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November 10, 1999

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, 2000. The Rate Bureau's September 1, 1999 filing proposed an average pure premium level increase of 3.4% compared to the advisory loss costs approved effective April 1, 1998. However, as a result of a Settlement Agreement and Consent Order, an average overall change of 0% has been approved.

Pursuant to the provisions of North Carolina General Statute 58-36-100, a copy of the approved reference filing is enclosed. Please note that, as a result of the manner in which the filing was approved, only (i) the Summary Page, (ii) advisory loss costs in Part I, Exhibit III of the filing and (iii) the advisory loss costs comparison in Part II, Appendix E of the filing have been revised to reflect the approved loss costs. All other exhibits and appendices are those contained in the original filing and set forth and explain the calculations which produced an average increase of 3.4% in loss costs.

The enclosed filing includes exhibits that display (i) the derivation of the filed pure premium level change; (ii) a summary of the expense provisions that are included in the filed loss costs, (iii) the approved advisory loss costs and rating values, by class code; (iv) appendices that underlie the derivation of the indicated 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, 1998 loss costs to the approved April 1, 2000 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 loss adjustment expenses which are specifically authorized to be included in the loss costs by statute, include no provisions for expenses, dividends, profit or contingencies. Taxes, licenses and fees, which have heretofore been included in the loss costs, have now been excluded as a result of recent legislative changes.

The advisory loss costs approved effective April 1, 1998 include a provision for taxes, licenses and fees of 2.68%, which is comprised of the 2.5% premium tax and an insurance regulatory charge of 7.25% of that premium tax. House Bill 296, ratified on May 24, 1999 by the General Assembly of North Carolina, removed premium taxes, licensing costs and fees from the definition of loss costs and included those components in the definition of expenses. Therefore, the loss costs approved effective April 1, 2000 do not include any provision for premium taxes, licenses or fees. To the extent any insurer desires to include these items in its final rates, it should incorporate the appropriate provisions as part of its expenses in the calculation of its loss costs multiplier. For your information, the premium tax is currently 2.5% of premium and House Bill 1289, ratified on July 20, 1999, set the insurance regulatory charge at 7% of the premium tax for the 1999 calendar year. These components would result in a provision for taxes, licenses and fees of 2.675% (2.5% x 1.07).

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 an insurer's 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.

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, 2000 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, 2000 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. The enclosed Summary of Supporting Information Form - Calculation of Company Loss Costs Multiplier has been amended to remove reference to "premium taxes, licenses and fees" from Item 7.

Note: The Reference Filing Adoption Form should be completed to show NCDOI File Number : 157559, NCRB Reference Filing Number: September 1, 1999 and NCRB Effective Date: April 1, 2000. Additionally, Item 7, "Provision for loss based assessments" of the Summary of Supporting Information Form - Calculation of Company Loss Costs Multiplier should be completed to include .00 (See NCRB Reference Filing Part I, Exhibit II).

Duplicate copies of the reference filing adoption forms (with 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

Pursuant to NCGS 58-36-100, as amended, a copy of each insurer's filing must also be sent to the North Carolina Rate Bureau.

Included is a diskette which contains a Lotus spreadsheet with the April 1, 2000 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:

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| 1. Manufacturing Classifications | 7. Per Capita Classifications |
| 2. Contracting Classifications | 8. "a" Rated Classifications |
| 3. Office and Clerical Classifications | 9. Chemical Classifications |
| 4. Goods and Services Classifications | 10. Maritime and Federal Classifications |
| 5. Miscellaneous Classifications | 11. Miscellaneous Disease Classifications |
| 6. "F" 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-99-17