February 20, 2017

NORTH CAROLINA AGENT COMMUNICATION

The North Carolina Rate Bureau (Bureau) would like to update you on a number of changes that have occurred or may impact you in 2017. Please take a few moments to review these changes as they may impact how you respond to the needs of your clients.

Audit Noncompliance Charge

Effective January 1, 2017, Rule 3.A.12 of the North Carolina Basic Manual for Workers Compensation and Employers Liability (NCBM) was updated.

Revisions were made to NCBM Rule 3.A.12 Final Earned Premium which will bring North Carolina rules for failure to comply with audit in line with the new national Audit Noncompliance Charge rules and endorsement. Additional premium charges for failure to comply with audit are not new in North Carolina. Under the previous NCBM Rule 3.A.12.b.2, carriers were allowed to charge additional premium if an insured failed to respond to an audit request or refused to cooperate with a carrier trying to perform an audit. The highlights of the rule changes are as follows:

- Insureds that fail to respond to a carrier's request to audit or refuse to allow access to records needed to complete the audit, may be subject to a charge of up to three (3) times the estimated annual premium for their policy.

- Carriers must endorse the policy with the Audit Noncompliance Endorsement (WC 00 04 24) at inception to be allowed to impose the charge. This endorsement is required on all policies in the Assigned Risk market.

- An insured that fails to respond to an audit request or refuses access to records needed to complete an audit will not be eligible for assigned risk coverage through the North Carolina Workers Compensation Insurance Plan.

For additional information on the Audit Noncompliance Charge, review NCRB Workers Compensation Circulars C-15-21, dated November 5, 2015 and C-16-29, dated November 3, 2016 located on the Bureau's website at www.ncrb.org.

Workers Compensation Assigned Risk Carrier Changes

As the Plan Administrator for the North Carolina Workers Compensation Insurance Plan, the Bureau concluded a competitive bid process for the selection of servicing carriers that will provide service to residual market insureds on behalf of the reinsurance pooling mechanism. The contract period for the selected servicing carriers is for assignments made from January 1, 2017 through December 31, 2019.

The Servicing Carriers selected are:

AmGuard Insurance Company
LM Insurance Corporation (The Liberty group was previously accepting direct assignments)
Travelers Property & Casualty Company of America

In addition to the servicing carriers, there are multiple direct assignment carriers writing residual market coverage for North Carolina. As of January 1, 2017 the direct assignment carriers are:

ACE American Insurance Company
American Interstate Insurance Company
American Zurich Insurance Company
Auto Owners Insurance Company
Builders Mutual Insurance (previously Builders Premier)
Cincinnati Insurance Company
Continental Casualty Company
Hartford Underwriters Insurance Company

Residual market policyholders that are currently insured with Riverport Insurance Company will be non-renewed, and are required to re-apply to the North Carolina Workers Compensation Insurance Plan for coverage. Questions related to the application process may be directed to our Information Center via email at wcinfo@ncrb.org or 919-582-1056.

Class Code Changes

Effective April 1, 2017, several national classification codes will be eliminated and one classification will be converted from a national classification to a state special for North Carolina. The classification codes impacted are as follows:

<table>
<tr><th>National Classification Eliminated</th><th>National Classification as of April 1, 2017</th></tr>
<tr><td rowspan="2">0400—Cotton—Compressing & Drivers</td><td>8103—Cotton Compressing</td></tr>
<tr><td>7380—Drivers, Chauffeurs, Messengers, and Their Helpers NOC—Commercial</td></tr>
<tr><td>1852—Asbestos Goods Mfg.</td><td>Multiple equivalent national classifications, depending on the method of manufacturing.</td></tr>
<tr><td>2300—Plush or Velvet Mfg.
2300—Velvet or Plush Mfg.</td><td>2501—Cloth, Canvas, and Related Products Mfg. NOC</td></tr>
<tr><td>2386—Lace Mfg.
(*Lace Mfg was retained by NC as a State Special Code)</td><td>2501—Cloth, Canvas, and Related Products Mfg. NOC</td></tr>
<tr><td>2913—Rattan, Willow, or Twisted Fiber Products Mfg.
2913—Willow, Rattan, or Twisted Fiber Products Mfg.
2913—Willowware Mfg.</td><td>2883—Furniture Manufacturing and Cabinet Shop—Wood—NOC</td></tr>
<tr><td>2942—Crayon, Pencil, or Penholder Mfg.
2942—Pencil, Penholder, or Crayon Mfg.
2942—Penholder, Crayon or Pencil Mfg.</td><td>4432—Crayon Mfg.
4432—Pen Mfg.
4432—Pencil Mfg.—Mechanical</td></tr>
<tr><td>6260—Tunneling—Pneumatic—All Operations</td><td>6251—Tunneling—All Operations DC, GA, MD</td></tr>
<tr><td>8105—Store—Hide or Leather Dealer
8105—Store—Leather or Hide Dealer</td><td>8018—Store—Wholesale—NOC</td></tr>
</table>

National Classification Eliminated	N C State Special Classification as of April 1, 2017
2386—Lace Mfg.	2386—Lace Mfg.*

For additional information on these changes please review NCRB Workers Compensation Circular C-16-11, dated June 23, 2016, located on the Bureau's website at www.ncrb.org.

New PEO Rules

Updates to Rule 3.D Professional Employers Organizations (PEO) of the North Carolina Basic Manual for Workers Compensation and Employers Liability (NCBM) will be effective April 1, 2017. Revisions to Rule 3.D PEO have been made to ensure that policy issuance rules and endorsements for PEOs and their clients are aligned with North Carolina statutes and/or regulations.

The Bureau researched the North Carolina statutes and regulations related to workers compensation insurance coverage for PEOs and their client company(s). Particular attention was paid to the definitions shown in the North Carolina general statutes; how the named insured was to be identified on the workers compensation policy; and the wording on policy endorsement forms needed to clarify which employees are to be covered by policies issued to the PEO and their client company(s). As a result of this review, Rule 3.D was revised to more clearly define how policies are to be written and endorsed to ensure that workers compensation insurance coverage is being provided for employees of PEOs and their clients in accordance with North Carolina statutes and regulations.

For additional information on the revised PEO rules and endorsements please review NCRB Workers Compensation Circular C-16-22, dated October 13, 2016, located on the Bureau's website at www.ncrb.org.

Anniversary Rating Date Elimination

Rule 3.A.2 Anniversary Rating Date (ARD) of the North Carolina Basic Manual for Workers Compensation and Employers Liability (NCBM) will be eliminated effective May 1, 2017.

The application of an ARD to an employer's policy has often raised questions and concerns over how it impacts policy premium. The elimination of the ARD also raises a good number of questions. To assist agents with explaining how this change affects their clients we offer the following Frequently Ask Questions.

Q.1 - What is anniversary rating date (ARD)?
A.1 - ARD is the effective month and day of the policy in effect and each anniversary thereafter unless a different date has been established by NCCI or another licensed rating organization. Rules, classifications, and rates are applied on an ARD basis for all employers.

Q.2 - What was the original purpose of ARD and when was it implemented? Does ARD exist in other lines?
A.2 - The ARD rule originated in 1923 and is unique to workers compensation. Introduced during the early development of the workers compensation system, its intent was to ensure that in the event of a midterm policy cancellation, the rewritten policy would use the same rates that applied to the cancelled policy. The rule applies whether it is the carrier or the employer that initiates the cancellation.

Consider an example of applying the current ARD rule:

- An employer has a full-term policy effective 1/1/2015 with a 1/1/2015 ARD.
- The policy is cancelled short-term effective 8/15/2015.
- The rewritten policy is a full-term policy effective 8/15/2015. The 8/15/2015–8/15/2016 policy would use two sets of rates:

Applicable Rates	ARD Application Range
1/1/2015 rates apply	From 8/15/2015 to 1/1/2016
1/1/2016 rates apply	From 1/1/2016 to 8/15/2016

Under this proposed change, the 8/15/2015 rewritten policy use rates effective on that date, not the rates effective on 1/1/2015. In many cases, the rates would not have changed in that January–August time frame, so the same rates would continue to apply. In other cases, if a rate change were approved during the time between the original policy effective date and the cancellation date, the new rates as of 8/15/2015 would be applied to the rewritten policy.

Q.3 - What is the change? Why is it being made now?
A.3 – ARD is being eliminated because it is a source of confusion for employers. It is unique to workers compensation and difficult for employers to understand, particularly since it does not exist for any other type of insurance they purchase on a business or personal level.

Q.4 - Do all states use ARD? Which states have already eliminated ARD?
A.4 - Not all states use ARD. Before Item Filing B-1430, 8 NCCI states had already stopped using the ARD rule. Illinois (1992), Alabama (1996), Maine (1996), Louisiana (2001), Georgia (2010), New Mexico (2011), and West Virginia (2014) are the states that eliminated ARD. Texas has also not utilized this rule for many years.

Q.5 - Is ARD being eliminated in other states?
A.5 - Yes, the NCCI has filed for the elimination of ARD in other NCCI states.

Q.6 - Do other independent bureau states use ARD?
A.6 - All independent bureau states, with the exception of Minnesota (MWCIA) use ARD.

Q.7 - Will other independent bureau states be eliminating ARD?
A.7 - NCCI is recommending that all independent bureau states consider eliminating ARD. However, each individual state will have to determine whether this change will be filed in their state.

Q.8 - What prevents employers or carriers from cancelling policies to take advantage of lower rates?
A.8 - In a system without the ARD rule, nothing would prohibit an employer from cancelling a policy to take advantage of a recent loss cost/rate filing decrease. However, the short rate penalty exists, which acts as a deterrent to an employer who cancels. That penalty would likely reduce or completely eliminate any "gains" to be had by cancelling early to take advantage of the new, lower rates.

Q.9 - Why is a national filing needed? When will this change become effective?
A.9 - A national filing is necessary to provide a single countrywide effective date for implementation of this change, particularly given the impact it will have for multistate employers. This change will be filed to become effective May 1, 2017.
Without a common effective date, employers may have the added confusion of dealing with a single policy that has both new rates applicable in some states (as of a rewritten policy's effective date) and a prior policy's rates in other states where they continue to apply.

Q.10 - Is ARD a mandatory or voluntary rule?
A.10 – The application of ARD where applicable is mandatory.

Q.11 - Can you provide an example of how eliminating ARD will impact an employer?
A.11 – Example - An employer has a 1/1/2015 policy with a classification rate of $3.40. Effective 7/1/2015, an approved rate decrease lowers the rate 10% to $3.06. The employer cancels the 1/1/2015 policy on 8/15/2015 and obtains another full-term policy effective 8/15/2015.
Under the existing ARD rule, a cancellation of the 1/1/2015 policy on 8/15/2015 would not result in application of the lower 7/1/2015 rate to the rewritten policy until 1/1/2016, the ARD. At that point, the rewritten policy is endorsed to use the lower (7/1/2015) rate from 1/1/2016 until the policy expiration on 8/15/2016.
Under the proposed new approach, which eliminates the ARD, the rewritten 8/15/2015 policy immediately uses the lower rates that were approved on 7/1/2015.

Q.12 - What is the overall impact of eliminating ARD?
A.12 – It is expected that there will be very limited impact. Data reviewed by NCCI indicates that approximately 90% of policies countrywide have an ARD that is the same as the policy effective date. NCCI has also indicated that

based on their observation of how the system works in states that have already eliminated ARD there is no anticipated increase in the usual and customary cancellation activity by carriers or employers.

Q.13 - How does this benefit or harm employers in my state?
A.13 – The elimination of the ARD is not being viewed as a "benefit or harm" issue. If both parties (carrier and employer) are satisfied with the business relationship, neither will likely have an incentive to discontinue it, particularly by cancelling the policy midterm. In instances where a midterm cancellation does occur, this change will simply provide that the rates in effect when the new policy is written will be the rates that apply. This is consistent with employers' insurance buying experience for all other lines of business and personal insurance.

Q.14 - How many employers in my state will be affected?
A.14 – NCCI has indicated that in 2014, approximately 90% of policies countrywide had an ARD that was the same as the policy effective date (PED). So a possible impact may be experienced by the remaining 10% of policies countrywide.
It is not possible to predict the individual employer premium impact. No statewide premium impact is expected as a result of the elimination of ARD.

Q.15 - Does the elimination of ARD impact experience rating?
A.15 - There is no impact to the calculation of experience rating modification factors. There is also no impact to the process of determining the rating effective date. The only change to the ***Experience Rating Plan Manual*** will be how a modification is applied to a policy if the ARD is different from the policy effective date. With the proposed change, the ARD reference will be eliminated. For instance, a change in a modification will be applied based on when a change occurs in comparison to the policy effective date (as it is today) or the rating effective date if later than the policy effective date. Exhibits 15 and 16 of the national NCCI Item B-1430 provide the revised rules in their entirety. State special rules may also apply.

Q.16 - When and how will employers be notified that they no longer have an ARD**?**
A.16 - Most employers continue to routinely renew their workers compensation policies on an annual basis. For them, this change will be a nonevent. For others, when a cancellation occurs, the new policy they receive from the rewriting carrier will apply the rates, rules, classifications, experience rating modifications, etc., that are in effect as of the effective date of the new policy.

Q.17 - Does the elimination of ARD affect the premium calculation on an employer's policy?
A.17 - The premium calculation method for a policy does not change in any manner. What does change is the elimination of applying multiple sets of rates used in the calculation on a given policy.

For additional information on the elimination of ARD, review NCRB Workers Compensation Circulars C-15-15, dated September 28, 2015 and C-16-31, dated December 23, 2016 located on the Bureau's website at www.ncrb.org.

Executive Officer Payroll

The maximum or minimum payroll for Executive Officer payroll will not change on April 1, 2017.

Maximum Payroll effective April 1, 2017:
- Weekly - $1,700
- Annually - $88,400

Minimum Payroll effective April 1, 2017:
- Weekly $850
- Annually $44,200

Partners, Sole Proprietor and Members of LLC's Payroll

The annual payroll used to determine premium for Partners, Sole Proprietors and Members of LLC's will increase effective April 1, 2017.

Premium determination effective April 1, 2017:

- Annual Payroll - $44,600

Other miscellaneous values effective April 1, 2017 can be located in Part 3 of the North Carolina Basic Manual for Workers Compensation and Liability.

North Carolina Rate Bureau ERM-14 – Confidential Request for Ownership Information

To assist insureds and agents with timely and accurate reporting of changes in ownership for North Carolina intrastate risks, the Bureau developed a state-specific Confidential Request for Ownership Information Form titled North Carolina Rate Bureau ERM-14 (NCRB ERM-14). The NCRB ERM-14 was approved by the North Carolina Department of Insurance for the reporting of ownership changes occurring on or after October 1, 2016 for all North Carolina Intrastate risk.

The NCRB ERM-14 Form is available on the Bureau's website at www.ncrb.org. This form should be used to report ownership changes, for North Carolina ***intrastate*** risks, occurring on or after October 1, 2016. To report changes in ownership for ***interstate*** risks, insureds should continue to use the NCCI ERM-14 form, which is to be submitted directly to the National Council on Compensation Insurance for their review.

The reporting of ownership changes will become even easier in 2017. Be on the lookout for our circular announcing the ManageOwnership tool that will enable online submission of ownership changes in mid-2017.

If you have questions regarding any of these items, please contact our Information Center via email at wcinfo@ncrb.org or 919-582-1056.

Sincerely,

Joanna Biliouris

Chief Operating Officer

JB:dms