data for each state is adjusted accordingly, as reflected in the data underlying the Excess Loss Factor (ELF) calculation.

ITEM R-1411—2015 UPDATE TO THE RETROSPECTIVE RATING PLAN HAZARD GROUP DIFFERENTIALS AND MANUAL RULES

EXHIBIT 2
DEVELOPMENT OF MICHIGAN HAZARD GROUP DIFFERENTIALS FOR HAZARD GROUPS A TO G

Step 1. Five years of historical experience is trended, on-leveled, and developed to estimate the severities for each hazard group.

Step 2. The severities are weighted with the countrywide severities by hazard group using a credibility that is based on the number of claims in the state's experience period. For this purpose, 155,000 claims are regarded as fully credible and the square root rule is used to compute partial credibilities.

Step 3. Credibility weighted severities for each hazard group are produced. A countrywide average severity is calculated by taking the weighted average of the state severities using claim counts as weights.

Step 4. The differentials are calculated by dividing the countrywide severity by the individual state hazard group severities.

Step 1	**Hazard Group**	**Michigan**	**Countrywide**
Severities	A	30,107	37,531
	B	38,193	46,430
	C	40,959	51,328
	D	48,634	60,901
	E	56,197	71,019
	F	66,667	86,222
	G	76,865	99,379

Step 2

Claim Count = 85,363

Credibility = (85,363 / 155,000) ^ 0.5 = 0.742

Step 3	**Hazard Group**	**Michigan**	
Credibility	A	32,022	= (0.742)(30,107) + (0.258)(37,531)
Weighted	B	40,317	
Severities	C	43,633	
	D	51,798	
	E	60,019	
	F	71,710	
	G	82,671	
	Countrywide Overall:	60,093	

Step 4	**Hazard Group**	**Differentials**	
Differentials	A	1.88	= 60,093 / 32,022
	B	1.49	
	C	1.38	
	D	1.16	
	E	1.00	
	F	0.84	
	G	0.73	

Note: The underlying data source for the above calculations is NCCI's ***Statistical Plan for Workers Compensation and Employers Liability Insurance (Statistical Plan)***, excluding medical-only claims. The ***Statistical Plan*** data for each state is adjusted accordingly, as reflected in the data underlying the Excess Loss Factor (ELF) calculation.

EXHIBIT 2
DEVELOPMENT OF NORTH CAROLINA HAZARD GROUP DIFFERENTIALS FOR HAZARD GROUPS A TO G

Five years of historical experience is trended, on-leveled, and developed to estimate the severities for each state, hazard group, and claim group. The observed data for 36 states is input into a Bayesian multilevel model which produces fitted severities by state, hazard group, and claim group. Similarly, a second Bayesian multilevel model produces fitted claim counts from the same observed data by state, hazard group, and claim group. For a given hazard group, state severities are calculated by weighting the fitted severities by claim group together using fitted claim counts. The fitted severities and fitted claim counts by state are consistent with the values underlying NCCI's excess loss factor methodology.

The severities for all states are weighted together to calculate the average countrywide severity. The state and hazard group differentials are calculated by dividing the countrywide severity by the individual state hazard group severities.

(1) Hazard Group	(2) North Carolina Fitted Severities	(3) Countrywide Average Severity	(4) = (3) / (2) Indicated State and Hazard Group Differentials
A	47,405		1.27
B	60,372		1.00
C	66,039		0.91
D	79,282		0.76
E	95,010		0.63
F	113,833		0.53
G	138,929		0.43
All		60,093	

The current state and hazard group differentials are effective January 1, 2015, per R-1409.

Hazard Group	Current Differentials Effective 1/1/2015	Proposed Differentials Effective 1/1/2016
A	1.25	1.27
B	0.98	1.00
C	0.90	0.91
D	0.75	0.76
E	0.63	0.63
F	0.52	0.53
G	0.43	0.43

Note: The underlying data source for the above calculations is NCCI's ***Statistical Plan for Workers Compensation and Employers Liability Insurance (Statistical Plan)***, excluding medical-only claims. The ***Statistical Plan*** data for each state is adjusted accordingly, as reflected in the data underlying the Excess Loss Factor (ELF) calculation.

ITEM R-1411—2015 UPDATE TO THE RETROSPECTIVE RATING PLAN HAZARD GROUP DIFFERENTIALS AND MANUAL RULES

EXHIBIT 2
DEVELOPMENT OF WISCONSIN HAZARD GROUP DIFFERENTIALS FOR HAZARD GROUPS A TO G

Step 1. Five years of historical experience is trended, on-leveled, and developed to estimate the severities for each hazard group.

Step 2. The severities are weighted with the countrywide severities by hazard group using a credibility that is based on the number of claims in the state's experience period. For this purpose, 155,000 claims are regarded as fully credible and the square root rule is used to compute partial credibilities.

Step 3. Credibility weighted severities for each hazard group are produced. A countrywide average severity is calculated by taking the weighted average of the state severities using claim counts as weights.

Step 4. The differentials are calculated by dividing the countrywide severity by the individual state hazard group severities.

Step 1	Hazard Group	Wisconsin	Countrywide
Severities	A	35,985	37,531
	B	45,718	46,430
	C	49,157	51,328
	D	58,366	60,901
	E	67,630	71,019
	F	80,063	86,222
	G	92,989	99,379

Step 2

Claim Count = 121,634

Credibility = (121,634 / 155,000) ^ 0.5 = 0.886

Step 3	Hazard Group	Wisconsin	
Credibility Weighted Severities	A	36,161	= (0.886)(35,985) + (0.114)(37,531)
	B	45,800	
	C	49,405	
	D	58,655	
	E	68,017	
	F	80,766	
	G	93,718	

Countrywide Overall: 60,093

Step 4	Hazard Group	Differentials	
Differentials	A	1.66	= 60,093 / 36,161
	B	1.31	
	C	1.22	
	D	1.02	
	E	0.88	
	F	0.74	
	G	0.64	

Note: The underlying data source for the above calculations is NCCI's ***Statistical Plan for Workers Compensation and Employers Liability Insurance (Statistical Plan)***, excluding medical-only claims. The ***Statistical Plan*** data for each state is adjusted accordingly, as reflected in the data underlying the Excess Loss Factor (ELF) calculation.

EXHIBIT 3-A
RETROSPECTIVE RATING PLAN MANUAL—2009 EDITION
RULE 1—GENERAL EXPLANATION
B. DEFINITIONS
1. General Definitions
(Applies in: AL, AZ, CO, CT, DC, GA, HI, IA, ID, IL, IN, KS, KY, LA, MD, ME, MN, MO, MS, MT, NC, NH, NM, NV, OK, RI, SC, SD, TN, UT, VT, WI, WV)

d. ~~**Large Risk Alternative Rating Option (LRARO)**~~

~~The Large Risk Alternative Rating Option is a flexible retrospective rating plan that is mutually agreed to by the insured and carrier. It is an available option for insureds with an estimated annual standard premium of at least $500,000 individually or in any combination with any commercial casualty insurance line and/or workers compensation and employers liability insurance~~.

~~*Refer to Rule 2-E of this manual for state-specific premium eligibility thresholds.*~~

EXHIBIT 3-B
RETROSPECTIVE RATING PLAN MANUAL—2009 EDITION
RULE 1—GENERAL EXPLANATION
B. DEFINITIONS
1. General Definitions
(Applies in: AL, AZ, CO, CT, DC, GA, HI, IA, ID, IL, IN, KS, KY, LA, MA, MD, ME, MN, MO, MS, MT, NC, NH, NM, NV, OK, OR, RI, SC, SD, TN, TX, UT, VA, VT, WI, WV)

d. Large Risk Alternative Rating Option (LRARO)

The Large Risk Alternative Rating Option is a flexible retrospective rating plan that is mutually agreed to by the employer and carrier. It is an available option for policies that meet or exceed a specific premium eligibility threshold.

Refer to Rule 2-E for the state-specific premium eligibility thresholds.

EXHIBIT 4-A
RETROSPECTIVE RATING PLAN MANUAL—2009 EDITION
RULE 1—GENERAL EXPLANATION
B. DEFINITIONS
(Applies in: AK, AL, AR, AZ, CO, CT, DC, GA, HI, IA, ID, IL, IN, KS, KY, LA, MA, MD, ME, MN, MO, MS, MT, NC, NE, NH, NM, NV, OK, OR, RI, SC, SD, TN, TX, UT, VA, VT, WI, WV)

2. Elements of the Retrospective Rating Plan Formula

The following formula includes all of the elective elements available under a retrospective rating plan. ~~*See Rule 3 of this manual* f~~ For other variations of the retrospective rating formula, *refer to Rule 3*.

Retrospective Rating Premium = (Basic Premium + Excess Loss Premium + Retrospective ~~Rating~~ Development Premium + Converted Losses) x Tax Multiplier~~.~~

EXHIBIT 4-B
RETROSPECTIVE RATING PLAN MANUAL—2009 EDITION
RULE 1—GENERAL EXPLANATION
B. DEFINITIONS
2. Elements of the Retrospective Rating Plan Formula
(Applies in: AK, AL, AR, AZ, CO, CT, DC, GA, HI, IA, ID, IL, IN, KS, KY, LA, MD, ME, MN, MO, MS, MT, NC, NE, NH, NM, NV, OK, OR, RI, SC, SD, TN, TX, UT, VA, VT, WI, WV)

e. Excess Loss Premium (ELP)

Excess loss premium (ELP) is a charge for election of a loss limitation. ~~The excess loss premium factor~~ It is applied after the basic premium in the retrospective rating plan formula. The ELP calculation is:

~~(Excess Loss Premium~~ ELP = Excess Loss Factor x Standard Premium x Loss Conversion Factor~~)~~

1. **Excess Loss Factors**

   Excess loss factors are used in the calculation of excess loss premium. Excess loss factors are also known as excess loss premium factors.

2. **Excess Loss Factor Determination**

   a. In rate states, ~~where~~ NCCI files ~~full rates, NCCI files~~ the excess loss factors. NCCI also files excess loss and allocated expense factors which include a provision for allocated loss adjustment expenses.

   ~~*Refer to the State Retrospective Rating Value pages for the Excess Loss Pure Premium Factors. Refer to the latest approved state loss cost filing for the LAE% and Loss Assessment%.*~~

   In loss cost states, NCCI files excess loss pure premium factors. Where applicable, NCCI also files excess loss and allocated expense pure premium factors which include a provision for allocated loss adjustment expenses. The excess loss pure premium factors and excess loss and allocated expense pure premium factors must be converted to excess loss factors or excess loss and allocated expense factors using the carrier's expense provisions applicable in each state.

   Refer to the State Special Rating Values pages for the excess loss factors or excess loss pure premium factors.

   b. The ~~conversion~~ formula for converting an excess loss pure premium factor to an excess loss factor is:

   Excess Loss ~~Premium~~ Factor = [(Excess Loss Pure Premium Factor x Expected Loss Ratio) x (1 + Loss Adjustment Expense % + Loss Assessment %)]

   The formula for converting an excess loss and allocated expense pure premium factor to an excess loss and allocated expense factor is:

   Excess Loss and Allocated Expense Factor = (Excess Loss and Allocated Expense Pure Premium Factor x Expected Loss Ratio) x (1 + Loss Adjustment Expense % + Loss Assessment %)

   ~~The Excess Loss Pure Premium Factor, LAE %, and Loss Assessment % are NCCI-provided values.~~

   The carrier determines the Expected Loss Ratio (ELR). ELR is a ratio of pure losses (no LAE) to premium.

EXHIBIT 4-B (CONT'D)
RETROSPECTIVE RATING PLAN MANUAL—2009 EDITION
RULE 1—GENERAL EXPLANATION
B. DEFINITIONS
2. Elements of the Retrospective Rating Plan Formula
(Applies in: AK, AL, AR, AZ, CO, CT, DC, GA, HI, IA, ID, IL, IN, KS, KY, LA, MD, ME, MN, MO, MS, MT, NC, NE, NH, NM, NV, OK, OR, RI, SC, SD, TN, TX, UT, VA, VT, WI, WV)

Refer to the latest approved state loss cost filing for the Loss Adjustment Expense (LAE) % and Loss Assessment %.

~~*Refer to the State Special Rating Values pages for the Excess Loss Factors or Excess Loss Pure Premium Factors.*~~

c. The Table of Classification by Hazard Group is used to determine the excess loss factor. This factor is determined based on the selected loss limitation and the hazard group assignment shown in the Table for the classification producing the largest amount of estimated workers compensation standard premium for each state included in the plan. *Refer to the **Basic Manual** for the Table of Classification by Hazard Group.*

For ~~insureds~~ employers having USL&HW coverage for non-F-classification codes, the applicable hazard group to use for the determination of an excess loss factor ~~(ELF)~~ is the state classification code hazard group~~, located in NCCI's *Basic Manual*,~~ increased by two levels. When the state classification hazard group is already at the highest level hazard group, use that highest level hazard group. ~~*Refer to **User's Guide** for examples.*~~

For the classification codes that include federal coverages (or F-classification codes), use the hazard group assigned to that code.

State Classification Hazard Group	USL&HW Hazard Groups for Non-F-Classification Codes ~~Hazard Groups~~
A	C
B	D
C	E
D	F
E	G
F	G
G	G

*Refer to the **User's Guide** for more information about excess loss factors*.

EXHIBIT 4-C
RETROSPECTIVE RATING PLAN MANUAL—2009 EDITION
RULE 1—GENERAL EXPLANATION
B. DEFINITIONS
2. Elements of the Retrospective Rating Plan Formula
(Applies in: AK, AL, AR, AZ, CO, CT, DC, GA, HI, IA, ID, IL, IN, KS, KY, MA, MD, ME, MS, MT, NC, NE, NH, NM, NV, OK, RI, SC, SD, TN, UT, VA, VT, WI, WV)

f. Retrospective Development Premium (RDP)

Retrospective development premium (RDP) is an elective element that varies by state. ~~The RDP~~ It stabilizes premium adjustments for an employer ~~insured~~ written under a retrospective rating plan by anticipating future ~~increases~~ changes in ~~loss costs or rates~~ losses. The RDP calculation is ~~calculated using the following formula~~:

~~Retrospective Development Premium~~ RDP = Standard Premium x Retrospective Development ~~Premium~~ Factor x Loss Conversion Factor~~.~~

1. **Retrospective Development Factor**

   The retrospective development ~~premium~~ factor anticipates a pattern of increasing valuation of losses after the policy is expired. The retrospective development ~~premium~~ factor is included in the first three calculations of the retrospective premium.

2. **Retrospective Development Factor Determination**

   a. NCCI files the retrospective development factors in ~~In~~ states where NCCI files ~~full~~ rates~~, NCCI files the retrospective development factors~~. ~~*Refer to the State Special Rating Values pages of this manual for the retrospective development premium factors.*~~

   In loss cost states, NCCI files retrospective ~~development~~ pure premium development factors. The retrospective ~~development~~ pure premium development factors must be converted to retrospective development ~~premium~~ factors using the carrier's expense provisions applicable in each state.

   Refer to the State Special Rating Values pages ~~of this manual~~ for the retrospective development factors or retrospective ~~development~~ pure premium development factors.

   b. The ~~conversion~~ formula for converting a retrospective pure premium development factor to a retrospective development factor is:

   Retrospective Development ~~Premium~~ Factor = Retrospective Pure Premium Development Factor x Expected Loss Ratio x (1 + Loss Adjustment Expense % + Loss Assessment %)

   ~~The Retrospective Pure Premium Development Factor, LAE %, and Loss Assessment % are NCCI provided values.~~ ~~*Refer to the State Retrospective Rating Values pages for the Retrospective Pure Premium Development Factors. Refer to the latest approved loss cost filing for the LAE % and Loss Assessment %.*~~

   The carrier determines the Expected Loss Ratio (ELR). ELR is a ratio of pure losses (no LAE) to premium.

   Refer to the latest approved state loss cost filing for the Loss Adjustment Expense (LAE) % and Loss Assessment %.

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

EXHIBIT 5-A
RETROSPECTIVE RATING PLAN MANUAL—2009 EDITION
RULE 2—ELIGIBILITY FOR THE PLAN
(Applies in: AL, CO, DC, GA, HI, IA, ID, IL, IN, KS, KY, LA, MD, ME, MS, MT, NC, NM, NV, RI, SC, SD, UT, VT, WI, WV)

E. ~~LARGE RISK ALTERNATIVE RATING OPTION (LRARO)~~

~~The Large Risk Alternative Rating Option provides the carrier and insured the option of negotiating the retrospective rating factors used to calculate premium. An insured is eligible for the LRARO if the estimated standard premium individually or in any combination with any other commercial casualty lines of insurance exceeds an annual standard premium eligibility threshold of $500,000 for the term of a retrospective rating plan.~~

~~The following table lists states with different annual standard premium eligibility thresholds for LRARO.~~

~~LRARO Premium Eligibility Threshold by State~~

~~State~~	~~Annual Standard Premium Eligibility Threshold~~
~~Arizona~~	~~$250,000~~
~~Kansas~~	~~$1,000,000~~
~~Minnesota~~	~~$250,000~~
~~Nevada~~	~~$250,000~~
~~New Hampshire~~	~~$250,000~~
~~North Carolina~~	~~$250,000~~
~~Oregon~~	~~See state rule exception~~

~~A different premium eligibility level may be used if filed by an individual carrier, subject to regulatory approval.~~

EXHIBIT 5-B
RETROSPECTIVE RATING PLAN MANUAL—2009 EDITION
RULE 2—ELIGIBILITY FOR THE PLAN
(Applies in: AL, AZ, CO, CT, DC, FL, GA, HI, IA, ID, IL, IN, KS, KY, LA, MA, MD, ME, MN, MO, MS, MT, NC, NH, NM, NV, OK, OR, RI, SC, SD, TN, TX, UT, VA, VT, WI, WV)

E. LARGE RISK ALTERNATIVE RATING OPTION (LRARO)

The Large Risk Alternative Rating Option (LRARO) provides the carrier and employer the option of negotiating, and mutually agreeing on, the retrospective rating plan premium.

The following table lists the different LRARO premium eligibility thresholds and other requirements by state:

LRARO Table by State

State	Premium Eligibility Threshold	Premium Eligibility Threshold Basis	Other
AL, CO, DC, GA, HI, IA, ID, IL, IN, KY, LA, MD, ME, MS, MT, NM, RI, SC, SD, UT, VT, WV	Estimated annual standard premium exceeds $500,000	Workers compensation standard premium only or in any combination with any other commercial casualty lines of insurance for the term of the plan.	
AZ	Estimated annual standard premium exceeds $250,000	Workers compensation standard premium only or in any combination with general liability, hospital professional liability, commercial automobile, crime, glass, or workers compensation for the term of the plan.	A carrier is not required to offer LRARO under certain conditions. For more information, refer to the Arizona State Rule Exception 2-E. Carriers may not file a different standard premium eligibility threshold in Arizona for LRARO. The maximum premium factor under the plan may not be less than 100%, and the minimum premium factor not less than 25%.
CT	Estimated annual standard premium exceeds $100,000	Workers compensation standard premium only, or, if written on a multiple-lines basis, the workers compensation portion of the standard premium must exceed $100,000.	

EXHIBIT 5-B (CONT'D)
RETROSPECTIVE RATING PLAN MANUAL—2009 EDITION
RULE 2—ELIGIBILITY FOR THE PLAN
(Applies in: AL, AZ, CO, CT, DC, FL, GA, HI, IA, ID, IL, IN, KS, KY, LA, MA, MD, ME, MN, MO, MS, MT, NC, NH, NM, NV, OK, OR, RI, SC, SD, TN, TX, UT, VA, VT, WI, WV)
LRARO Table by State (Cont'd)

State	Premium Eligibility Threshold	Premium Eligibility Threshold Basis	Other
FL	Estimated annual countrywide standard premium of $750,000 or more for workers compensation, of which $100,000 or more must be estimated annual standard premium in Florida	Workers compensation standard premium only.	The employer must have exposure in more than one state. *Refer to Rule 1-B-1-d for carrier eligibility requirements.* *Refer to Rule 3-G for additional information.* *Refer to Rule 4-A for applicable endorsements.*
KS	Estimated annual standard premium exceeds $1,000,000	Workers compensation standard premium only or in any combination with any other commercial casualty lines of insurance for the term of the plan.	
MA	Estimated annual standard premium (excluding ARAP surcharge) exceeds $500,000	Workers compensation standard premium only for the term of the plan.	
MN	Annual written premium of $250,000 or more generated from Minnesota and other states before the application of any large deductible rating plans	Workers compensation premium only.	The carrier must file a certification in the form specified in Minnesota §79.56, subd. 1(b) for each impacted policy with the Minnesota Department of Commerce verifying compliance with the statute.
MO	Estimated annual standard premium exceeds $500,000	Workers compensation standard premium only, or, if written on a multiple-lines basis, the workers compensation portion of the standard premium must exceed $100,000.	
NC	Estimated annual standard premium exceeds $250,000	Workers compensation standard premium only or in any combination with any other commercial casualty lines of insurance for the term of the plan.	

EXHIBIT 5-B (CONT'D)
RETROSPECTIVE RATING PLAN MANUAL—2009 EDITION
RULE 2—ELIGIBILITY FOR THE PLAN
(Applies in: AL, AZ, CO, CT, DC, FL, GA, HI, IA, ID, IL, IN, KS, KY, LA, MA, MD, ME, MN, MO, MS, MT, NC, NH, NM, NV, OK, OR, RI, SC, SD, TN, TX, UT, VA, VT, WI, WV)
LRARO Table by State (Cont'd)

State	Premium Eligibility Threshold	Premium Eligibility Threshold Basis	Other
NH	Estimated annual standard premium exceeds $250,000	Workers compensation standard premium only, or, if written on a multiple-lines basis, the workers compensation portion of the standard premium must be at least $250,000.	
NV	Estimated annual standard premium exceeds $250,000	Workers compensation standard premium only.	The maximum premium factor under the plan may not be less than 100%.
OK	Estimated annual standard premium exceeds $250,000	Any one of the following single lines of insurance: general liability, hospital professional liability, commercial automobile, crime, glass, or workers compensation.	Lower premium eligibility levels may not be selected.
	Estimated annual standard premium exceeds $500,000	Multiple lines basis.	
OR	Carrier-estimated annual standard premium exceeds $500,000	Workers compensation standard premium only.	
	Carrier-estimated annual standard premium exceeds $750,000	Multiple lines in any combination with general liability, hospital professional liability, commercial automobile, crime, glass, or workers compensation, provided the workers compensation portion of standard premium exceeds $500,000.	
TN	Estimated annual standard premium exceeds $250,000	Workers compensation standard premium only.	
	Estimated annual standard premium exceeds $500,000	Multiple lines in any combination with general liability, hospital professional liability, commercial automobile, crime, glass, or workers compensation.	

EXHIBIT 5-B (CONT'D)
RETROSPECTIVE RATING PLAN MANUAL—2009 EDITION
RULE 2—ELIGIBILITY FOR THE PLAN
(Applies in: AL, AZ, CO, CT, DC, FL, GA, HI, IA, ID, IL, IN, KS, KY, LA, MA, MD, ME, MN, MO, MS, MT, NC, NH, NM, NV, OK, OR, RI, SC, SD, TN, TX, UT, VA, VT, WI, WV)
LRARO Table by State (Cont'd)

State	Premium Eligibility Threshold	Premium Eligibility Threshold Basis	Other
TX	Estimated standard premium exceeds $350,000 for an interstate retrospective rating policy, where combination of states is applicable under one policy, and an estimated standard premium of at least $100,000 for an intrastate retrospective rating policy	Workers compensation standard premium only or in combination with any other commercial casualty lines of insurance.	The maximum retrospective premium may not be less than 100% or greater than 500% of standard premium. The minimum retrospective premium may not exceed the guaranteed cost (standard premium after premium discount) that would apply to the insured if the insured were not subject to retrospective rating.
VA	Refer to § 38.2-1903 of the Code of Virginia for the exemption applicable to large risk retrospective rating plans.		
WI	Estimated annual standard premium exceeds $250,000	Workers compensation standard premium only.	For employers with an estimated annual standard premium less than $1,000,000, individually or in any combination with other lines of coverage, the maximum premium under this plan must not be less than 100% of standard premium.
	Estimated annual standard premium exceeds $500,000	Multiple lines in any combination with general liability, hospital professional liability, commercial automobile, crime, glass, or workers compensation.	

*Refer to **User's Guide** for applicable endorsements*.

EXHIBIT 6
RETROSPECTIVE RATING PLAN MANUAL—2009 EDITION
RULE 3—OPERATION OF PLAN
(Applies in: AK, AL, AR, AZ, CO, CT, DC, FL, GA, HI, IA, ID, IL, IN, KS, KY, LA, MA, MD, ME, MN, MO, MS, MT, NC, NE, NH, NM, NV, OK, OR, RI, SC, SD, TN, UT, VA, VT, WI, WV)

C. THE RETROSPECTIVE RATING PREMIUM WITHOUT ELECTIVE PREMIUM ELEMENTS

The premium for an employer ~~insured~~ subject to a retrospective rating plan is determined by the following retrospective rating premium formula.

Retrospective Rating Premium = [Basic Premium + Converted Losses] x Tax Multiplier

The retrospective rating premium will not be less than the minimum retrospective rating premium or more than the maximum retrospective rating premium selected for a retrospective rating plan.

If the ~~insured~~ employer for which a retrospective rating plan is applied includes more than one legal entity, a single retrospective rating premium is calculated on the basis of the combined entities.

Note: ~~Insureds~~ Employers with an estimated annual standard premium of a specified premium eligibility threshold requirement and basis ~~, individually or in any combination with commercial casualty lines of insurance,~~ may be rated under the Large Risk Alternative Rating Option. ~~That~~ This option provides that such ~~insureds~~ employers may be retrospectively rated as mutually agreed upon by the ~~insured~~ employer and carrier. *Refer to Rule 2-E ~~for state-specific average annual standard~~ for premium eligibility thresholds.*

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

~~A different premium eligibility level may be used if filed by an individual carrier, subject to regulatory approval.~~

EXHIBIT 7
RETROSPECTIVE RATING PLAN MANUAL—2009 EDITION
RULE 4—ADMINISTRATION OF THE PLAN
(Applies in: AK, AL, AR, AZ, CO, CT, DC, FL, GA, HI, IA, ID, IL, IN, KS, KY, LA, MD, ME, MN, MO, MS, MT, NC, NE, NH, NM, NV, OK, OR, RI, SC, SD, TN, TX, UT, VA, VT, WI, WV)

B. REPORTS OF PREMIUMS AND LOSSES UNDER THE PLAN

The standard premium~~s~~ and losses incurred under a retrospective rating plan policy~~(s)~~ must be reported in accordance with ~~the~~ NCCI's ***Statistical Plan*** and ***Financial Call Reporting Guidebook***.

For Financial Call reporting instructions on ~~A~~any additional or return premium under the retrospective rating program, *refer to NCCI's* ***Financial Call Reporting Guidebook*** ~~must be reported to NCCI through~~ ~~***Financial Calls Online (FCOL)***~~.

EXHIBIT 8-A
RETROSPECTIVE RATING PLAN MANUAL—2009 EDITION
MASSACHUSETTS STATE RULE EXCEPTIONS
RULE 1—GENERAL EXPLANATION
B. DEFINITIONS
1. General Definitions

d. ~~Large Risk Alternative Rating Option (LRARO)~~

~~The Large Risk Alternative Rating Option provides that a risk may be retrospectively rated as mutually agreed upon by carrier and insured. It is an available option for risks with an estimated annual workers compensation standard premium (excluding ARAP surcharge) in excess of $500,000.~~

EXHIBIT 8-B
RETROSPECTIVE RATING PLAN MANUAL—2009 EDITION
MASSACHUSETTS STATE RULE EXCEPTIONS
RULE 2—ELIGIBILITY FOR THE PLAN

E. ~~LARGE RISK ALTERNATIVE RATING OPTION (LRARO)~~

A ~~risk is eligible for the Large Risk Alternative Rating Option if the estimated workers compensation standard premium (excluding ARAP surcharge) exceeds an average of $500,000 annually for the term of the plan.~~

EXHIBIT 8-C
RETROSPECTIVE RATING PLAN MANUAL—2009 EDITION
MASSACHUSETTS STATE RULE EXCEPTIONS
RULE 4—ADMINISTRATION OF THE PLAN

B. REPORTS OF PREMIUMS AND LOSSES UNDER THE PLAN

Change Rule 4-B as follows:

The standard premium and losses incurred under a retrospective rating plan policy must be reported in accordance with the ~~See~~ *Massachusetts Workers' Compensation Statistical Plan*.

EXHIBIT 8
RETROSPECTIVE RATING PLAN MANUAL—2009 EDITION
MINNESOTA STATE RULE EXCEPTIONS
RULE 2—ELIGIBILITY FOR THE PLAN

E. ~~LARGE RISK ALTERNATIVE RATING OPTION (LRARO)~~

~~Change Rule 2-E as follows:~~

~~The Large Risk Alternative Rating Option provides that a risk may be retrospectively rated as mutually agreed upon by the carrier and insured. It is an available option for all risks that generate $250,000 or more in annual written workers compensation premium from Minnesota and other states before the application of any large deductible rating plans, provided that the carrier files a certification in the form specified in Minnesota Statute 79.56, subd. 1(b) for each impacted policy with the Minnesota Department of Commerce verifying compliance with the statute.~~

EXHIBIT 8-A
RETROSPECTIVE RATING PLAN MANUAL—2009 EDITION
WISCONSIN STATE RULE EXCEPTIONS
RULE 2—ELIGIBILITY FOR THE PLAN

F. WRAP-UP CONSTRUCTION PROJECTS

Add the following to Rule 2-F:

4. The estimated total project cost for the work to be done by the combined entities ~~of~~ must be $25,000,000 or more.

EXHIBIT 8-B
RETROSPECTIVE RATING PLAN MANUAL—2009 EDITION
WISCONSIN STATE RULE EXCEPTIONS
RULE 3—OPERATION OF PLAN

C. ~~CALCULATING THE RETROSPECTIVE RATING PREMIUM UNDER THIS PLAN~~

~~Change Note under Rule 3-C as follows:~~

Note: ~~Insureds with an estimated annual standard premium for workers compensation in excess of $250,000, or an estimated annual standard premium in excess of $500,000 for multiple lines written individually or in any combination with general liability, hospital professional liability, commercial automobile, crime, glass, or workers compensation, may be written under the Large Risk Alternative Rating Option. This option provides that such risks may be retrospectively rated as mutually agreed upon by carrier and insured. However, for insureds with an estimated annual standard premium less than $1,000,000, individually or in any combination with other lines of coverage, the maximum premium under this plan will not be less than 100% of standard premium.~~