



Circular

APRIL 8, 2005

APPROVAL

IN-2005-02

Indiana--Item B-1387--Revision to Basic Manual Classifications

ACTION NEEDED

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

BACKGROUND

The Indiana Compensation Rating Bureau (ICRB) submitted and received approval on a revised version of Countrywide Item Filing B-1387—Revision of Basic Manual Classifications to the Indiana Department of Insurance. This revised filing is to be effective January 1, 2006, applicable to new and renewal policies only. This state information circular provides the entire approved package of relevant information for this change.

This Indiana filing circular is to be used only by an ICRB member or subscriber or an NCCI affiliate, or for those users for which express permission has been granted.

IMPACT

This item fosters the uniform and equitable treatment of risks within each industry group.

NCCI ACTION

NCCI will announce approval of this item in the *Status of Item Filings*.

PERSON TO CONTACT

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please contact:

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ITEM B-1387—REVISIONS OF BASIC MANUAL CLASSIFICATIONS

(To be effective 12:01 a.m. on January 1, 2006, applicable to new and renewal business only.)

PURPOSE

The purpose of this item is to amend the classification treatment of the following industries with the execution of a three-year rate/loss cost and rating values transition program:

1. Charitable Welfare Organizations and Group Homes
 - During the transition period: Clarify the use of Code 8861—Charitable or Welfare Organization—Professional Employees & Clerical and Code 9110—Charitable or Welfare Organization Nonprofessional Employees & Drivers by clarifying the wording in the Scopes of Code 8861 and Code 9110.
 - After the transition period: Eliminate Codes 8861 and 9110 and combine these classification codes into a newly created Code 8864—Social Services Organization—All Employees & Salespersons, Drivers.
 - After the transition period: Remove group home operations from codes 8861 and 9110 and establish Code 8842—Group Homes—All Employees & Salespersons, Drivers.
2. Bottling Operations
 - Eliminate Code 2156—Bottling—Not Carbonated Liquids—Or Spirituous Liquors--& Route Supervisors, Drivers and combine these operations with amended Code 2157—Bottling NOC & Route Supervisors, Drivers.

BACKGROUND; PROPOSAL; IMPACT; AND EXHIBITS

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IMPLEMENTATION

In order to implement this item, the attached exhibits outline the changes required in NCCI's *Basic Manual for Workers Compensation and Employers Liability Insurance* and the *Retrospective Rating Plan Manual*.

CHARITABLE/WELFARE ORGANIZATIONS & GROUP HOMES

BACKGROUND

In 1994, NCCI drafted countrywide Item Filing B-1323 to discontinue Code 8837—Charitable or Welfare Organization—All Operations & Drivers and replace it using a dual classification approach, Code 8861—Charitable or Welfare Organizations—Professional Employees & Clerical and Code 9110 Charitable or Welfare Organization—All Other Employees & Drivers. At that time it was determined that there were generally two groups of employees in these businesses. Professional employees were identified as instructors, administrators, executive directors, clerical staff, etc. and non-professional employees included job coaches, shift supervisors, maintenance, cooks, etc.

Over the years, the duties of professional and non-professional employees have become harder to define. Many employees have both professional and non-professional duties in these types of organizations. For example, you might have a counselor transporting clients in a company owned vehicle to an event. In the recent research of charitable/welfare organizations, it was discovered that there are various definitions of professional versus non-professional employees. Some organizations believe that the distinction between these two terms lies in whether the individuals are certified or have a degree or license.

An NCCI study revealed that group homes, temporary shelters for abused persons, and halfway houses other than those for criminals are a large homogenous group with similar exposures and operations. These operations provide living accommodations for various groups of individuals in a stable environment. These operations are easily identifiable and will have a significant amount of payroll to justify a separate classification. Although similar, rescue missions cater to transient individuals, and are similar in exposure to social service organizations.

Frequently the organization has employees who may among other services, counsel, advise, guide, direct, or instruct clients. Typically, these employees are assigned to Code 8742 by analogy. It is believed that client contact elevates the exposure to the same level as other employees with client contact. As a result, employees who counsel, advise, guide, direct, or instruct clients are properly assigned to Code 9110.

Note: In Indiana, Code 8742 has typically not been used by analogy. Such employees are typically assigned to Code 8861 or 9110. Therefore no change in classification treatment is necessary in Indiana, although the transition program as explained later, will apply in Indiana.

Additionally, this review revealed that the terms charitable and welfare are subject to interpretation and have resulted in misclassification of businesses. There are several definitions for charitable and welfare with most relating to the financial or tax status of the organization. Regardless of the financial or tax status of the organization, the common thread from a classification perspective is the management and provision of social services. While there are several definitions for charitable and welfare, all the operations currently encompassed under Codes 8861 and 9110 can be classified as social services, which is a broader and more generic definition.

PROPOSAL

1. Effective 12:01 a.m., January 1, 2006, for new and renewal business:
 - a. Codes 8861 and 9110 be amended to facilitate the classification assignments for professional versus nonprofessional employees of charitable/welfare organizations, **with Indiana exection noted.**

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- b. An internal transition program be executed to provide a three-year rate/loss cost and rating value transition for Codes 8861 and 9110. The transition program will be implemented with rate filings on or after January 1, 2006.
- 2. Effective 12:01 a.m., January 1, 2008, for new and renewal business, that Codes 8861 and 9110 be discontinued and combined into newly created Code 8864—Social Services Organization—All Employees & Salespersons, Drivers.
- 3. Effective 12:01 a.m., January 1, 2008 for new and renewal business that an additional cross-reference is added to Code 7720 to read: Juvenile Detention Center—All Employees & Salespersons, Drivers.
- 4. Effective 12:01 a.m., January 1, 2008, for new and renewal business, that group homes, temporary shelters, halfway houses other than those for criminals and independent supportive living homes be removed from codes 8861 and 9110 and assigned to Code 8842—Group Homes—All Employees & Salespersons, Drivers.
- 5. Finally, it is proposed effective 12:01 a.m., January 1, 2008, for new and renewal business that the introductory rates and/or loss costs and rating values for Code 8842 be the same as those for Code 8864 as established by the transition program.

Following are the rules of the three-year transition program implementing the rates/loss costs and rating values for Codes 8861 and 9110. Examples of the transition program calculations including the weight value calculations are contained in Exhibit 3.

- A. Risks will continue to be classified to either Codes 8861 or 9110 as appropriate until the establishment of Codes 8864 and 8842 on January 1, 2008.
- B. As part of a proposed rate/loss cost filing with an effective date on January 1, 2006, the payroll weighted rate/loss cost of Codes 8861 and 9110 will be calculated using the latest available year's payroll and the standard calculated rates/loss costs of the two individual codes. If the payroll weighted rate/loss cost is within the swing limits determined for Codes 8861 and 9110, then each of these codes will take on the rates/loss costs of the payroll weighted rate/loss cost. Rating values will be determined by the same payroll weighing.

If the payroll weighted rate/loss cost is outside of the filing's swing limits for any of the codes, then the rate/loss cost for each of the codes will be determined by a methodology weighting together (1) the payroll weighted rate/loss cost and (2) the standard calculated rate loss cost for each code. The ratio used in this methodology will be first determined by calculating the maximum weighting value given to the payroll weighted rate/loss cost in order to keep the rates for Codes 8861 and 9110 within the swing limits of the filing; however, a 33% minimum weighting value must be used regardless of the swing limits to execute the transition program within three years. Rating values will be calculated in a similar manner.

- C. As part of the proposed rate/loss cost filing with an effective date after January 1, 2006 and on or before January 1, 2007, the payroll weighted rate/loss cost of Codes 8861 and 9110 will be calculated using the latest available year's payroll and the standard calculated rates/loss costs of the two individual codes. If the payroll weighted rate/loss cost is within the swing limits determined for Codes 8861 and 9110, then each of the codes will take on the rate/loss costs of the payroll weighted rate/loss cost. Rating values will be determined by the same payroll weighting.

If the payroll weighted rate/loss cost is outside of the filing's swing limits for any of the codes, then the rate/loss cost for each of the codes will be determined by a methodology weighting together (1) the payroll weighted rate/loss cost and (2) the standard calculated rate loss cost for each code. The ratio used in this methodology will be first determined by calculating the maximum weighting value given to

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the payroll weighted rate/loss cost in order to keep the rates for Codes 8861 and 9110 within the swing limits of the filing; however, a 67% minimum weighting value must be used regardless of the swing limits to execute the transition program within three years. Rating values will be calculated in a similar manner.

- D. If in any state a rate/loss cost filing has not been filed and approved with an effective date on or after January 1, 2006 and on or before January 1, 2007, the rates/loss costs for Codes 8861 and 9110 will be changed effective January 1, 2007 for new and renewal business. The rates/loss costs for each of the codes will be determined by averaging the current class code rate/loss costs and the payroll weighted rate/loss cost. The payroll used will be from the latest available year. Rating values will be calculated in a similar manner.
- E. As part of a proposed rate/loss cost filing with an effective date after January 1, 2007 and on or before January 1, 2008, the payroll weighted rate/loss cost of Codes 8861 and 9110 will be calculated using the latest available year's payroll and the standard calculated rates/loss costs of the two individual codes. Each of the classification codes will take on the rate/loss cost of this payroll weighted rate/loss cost. Rating values will be determined by the same payroll weighting.
- F. Effective 12:01 a.m. January 1, 2008 for new and renewal business, Codes 8861 and 9110 will be eliminated. Codes 8864 and 8842 will be established and calculated as follows:
 - 1. If the current rate/loss costs for Codes 8861 and 9110 are identical, Codes 8864 and 8842 will take on the common rate/loss cost and common rating values of Codes 8861 and 9110.
 - 2. If the current rate/loss costs for Code 8861 and 9110 are not identical, the rate/loss cost for Codes 8864 and 8842 will be determined by the payroll weighted rate/loss cost of the individual codes. The payroll used will be from the latest available year. Rating values will be determined by the same payroll weighting.
 - 3. If, effective January 1, 2008 the establishment of Codes 8864 and 8842 coincide with the effective date of an approved rate/loss cost filing in your state, the payroll weighted rate/loss cost of Codes 8861 and 9110 will be calculated using the latest available year's payroll and the standard calculated rate/loss cost of the two individual codes. The rate for Codes 8864 and 8842 will be equivalent to this payroll-weighted average. Rating values will be determined by the same payroll weighting.

IMPACT

This item will foster the uniform and equitable treatment of risks within the social services industry. The internal transition program will unburden the carriers and ease the impact of the re-alignment within a short time frame. Furthermore, it is necessary to use a minimum weighting value in each year to maintain the transition program within three years and to change the rate/loss cost and rating values for Codes 8861 and 9110.

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EXHIBIT 1**BASIC MANUAL****CLASSIFICATIONS**

Effective 12:01 a.m., January 1, 2008

CHARITABLE OR WELFARE ORGANIZATION

Stores to be separately rated.

- 8861** **Professional Employees & Clerical**
9110 **All Other Employees & Drivers**

8842 GROUP HOMES—ALL EMPLOYEES & SALESPERSONS, DRIVERS

Includes group homes, group foster homes, halfway houses that provide rehabilitation services, shelters, and independent supportive living homes for mentally, physically or emotionally challenged individuals. Juvenile detention centers, “boot camps”, and halfway houses for convicts are to be separately rated to Code 7720. Detoxification, treatment and rehabilitation of alcoholics or narcotic addicts are separately rated to the appropriate hospital classification codes. Refer to Code 8864 for social service organizations.

7720 JUVENILE DETENTION CENTER—ALL EMPLOYEES & SALESPERSONS, DRIVERS

Includes halfway houses juvenile detention centers, “boot camps”, or homes for convicts. Refer to Code 8842 for group homes, group foster homes, halfway houses that provide rehabilitation services, shelters, and independent supportive living homes for mentally, physically or emotionally challenged individuals.

8864 SOCIAL SERVICES ORGANIZATION—ALL EMPLOYEES & SALESPERSONS, DRIVERS

Applicable to institutions that provide social services to mentally, physically or emotionally challenged persons. Social service organizations may offer these individuals sleeping accommodations, meals, on-site counseling or client assessments, education, training and employment and offer limited medical services such as first aid. Includes employees who may among other services counsel, advise, guide, direct, or instruct clients. Refer to Code 8842 for group homes, group foster homes, halfway houses that provide rehabilitation services, shelters, and independent supportive living homes for mentally, physically or emotionally challenged individuals. Refer to Code 7720 for juvenile detention centers, “boot camps” and halfway houses for convicts. Detoxification, treatment and rehabilitation of alcoholics or narcotic addicts are separately rated to the appropriate hospital classification codes. Separately rate business ventures operated by social service organizations.

CHARITABLE/WELFARE ORGANIZATIONS & GROUP HOMES

EXHIBIT 2**BASIC MANUAL**

Effective 12:01 a.m., January 1, 2008

Deductible Insurance

Table of Classifications by Hazard Group

Code No.	Hazard Group
8842	II
8861	II
8864	II
9110	II

RETROSPECTIVE RATING PLAN MANUAL

Effective 12:01 a.m., January 1, 2008

Part Four F

Table of Classifications by Hazard Group

Code No.	Hazard Group
8842	II
8861	II
8864	II
9110	II

CHARITABLE/WELFARE ORGANIZATIONS & GROUP HOMES**EXHIBIT 3
FOR ILLUSTRATIVE PURPOSES ONLY---NOT ACTUAL RATES/LOSS COSTS****Example of Weight Value Calculation**

In the following example, the rates/loss costs are calculated for each class code by utilizing successively higher weight values until the largest weight value is found that keeps the rates/loss costs within swing limits. However, depending on which year of the transition the filing is effective, this weight value is subject to minimums *without regard to swing limits*. These minimums are 0.33, 0.67 and 1.00 respectively, for years 1, 2, and 3. For the purposes of illustration, the Codes are represented as XXX1, XXX2 and XXX3.

The following assumptions are made for this example:

1. The swing limits are 25%
2. The rates/loss costs are as follows:

	Rate/Loss Cost for Code XXX1	Rate/Loss Cost for Code XXX2	Rate/Loss Cost for Code XXX3
First transition year	23.00	11.00	12.00
Second transition year	17.25	11.37	12.10

Weight Calculation Table						
Year 1	Code XXX1		Code XXX2		Code XXX3	
Weight Value	Calculated Rate/Loss Cost Given Weight Value	Rate/Loss Cost Change %	Calculated Rate/Loss Cost Given Weight Value	Rate/Loss Cost Change %	Calculated Rate/Loss Cost Given Weight Value	Rate/Loss Cost Change %
0.33	18.19	-20.9	11.15	+1.4	12.03	+0.2
0.34	18.10	-21.3	11.17	+1.5	12.04	+0.3
0.35	18.02	-21.7	11.19	+1.7	12.04	+0.3
0.36	17.93	-22.0	11.21	+1.9	12.05	+0.4
0.37	17.85	-22.4	11.23	+2.1	12.06	+0.5
0.38	17.76	-22.8	11.25	+2.3	12.06	+0.5
0.39	17.68	-23.1	11.27	+2.5	12.07	+0.6
0.40	17.59	-23.5	11.29	+2.6	12.08	+0.7
0.41	17.51	-23.9	11.31	+2.8	12.08	+0.7
0.42	17.42	-24.3	11.33	+3.0	12.09	+0.8
0.43	17.34	-24.6	11.35	+3.2	12.10	+0.8
0.44	17.25	-25.0	11.37	+3.4	12.10	+0.8
0.45	17.17	-25.3	11.39	+3.5	12.11	+0.9
Year 2						
0.67	14.49					
0.68	14.43					
0.69	14.37					
0.70	14.31					
.93	12.94	-25.0	12.33	+8.4	12.51	+3.4

CHARITABLE/WELFARE ORGANIZATIONS & GROUP HOMES**Example of Transition Program Rate/Loss Cost Calculations**

Note: The rates/loss costs used in the following example are for illustration purposes only and are not the actual rates/loss costs in use, nor do they represent expected actual rates/loss costs for the codes indicated.

In the following example, the "Payroll Weighted Rate/Loss Cost" for each year can be calculated by using the "initially Calculated Rate/Loss Cost" and the payroll for the latest available year.

The following assumptions are made for this example:

	Code XXX1	Code XXX1	Code XXX3
Payroll \$	400,000	700,000	3,000,000
Rate/Loss Cost	21.00	10.50	11.81

The "Payroll Weighted Rate/Loss Cost" is calculated as follows:

$$\frac{[(400,000 \times 21.00) + (700,000 \times 10.50) + (3,000,000 \times 11.81)]}{(400,000 + 700,000 + 3,000,000)}$$

Additionally, the swing limits are assumed to be plus or minus 25%. Please note: the weight value used represents the largest possible value keeping the rate/loss cost changes within the swing limits. The weight value below is subject to a minimum of .33, .67 and 1.00 for each year without regard to swing limits in order to transition the rates/loss costs within three years.

	Weight Value	Class Code	Payroll Weighted Rate/Loss Cost		Initially Calculated Rate/Loss Cost		Final Rate/Loss Cost
Filing effective in first year	.44	XXX1	(0.44 x 12.48)	+	(0.56 x 21.00)	=	17.25
		XXX2	(0.44 x 12.48)	+	(0.56 x 10.50)	=	11.37
		XXX3	(0.44 x 12.48)	+	(0.56 x 11.81)	=	12.10
Filing effective in second year	.93	XXX1	(0.93 x 12.52)	+	(0.07 x 18.50)	=	12.94
		XXX2	(0.93 x 12.52)	+	(0.07 x 9.85)	=	12.33
		XXX3	(0.93 x 12.52)	+	(0.07 x 12.35)	=	12.51
Filing effective in third year	1.0	XXX1	(1.00 x 12.49)	+	(0.00 x 19.78)	=	12.49
		XXX2	(1.00 x 12.49)	+	(0.00 x 12.25)	=	12.49
		XXX3	(1.00 x 12.49)	+	(0.00 x 11.57)	=	12.49

CHARITABLE/WELFARE ORGANIZATIONS & GROUP HOMES**Example of Transition Program Expected Loss Rate (ELR)**

Note: The ELR's in the following example are for illustration purposes only and are not the actual ELR's in use nor do they represent expected actual ELR's for the codes indicated.

In the following example the "Payroll Weighted ELR" for each year can be calculated by using the "initially Calculated ELR" and the payroll for the latest available year.

The following assumptions are made for this example:

	Code XXX1	Code XXX2	Code XXX3
Payroll \$	400,000	700,000	3,000,000
ELR	7.00	3.50	3.94

The "Payroll Weighted ELR" is calculated as follows:

$$\frac{[(400,000 \times 7.00) + (700,000 \times 3.50) + (3,000,000 \times 3.94)]}{(400,000 + 700,000 + 3,000,000)}$$

Additionally, the swing limits are assumed to be plus or minus 25%. Please note: the weight value used represents the largest possible value keeping the rate/loss cost changes within the swing limits. The weight value below is subject to a minimum of .33, .67 and 1.00 for each year without regard to swing limits in order to transition the rates/loss costs within three years.

	Weight Value	Class Code	Payroll Weighted ELR		Initially Calculated ELR		Final ELR
Filing effective in first year	.44	XXX1	(0.44 x 4.16)	+	(0.56 x 7.00)	=	5.75
		XXX2	(0.44 x 4.16)	+	(0.56 x 3.50)	=	3.79
		XXX3	(0.44 x 4.16)	+	(0.56 x 3.94)	=	4.04
Filing effective in second year	.93	XXX1	(0.93 x 4.18)	+	(0.07 x 6.17)	=	4.32
		XXX2	(0.93 x 4.18)	+	(0.07 x 3.28)	=	4.12
		XXX3	(0.93 x 4.18)	+	(0.07 x 4.12)	=	4.18
Filing effective in third year	1.0	XXX1	(1.00 x 4.16)	+	(0.00 x 6.59)	=	4.16
		XXX2	(1.00 x 4.16)	+	(0.00 x 4.08)	=	4.16
		XXX3	(1.00 x 4.16)	+	(0.00 x 3.86)	=	4.16

CHARITABLE/WELFARE ORGANIZATIONS & GROUP HOMES**Example of Transition Program D-Ratios**

Note: The D- Ratios in the following example are for illustration purposes only and are not the actual D- Ratios in use nor do they represent expected actual D- Ratios for the codes indicated.

In the following example the "Payroll Weighted D-Ratios" for each year can be calculated by using the "Initially Calculated D-Ratios" and the payroll for the latest available year.

The following assumptions are made for this example:

	Code XXX1	Code XXX2	Code XXX3
Payroll \$	400,000	700,000	3,000,000
D-Ratios	0.23	0.20	0.24

The "Payroll Weighted D-Ratio" is calculated as follows:

$$\frac{[(400,000 \times .23) + (700,000 \times .20) + (3,000,000 \times .24)]}{(400,000 + 700,000 + 3,000,000)}$$

Additionally, the swing limits are assumed to be plus or minus 25%. Please note: the weight value used represents the largest possible value keeping the rate/loss cost changes within the swing limits. The weight value below is subject to a minimum of .33, .67 and 1.00 for each year without regard to swing limits in order to transition the rates/loss costs within three years.

	Weight Value	Class Code	Payroll Weighted D Ratio		Initially Calculated D Ratio		Final D Ratio
Filing effective in first year	.44	XXX1	(0.44 x 0.23)	+	(0.56 x 0.23)	=	0.23
		XXX2	(0.44 x 0.23)	+	(0.56 x 0.20)	=	0.21
		XXX3	(0.44 x 0.23)	+	(0.56 x 0.24)	=	0.24
Filing effective in second year	.93	XXX1	(0.93 x 0.24)	+	(0.07 x 0.23)	=	0.24
		XXX2	(0.93 x 0.24)	+	(0.07 x 0.22)	=	0.24
		XXX3	(0.93 x 0.24)	+	(0.07 x 0.25)	=	0.24
Filing effective in third year	1.0	XXX1	(1.00 x 0.23)	+	(0.00 x 0.22)	=	0.23
		XXX2	(1.00 x 0.23)	+	(0.00 x 0.22)	=	0.23
		XXX3	(1.00 x 0.23)	+	(0.00 x 0.24)	=	0.23

BOTTLING OPERATIONS

BACKGROUND

Currently, there are three codes used for bottling beverages.

1. Code 2131—Spirituous Liquor Bottling is applicable to insureds engaged in bottling, labeling, packaging and warehousing of distilled spirituous liquors. Spirituous liquors include whiskey, gin, rum, vodka, scotch, etc.
2. Code 2156—Bottling—Not Carbonated Liquids—Or Spirituous Liquids--& Route Supervisors, Drivers is applicable to the bottling or canning of non carbonated liquids such as wine, cider and vinegar.
3. Code 2157—Bottling NOC & Route Supervisors, Drivers applies to the bottling or canning of carbonated liquids as well as carbonated wine, beer and ale.

NCCI recently conducted a review of the bottling industry. Although Code 2131 is a bottling code the process and hazards are not consistent with Codes 2156 and 2157. The only difference between codes 2156 and 2157 is the end product. The processes, materials and equipment used in bottling carbonated and non-carbonated liquids are very similar. Bottling operations have changed over the years. The term bottling is somewhat of a misnomer for the industry since only about 1% of soft drinks are actually packaged in glass bottles. Today most beverages are packaged in aluminum or steel cans and polyethylene terephthalate (PET) plastic bottles. Many bottling companies package both carbonated and non-carbonated liquids including soft drinks, fruit juices, iced teas, seltzers and bottled water. Some of the materials and equipment in common are filling machines, bottle washers, storage tanks, cappers, labeling and coding machines, charcoal filtration, carbon dioxide, conveyors, etc.

The object of the classification system is to group employers into classifications so that the rate for each classification reflects the exposures common to those employers. When one considers the similarity of operations between bottling non-carbonated liquids and carbonated liquids, it is clear that it is appropriate to combine these operations for classification and ratemaking purposes to simplify the classification system.

PROPOSAL

1. Effective 12:01 a.m., January 1, 2006, for new and renewal business, that an internal transition program be executed to provide a three-year rate/loss cost and rating value transition for Codes 2156 and 2157.
2. Effective 12:01 a.m., January 1, 2008, for new and renewal business, that Code 2156 be discontinued and all insureds having operations previously under Code 2156 be reassigned to Code 2157.

BOTTLING OPERATIONS

The ICRB will administer a three-year transition program through the rate filing process.

Following are the rules of the three-year transition program implementing the rates/loss costs and rating values for Codes 2156 and 2157. Examples of the transition program calculations including the weight value calculations are contained in Exhibit 6.

- A. Risks will continue to be classified to either Code 2156 or 2157 as appropriate until the elimination of Code 2156 on January 1, 2008.
- B. As part of a proposed rate/loss cost filing with an effective date on January 1, 2006, the payroll weighted rate/loss cost of Codes 2156 and 2157 will be calculated using the latest available year's payroll and the standard calculated rates/loss costs of the two individual codes. If the payroll weighted rate/loss cost is within the swing limits determined for Codes 2156 and 2157, then each of these codes will take on the rates/loss costs of the payroll weighted rate/loss cost. Rating values will be determined by the same payroll weighing.

If the payroll weighted rate/loss cost is outside of the filing's swing limits for any of the codes, then the rate/loss cost for each of the codes will be determined by a methodology weighting together (1) the payroll weighted rate/loss cost and (2) the standard calculated rate loss cost for each code. The ratio used in this methodology will be first determined by calculating the maximum weighting value given to the payroll weighted rate/loss cost in order to keep the rates for Codes 2156 and 2157 within the swing limits of the filing; however, a 33% minimum weighting value must be used regardless of the swing limits to execute the transition program within three years. Rating values will be calculated in a similar manner.

- C. As part of the proposed rate/loss cost filing with an effective date after January 1, 2006 and on or before January 1, 2007, the payroll weighted rate/loss cost of Codes 2156 and 2157 will be calculated using the latest available year's payroll and the standard calculated rates/loss costs of the two individual codes. If the payroll weighted rate/loss cost is within the swing limits determined for Codes 2156 and 2157, then each of the codes will take on the rate/loss costs of the payroll weighted rate/loss cost. Rating values will be determined by the same payroll weighting.

If the payroll weighted rate/loss cost is outside of the filing's swing limits for any of the codes, then the rate/loss cost for each of the codes will be determined by a methodology weighting together (1) the payroll weighted rate/loss cost and (2) the standard calculated rate loss cost for each code. The ratio used in this methodology will be first determined by calculating the maximum weighting value given to the payroll weighted rate/loss cost in order to keep the rates for Codes 2156 and 2157 within the swing limits of the filing; however, a 67% minimum weighting value must be used regardless of the swing limits to execute the transition program within three years. Rating values will be calculated in a similar manner.

- D. If a rate/loss cost filing has not been filed and approved with an effective date on or after January 1, 2006 and on or before January 1, 2007, the rates/loss costs for Codes 2156 and 2157 will be changed effective January 1, 2007 for new and renewal business. The rates/loss costs for each of the codes will be determined by averaging the current class code rate/loss costs and the payroll weighted rate/loss cost. The payroll used will be from the latest available year. Rating values will be calculated in a similar manner.

BOTTLING OPERATIONS

- E. As part of a proposed rate/loss cost filing with an effective date after January 1, 2007 and on or before January 1, 2008, the payroll weighted rate/loss cost of Codes 2156 and 2157 will be calculated using the latest available year's payroll and the standard calculated rates/loss costs of the two individual codes. Each of the classification codes will take on the rate/loss cost of this payroll weighted rate/loss cost. Rating values will be determined by the same payroll weighting.
- F. Effective 12:01 a.m. January 1, 2008 for new and renewal business, Code 2156 will be eliminated. All insureds having operations previously assigned to Code 2156 will be assigned to Code 2157. Code 2157 will be calculated as follows:
 - 1. If the current rate/loss costs for Codes 2156 and 2157 are identical, Code 2157 will take on the common rate/loss cost and common rating values of Codes 2156 and 2157
 - 2. If the current rate/loss costs for Code 2156 and 2157 are not identical, the rate/loss cost for Code 2157 will be determined by the payroll weighted rate/loss cost of the individual codes. The payroll used will be from the latest available year. Rating values will be determined by the same payroll weighting.
 - 3. If, effective January 1, 2008 the establishment of Code 2157 coincides with the effective date of an approved rate/loss cost filing in your state, the payroll weighted rate/loss cost of Codes 2156 and 2157 will be calculated using the latest available year's payroll and the standard calculated rate/loss cost of the two individual codes. The rate for Code 2157 will be equivalent to this payroll-weighted average. Rating values will be determined by the same payroll weighting.

IMPACT

This item will foster the uniform and equitable treatment of risks within the bottling industry. The internal transition program will unburden the carriers and ease the impact of the re-alignment within a short time frame. Furthermore, it is necessary to use a minimum weighting value in each year to maintain the transition program within three years and to change the rate/loss cost and rating values for Codes 2156 and 2157. There will be no premium impact due to the transition program.

BOTTLING OPERATIONS

EXHIBIT 4**BASIC MANUAL****CLASSIFICATIONS**

Effective 12:01 a.m., January 1, 2008

BOTTLING

- 2156** ~~Not Carbonated Liquids or Spirituous Liquors & Route Supervisors, Drivers.~~ Includes sign erection or repair. Shall not be assigned to a risk engaged in operations described by another classification unless the operations subject to Code 2156 are conducted as a separate and distinct business.
- 2157** ~~NOC~~ **ALL OPERATIONS & ROUTE SUPERVISORS, DRIVERS.** Includes sign erection or repair. Shall not be assigned to a risk engaged in operations described by another classification unless the operations subject to Code 2157 are conducted as a separate and distinct business. Refer to Code 2131 for bottling spirituous liquors.
- 2157** **CARBONATED BEVERAGE MFG. NOC** ~~ALL OPERATIONS & ROUTE SUPERVISORS, DRIVERS.~~ Includes sign erection or repair.

BOTTLING OPERATIONS

EXHIBIT 5**BASIC MANUAL**

Effective 12:01 a.m., January 1, 2008

Deductible Insurance**Table of Classifications by Hazard Group**

Code No.	Hazard Group
2156	II
2157	II

RETROSPECTIVE RATING PLAN MANUAL

Effective 12:01 a.m., January 1, 2008

Part Four F**Table of Classifications by Hazard Group**

Code No.	Hazard Group
2156	II
2157	II

BOTTLING OPERATIONS**EXHIBIT 6
FOR ILLUSTRATIVE PURPOSES ONLY---NOT ACTUAL RATES/LOSS COSTS****Example of Weight Value Calculation**

In the following example, the rates/loss costs are calculated for each class code by utilizing successively higher weight values until the largest weight value is found that keeps the rates/loss costs within swing limits.

However, depending on which year of the transition the filing is effective, this weight value is subject to minimums *without regard to swing limits*. These minimums are 0.33, 0.67 and 1.00 respectively, for years 1, 2, and 3. For the purposes of illustration, the Codes are represented as XXX1, XXX2 and XXX3.

The following assumptions are made for this example:

3. The swing limits are 25%
4. The rates/loss costs are as follows:

	Rate/Loss Cost for Code XXX1	Rate/Loss Cost for Code XXX2	Rate/Loss Cost for Code XXX3
First transition year	23.00	11.00	12.00
Second transition year	17.25	11.37	12.10

Weight Calculation Table						
Year 1	Code XXX1		Code XXX2		Code XXX3	
Weight Value	Calculated Rate/Loss Cost Given Weight Value	Rate/Loss Cost Change %	Calculated Rate/Loss Cost Given Weight Value	Rate/Loss Cost Change %	Calculated Rate/Loss Cost Given Weight Value	Rate/Loss Cost Change %
0.33	18.19	-20.9	11.15	+1.4	12.03	+0.2
0.34	18.10	-21.3	11.17	+1.5	12.04	+0.3
0.35	18.02	-21.7	11.19	+1.7	12.04	+0.3
0.36	17.93	-22.0	11.21	+1.9	12.05	+0.4
0.37	17.85	-22.4	11.23	+2.1	12.06	+0.5
0.38	17.76	-22.8	11.25	+2.3	12.06	+0.5
0.39	17.68	-23.1	11.27	+2.5	12.07	+0.6
0.40	17.59	-23.5	11.29	+2.6	12.08	+0.7
0.41	17.51	-23.9	11.31	+2.8	12.08	+0.7
0.42	17.42	-24.3	11.33	+3.0	12.09	+0.8
0.43	17.34	-24.6	11.35	+3.2	12.10	+0.8
0.44	17.25	-25.0	11.37	+3.4	12.10	+0.8
0.45	17.17	-25.3	11.39	+3.5	12.11	+0.9
Year 2						
0.67	14.49					
0.68	14.43					
0.69	14.37					
0.70	14.31					
↓-	↓-	↓-	↓-	↓-	↓-	↓-
.93	12.94	-25.0	12.33	+8.4	12.51	+3.4

BOTTLING OPERATIONS**Example of Transition Program Rate/Loss Cost Calculations**

Note: The rates/loss costs used in the following example are for illustration purposes only and are not the actual rates/loss costs in use, nor do they represent expected actual rates/loss costs for the codes indicated.

In the following example, the "Payroll Weighted Rate/Loss Cost" for each year can be calculated by using the "Initially Calculated Rate/Loss Cost" and the payroll for the latest available year.

The following assumptions are made for this example:

	Code XXX1	Code XXX1	Code XXX3
Payroll \$	400,000	700,000	3,000,000
Rate/Loss Cost	21.00	10.50	11.81

The "Payroll Weighted Rate/Loss Cost" is calculated as follows:

$$\frac{[(400,000 \times 21.00) + (700,000 \times 10.50) + (3,000,000 \times 11.81)]}{(400,000 + 700,000 + 3,000,000)}$$

Additionally, the swing limits are assumed to be plus or minus 25%. Please note: the weight value used represents the largest possible value keeping the rate/loss cost changes within the swing limits. The weight value below is subject to a minimum of .33, .67 and 1.00 for each year without regard to swing limits in order to transition the rates/loss costs within three years.

	Weight Value	Class Code	Payroll Weighted Rate/Loss Cost		Initially Calculated Rate/Loss Cost		Final Rate/Loss Cost
Filing effective in first year	.44	XXX1	(0.44 x 12.48)	+	(0.56 x 21.00)	=	17.25
		XXX2	(0.44 x 12.48)	+	(0.56 x 10.50)	=	11.37
		XXX3	(0.44 x 12.48)	+	(0.56 x 11.81)	=	12.10
Filing effective in second year	.93	XXX1	(0.93 x 12.52)	+	(0.07 x 18.50)	=	12.94
		XXX2	(0.93 x 12.52)	+	(0.07 x 9.85)	=	12.33
		XXX3	(0.93 x 12.52)	+	(0.07 x 12.35)	=	12.51
Filing effective in third year	1.0	XXX1	(1.00 x 12.49)	+	(0.00 x 19.78)	=	12.49
		XXX2	(1.00 x 12.49)	+	(0.00 x 12.25)	=	12.49
		XXX3	(1.00 x 12.49)	+	(0.00 x 11.57)	=	12.49

BOTTLING OPERATIONS**Example of Transition Program Expected Loss Rate (ELR)**

Note: The ELR's in the following example are for illustration purposes only and are not the actual ELR's in use nor do they represent expected actual ELR's for the codes indicated.

In the following example the "Payroll Weighted ELR" for each year can be calculated by using the "Initially Calculated ELR" and the payroll for the latest available year.

The following assumptions are made for this example:

	Code XXX1	Code XXX2	Code XXX3
Payroll \$	400,000	700,000	3,000,000
ELR	7.00	3.50	3.94

The "Payroll Weighted ELR" is calculated as follows:

$$\frac{[(400,000 \times 7.00) + (700,000 \times 3.50) + (3,000,000 \times 3.94)]}{(400,000 + 700,000 + 3,000,000)}$$

Additionally, the swing limits are assumed to be plus or minus 25%. Please note: the weight value used represents the largest possible value keeping the rate/loss cost changes within the swing limits. The weight value below is subject to a minimum of .33, .67 and 1.00 for each year without regard to swing limits in order to transition the rates/loss costs within three years.

	Weight Value	Class Code	Payroll Weighted ELR		Initially Calculated ELR		Final ELR
Filing effective in first year	.44	XXX1	(0.44 x 4.16)	+	(0.56 x 7.00)	=	5.75
		XXX2	(0.44 x 4.16)	+	(0.56 x 3.50)	=	3.79
		XXX3	(0.44 x 4.16)	+	(0.56 x 3.94)	=	4.04
Filing effective in second year	.93	XXX1	(0.93 x 4.18)	+	(0.07 x 6.17)	=	4.32
		XXX2	(0.93 x 4.18)	+	(0.07 x 3.28)	=	4.12
		XXX3	(0.93 x 4.18)	+	(0.07 x 4.12)	=	4.18
Filing effective in third year	1.0	XXX1	(1.00 x 4.16)	+	(0.00 x 6.59)	=	4.16
		XXX2	(1.00 x 4.16)	+	(0.00 x 4.08)	=	4.16
		XXX3	(1.00 x 4.16)	+	(0.00 x 3.86)	=	4.16

BOTTLING OPERATIONS**Example of Transition Program D-Ratios**

Note: The D- Ratios in the following example are for illustration purposes only and are not the actual D- Ratios in use nor do they represent expected actual D- Ratios for the codes indicated.

In the following example the "Payroll Weighted D-Ratios" for each year can be calculated by using the "Initially Calculated D-Ratios" and the payroll for the latest available year.

The following assumptions are made for this example:

	Code XXX1	Code XXX2	Code XXX3
Payroll \$	400,000	700,000	3,000,000
D-Ratios	0.23	0.20	0.24

The "Payroll Weighted D-Ratio" is calculated as follows:

$$\frac{[(400,000 \times .23) + (700,000 \times .20) + (3,000,000 \times .24)]}{(400,000 + 700,000 + 3,000,000)}$$

Additionally, the swing limits are assumed to be plus or minus 25%. Please note: the weight value used represents the largest possible value keeping the rate changes within the swing limits. The weight value below is subject to a minimum of .33, .67 and 1.00 for each year without regard to swing limits in order to transition the rates within three years.

	Weight Value	Class Code	Payroll Weighted D Ratio		Initially Calculated D Ratio		Final D Ratio
Filing effective in first year	.44	XXX1	(0.44 x 0.23)	+	(0.56 x 0.23)	=	0.23
		XXX2	(0.44 x 0.23)	+	(0.56 x 0.20)	=	0.21
		XXX3	(0.44 x 0.23)	+	(0.56 x 0.24)	=	0.24
Filing effective in second year	.93	XXX1	(0.93 x 0.24)	+	(0.07 x 0.23)	=	0.24
		XXX2	(0.93 x 0.24)	+	(0.07 x 0.22)	=	0.24
		XXX3	(0.93 x 0.24)	+	(0.07 x 0.25)	=	0.24
Filing effective in third year	1.0	XXX1	(1.00 x 0.23)	+	(0.00 x 0.22)	=	0.23
		XXX2	(1.00 x 0.23)	+	(0.00 x 0.22)	=	0.23
		XXX3	(1.00 x 0.23)	+	(0.00 x 0.24)	=	0.23