

NORTH CAROLINA RATE BUREAU

**POST OFFICE BOX 176010
RALEIGH, NORTH CAROLINA 27619-6010**

JOHN W. WATKINS
General Manager

3401 SIX FOLKS ROAD
RALEIGH, NORTH CAROLINA 27609-4435

TELEPHONE (919) 783-9790
FAC SIMILE (919) 783-7447

JERRY O. HAMRICK
Workers Compensation Manager

DAVID E. STOK, JR.
Accounting Manager

CHARLES B. TAYLOR
Personal Lines Manager

November 26, 1997

CIRCULAR LETTER TO ALL MEMBER COMPANIES
(Home Offices Only)

Re: Workers Compensation Insurance
Loss Costs Filing

A loss costs reference filing has been filed with and approved by the North Carolina Commissioner of Insurance to become effective April 1, 1998. Pursuant to North Carolina General Statute 58-36-100, a copy of the approved reference filing is enclosed.

The filing includes exhibits that display (i) the derivation of the final pure premium level change; (ii) a summary of the expense provisions that are included in the loss costs, (iii) the advisory loss costs and rating values, by class code; (iv) appendices that underlie the derivation of the overall pure premium level change and the distribution of that change by industry group and by class code; (v) the derivation of "F" classification loss costs; (vi) a summary of benefit changes; and (vii) a comparison, by class code, of the April 1, 1997 loss costs to the April 1, 1998 loss costs. Appendix D recites statutory requirements for data to be included in NCRB rate filings. The extensive data that were submitted to the Department of Insurance as an adjunct to the loss costs reference filing, referenced as "11 NCAC 10.1111 responses", are not being reproduced for distribution. Similarly, the Bureau's pre-filed testimony that accompanied the filing is not being distributed.

The approved prospective loss costs are based on historical data that have been developed and trended to their ultimate values and, except for (i) loss adjustment expenses and (ii) taxes, licenses, fees and loss-based assessments which are specifically authorized to be included in the loss costs by statute, include no provisions for expenses, dividends, profit or contingencies.

With regard to taxes, the filing includes a provision of 2.68%, which is comprised of the 2.5% premium tax and an insurance regulatory charge of 7.25% of the premium tax (2.5% x 1.0725). On September 4, 1997 the Governor signed ratified Senate Bill 727 which increased the insurance regulatory charge from 7.25% of the premium tax to 8.75% of the premium tax for the 1997 calendar year. The Rate Bureau did not file revisions to the filing to reflect the updated tax provision of 2.72% (2.5% x 1.0875) in view of the extremely limited effect of the change.

Pursuant to NCGS 58-36-100, the prospective loss costs reference filing does not develop or propose minimum premiums, minimum premium formulas, expense constants or premium discount plans. Any amendments to your current minimum premiums, minimum premium formula, expense constant or premium discount plan must be filed with the North Carolina Department of Insurance.

With regard to the Bureau's prospective loss costs reference filings, NCGS 58-36-100(j), as it reads on and after September 1, 1997, provides as follows:

- (1) If the insurer has filed to have its loss multiplier remain on file, applicable to subsequent reference filings, and a new reference filing is filed and approved and if:
 - a. The insurer decides to use the revision of the prospective loss costs and effective date as filed, then the insurer does not file anything with the Commissioner. Rates are the combination of the prospective

loss costs and the on-file loss multiplier and become effective on the effective date of the loss costs.

b. The insurer decides to use the prospective loss costs as filed but with a different effective date, then the insurer must notify the Commissioner of its effective date before the effective date of the loss costs.

c. The insurer decides to use the revision of the prospective loss costs, but wishes to change its loss multiplier, then the insurer must file a revised reference filing adoption form before the effective date of the reference filing.

d. The insurer decides not to revise its rates using the prospective loss costs, then the insurer must notify the Commissioner before the effective date of the loss costs.

(2) If an insurer has not elected to have its loss multiplier remain on file, applicable to future prospective loss costs reference filings, and a new reference filing is filed and approved, and if:

a. The insurer decides to use the prospective loss costs to revise its rates, then the insurer must file a reference filing adoption form, including its effective date.

b. The insurer decides not to use the revisions, then the insurer does not file anything with the Commissioner.

Note: Due to the change in the wording of the statute, the filing of a reference filing adoption form under sections (1) c. and (2)a. of NCGS 58-36-100(j) may now be made on a file and use basis. The same applies to filings under NCGS 58-36-100(l)(iv) described below.

For those member insurers that have not yet filed loss costs multipliers, NCGS 58-36-100(a) provides as follows:

Nothing in this section requires the Bureau or its member insurers to refile rates previously implemented before two years after the effective date of this section. Any member insurer of the Bureau may continue to use all rates and deviations filed and approved for its use until disapproved, or the insurer makes its own filing to change its rates . . . (Note: The Rate Bureau is advised by the Department of Insurance that it interprets this statute to mean that January, 1994 rates and deviations approved for use with those rates continue to apply to those insurers that have not made a filing to change rates.)

Included in Part I, Exhibit III of the filing are approved advisory Miscellaneous Values and Retrospective Rating Plan State Special Rating Values. Pursuant to NCGS 58-36-100(l), as a result of the Commissioner's approval of the miscellaneous and Retrospective Rating Plan values, (i) a carrier may elect to implement the values, in which event the carrier need not file anything with the Commissioner; (ii) a carrier may elect to implement the values with a different effective date, in which event the carrier must notify the Commissioner of its effective date before the effective date of the Bureau filing; (iii) a carrier may elect not to implement the values, in which event the carrier must notify the Commissioner before the effective date of the Bureau filing; or (iv) a carrier may elect to implement the values with modifications, in which event the carrier must file the modifications with the Commissioner, must specify the basis for the modifications and must specify the carrier's proposed effective date, if different from the effective date of the Bureau filing.

With regard to the Loss Elimination Ratios shown with the advisory Miscellaneous Values, a carrier should file with the Commissioner its factor(s) to be applied to the approved Loss Elimination Ratios or its own table of deductible percentages. Similarly, with regard to the Retrospective Rating Plan, each carrier should file its factor(s) to be applied to the Excess Loss Pure Premium Factors and Excess Loss and Allocated Expense Pure Premium Factors or file its own tables. It is the Rate Bureau's interpretation of the statute that, if the factors for these tables have previously been filed and approved, or, if filed on or after September 1, 1997 and not disapproved, and, if the factors will not be revised, they may be applied to the April 1, 1998 tables without a new filing with the Commissioner.

Note: The obligations of carriers with respect to use of the prospective loss costs and use of the advisory Miscellaneous Values and Retrospective Rating Plan State Special Rating Values are different. The statutory

provisions with regard to use of the approved prospective loss costs and an insurer's loss multiplier are set forth in NCGS 58-36-100, portions of which have been quoted above. With respect to the advisory Miscellaneous Values and Retrospective Rating Plan State Special Rating Values, a carrier is required to implement those values effective April 1, 1998 unless it makes a filing with the Commissioner indicating that it elects to do otherwise, as described above.

Enclosed is a copy of the North Carolina Department of Insurance (i) Reference Filing Adoption Form, (ii) Summary of Supporting Information Form - Calculation of Company Loss Costs Multiplier and (iii) Summary of Supporting Information Form - Expense Provisions Exhibit which have been developed for insurers to file their loss multipliers.

Note: The Reference Filing Adoption Form should be completed to show NCDOI File Number : 134261, NCRB Reference Filing Number: August 29, 1997 and NCRB Effective Date: April 1, 1998. Additionally, Item 7, "Provision for premium taxes, licenses, fees and loss based assessments," of the Summary Of Supporting Information Form - Calculation of Company Loss Costs Multiplier should be completed to include .0268 (2.68% expressed in decimal form - See NCRB Reference Filing Part I, Exhibit II).

Duplicate copies of the reference filing adoption forms (with a \$20 filing fee and a postage-paid, self-addressed envelope) are to be submitted to:

Mr. Charles A. Swindell, Deputy Commissioner
Property and Casualty Division
North Carolina Department of Insurance
PO Box 26387, 430 North Salisbury Street
Raleigh, North Carolina 27611

A copy of each insurer's filing should also be sent to the North Carolina Rate Bureau.

Included is a diskette which contains a Lotus spreadsheet with the April 1, 1998 advisory loss cost and rating values for each class code. The diskette also contains the residual market rates and rating values. The diskette is formatted for IBM -PC compatible machines and is being provided to assist carriers in the mechanics of generating individual class code rates. One file has each class assigned to one of the following industry groups:

1. Manufacturing Classifications
2. Contracting Classifications
3. Office and Clerical Classifications
4. Goods and Services Classifications
5. Miscellaneous Classifications
6. "F" Classifications
7. Per Capita Classifications
8. "a" Rated Classifications
9. Chemical Classifications
10. Maritime and Federal Classifications
11. Miscellaneous Disease Classifications

Note: The industry group designations are for the purpose of identifying the group to which a class belongs on the diskette and are so designated only for the loss costs. The residual market data are in class code sequence.

If you want an additional copy of the approved reference filing and diskette for your internal use, or for other carriers in your group, please make your request in writing and include a check in the amount of \$75, payable to the North Carolina Rate Bureau. Additional copies of the diskette alone are available to company members for \$20 per diskette.

Very truly yours,

Jerry G. Hamrick

Workers Compensation Manager

JGH:lm

Enclosure (Attachments Not Included)

C-97-12