Circular

FEBRUARY 5, 2009 | **ANNOUNCEMENT** | **CIF-2009-03**

Countrywide–Item R-1399 2009 Edition–Retrospective Rating Plan Manual for Workers Compensation and Employers Liability Insurance

ACTION NEEDED

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

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

BACKGROUND

NCCI has an ongoing process dedicated to the systematic research, analysis, and maintenance of NCCI's manuals. This process ensures that NCCI products continue to add value to the various industry stakeholders. During the process, NCCI gathers feedback and comments from internal and external stakeholders. Based on this feedback, NCCI is proposing a new enhanced 2009 edition of the ***Retrospective Rating Plan Manual for Workers Compensation and Employers Liability Insurance*** as described in the attachments to this circular.

Included in this circular is a copy of the User's Guide. This item is part of the R-1399 item filing proposal. The intent is to update this information as necessary, without the need to file for regulatory approval.

IMPACT

No premium impact is expected as a result of this item. As part of NCCI's continuing effort to simplify and clarify manual rules, we anticipate that these changes will enhance the understanding of the ***Retrospective Rating Plan Manual***.

NCCI ACTION

Item R-1399 has been filed in all NCCI jurisdictions except Alaska and Oregon. We expect it to be filed in that jurisdiction in the near future. Additionally, it has been submitted to the Independent Bureaus for their consideration.

NCCI's ***Status of Item Filings*** circular will provide you with the latest information on the approval of Item R-1399 in addition to all NCCI item filings. The ***Status of Item Filings*** circular is updated weekly on **ncci.com**.

NCCI will release its new ***Retrospective Rating Plan Manual*** prior to the effective date. If you would like to subscribe to any of our manuals, please call our Customer Service Center at 800-**NCCI**-123.

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FILING MEMORANDUM

ITEM R-1399—2009 EDITION–RETROSPECTIVE RATING PLAN MANUAL FOR WORKERS COMPENSATION AND EMPLOYERS LIABILITY INSURANCE

PURPOSE

This item introduces the 2009 edition of the ***Retrospective Rating Plan Manual for Workers Compensation and Employers Liability Insurance***. Similar to the approach taken with the revision of NCCI's ***Basic Manual for Workers Compensation and Employers Liability Insurance*** in 2001 and the ***Experience Rating Plan Manual for Workers Compensation and Employers Liability Insurance*** in 2003, the ***Retrospective Rating Plan Manual*** is being revised in an effort to make it more user-friendly. We focused on a plain language approach in recognition of regulatory and customer feedback regarding the existing rules.

In addition, this item withdraws Part 1.I.4-Retrospectively Rated Policies of NCCI's ***Statistical Plan*** since this rule is no longer applicable.

BACKGROUND

The ***Retrospective Rating Plan Manual ("Plan")*** was last rewritten in 1984. In the 25 years since then, changes have been introduced on an as-needed basis.

This project responds to customer concerns regarding simplification of the language and presentation of the material.

Two themes were identified that provided the focus for improving this product.

1. **Plain Language—Use of plain language without making changes to substantive intent**

   This new edition of the ***Retrospective Rating Plan Manual*** has been written in simpler language and reformatted to make it more reader-friendly for a general audience. The substance and intent of the rules have not changed. The ***Retrospective Rating Plan Manual*** contains the rules required for regulator approval and also serves as an improved reference and information tool.

   Simplified features include use of shorter sentences and paragraphs, and bulleted lists when enumerating a list of items. As with the other underwriting-related manuals, the new Plan also uses a number of "If–Then" tables to present information that in its previous text format may have been confusing.

   All material contained in the existing Plan has been covered in the rewrite. "Part" has been changed to "Rules," and the tables that are located in Part Four of the existing Plan will be included in the Appendix of the new Plan. Duplicate rules contained, either within the current ***Retrospective Rating Plan Manual*** or in other NCCI manuals have been eliminated. For example, the retrospective rating plan endorsements that were located both in this manual and the ***Forms Manual for Workers Compensation and Employers Liability Insurance***, will only reside in the ***Forms Manual***.

2. ***User's Guide***

   To further enhance the ***Retrospective Rating Plan Manual*** as a plain language reference and informational tool, a companion product, the 2009 edition of the ***Retrospective Rating Plan Manual User's Guide*** , will also be introduced. Material currently in the Plan that is considered general information (i.e., information that does not impact premium determination, but can help the user understand the rules) will now be located in the ***User's Guide***.

FILING MEMORANDUM

ITEM R-1399—2009 EDITION–RETROSPECTIVE RATING PLAN MANUAL FOR WORKERS COMPENSATION AND EMPLOYERS LIABILITY INSURANCE

The ***User's Guide***, which is not being filed for approval, contains examples and other national and state information, but not rules. A copy of the ***User's Guide*** is being provided for informational purposes only. NCCI will make periodic updates to the general information that would assist in the understanding of the rules. None of these informational updates will change the way premium is determined. Any changes involving rules that impact premium determination will always be accomplished through the item filing and approval process.

PROPOSAL

This item proposes that the 2009 edition of the ***Retrospective Rating Plan Manual*** become effective for new and renewal policies written under a retrospective rating plan on and after January 1, 2010.

Note that the ***Retrospective Rating Plan Manual*** will contain references, such as "Refer to...", to alert the user to additional information. The references will periodically be updated or added. However, they will not be filed for approval because they do not impact rules and simply refer the user to another section of the national or state pages of either the ***Retrospective Rating Plan Manual*** or ***Retrospective Rating Plan Manual User's Guide***.

A summary of the four rules is as follows:

- **Rule 1—General Explanation**

  This section primarily contains the definitions of the technical terms used throughout this manual.

- **Rule 2—Eligibility for the Plan**

  This section contains the eligibility criteria for a retrospective rating plan when applied to:
  - One-Year or Three-Year Plans
  - Large Risk Alternative Rating Option (LRARO)
  - Wrap-Up Construction Projects

- **Rule 3—Operation of the Plan**

  This section contains:
  - Calculating a retrospective rating plan
  - Using the formula when adding elective elements
  - Cancelling a policy under a retrospective rating plan

- **Rule 4—Administration of the Plan**

  This section explains the use of the ***Forms Manual*** and ***Statistical Plan***.

Other parts of the ***Retrospective Rating Plan Manual*** include:

Appendix

FILING MEMORANDUM

ITEM R-1399—2009 EDITION–RETROSPECTIVE RATING PLAN MANUAL FOR WORKERS COMPENSATION AND EMPLOYERS LIABILITY INSURANCE

This section contains a listing of the tables:

- Appendix A contains the Table of Expected Loss Ranges
- Appendix B contains the Table of Insurance Charges
- Appendix C contains the Table of Expense Ratios

Due to the size of each table located in the new Appendix, the Appendix and the tables contained therein are not being included as part of this item. These tables have not changed since they were last filed and approved.

All the information located in the Appendix of the current ***Retrospective Rating Plan Manual*** was reviewed. Much of the information is obsolete (i.e., rules regarding the tabular programs) and was not included in the new Plan. Some of the information was explanatory in nature (i.e. calculation of the Basic Premium) and was included in the new ***User's Guide***.

The state rule exceptions and state special rating values make up the final section of the ***Retrospective Rating Plan Manual***.

IMPACT

There will be no premium impact as a result of the changes being made to the ***Retrospective Rating Plan Manual***.

IMPLEMENTATION

The rules under the current ***Retrospective Rating Plan Manual*** will remain in effect for any retrospectively rated policy issued prior to January 1, 2010. This item proposes that the new 2009 edition of the ***Retrospective Rating Plan Manual***, as shown in the following exhibits, be approved in all states (except Hawaii and Virginia) effective at 12:01 a.m. on January 1, 2010, applicable to new and renewal voluntary policies only.

In Virginia, the rules under the current ***Retrospective Rating Plan Manual*** will remain in effect for any retrospectively rated policy issued prior to January 1, 2010. The new 2009 edition of the ***Retrospective Rating Plan Manual***, as shown in the following exhibits will become effective for policies effective on and after 12:01 a.m. on January 1, 2010, applicable to new and renewal voluntary policies only.

In Hawaii, the rules under the current ***Retrospective Rating Plan Manual*** will remain in effect for any retrospectively rated policy issued prior to the carrier obtaining regulatory approval for the new manual. The effective date of the new 2009 edition of the ***Retrospective Rating Plan Manual*** is determined upon regulatory approval of the individual carrier's election to adopt this change.

Below is a summary of each of the exhibits included in this filing package:

- **Exhibit 1** contains the 2009 edition of the ***Retrospective Rating Plan Manual*** national rules in the new format.
- **Exhibit 2** contains the withdrawal of NCCI's ***Statistical Plan*** Part 1.I.4

FILING MEMORANDUM

ITEM R-1399—2009 EDITION–RETROSPECTIVE RATING PLAN MANUAL FOR WORKERS COMPENSATION AND EMPLOYERS LIABILITY INSURANCE

- **Exhibits 3–6** contain the state rule exceptions, as needed.

This item is being filed concurrently with Item P-1407—Revised Retrospective Rating Plan Endorsements. The implementation of this item is conditional on concurrent approval of Item P-1407.

Carriers may need to re-file any previously approved carrier-specific programs with the appropriate state regulatory authority. Refer to NCCI's ***Filing Guide*** for any state-specific instructions.

EXHIBIT 1
RETROSPECTIVE RATING PLAN MANUAL—2009 EDITION
PREFACE

A. JURISDICTIONS WHERE THIS PLAN APPLIES

Alabama	Kansas	North Carolina†
Alaska	Kentucky	Oklahoma
Arizona	Louisiana	Oregon
Arkansas	Maine	Rhode Island
Colorado	Maryland	South Carolina
Connecticut	Massachusetts†	South Dakota
District of Columbia	Minnesota†	Tennessee
Florida	Mississippi	Utah
Georgia	Missouri	Vermont
Hawaii	Montana	Virginia
Idaho	Nebraska	West Virginia
Illinois	Nevada	Wisconsin†
Indiana†	New Hampshire	
Iowa	New Mexico	

† Independent Bureau States

For interstate retrospective rating plans in the following jurisdictions, this Plan applies to employers liability insurance only:

North Dakota

Ohio

Washington

Wyoming

EXHIBIT 1
RETROSPECTIVE RATING PLAN MANUAL—2009 EDITION
PREFACE

B. JURISDICTIONS WHERE INDEPENDENT PLANS APPLY

California	New Jersey	Texas*
Delaware*	New York*	
Michigan	Pennsylvania*	

* Independent retrospective rating plans permit a combination with states listed in A.

EXHIBIT 1
RETROSPECTIVE RATING PLAN MANUAL—2009 EDITION
PREFACE

C. INTRODUCTION

The rules contained in this manual apply only to workers compensation and employers liability insurance, whether written alone or in combination with other commercial casualty insurance. A retrospective rating plan is based on a mutual agreement between the insured and the carrier. Refer to the Retrospective Rating Plan issued by the Insurance Service Office for rules that govern other commercial casualty lines of insurance.

Premium under a retrospective rating plan is the direct result of incurred losses. A retrospective rating plan reflects the cost of losses plus the insurance carrier's expenses in providing this insurance.

EXHIBIT 1
RETROSPECTIVE RATING PLAN MANUAL—2009 EDITION
RULE 1

RULE 1—GENERAL EXPLANATION

A. OBJECT OF THE PLAN

The application of this Plan is optional and may be used only upon election by insured and acceptance by the insurance carrier.

A retrospective rating plan adjusts the premium for the insured's policy on the basis of losses incurred during the term of that policy. The intent is to charge premium that reflects the actual experience of the insured based on the insured's individual loss history during the policy term. A retrospective rating plan uses the losses incurred during the term of the policy to establish the cost of insurance, and it includes provisions for all expenses and taxes on premium.

B. DEFINITIONS

1. General Definitions

a. Allocated Loss Adjustment Expense (ALAE)

Allocated loss adjustment expense for workers compensation and employers liability insurance, as defined in the ***Statistical Plan***, may also be included as part of incurred losses under a retrospective rating plan if agreed upon by the insured and carrier. This will be called the Allocated Loss Adjustment Expense Option (ALAE Option).

b. Increased Limits

The policy provides for increased limits for employers liability coverage. The losses may be subject to the retrospective rating loss limitation. The premium for employers liability increased limits is based on the percentages provided in NCCI's ***Basic Manual***.

c. Incurred Losses

Incurred losses for workers compensation and employers liability insurance are defined in the ***Statistical Plan***. Incurred losses include paid and outstanding losses.

If the ALAE Option is elected, then incurred losses will include ALAE.

Refer to Rule 1-B-1-a of this manual for the definition of Allocated Loss Adjustment Expense (ALAE) when including ALAE as part of incurred losses.

Note: The rating formula for incurred losses will not include a loss:

- Resulting from the nonratable element codes
- Developed by the passenger seat surcharge under Classification Code 7421
- Developed by the occupational disease rates for employers subject to the Federal Coal Mine Safety and Health Act
- Developed by the catastrophe provisions as outlined in NCCI's ***Basic Manual***

EXHIBIT 1 (CONT'D)
RETROSPECTIVE RATING PLAN MANUAL—2009 EDITION
RULE 1

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.

e. Loss Limitation

A loss limitation is the limit placed on a claim dollar amount that is to be included in the retrospective rating plan calculation. This is an elective element agreed upon by the insured and carrier; there is an additional charge associated with a loss limitation.

f. Standard Premium (SP)

For purposes of the retrospective rating plan, standard premium is determined on the basis of authorized rates, any experience rating modification, and minimum premiums. Determination of standard premium excludes:

(1) Premium discount
(2) Expense constant
(3) Premium resulting from the nonratable element codes
(4) Premium developed by the passenger seat surcharge under Classification Code 7421
(5) Premium developed by the occupational disease rates for employers subject to the Federal Coal Mine Safety and Health Act
(6) Premium developed by the catastrophe provisions as outlined in NCCI's ***Basic Manual***

g. Unallocated Loss Adjustment Expense (ULAE)

Unallocated loss adjustment expense for workers compensation and employers liability insurance is defined in the ***Statistical Plan***. Unallocated loss adjustment expense includes the general overhead of a carrier.

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* for other variations of the retrospective rating formula.

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

a. Retrospective Rating Premium (RRP)

Retrospective rating premium is the premium based on the application of retrospective rating plan elements as a result of a mutual agreement between the insured and carrier.

b. Basic Premium (BP)

Basic premium is a percentage of standard premium. It is determined by multiplying the standard premium by a basic premium factor. The basic premium factor is developed by the carrier and includes:

EXHIBIT 1 (CONT'D)
RETROSPECTIVE RATING PLAN MANUAL—2009 EDITION
RULE 1

- General administration costs of the carrier
- Related loss control service cost
- Insurance charges

The basic premium factor does not cover premium taxes or claims adjustment expenses. Those elements are usually provided for in the tax multiplier and the loss conversion factor.

c. Converted Losses

Converted losses are based on the incurred losses of the insured for the policy or policies to which a retrospective rating plan applies. A loss conversion factor is applied to incurred losses to produce the converted incurred losses. (Losses x LCF)

d. Loss Conversion Factor (LCF)

The loss conversion factor covers the cost of the carrier's claim services (e.g, investigation of claims and filing claim reports). The loss conversion factor is established by negotiation between the insured and carrier.

If the ALAE option is elected as part of incurred losses, the loss conversion factor must be adjusted to exclude ALAE.

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)

In states where NCCI files full rates, NCCI files the excess loss factors.

Refer to State Retrospective Rating Value page for the Excess Loss Pure Premium Factor. 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 expense provisions applicable in each state.

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

EXHIBIT 1 (CONT'D)
RETROSPECTIVE RATING PLAN MANUAL—2009 EDITION
RULE 1

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 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 NCCI's ***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.*

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

f. Retrospective Development Premium (RDP)

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

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

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 factors. The retrospective development pure premium factors must be converted to retrospective development premium

EXHIBIT 1 (CONT'D)
RETROSPECTIVE RATING PLAN MANUAL—2009 EDITION
RULE 1

factors using the carrier's expense provisions applicable in each state. *Refer to the State Special Rating Values pages of this manual for retrospective development pure premium factors.*

The conversion formula 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 page for the Retrospective Pure Premium Development Factor. *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 **User's Guide** for examples.*

g. Tax Multiplier (TM)

Tax multipliers vary by state and generally cover licenses, fees, assessments, and taxes that the carrier must pay on the premium collected in an individual state.

For states where NCCI files full rates, refer to the State Special Rating Values pages of this manual for the individual state tax multiplier.

*For states where NCCI files loss costs, refer to NCCI's **Tax and Assessment Directory** for the individual state tax multiplier.*

h. Maximum Retrospective Premium

Maximum retrospective premium is a percentage of the standard premium determined by the application of a maximum retrospective rating plan premium factor. It is the greatest amount of premium payable by an insured subject to a retrospective rating plan. Maximum retrospective premium places a limit on the impact of incurred losses on a retrospective rating plan premium. It is established by an agreement between the insured and carrier.

i. Minimum Retrospective Premium

Minimum retrospective premium is a percentage of the standard premium determined by the application of a minimum retrospective premium factor. It is the least amount of premium payable by an insured subject to the retrospective rating plan. A minimum retrospective premium factor is established by an agreement between the insured and carrier.

C. APPLICATION OF POLICY PREMIUM ELEMENTS

*Refer to the state premium algorithms in NCCI's **Basic Manual** for information on the application of the policy premium elements.*

EXHIBIT 1 (CONT'D)
RETROSPECTIVE RATING PLAN MANUAL—2009 EDITION
RULE 1

D. INSUREDS OPERATING IN MORE THAN ONE STATE

A retrospective rating plan may be applied on an intrastate or interstate basis.

For an interstate insured, an average of the specified state tax multipliers weighted by the state standard premiums is used to calculate the retrospective rating premium.

EXHIBIT 1
RETROSPECTIVE RATING PLAN MANUAL—2009 EDITION
RULE 2

RULE 2—ELIGIBILITY FOR THE PLAN

A. COMBINATION OF MULTIPLE WORKERS COMPENSATION POLICIES

Insureds with two or more workers compensation and employers liability insurance policies may be combined for the application of a retrospective rating plan, providing there is common majority ownership as defined in NCCI's ***Experience Rating Plan Manual***.

B. COMBINATION OF INSURANCES

When a retrospective rating plan includes workers compensation and employers liability insurance and other commercial casualty insurance, the total retrospective rating premium, including the minimum and maximum retrospective premium, is determined on the basis of premium for all lines of insurance in a retrospective rating plan.

Retrospective rating may be applied to any of the following types of insurance alone or any combination of such insurance:

- Workers compensation and employers liability insurance
- Any other commercial casualty lines of Insurance

For illustrations and examples of combinations, refer to the Retrospective Rating Plan Manual issued by the Insurance Services Office.

C. ONE-YEAR PLAN

An insured is eligible for a one-year plan if the estimated standard premium is at least $25,000.

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

D. THREE-YEAR PLAN

An insured is eligible for a three-year plan if the estimated standard premium for three years is at least $75,000.

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

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.

EXHIBIT 1 (CONT'D)
RETROSPECTIVE RATING PLAN MANUAL—2009 EDITION
RULE 2

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

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

F. WRAP-UP CONSTRUCTION PROJECTS

Two or more policies on a wrap-up construction project may be combined for the purpose of retrospective rating in accordance with NCCI's ***Basic Manual*** rules. Wrap-up construction projects may be written on a single or multi-state basis.

Steps to be followed in order to determine whether a wrap-up construction project may be eligible to be retrospectively rated:

1. Determine the sum of all wrap-up construction project standard premium for all states
2. Of the state's standard premiums included in (1), determine which state's wrap-up construction project retrospective rating premium eligibility threshold is greatest
3. An insured may be retrospectively rated if the sum of the states included in (1) meet the wrap-up construction project retrospective rating premium eligibility threshold for the state determined in (2)

The following table lists those states where an premium eligibility threshold has been established for wrap-up construction projects.

Wrap-Up Construction Project Retrospective Rating Premium Eligibility Threshold by State

State	Standard Premium Eligibility Threshold
Alaska	$50,000,000
Arizona	$250,000
Florida	$250,000
Massachusetts	$500,000
Mississippi	$500,000
Missouri	$500,000
Nebraska	$500,000
South Carolina	$500,000
Wisconsin	$250,000

EXHIBIT 1 (CONT'D)
RETROSPECTIVE RATING PLAN MANUAL—2009 EDITION
RULE 2

G. CARRIER-FILED PROGRAMS

Carriers have the option to file their own retrospective rating plans with the appropriate state regulatory authority. These carrier-filed programs may deviate as follows, but are not limited to:

- Premium eligibility thresholds
- Tables located in the Appendix section of this manual

EXHIBIT 1
RETROSPECTIVE RATING PLAN MANUAL—2009 EDITION
RULE 3

RULE 3—OPERATION OF PLAN

A. PURPOSE

The negotiating process between the insured and carrier is the basis on which a retrospective rating plan provides flexibility in order to meet the needs and characteristics of an insured. As a result of this negotiation, factors for a retrospective rating plan are determined for each insured by agreement between the insured and carrier. A completed *Notice of Election of Retrospective Rating Plan* form signed by the insured outlines the parameters for a retrospective rating plan. *Refer to the **User's Guide** for a sample form.*

When a retrospective rating plan includes workers compensation and employers liability insurance and other commercial casualty lines of insurance, the total retrospective rating premium, including the minimum and maximum retrospective rating premium, is determined on the basis of all insurance policies in a retrospective rating plan.

B. EXPLANATION OF TABLES IN APPENDIX

The following is an explanation of the tables used in the calculation of retrospective rating premium:

Table	Appendix	Purpose
Table of Expected Loss Ranges	A	Used to determine the expected loss group in the Table of Insurance Charges.
Table of Insurance Charges	B	Used to determine the insurance charge to be included in the basic premium factor.
Tables of Expense Ratios	C	Used in the calculation of basic premium. This table is applicable only in states where NCCI files rates.

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 includes 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

EXHIBIT 1 (CONT'D)
RETROSPECTIVE RATING PLAN MANUAL—2009 EDITION
RULE 3

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.

D. THE RETROSPECTIVE RATING PREMIUM FORMULA WITH ADDITIONAL ELECTIVE PREMIUM ELEMENTS

The premium for a retrospective rating plan with elective premium elements is determined by the following retrospective premium formula. The elective elements used in the formula will depend on whether the elective premium elements are included in a retrospective rating plan agreement.

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

The result of the above calculation is a retrospective rating premium when the insured has elected one or more of the elective premium elements.

A 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.

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

E. CALCULATION OF RETROSPECTIVE RATING PREMIUM

Under these rules, retrospective rating premiums are always calculated by the carrier, using premium and loss data that has been reported according to the ***Statistical Plan***. The number of subsequent calculations is determined as part of the agreement between the insured and carrier.

1. First Calculation of Retrospective Rating Plan

Under these rules, retrospective rating premium is calculated by the carrier, as soon as practicable. The calculation will include the premium and loss data valued in the sixth month after the expiration date of the rating plan period and annually thereafter, in accordance with the ***Statistical Plan***. The carrier will notify the insured and return premium if the retrospective rating premium is less than premium previously paid, or the insured will pay any premium greater than premium previously paid, subject to the maximum and minimum retrospective premiums.

Note: In certain situations, the carrier may make an early calculation of retrospective premium. Such situations may include when the insured has filed or is in bankruptcy, liquidation, reorganization, receivership, assignment for benefit of creditors, or other similar situations.

2. Subsequent Calculations of Retrospective Rating Plan

If subsequent calculations are to be completed as part of a retrospective rating plan agreement, then the calculations will be made by the carrier 12 months after the initial calculation and then in 12-month intervals thereafter. The procedures for the subsequent calculations are the same as described in *Rule 3-E-1*.

EXHIBIT 1 (CONT'D)
RETROSPECTIVE RATING PLAN MANUAL—2009 EDITION
RULE 3

3. Final Calculation of Retrospective Rating Plan

Subsequent calculations of retrospective rating premium will be issued by the carrier in accordance with *Rule 3-E-2* until both the insured and carrier agree that the latest calculation will be the final retrospective rating premium under a Plan. After the final retrospective premium calculation, a revision of that premium adjustment is permitted in accordance with the ***Statistical Plan***.

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

F. CANCELLATION OF A POLICY UNDER A RETROSPECTIVE RATING PLAN

The cancellation conditions of the standard policy permit cancellation by the insured or carrier. The premium determination for a cancelled policy is outlined in NCCI's ***Basic Manual***.

Reasons for Cancellation and Retrospective Rated Premium Determination

Cancellation Provisions Table 1

If . . .	Then . . .
The policy is cancelled by the insurance carrier, except for nonpayment of premium	1. The standard premium for the cancelled policy is calculated on a pro rata basis as outlined in NCCI's ***Basic Manual***. 2. Basic premium and, if applicable, excess loss premium and retrospective development premium is calculated by using the pro rata standard premium calculated in 1.

Cancellation Provisions Table 2

If . . .	Then . . .
The policy is cancelled by the insured when retiring from business such that: • All the work covered by the policy has been completed, or • All interest in any business covered by the policy has been sold, or • The insured has retired from all business covered by the policy	1. The standard premium for the cancelled policy is calculated on a pro rata basis as outlined in NCCI's ***Basic Manual***. 2. Basic premium and, if applicable, excess loss premium and retrospective development premium is calculated by using the pro rata standard premium calculated in 1.

EXHIBIT 1 (CONT'D)
RETROSPECTIVE RATING PLAN MANUAL—2009 EDITION
RULE 3

Cancellation Provisions Table 3

If . . .	Then . . .
The policy is cancelled by the insured, except when retiring from the business	1. The standard premium for the cancelled policy is calculated on a short rate basis as outlined in NCCI's ***Basic Manual***. 2. Basic premium and, if applicable, excess loss premium and retrospective development premium is calculated by using the short rate standard premium as calculated in 1. 3. Minimum retrospective premium is the short rate standard premium cancellation. 4. Maximum retrospective premium is based on standard premium. It is calculated by using the actual payroll for a the period the policy was in effect, extending that payroll pro rata to an annual basis, and then multiplying such extended payroll by the authorized rates and experience rating modification.

Cancellation for Nonpayment of Premium

If the cancellation by the carrier is because of nonpayment of premium by the insured, the maximum retrospective premium is based on the calculated standard premium for the cancelled policy.

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

RETROSPECTIVE RATING PLAN MANUAL—2009 EDITION

RULE 4—ADMINISTRATION OF THE PLAN

A. RETROSPECTIVE RATING ENDORSEMENTS

All NCCI's filed and approved retrospective rating plan endorsements are located in NCCI's ***Forms Manual***. *Refer to the **User's Guide** for a listing and purpose of the filed and approved retrospective rating plan endorsements.*

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***.

Any additional or return premium under the retrospective rating program must be reported to NCCI through ***Financial Calls Online (FCOL)***.

EXHIBIT 2
STATISTICAL PLAN—2008 EDITION
PART 1–GENERAL RULES
I. DATE OF VALUATION AND FILING

4. ~~**Retrospectively Rated Policies**~~

~~Advance special reports are required by the Retrospective Rating Plans due to short term policies or cancellations or in cases of bankruptcy, liquidation, reorganization, etc., only in cases where a specific request for verification of retrospective premium has been made. If a specific request for verification of retrospective premium has been made, the advance report must be filed directly with NCCI's Regulatory Assurance Department. The losses must be valued as of the date exactly six months after the termination date except in cases of bankruptcy, liquidation, reorganization, etc., when an earlier valuation date is permissible.~~

~~These advance reportings are entirely independent of, and in addition to, the normal reportings that include losses valued as of a later date.~~

EXHIBIT 3
RETROSPECTIVE RATING PLAN MANUAL—2009 EDITION
ALASKA STATE RULE EXCEPTIONS

RULE 1—GENERAL EXPLANATION

B. DEFINITIONS

1. General Definitions

h. Wrap-Up Construction Project

Add the following to Rule 1-B-1-h:

A wrap-up "owner-controlled insurance program or contractor—controlled insurance program" construction project must be approved by the Alaska Director of Insurance and is a major construction, erection, or demolition project for which workers compensation and employers liability insurance policies have been issued by one or more carriers under the same management, to insure two or more legal entities that are working on the project.

A major construction project means the process of constructing a structure, building, facility, or roadway or major renovation of more than 50% of an existing structure, building, facility, or roadway having a contract cost of more than $50,000,000 of a definite term at a geographically defined project site.

Combinable entities are limited to the following:

(1) General contractor, including any project owner or principal acting as a general contractor
(2) Subcontractors performing work under contracts let on an ex-insurance basis
(3) An architect
(4) An engineer
(5) A person performing professional services

Note: If the contract between the owner or principal and the general contractor is written on an ex-insurance basis, the owner or principal is eligible under this rule.

EXHIBIT 3
RETROSPECTIVE RATING PLAN MANUAL—2009 EDITION
ALABAMA STATE RULE EXCEPTIONS

RULE 2—ELIGIBILITY FOR THE PLAN

F. WRAP-UP CONSTRUCTION PROJECTS

Add the following to Rule 2-F:

In accordance with Alabama statute, a wrap-up construction project is not applicable to state government public building or construction contracts.

EXHIBIT 3
RETROSPECTIVE RATING PLAN MANUAL—2009 EDITION
ARIZONA STATE RULE EXCEPTIONS

RULE 2—ELIGIBILITY FOR THE PLAN

E. LARGE RISK ALTERNATIVE RATING OPTION (LRARO)

Change Rule 2-E as follows:

1. An insured is eligible for the Large Risk Alternative Rating Option if the estimated annual standard premium exceeds $250,000 individually or in any combination with general liability, hospital professional liability, commercial automobile, crime, glass, or workers compensation for the term of the plan.
2. The maximum premium factor under the plan may not be less than 100%, and the minimum premium factor not less than 25%.
3. If a carrier chooses to use the Large Risk Alternative Rating Option, it must be offered to all insureds meeting the eligibility requirements.

   Exception: A carrier is not required to offer the Large Risk Alternative Rating Option when one or more of the following conditions are present or have been determined:
   a. An insured does not want the option.
   b. Loss control and/or inspection reports exist that indicate that the insured does not qualify for the option based on the carrier's underwriting guidelines.
   c. The carrier, as a result of a credit investigation, has documented evidence in its files that an insured is not financially stable.
4. In those instances where the carrier and the insured negotiate the terms of the LRARO based on the insured's business practices, both parties will sign an agreement detailing the terms. This signed customized agreement will be retained with the policy file.

EXHIBIT 3
RETROSPECTIVE RATING PLAN MANUAL—2009 EDITION
CONNECTICUT STATE RULE EXCEPTIONS

RULE 2—ELIGIBILITY FOR THE PLAN

E. LARGE RISK ALTERNATIVE RATING OPTION (LRARO)

Change Rule 2-E as follows:

An insured is eligible for the Large Risk Alternative Rating Option (LRARO) if the estimated standard premium exceeds $100,000, written under workers compensation only. If written on a multiple-lines basis, an estimated annual standard premium in excess of $100,000 is required; however, the workers compensation standard premium must be at least $100,000 for a multi-line LRARO risk.

F. WRAP-UP CONSTRUCTION PROJECTS

Change Rule 2-F as follows:

A wrap-up construction project is a construction, erection, or demolition project for which policies have been issued by one or more insurance carriers under the same management to insure two or more legal entities engaged in such a project. The entities insured must be limited to the general contractor (including any owner or principal acting as a general contractor) and subcontractors performing work under contracts let on an ex-insurance basis. If the contract between the owner or principal and such general contractor is on an ex-insurance basis, the owner or principal is an eligible entity for the combination.

The project must be confined to operations at a single location. In connection with building roadways, tunnels, waterways, or surface or underground conduits, the entire job is considered a single location if the construction is performed by a single general contractor for a single owner or principal. The project must be of definite duration involving work to be performed continuously to completion.

Two or more policies on a wrap-up construction project may be combined for the purpose of retrospective rating if the estimated total standard premium for the project to be done by such combined entities is $500,000 or more. A wrap-up construction project may be treated as a long-term construction project.

EXHIBIT 3
RETROSPECTIVE RATING PLAN MANUAL—2009 EDITION
FLORIDA STATE RULE EXCEPTIONS
RULE 1–GENERAL EXPLANATION

B. DEFINITIONS

1. General Definitions

d. Large Risk Alternative Rating Option (LRARO)
Change Rule 1-B-1-d as follows:

This rule does not apply in Florida.

f. Standard Premium
Change Rule 1-B-1-f as follows:

For the purpose of this Plan, standard premium means the premium for the insured determined on the basis of authorized rate, any experience rating modification, and minimum premiums. The following items are included in estimated annual premium, but excluded from the standard premium used in the retrospective premium calculation:

(1) The Expense Constant
(2) Premium resulting from the Nonratable Element Codes listed in the ***Basic Manual***
(3) Premium developed by the passenger seat charge under Classification Code 7421
(4) Premium developed by the occupational disease rates for risks subject to the Federal Coal Mine Safety and Health Act
(5) Premium developed by Terrorism as detailed in the ***Basic Manual***

The Catastrophe (Other Than Certified Acts of Terrorism) provision as detailed in the ***Basic Manual***, which does not apply in Florida, along with Premium Discount, are not included in standard premium, nor reflected on a retrospectively rated policy.

Add the following to Rule 1-B-1-h:

h. Deductible and/or Coinsurance Programs
The deductible and/or coinsurance option may not be used on a retrospectively rated policy unless individual carriers file their own retrospective rating values and factors subject to prior approval from the Florida Department of Insurance.

2. Elements of the Retrospective Rating Plan Formula

c. Converted Incurred Losses
Add the following to Rule 1-B-2-c:

Converted incurred losses for terrorism are excluded from the retrospective premium calculation.

d. Loss Conversion Factor (LCF)
Add the following to Rule 1-B-2-d:

The loss conversion factor cannot be large enough to cause a negative basic premium factor.

EXHIBIT 3 (CONT'D)
RETROSPECTIVE RATING PLAN MANUAL—2009 EDITION
FLORIDA STATE RULE EXCEPTIONS
RULE 1–GENERAL EXPLANATION

For the ALAE option, the loss conversion factor would not include allocated claim adjustment expense.

Add the following to Rule 1-B-2-j:

j. Factors for Retrospective Rating

A revised calculation of the basic premium factor is required if any change results in an increase or decrease beyond the lowest or highest original estimated standard premium sizes selected.

EXHIBIT 4
RETROSPECTIVE RATING PLAN MANUAL—2009 EDITION
FLORIDA STATE RULE EXCEPTIONS

RULE 2—ELIGIBILITY FOR THE PLAN

D. THREE-YEAR PLAN

Change Rule 2-D as follows:

This rule does not apply in Florida.

E. LARGE RISK ALTERNATIVE RATING OPTION (LRARO)

Change Rule 2-E as follows:

This rule does not apply in Florida.

EXHIBIT 5
RETROSPECTIVE RATING PLAN MANUAL—2009 EDITION
FLORIDA STATE RULE EXCEPTIONS
RULE 4–ADMINISTRATION OF THE PLAN

A. RETROSPECTIVE RATING ENDORSEMENT

Add the following to Rule 4-A:

Endorsement WC 00 05 16–Retrospective Rating Plan Premium Endorsement—Large Risk Alternative Rating Option (LRARO) does not apply in Florida

EXHIBIT 6
RETROSPECTIVE RATING PLAN MANUAL—2009 EDITION
FLORIDA MISCELLANEOUS RULES

ADDITIONAL PREMIUM SIZES

1. Calculate factors for 50%, 100%, and 150% of the estimated standard premium, and for any lower or higher premium sizes selected by agreement. The reason for determining such supplementary factors is the probability that the earned standard premium will be more or less than the estimated standard premium. If the earned standard premium is between the selected premium sizes, the basic premium factor for the retrospective premium is based on straight line interpolation between the basic premium factors calculated on the estimated standard premiums.
2. If the earned standard premium is beyond the lowest or highest selected premium sizes, recalculate the basic premium factors.

EXHIBIT 6 (CONT'D)
RETROSPECTIVE RATING PLAN MANUAL—2009 EDITION
FLORIDA MISCELLANEOUS RULES

FLORIDA RETROSPECTIVE WORKERS COMPENSATION PREMIUM ALGORITHM

The following algorithm provides the framework for premium charges and credits. Where not specified, the premium base would be the result from the prior line.*

	PREMIUM ELEMENTS	EXPLANATORY NOTES
	MANUAL PREMIUM	[(PAYROLL / 100) * RATE]
+	Supplementary Disease (foundry, abrasive, sandblasting)	[(SUBJECT PAYROLL / 100) * DISEASE RATE]
+	USL&H Exposure for non-F classification codes	[(SUBJECT PAYROLL / 100) * (RATE * USL&HW FACTOR)]
=	***TOTAL MANUAL PREMIUM***	
+	Employers Liability (E/L) increased limits factor	[% applied to Total Manual Premium]
+	Employers Liability increased limits charge	[Balance to E/L increased limits minimum premium]
+	Employers Liability increased limits factor (Admiralty, FELA)	[Factor applied to the portion of Manual Premium where Admiralty/FELA coverage is applied]
=	***SUBJECT PREMIUM***	
x	Safety Factor (1 – Safety Credit %)	
x	Drug-Free Workplace Premium Credit factor (1 – DFW credit %)	
=	***TOTAL SUBJECT PREMIUM***	
x	Experience Modification (Exp Mod)	
=	***TOTAL MODIFIED PREMIUM***	
x	Contracting Class Prem Adj Program factor (1 – CCPAP credit %)	[applied to Modified Premium]
=	**TOTAL STANDARD PREMIUM (used in Retrospective Premium Calculation)**	
	RETROSPECTIVE PREMIUM	
+	Aircraft Seat Surcharge	
+	Supplemental Disease Exposure (Asbestos, NOC)†	[non-ratable]
+	Atomic Energy Radiation Exposure†	[non-ratable]
+	Charge for nonratable catastrophe loading†	
+	Balance to Minimum Premium (State Act)	[Balance to minimum premium at Standard Limits]
+	Balance to Minimum Premium (Admiralty, FELA)	

* **The above rating method would be used in absence of independent carrier filings.**

EXHIBIT 6 (CONT'D)
RETROSPECTIVE RATING PLAN MANUAL—2009 EDITION
FLORIDA MISCELLANEOUS RULES

	PREMIUM ELEMENTS	EXPLANATORY NOTES
+	Expense Constant	
+	Terrorism	[(PAYROLL / 100) * TERRORISM VALUE]
=	***ESTIMATED ANNUAL PREMIUM***	

NOC = Not Otherwise Classified

† Nonratable Element Premiums generated by nonratable portion of manual rate are subject to all applicable premium elements applied to the policy, however, not subject to experience rating.

Note: For short rate cancellations, short rate percentage/short rate penalty premium factor is subject to experience rating, included in Total Subject Premium, and applied prior to Experience Modification.

EXHIBIT 3
RETROSPECTIVE RATING PLAN MANUAL—2009 EDITION
GEORGIA STATE RULE EXCEPTIONS

RULE 1—GENERAL EXPLANATION

B. DEFINITIONS

1. General Definitions

b. Increased Limits

Change Rule 1-B-1-b as follows:

If the policy provides increased limits for employers liability and both the carrier and the insured agree, premiums and incurred losses may be subject to the plan up to the accident limitation selected in the Plan, if any. The premium for employers liability increased limits is based on the percentages provided in NCCI's ***Basic Manual***.

EXHIBIT 3
RETROSPECTIVE RATING PLAN MANUAL—2009 EDITION
INDIANA STATE RULE EXCEPTIONS

RULE 1—GENERAL EXPLANATION

B. DEFINITIONS

1. General Definitions

Add the following to Rule 1-B-1–h:

h. Deductible and/or Coinsurance Programs

The rating values developed to determine premium under this Plan do not contemplate deductibles or coinsurance and are designed to be used with losses that are gross of the deductible amount. In states where deductible or coinsurance programs apply, the use of such programs in conjunction with retrospective rating on an individual risk basis requires the agreement of the insured and carrier.

EXHIBIT 3
RETROSPECTIVE RATING PLAN MANUAL—2009 EDITION
KANSAS STATE RULE EXCEPTIONS

RULE 2—ELIGIBILITY FOR THE PLAN

F. WRAP-UP CONSTRUCTION PROJECTS

Add the following to Rule 2-F:

A wrap-up construction project is a construction, erection, or demolition project for which policies have been issued by one or more insurance carriers under the same management to insure two or more legal entities engaged in such a project. The entities insured must be limited to the general contractor (including any owner or principal acting as a general contractor) and subcontractors performing work under contracts let on an ex-insurance basis. If the contract between the owner or principal and such general contractor is on an ex-insurance basis, the owner or principal is an eligible entity for the combination.

Separate policies must be issued to each eligible entity involved in a wrap-up construction project unless a combination is permitted under NCCI's ***Basic Manual***.

The policies must be limited to insurance on such large construction projects by attaching the standard Designated Workplaces Exclusion Endorsement (WC 00 03 02).

Note: Also use the standard Designated Workplaces Exclusion Endorsement (WC 00 03 02) to exclude wrap-up construction projects from coverage under other policies issued to entities covered under the wrap-up construction project by attaching that endorsement to such other policies.

EXHIBIT 3
RETROSPECTIVE RATING PLAN MANUAL—2009 EDITION
LOUISIANA STATE RULE EXCEPTIONS
RULE 1–GENERAL EXPLANATION

B. DEFINITIONS

2. Elements of the Retrospective Rating Plan Formula

e. Excess Loss Premium (ELP)

Add the following to Rule 1-B-2-e:

For insureds involving classifications where the rates include, or are increased to provide for coverage under the U.S. Longshore and Harbor Workers' Compensation Act, and where 50% or more of the state standard premium is produced by this coverage, the Excess Loss Premium is computed as shown below:

State Standard Premium x Arithmetic Average of State Excess Loss Factor and USL Act Excess Loss Factor x Loss Conversion Factor.

EXHIBIT 3
RETROSPECTIVE RATING PLAN MANUAL—2009 EDITION
MASSACHUSETTS STATE RULE EXCEPTIONS
RULE 1–GENERAL EXPLANATION

B. DEFINITIONS

1. General Definitions

Change Rule 1-B-1 as follows:

a. Allocated Loss Adjustment Expense (ALAE)

Allocated loss adjustment expense is defined in Section V of the ***Massachusetts Workers' Compensation Unit Statistical Plan Manual***. Allocated loss adjustment expense for workers compensation insurance will also be included as part of incurred losses in the Plan if agreed upon by insured and carrier. This will be called the Allocated Loss Adjustment Expense Option (ALAE option). A second set of expense ratios are contained in Appendix of this Plan. These are reduced to offset the exclusion of ALAE. Expected Loss Ratio (E) would be replaced by an Expected Loss and Allocated Expense Ratio (ELA) for use in the ALAE option.

c. Incurred Losses

Incurred losses used in the rating formula for determining premium under this Plan are those reported under the rules of the ***Massachusetts Workers' Compensation Unit Statistical Plan Manual***. Generally, incurred losses are the actual losses paid and outstanding, interest on judgments, expenses incurred in obtaining third-party recoveries, and allocated loss adjustment expenses for employers liability losses.

2. Elements of the Retrospective Rating Plan Formula

Change Rule 1-B-2 as follows:

c. Converted Incurred Losses

Converted losses are based on the incurred losses of the risk during the period of the policy or policies to which this plan is applied. For the ALAE option, ALAE is added to losses.

A loss conversion factor is applied to such losses (or losses plus ALAE) to produce the converted losses (or converted loss plus ALAE). ALAE is defined in the ***Massachusetts Workers' Compensation Unit Statistical Plan Manual***.

d. Loss Conversion Factor (LCF)

The loss conversion factor usually covers claim adjustment expenses and the cost of the insurance carrier's claim services, such as investigation of claims and filing claim reports. For the ALAE option, the loss conversion factor does not include allocated claim adjustment expense.

EXHIBIT 3
RETROSPECTIVE RATING PLAN MANUAL—2009 EDITION
MAINE STATE RULE EXCEPTIONS

RULE 1—GENERAL EXPLANATION

B. DEFINITIONS

2. Elements of the Retrospective Rating Plan Formula

e. Excess Loss Premium (ELP)

Add the following to Rule 1-B-2-e:

The sum of the excess loss factor and the premium charge for the maximum retrospective premium, taken from the Table of Insurance Charges, must be less than the expected loss ratio.

EXHIBIT 3
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.

F. WRAP-UP CONSTRUCTION PROJECTS

Change Rule 2-F as follows:

A wrap-up construction project is a single large construction, erection, or demolition project for which policies have been issued to insure two or more legal entities engaged in such a project.

Separate policies will be issued to each eligible entity involved in the wrap-up construction project. Separate legal entities may be insured in one policy under a wrap-up project only if the same person or group of persons owns the majority interest in such entities as permitted under Rule 2-A.

Entities eligible for combination will be limited to the sponsoring entity (including any owner, general contractor, or principal acting as a general contractor) and the subcontractors performing work under contracts to let on an ex-insurance basis. In addition, if the contract between the owner or principal and such general contractor is on an ex-insurance basis, the owner will be an eligible entity under the rule.

Note: For determining retrospective premium for plans applied on a three-year basis, or long-term or wrap-up construction projects, there will be no revision in tax multipliers and excess loss factors after the inception of the wrap-up policies.

EXHIBIT 3
RETROSPECTIVE RATING PLAN MANUAL—2009 EDITION
MISSISSIPPI STATE RULE EXCEPTIONS

RULE 2—ELIGIBILITY FOR THE PLAN

C. ONE-YEAR PLAN

Change Rule 2-C as follows:

An insured is eligible for a one-year plan if the estimated standard premium is at least $5,000.

D. THREE-YEAR PLAN

Change Rule 2-D as follows:

An insured is eligible for a three-year plan if the estimated standard premium for three years is at least $15,000.

Note: In C and D above, estimated standard premium may include other commercial casualty insurance. Refer to the Retrospective Rating Plan issued by the Insurance Services Office.

EXHIBIT 3
RETROSPECTIVE RATING PLAN MANUAL—2009 EDITION
MISSOURI STATE RULE EXCEPTIONS
RULE 1–GENERAL EXPLANATION

B. DEFINITIONS

1. General Definitions

f. Standard Premium (SP)

Change Rule 1-B-1-f as follows:

Premium resulting from the nonratable catastrophe element in the manual rates for classifications other than Codes 7405 and 7431 listed in the ***Experience Rating Plan Manual.*** The nonratable catastrophe element for Codes 7405 and 7431 is 25%.

2. Elements of the Retrospective Rating Plan Formula

e. Excess Loss Premium (ELP)

Add the following to Rule 1-B-2-e:

The loss limitations arising out of any one accident that may be used by agreement follow:

(1) $10,000 per accident for a risk with total standard premium of at least $25,000.
(2) $15,000 per accident for a risk with total standard premium of at least $50,000.
(3) $15,000 or $20,000 per accident for a risk with total standard premium of at least $75,000.
(4) $15,000, $20,000, or $25,000 per accident for a risk with total standard premium of at least $100,000.
(5) Higher than $25,000 for a risk with total standard premium over $100,000, provided such higher accident loss limitation does not exceed 25% of the standard premium.

EXHIBIT 4
RETROSPECTIVE RATING PLAN MANUAL—2009 EDITION
MISSOURI STATE RULE EXCEPTIONS
RULE 2–ELIGIBILITY FOR THE PLAN

F. WRAP-UP CONSTRUCTION PROJECTS

Add the following to Rule 2-F:

A wrap-up construction project is a construction, erection, or demolition project for which policies have been issued by one or more insurance carriers under the same management to insure two or more legal entities engaged in such a project. The entities insured must be limited to the general contractor and subcontractors performing work under contracts let on an ex-insurance basis. The owner, project-owner, or any principal shall not be an eligible entity under this rule.

The project must be confined to operations at a single location. In connection with building roadways, tunnels, waterways, or surface or underground conduits, the entire job is considered a single location if the construction is performed by a single general contractor for a single owner or principal. The project must be of definite duration involving work to be performed continuously to completion.

EXHIBIT 3
RETROSPECTIVE RATING PLAN MANUAL—2009 EDITION
NEBRASKA STATE RULE EXCEPTIONS
RULE 1–GENERAL EXPLANATION
B. DEFINITIONS

1. General Definitions

d. Large Risk Alternative Rating Option (LRARO)
Change Rule 1-B-1–d as follows:

This rule does not apply in Nebraska.

EXHIBIT 4
RETROSPECTIVE RATING PLAN MANUAL—2009 EDITION
NEBRASKA STATE RULE EXCEPTIONS

RULE 2—ELIGIBILITY FOR THE PLAN

E. LARGE RISK ALTERNATIVE RATING OPTIONS (LRARO)

Change Rule 2-E as follows:

This rule does not apply in Nebraska.

F. WRAP-UP CONSTRUCTION PROJECTS

Add the following to Rule 2-F:

A wrap-up construction project is a construction, erection, or demolition project for which policies have been issued by one or more insurance carriers under the same management to insure two or more legal entities engaged in such a project. The entities insured must be limited to the general contractor (including any owner or principal acting as a general contractor) and subcontractors performing work under contracts let on an ex-insurance basis. If the contract between the owner or principal and such general contractor is on an ex-insurance basis, the owner or principal is an eligible entity for the combination.

The project must be confined to operations at a single location. In connection with building roadways, tunnels, waterways, or surface or underground conduits, the entire job is considered a single location if the construction is performed by a single general contractor for a single owner or principal. The project must be of definite duration involving work to be performed continuously to completion.

EXHIBIT 3
RETROSPECTIVE RATING PLAN MANUAL—2009 EDITION
NEVADA STATE RULE EXCEPTIONS

RULE 2—ELIGIBILITY FOR THE PLAN

E. LARGE RISK ALTERNATIVE RATING OPTION (LRARO)

Add the following to Rule 2-E:

The maximum premium factor under the plan may not be less than 100%.

EXHIBIT 3
RETROSPECTIVE RATING PLAN MANUAL—2009 EDITION
NEW HAMPSHIRE 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 (LRARO) provides that an insured may be retrospectively rated as mutually agreed upon by carrier and insured. It is an available option for risks with an estimated annual standard premium in excess of $250,000 for workers compensation only. If written on a multiple-lines basis, an estimated annual standard premium in excess of $250,000 is required; however, the workers compensation standard premium must be at least $250,000 for a multi-line LRARO insured.

EXHIBIT 3
RETROSPECTIVE RATING PLAN MANUAL—2009 EDITION
OKLAHOMA STATE RULE EXCEPTIONS

RULE 1—GENERAL EXPLANATION

B. DEFINITIONS

1. General Definitions

Add the following to Rule 1-B-1:

h. Wrap-Up Construction Project

In order to write wrap-up construction projects, an insurance company must comply with 36 O.S. 6001-6003 and 61 O.S. 113(E).

EXHIBIT 4
RETROSPECTIVE RATING PLAN MANUAL—2009 EDITION
OKLAHOMA STATE RULE EXCEPTIONS

RULE 2—ELIGIBILITY FOR THE PLAN

E. LARGE RISK ALTERNATIVE RATING OPTION (LRARO)

Change Rule 2-E as follows:

Risks with an estimated annual standard premium in excess of $250,000, written under any one of the following single lines of insurance: General Liability, Hospital Professional Liability, Commercial Automobile, Crime, Glass, or Workers Compensation may be rated 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. If written on a multiple-lines basis, an estimated annual standard premium in excess of $500,000 is required. Lower premium eligibility levels may not be selected.

EXHIBIT 3
RETROSPECTIVE RATING PLAN MANUAL—2009 EDITION
OREGON STATE RULE EXCEPTIONS

RULE 1—GENERAL EXPLANATION

B. DEFINITIONS

1. General Definitions

d. Large Risk Alternative Rating Option (LRARO)
Change Rule 1-B-1-d as follows:

This rule does not apply in Oregon.

EXHIBIT 4
RETROSPECTIVE RATING PLAN MANUAL—2009 EDITION
OREGON STATE RULE EXCEPTIONS

RULE 2—ELIGIBILITY FOR THE PLAN

E. LARGE RISK ALTERNATIVE RATING OPTION (LRARO)

Change Rule 2-E as follows:

This rule does not apply in Oregon.

EXHIBIT 3
RETROSPECTIVE RATING PLAN MANUAL—2009 EDITION
SOUTH CAROLINA STATE RULE EXCEPTIONS

RULE 2—ELIGIBILITY FOR THE PLAN

C. ONE-YEAR PLAN

Change Rule 2-C as follows:

An insured is eligible for a one-year plan if the estimated standard premium is at least $5,000.

D. THREE-YEAR PLAN

Change Rule 2-D as follows:

An insured is eligible for a three-year plan if the estimated standard premium for three years is at least $15,000.

F. WRAP-UP CONSTRUCTION PROJECTS

Add the following to Rule 2-F:

A wrap-up construction project is a construction, erection, or demolition project for which policies have been issued by one or more insurance carriers under the same management to insure two or more legal entities engaged in such a project. The entities insured must be limited to the general contractor (including any owner or principal acting as a general contractor) and subcontractors performing work under contracts let on an ex-insurance basis. If the contract between the owner or principal and such general contractor is on an ex-insurance basis, the owner or principal is an eligible entity for the combination.

The project must be confined to operations at a single location. In connection with building roadways, tunnels, waterways, or surface or underground conduits, the entire job is considered a single location if the construction is performed by a single general contractor for a single owner or principal. The project must be of definite duration involving work to be performed continuously to completion.

EXHIBIT 3
RETROSPECTIVE RATING PLAN MANUAL—2009 EDITION
TENNESSEE 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 an insured may be retrospectively rated as mutually agreed upon by carrier and insured. It is an available option for risks 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 plans written individually or in any combination with general liability, hospital professional liability, commercial automobile, crime, glass, or workers compensation.

F. WRAP-UP CONSTRUCTION PROJECTS

Add the following to Rule 2-F:

A wrap-up construction project is a construction, erection, or demolition project for which policies have been issued by one or more insurance carriers under the same management to insure two or more legal entities engaged in such a project. The entities insured must be limited to the general contractor (including any owner or principal acting as a general contractor) and subcontractors performing work under contracts let on an ex-insurance basis. If the contract between the owner or principal and such general contractor is on an ex-insurance basis, the owner or principal is an eligible entity for the combination.

The project must be confined to operations at a single location. In connection with building roadways, tunnels, waterways, or surface or underground conduits, the entire job is considered a single location if the construction is performed by a single general contractor for a single owner or principal. The project must be of definite duration involving work to be performed continuously to completion.

EXHIBIT 3
RETROSPECTIVE RATING PLAN MANUAL—2009 EDITION
VIRGINIA STATE RULE EXCEPTIONS

RULE 1—GENERAL EXPLANATION

B. DEFINITIONS

1. General Definitions

a. Allocated Loss Adjustment Expense (ALAE)
Change Rule 1-b-1-a as follows:

This rule does not apply in Virginia.

d. Large Risk Alternative Rating Option (LRARO)
Change Rule 1-b-1-d as follows:

Refer to § 38.2-1903 of the Code of Virginia for the exemption applicable to large risk retrospective rating plans.

f. Standard Premium (SP)
Change Rule 1-B-1-f(6) as follows:
(6) Premium developed by the Terrorism Risk Insurance Act of 2002 and any amendments thereto enacted by Congress.

h. Wrap-Up Construction Project
Add the following to Rule 1-B-1:

For purposes of this rule, "owner-controlled insurance program" means a consolidated insurance program or series of insurance policies issued to a public body that may provide for some or all of the following types of insurance coverage for any contractor or subcontractor working on or at a public construction contract or combination of such contracts.

A public body, as defined in the Code of Virginia, may purchase an owner-controlled insurance program in connection with any public construction contract where the amount of the contract or combination of contracts is more than $100 million, provided that no single contract is valued at less than $50 million.

The project must be confined to operations at a single location. In connection with building roadways, tunnels, waterways, or surface or underground conduits, the entire job is considered a single location if the construction is performed by a single contractor for a single owner or principal. The project must be of definite duration involving work to be performed continuously to completion.

2. Elements of the Retrospective Rating Plan Formula

d. Loss Conversion Factor (LCF)
Add the following to Rule 1-B-2-d:

EXHIBIT 3 (CONT'D)
RETROSPECTIVE RATING PLAN MANUAL—2009 EDITION
VIRGINIA STATE RULE EXCEPTIONS

The Loss Conversion Factor shall not be large enough to cause negative expenses in the basic premium.

EXHIBIT 4
RETROSPECTIVE RATING PLAN MANUAL—2009 EDITION
VIRGINIA STATE RULE EXCEPTIONS

RULE 2—ELIGIBILITY FOR THE PLAN

E. LARGE RISK ALTERNATIVE RATING OPTION (LRARO)

Change Rule 2-E as follows:

Refer to § 38.2-1903 of the Code of Virginia for the exemption applicable to large risk retrospective rating plans.

EXHIBIT 3
RETROSPECTIVE RATING PLAN MANUAL—2009 EDITION
VERMONT STATE RULE EXCEPTIONS

RULE 1—GENERAL EXPLANATION

B. DEFINITIONS

2. Elements of the Retrospective Rating Plan Formula

e. Excess Loss Premium (ELP)

Add the following to Rule 1-B-2-e:

This elective premium element is permitted only if the total standard premium subject to the Plan is at least $25,000. The use of this elective element is intended to avoid the possibility that high cost losses will have too great an impact on the retrospective premium. Election of a loss limitation places a limit on the amount of incurred loss arising out of any one accident, which will be included in the retrospective premium formula. Excess loss premium is the premium charge for such limitation on losses used in computing the retrospective premium. The loss limitations arising out of any one accident that may be used by agreement follow:

(1) $10,000 per accident for a risk with total standard premium of at least $25,000
(2) $15,000 per accident for a risk with total standard premium of at least $50,000
(3) $15,000 or $20,000 per accident for a risk with total standard premium of at least $75,000
(4) $15,000, $20,000, or $25,000 per accident for a risk with total standard premium of at least $100,000
(5) Higher than $25,000 for a risk with total standard premium over $100,000, provided such higher accident loss limitation does not exceed 50% of the standard premium

For all risks, the insurance carrier pays all incurred losses regardless of any retrospective rating loss limitation.

EXHIBIT 3
RETROSPECTIVE RATING PLAN MANUAL—2009 EDITION
WISCONSIN STATE RULE EXCEPTIONS
Rule 1–GENERAL EXPLANATION
B. DEFINITIONS
1. General Definitions

f. Standard Premium (SP)

Change Rule 1-B-1-f as follows:

For purposes of the retrospective rating plan, standard premium is the premium for the insured determined on the basis of authorized rates, any experience rating modification, and minimum premiums. Determination of standard premium excludes:

(1) Premium Discount.

(2) Expense Constant.

(3) Premium resulting from the Nonratable Catastrophe Element in the manual rates for classifications other than Classification Codes 7405 and 7431 listed in the ***Experience Rating Plan Manual***. The Nonratable Catastrophe Element for Codes 7405 and 7431 is 25%.

(4) Premium developed by the passenger seat surcharge under Classification Code 7421.

(5) Premium developed by the occupational disease rates for employers subject to the Federal Coal Mine Safety and Health Act.

(6) Premium developed by the catastrophe provision as outlined in NCCI's ***Basic Manual***.

National
Council on
Compensation
Insurance, Inc.

Retrospective Rating Plan Manual User's Guide

FOR WORKERS COMPENSATION AND EMPLOYERS LIABILITY INSURANCE

CHANGE TRACKING GUIDE

RESERVED FOR FUTURE USE

The ***User's Guide*** is a companion to the ***Retrospective Rating Plan Manual for Workers Compensation and Employers Liability Insurance***. It contains examples and explanations of the manual rules.

A. GENERAL EXPLANATION

A retrospective rating plan adjusts the premium for the insured's policy on the basis of losses incurred during the period covered by that policy term. The intent is to charge premium that reflects the actual experience of the insured based on the insured's individual loss history during the policy term. A retrospective rating plan uses the losses incurred during the term of the policy to establish the cost of insurance. The application of the Retrospective Rating Plan (Plan) is optional and may be used only upon election by the insured and acceptance by the insurance carrier.

*Refer to the Definitions in Rule 1 of the **Retrospective Rating Plan Manual** for an explanation of the terms used in the formula.*

*Refer to Rule 3 of the **Retrospective Rating Plan Manual** for an explanation of the operation of the plan.*

B. EXPLANATION OF DIFFERENCES BETWEEN TYPES OF EXCESS LOSS FACTORS

1. Types of Excess Loss Factors

Excess factors are used in retrospective rating when an insured elects to limit the amount of incurred losses to be included in the retrospective rating premium. The charge for this loss limitation is called excess loss premium. The excess factors are located in the State Special Rating Values pages of the ***Retrospective Rating Plan Manual***.

- **Excess Loss Factors (ELF)** are provided for states where NCCI files and publishes full rates. ELFs do not take into account the inclusion of Allocated Loss Adjustment Expense (ALAE) as part of incurred losses.

  Excess Loss Factors represent the expected losses above a given limit (excess losses) relative to full standard premium (including expenses).

$$\text{ELF} = \frac{\text{Excess Losses}}{\text{Standard Premium}}$$

- **Excess Loss and Allocated Loss Adjustment Expense Factors (ELAEF)** apply when the definition of loss is redefined to include Allocated Loss Adjustment Expense. These factors are provided for states where NCCI files and publishes full rates.

  Excess Loss and Allocated Loss Adjustment Expense Factors represent the expected amount of losses and allocated loss adjustment expenses above a given limit (excess losses including ALAE) relative to full standard premium (including expenses). These optional values are provided for some full rate states, but not all.

$$\text{ELAEF} = \frac{\text{Excess Losses and Allocated Loss Adjustment Expenses}}{\text{Standard Premium}}$$

- **Excess Loss Pure Premium Factors (ELPPF)** are provided for states where NCCI publishes loss costs rather than full rates. ELPPFs do not take into account the inclusion of ALAE as part of incurred losses. Carriers are required to convert Excess Loss Pure Premium Factors to Excess Loss Factors. Refer to Rule 1-B-2-e of the ***Retrospective Rating Plan Manual*** for the formula used to convert ELPPFs to ELFs.

  Excess Loss Pure Premium Factors represent the expected amount of losses above a given limit relative (excess losses) to the loss cost portion of the premium.

$$\text{ELPPF} = \frac{\text{Excess Losses}}{\text{Loss Cost Premium}}$$

- **Excess Loss and Allocated Loss Adjustment Expense Pure Premium Factors (ELAEPPF)** are provided when the definition of loss is redefined to include Allocated Loss Adjustment Expense. These factors are provided where NCCI publishes loss costs rather than full rates.

Excess Loss and Allocated Loss Adjustment Expense Pure Premium Factors represent the expected amount of losses and allocated loss adjustment expense above a given limit (excess losses including ALAE) relative to the loss cost portion of the premium. These optional values are provided for some loss cost states, but not for all.

$$\text{ELAEPPF} = \frac{\text{Excess Losses and Allocated Loss Adjustment Expenses}}{\text{Loss Cost Premium}}$$

2. Excess Loss Premium Calculation Examples

Following are two calculation examples that illustrate the use of excess factors in calculating Excess Loss Premium, one for a rate state and one for a loss cost state. In both examples, incurred losses excludes ALAE.

Example 1: Rate State

Standard Premium	$200,000
Excess Loss Factor for $100,000 Incurred Losses	0.240
Loss Conversion Factor	1.120
Calculation of Excess Loss Premium	
Standard Premium x Excess Loss Factor x Loss Conversion Factor	
$200,000 x .240 x 1.120	
Excess Loss Premium =	$53,760

Example 2: Loss Cost State

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 expense provisions applicable in each state.

Term Definition

Excess Loss Pure Premium Factor	ELPPF	.360
Expected Loss Ratio	ELR	.648
Loss Adjustment Expense	LAE	.188
Loss Assessment (if any)	LA	.0062
Excess Loss Factor	ELF	.278

Conversion of ELPPF to ELF based on the formula below:

(ELPPF x ELR*) X (1+ LAE**+ LA**)
(.360 x .648) x (1 + .188 + .0062)
(.233) x 1.1942)
ELF = .278

* ELR: Carrier may use their filed ELR or the ELR from NCCI's Expense Ratio Table (Appendix D) located in NCCI's ***Retrospective Rating Plan Manual***.

** The Loss Adjustment Expense% and the Loss Assessment% are obtained from the technical supplement of NCCI's loss cost filing that is effective one year prior to the effective date of the ELPPFs.

The ELPPF factors are available in NCCI's most recent approved retrospective rating plan parameters item filing. The LAE % and Loss Assessmen % (if any) are from the loss cost filing effective **one year prior to** the effective date of NCCI's ELPPFs. For example, you would use the 1/09 retrospective rating plan parameters filing for the ELPPFs in conjunction with an LAE % from the 1/08 loss cost filing. (This is necessary because it is the prior approved LAE % that is used in the calculation of the latest ELPPF.)

C. RETROSPECTIVE RATING PLAN PREMIUM FORMULA

1. Retrospective Rating Plan Premium Formula without Elective Premium Elements

   The formula used to calculate the retrospective rating premium, excluding the elective premium elements, is as follows:

   Retrospective Rating Plan Premium = (Basic Premium + Converted Losses*) x Tax Multiplier

2. Retrospective Rating Plan Premium Formula with Elective Premium Elements

   Retrospective Rated Plan Premium = [Basic Premium + Excess Loss Premium** + Retrospective Rating Development Premium** + Converted Losses*] x Tax Multiplier

These formulas produce a retrospective rating plan premium, which is subject to the Minimum Retrospective Premium and the Maximum Retrospective Premium.

D. RETROSPECTIVE RATING PREMIUM CALCULATION EXAMPLES

For these examples, assume the Retrospective Rating Plan Agreement provides:

	Retrospective Rating Factors	
a.	Estimated Standard Premium	$500,000
b.	Maximum Retrospective Premium Factor	130%
c.	Minimum Retrospective Premium Factor	60%
d.	Loss Conversion Factor	1.120
e.	Tax Multiplier	1.070
f.	State Hazard Group Relativity	0.750
g.	Excess Loss Factor ($50,000 Loss Limit)	.36
h.	Expenses from Expense Ratio Table	.201

Retrospective Premium Development Factors	Without Loss Limit	With Loss Limit
1st Adjustment	0.21	0.08
2nd Adjustment	0.18	0.06
3rd Adjustment	0.13	0.02

Example 1:

Calculation of Retrospective Premium: First, Second, and Third Adjustments

This example contains:

- No loss limits
- Retrospective Development Factors

* Losses may include allocated loss adjustment expenses if selected by the insured.

** Elective Premium Element

		Factors	First Adjustment	Second Adjustment	Third Adjustment
1.	Standard Premium		500,000	500,000	500,000
2.	Basic Premium Factor	0.145			
3.	Basic Premium (2 x 1)		72,500	72,500	72,500
4.	Excess Loss Premium Factor				
5.	Excess Loss Premium (4x1x7)		0	0	0
6.	Ratable Losses		150,000	200,000	275,000
7.	Loss Conversion Factor	1.120			
8.	Converted Losses (6x7)		168,000	224,000	308,000
9.	Retrospective Development Factor		0.210	0.180	0.130
10.	Retrospective Development Premium (9x1x7)		117,600	100,800	72,800
11.	Subtotal (3+5+8+10)		358,100	397,300	453,300
12.	Tax Multiplier	1.070			
13.	Indicated Retrospective Premium (11x12)		383,167	425,111	485,031
14.	Maximum Premium (14x1)	1.300	650,000	650,000	650,000
15.	Minimum Premium (15x1)	0.600	300,000	300,000	300,000
16.	Retrospective Premium		383,167	425,111	485,031

Example 2:

Calculation of Retrospective Premium: First, Second, and Third Adjustments

- No loss limits
- No Retrospective Development Factors

		Factors	First Adjustment	Second Adjustment	Third Adjustment
1.	Standard Premium		500,000	500,000	500,000
2.	Basic Premium Factor	0.145			
3.	Basic Premium (2 x 1)		72,500	72,500	72,500
4.	Excess Loss Premium Factor				
5.	Excess Loss Premium (4x1x7)		0	0	0
6.	Ratable Losses		150,000	200,000	275,000
7.	Loss Conversion Factor	1.120			
8.	Converted Losses (6x7)		168,000	224,000	308,000
9.	Retrospective Development Factor				

10.	Retrospective Development Premium (9x1x7)		0	0	0
11.	Subtotal (3+8+10)		240,500	296,500	380,500
12.	Tax Multiplier	1.070			
13.	Indicated Retrospective Premium (11x12)		257,335	317,255	407,135
14.	Maximum Premium (14x1)	1.300	650,000	650,000	650,000
15.	Minimum Premium (15x)	0.600	300,000	300,000	300,000
16.	Retrospective Premium		300,000*	317,255	407,135

* Minimum of $300,000 would apply.

Example 3:

Calculation of Retrospective Premium: First, Second, and Third Adjustments

- Loss limits
- Retrospective Development Factors

		Factors	First Adjustment	Second Adjustment	Third Adjustment
1.	Standard Premium		500,000	500,000	500,000
2.	Basic Premium Factor	0.145			
3.	Basic Premium (2 x 1)		72,500	72,500	72,500
4.	Excess Loss Premium Factor	0.360			
5.	Excess Loss Premium (4x1x7)		201,600	201,600	201,600
6.	Ratable Losses		150,000	200,000	275,000
7.	Loss Conversion Factor	1.120			
8.	Converted Losses (6x7)		168,000	224,000	308,000
9.	Retrospective Development Factor		0.080	0.060	0.020
10.	Retrospective Development Premium (9x1x7)		44,800	33,600	11,200
11.	Subtotal (3+5+8+10)		486,900	531,700	593,300
12.	Tax Multiplier	1.070			
13.	Indicated Retrospective Premium (11x12)		305,271	353,207	419,119
14.	Maximum Premium (14x1)	1.300	650,000	650,000	650,000
15.	Minimum Premium (15x1)	0.600	300,000	300,000	300,000
16.	Retrospective Premium		305,271	353,207	419,119

Example 4:

Calculation of the Basic Premium Factor

The key to establishing the Basic Premium Factor for the Retrospective Rating Plan is the Table of Insurance Charges filed with state insurance departments. By expected loss groups, it indicates the factors to establish the premium charge that is vital to the determination of the Basic Premium Factor.

1.	Estimated Standard Premium	$500,000
2.	Expected Losses (1) x (3)	$306,500
3.	Expected Loss Ratio	.613
4.	Expected Limited Loss Ratio (3) - (e)	.253
5.	Expense (Excluding Taxes) (1) x (g)	$100,500
6.	Expected Loss plus Expense Ratio [(2) + (5)] ÷ (1)	.814
7.	Loss and Expense in Converted Losses (3) x (c)	.687
8.	Determining Pure Expense for Basic Premium, Excluding Loss and Claim (6) - (7)	.127
9.	Minimum Retrospective Premium Excluding Taxes [(a) ÷ (d)]	.561
10.	Maximum Retrospective Premium Excluding Taxes [(b) ÷ (d)] 1	.215
11.	Table of Insurance Charges Value Difference [(6) - (9)] ÷ [(c) x (4)]	.894
12.	Table of Insurance Charges Entry Difference [(10) - (9)] ÷ [(c) x (4)]	2.31
13.	Ratio of Losses for Minimum Retro Premium to Expected Limited Losses	.04
14.	Ratio of Losses for Maximum Retro Premium to Expected Limited Losses	2.35
15.	Table of Insurance Charges—Premium Charge for (14)	.065
16.	Table of Insurance Charges—Premium Saving for (13)	.000
17.	Net Insurance Charge [(15) - (16)] x (4)	.016
18.	Basic Premium Factor ((17) x (c))+(8)	.145

The use of the Table of Insurance Charges is accounted for in the following explanations and illustrations of how to determine the factors and other elements needed for the operation of the Plan.

Note: The procedures described here are designed exclusively for workers compensation and employers liability insurance. Rules for the application of a retrospective rating plan to a combination of workers compensation and employers liability insurance and other lines of casualty insurance are in the Retrospective Rating Plan Manual issued by the Insurance Services Office (ISO).

Note: The above calculations are based on the 1998 Table of Insurance Charges in the Appendix of the ***Retrospective Rating Plan Manual***, using Expected Loss Group 52.

The procedure for establishing the values and factors in the above examples follows:

Line 1. Estimated Standard Premium: This is the annual standard premium. *Refer to the* ***Retrospective Rating Plan Manual*** *for definition of standard premium.* For three-year retrospective rating plans, multiply the annual standard premium times three (3).

Line 2. Expected Losses: The expected losses equal the estimated standard premium multiplied by the expected loss ratio, found on the state Retrospective Rating Values in the ***Retrospective Rating Plan Manual***. Refer to Appendix A in the ***Retrospective Rating Plan Manual*** for the Table of Expected Loss Size Ranges.

For an interstate risk, the expected losses equal the sum of the products of the estimated standard premium for each state and the corresponding expected loss ratio for each state. For the purpose of this example, it has been assumed that the risk is intrastate with an expected loss ratio of .613, which produces expected losses of $306,500 ($500,000 x .613).

Line 3. Total Expected Loss Ratio: This is the expected loss ratio for the risk obtained by dividing the total expected losses for all states covered by the Retrospective Rating Plan by the total standard premium.

Line 4. Expected Limited Loss Ratio: This ratio is determined by subtracting the excess loss factor from the expected loss ratio.

Line 5. Expense and Profit and Contingency—Excluding Taxes: The expense and profit or contingency (excluding taxes) is determined, by multiplying the standard premium by the expense ratio found in either the Stock or Non-Stock Tables of Expense Ratios—Excluding Taxes, Profit and Contingencies. Refer to Appendix C in the ***Retrospective Rating Plan Manual*** for the Table of Expense Ratios.

For a three-year plan, values are determined similarly for each of the years based on each annual estimated standard premium, and the sum of these values is the provision for expense and profit or contingency. The value for expenses shown in this example is equal to $100,500 ($500.000 x .201).

Line 6. Expected Loss and Expense Ratio: This ratio is obtained by dividing the expected loses plus the expenses and profit or contingency (excluding taxes by the standard premium).

Line 7. Loss and Expense in Converted Losses: This factor, which expresses the ratio of expected losses and expense to estimated standard premium, is the product of the expected loss ratio and the loss conversion factor.

Line 8. Expense and Profit or Contingency in Basic Premium: The difference between the factor in Line 6, representing the total net premium provision for the insured under the Retrospective Rating Plan, and the factor in Line 7, representing expected losses and loss adjustment expense insuring the risk, is the expense and contingency amount, and must be included in the basic premium.

Line 9. Minimum Premium Retrospective Factor—Excluding Taxes

Line 10. Maximum Premium Retrospective Factor—Excluding Taxes

Line 11. Table of Insurance Charges—Value Difference

Line 12. Table of Insurance Charges—Entry Difference

Lines 9 through Line 12 are determined in a way designed to facilitate the testing process by which the basic premium factor is established. The factors entered for these items are obtained as indicated in the example.

Line 11, Table of Insurance Charges—Value Difference, equals the difference between the table charge for the entry ratio from which the savings is taken and the table charge for the entry ratio from which the charge is taken.

Line 12, Table of Insurance Charges—Entry Difference, equals the difference between the entry ratios that determine the savings factor and the charge for the maximum premium.

To use the Table of Insurance Charges, find the loss group in the Expected Loss Ranges in the table containing the adjusted expected loss value. The adjusted expected loss value:

Line 2 x State and Hazard Group Differential x Loss Group Adjustment Factor

The Loss Group Adjustment Factor (F) applies when an individual loss limit is selected. The factor is:

$$F = \frac{1 + ((.8)(LER))}{1 - LER}$$

where the LER = ELF ÷ Item (3) = .587

$$F = \frac{1 + ((.8)(.587))}{1 - (.587)} = 3.558$$

S/H Differential = .750

The loss group is 52 (group that contains 229,875 (= 306,500 x .750)).

Then, choose two entry ratios from the Expected Loss Group in the table with a difference equal to Line 12. Make this choice so that the difference in the charges for the Expected Loss Group and for the selected entries most closely approximates Line 11.

To illustrate this testing procedure, several entry ratios and their corresponding charges in Group 52 have been reproduced from the Table:

Entry Ratio	Charges (Group 52)	Savings
.03	.970	.000
.04	.960	.000
.05	.950	.000

Entry Ratio	Charges (Group 52)
2.34	.065
2.35	.065
2.36	.064

Choose and list pairs of entry ratios with a difference equal to Line 12, in this case 2.31, and note the respective difference in these charges:

(.03, 2.34)(.970 – .065) = .905

(.04, 2.35)(.960 – .065) = .895

(.05, 2.36)(.950 – .065) = .886

The pair of entry ratios whose charge difference most closely approximates Line 11 is recorded under Lines 13 and 14.

Line 13. Ratio of Losses Producing Maximum Retrospective Premium to Expected Losses

Line 14. Ratio of Losses Producing Minimum Retrospective Premium to Expected Losses

Lines 13 and 14 are the pair of table entry ratio values determined by the process outlined previously.

Line 15. Premium Savings for (13): Given the loss group adjustment factor 16, this is the premium charge for losses in excess of those provided by the maximum retrospective premium. It is obtained by reading from the table as shown in Line 12.

Line 16. Premium Savings for (13): This is the premium saving for losses less than those that would produce the minimum retrospective premium. The values for premium savings are listed directly beneath the charge values in the Table of Insurance Charges. In this example, the savings of .000 for entry ratio 04 (Line 13) in Group 52 is found directly beneath the charge value of .960.

Line 17. Net Premium Charge: The net premium charge is determined by calculating the difference between the charge for possible losses that might produce more than the maximum retrospective premium and the saving for losses that might produce less than the minimum retrospective premium, and then multiplying that difference by the product of the expected loss ratio and the loss conversion factor. The net premium charge may be less than zero, as long as the basic premium factor is not negative.

Line 18. Basic Premium Factor: The basic premium factor is the sum of the net premium charge and the expenses and profit and contingencies in the basic premium expressed as a percentage of the standard premium. The standard premium multiplied by the basic premium factor produces the basic premium used in computing the retrospective rating plan premium.

E. DEVELOPMENT OF AN AVERAGE STATE HAZARD GROUP (SHG) FACTOR

This table shows the procedures for carriers to develop an average expected loss ratio and state hazard group factor for multistate policies.

State	Standard Premium by State (A)	Expected Loss Ratio (B)	Expected Losses (C=AxB)	State Hazard Differential Factor (D)	Development of Average SHG (CxD)
1	200,000	0.627	125,400	1.030	129,162
2	150,000	0.627	94,050	0.930	87,467
3	10,000	0.635	6,350	1.200	7,620
Totals	360,000	0.627	225,800	0.993	224,249

F. SAMPLE NOTICE OF ELECTION OF RETROSPECTIVE RATING PLAN

Sample letter a carrier may use when negotiating a retrospective rating plan with an insured. This sample letter may be used on company letterhead.

Notice of Election of Retrospective Rating Plan

The undersigned certifies that the named insured has elected the use of the Retrospective Rating Plan as detailed below. It is also certifies that the insured understands all terms, conditions and provisions of the Plan, including the method of premium calculation, payment, and penalties for cancellation.

The Plan will apply to all policies indicated below effective _______________

1. Name of Insured ____

2. Address of Insured____

3. Policy Number(s) Effective Date(s)

   ________________________________ ____________________________

   ________________________________ ____________________________

4. Type of Retrospective Rating Plan (circle one)
   - A. Standard Retrospective Rating Plan
   - B. Large Risk Alternative Rating Option

5. Indicate selection
   - A. Minimum Premium Factor ______________
   - B. Maximum Premium Factor ______________
   - C. Loss Conversion Factor _________________

6. Term of Plan (circle one)
   - A. 1 Year or 3 Year
   - B. Wrap-Up Construction Project (enter details)____________________

7. Loss Limitation (if applicable)_____________________________________

8. Do Retrospective Development Factors Apply ☐ Yes ☐ No

9. Indicate any special conditions that apply to the Plan elected for this insured:____

   ____

   ____

Signature of Insured Date Signed

(Sole Proprietor, Partner, or Authorized Officer of Corporation)

F. CANCELLATION OF A POLICY UNDER A RETROSPECTIVE RATING PLAN

Example of a Short Rate Calculation of Maximum Retrospective Premium

Assume:	
Policy in effect	185 days
Authorized Rate (per $100 payroll)	$5.00
Actual payroll for 185 days	$555,000
Experience Rating Modification	1.10
Maximum Retrospective Premium Factor	1.60

(a) Payroll extended to an annual basis:

$$\$555{,}000 \times \frac{365 \text{ days}}{185 \text{ days}} = \$1{,}095{,}000$$

(b) Annual Standard Premium = $1,095,000 × 5.00 (per $100) = $54,750
(c) Modified Premium = $54,750 x 1.10 = $60,225
(d) Maximum Retrospective Premium: $60,225 x 1.60 = $96,360

G. ENDORSEMENTS

The following endorsements apply to policies that have elected to be retrospective rated:

Endorsement	Purpose
WC 00 05 03 B—Retrospective Rating Plan Premium Endorsement One-Year Plan	Use this endorsement when the rating plan period is the one-year period beginning with the effective date of the endorsement
WC 00 05 04 B—Retrospective Rating Plan Premium Endorsement Three-Year Plan	Use this endorsement when the rating plan period is the three-year period beginning with the effective date of the endorsement
WC 00 05 05 B—Retrospective Rating Plan Premium Endorsement Wrap-Up Construction Project	Use this endorsement when the rating plan period is the duration of the construction project described on the Information Page beginning with the effective date of the endorsement
WC 00 05 08—Retrospective Premium Endorsement Aviation Exclusion	Use this endorsement when the premium and incurred losses from the aviation classification codes listed in the schedule are excluded from retrospective rating
WC 00 05 09 B—Retrospective Premium Endorsement Changes	Use this endorsement when changes have been made to the factors
WC 00 05 10 A—Retrospective Rating Plan Premium Endorsement Nonratable Catastrophe Element or Surcharge	Use this endorsement when the policy covers operations or classifications that involve a nonratable catastrophe element or surcharge
WC 00 05 11—Retrospective Premium Endorsement Short Form	Use this endorsement when the insured has more than one policy subject to the same retrospective rating option

Endorsement	Purpose
WC 00 05 12 B—Retrospective Rating Plan Premium Endorsement One-Year Plan—Multiple Lines	Use this endorsement to determine the other lines included in the calculation of the retrospective rating premium for the one-year plan
WC 00 05 13 B—Retrospective Rating Plan Premium Endorsement Three-Year Plan—Multiple Lines	Use this endorsement to determine the other lines included in the calculation of the retrospective rating premium for the three-year plan
WC 00 05 14 B—Retrospective Rating Plan Premium Endorsement Wrap-Up Construction Project—Multiple Lines	The rating plan period is the duration of the construction project described on the Information Page beginning with the effective date of the endorsement when other lines of insurance are included in the calculation of the retrospective rating premium
WC 00 05 15 A—Retrospective Rating Plan Premium Endorsement—Losses Redefined to Include Allocated Loss Adjustment Expense (ALAE)	Use this endorsement when incurred losses are changed to include allocated loss adjustment expenses
WC 00 05 16—Retrospective Rating Plan Premium Endorsement—Large Risk Alternative Rating Option (LRARO)	Use this endorsement when the insured has elected to have the cost of insurance rated retrospectively by the Large Risk Alternative Rating Option