



September 16, 2010

CIRCULAR LETTER TO ALL MEMBER COMPANIES

 Re: Workers Compensation Insurance Item Filings

- (1) NCCI Item RM-W-8035-Workers Compensation Insurance Plan (WCIP) Loss Sensitive Rating Plan (LSRP) Basic Manual Rule 4-C Enhancement
- (2) NCCI Item RM-W-8036-Enhancements to (LSRP) Endorsements WC 00 04 17 A and WC 00 04 18 E, and Withdrawal of LSRP Endorsements WC 00 04 23 A, WC 32 04 01, WC 32 04 02 and WC 36 04 07

The North Carolina Rate Bureau has adopted and the North Carolina Commissioner of Insurance has approved the adoption of changes to **NCCI's Basic Manual for Workers Compensation and Employers Liability Insurance**. The effective date of this change is January 1, 2011, and may impact both new and renewal assigned risk business.

The purpose of Item **RM-W-8035** is to: (1) clarify LSRP rules, (2) rearrange the rules to better reflect the flow of an LSRP policy, and (3) create state rules exceptions as needed.

Title	Exhibit	Pages
Rule 4.C – Loss Sensitive Rating Plan Enhancements	1	3-21
North Carolina State Rule Exceptions – Rule 4-C-5-b(1)	2-A	35
North Carolina State Rule Exceptions – Rule 4-C-6-b(2)	2-B	36
Removal of prior Basic Manual Rule 4.C	3-A	39-53
Remove North Carolina State Exception to Rule 4-C-2-c	3-B	65-66
Remove North Carolina State Exception to Rule 4-C-6	3-C	67
Remove North Carolina State Exception to Rule 4-C-7-a	3-D	68
Remove North Carolina State Exception to Rule 4-C-10	3-E	69
Remove North Carolina State Exception to Rule 4-C-12-a	3-F	70

The purpose of **Item RM-W-8036** is to: (1) update LSRP endorsements to reflect the clarification of LSRP rules, (2) combine endorsements to ensure consistent application for all risks, and (3) eliminate endorsements no longer needed due to the combining and updating of other endorsements.

Title	Exhibit	Pages
Revisions to Endorsement Form WC 00 04 17 B	1	3-5
Revisions to Endorsement Form WC 00 04 18 E	2	6-10
Withdrawal of Endorsement Form WC 32 04 01	4-A	13-16
Withdrawal of Endorsement Form WC 32 04 02	4-B	17-18

The attached exhibits explain in more detail the changes.

Contact the Information Center at 919-582-1056 or via email at wcinfo@ncrb.org, if you require additional information.

Sincerely,

Sue Taylor

Director of Insurance Operations

ST:dms

Attachments

C-10-16

FILING MEMORANDUM

ITEM RM-W-8035—WORKERS COMPENSATION INSURANCE PLAN (WCIP) LOSS SENSITIVE RATING PLAN (LSRP) BASIC MANUAL RULE 4-C ENHANCEMENT

(To be effective 12:01 a.m. on January 1, 2011, applicable to new and renewal assigned risk policies only.)

PURPOSE

This item enhances the current national assigned risk Loss Sensitive Rating Plan (LSRP) rules. The enhancements include:

- Clarifying LSRP rules to ensure users' comprehension
- Rearranging the rules to better reflect the flow of an LSRP policy
- Creating state rule exceptions where needed

BACKGROUND

In 2006, the current version of NCCI's LSRP rules, located in Rule 4-C of NCCI's *Basic Manual for Workers Compensation and Employers Liability Insurance*, and endorsements, located in NCCI's *Forms Manual of Workers Compensation and Employers Liability Insurance*, were implemented through the approval of Item RM-W-8028. Using a plain language approach, Item RM-W-8028 created a national program to address changes in the market and advancements in technology, which was also carried over to the LSRP endorsements.

Since the implementation of *Basic Manual* Rule 4-C, the Plan Administrator has monitored the program and solicited feedback from various stakeholders regarding possible future improvements, culminating in a review of the program and the attached proposed changes.

PROPOSAL

The revisions proposed in this item include:

- Rearranged LSRP rules, to more closely resemble the application of the program
- Enhanced definitions of LSRP elements, including the expansion of LSRP standard premium
- Creation of the Deposit/Initial Premium, LSRP Contingency Deposit, and Policy Issuance Table, which describes policy issuance and funds required when an employer submits single or multiple applications
- Expansion of LSRP contingency deposit rules to clarify the intent and collection procedures
- Endorsement revisions as detailed in Item RM-W-8036
- Other clarifications and new tables as needed

This item is being filed in conjunction with Item RM-W-8036—Enhancements to LSRP Endorsements WC 00 04 17 A and WC 00 04 18 E and Withdrawal of LSRP Endorsements WC 00 04 23 A, WC 32 04 01, WC 32 04 02, and WC 36 04 07. Item RM-W-8036 proposes that effective January 1, 2011, the LSRP endorsements located in NCCI's *Forms Manual* be revised. Item RM-W-8035 and Item RM-W-8036 should be adopted concurrently.

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FILING MEMORANDUM

ITEM RM-W-8035—WORKERS COMPENSATION INSURANCE PLAN (WCIP) LOSS SENSITIVE RATING PLAN (LSRP) BASIC MANUAL RULE 4-C ENHANCEMENT

IMPACT

There is no impact to statewide premium as a result of this item. No changes are being proposed to any of the LSRP factors or formulas. NCCI anticipates that the proposed revisions will enhance the understanding of the rules and procedures pertaining to the consistent application of LSRP to assigned risk policies.

IMPLEMENTATION

Upon regulatory approval, the attached exhibits will be implemented, effective 12:01 a.m. on January 1, 2011, applicable to new and renewal assigned risk policies only.

The following is a summary of the exhibits included in this item:

- **Exhibit 1** contains enhancements to NCCI's national *Basic Manual* Rule 4-C
- **Exhibit 2** contains enhancements to *Basic Manual* Rule 4-C state-specific rules, if any
- **Exhibit 3** reflects the removal of the prior *Basic Manual* Rule 4-C and necessary state-specific language, if any

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ITEM RM-W-8035—WORKERS COMPENSATION INSURANCE PLAN (WCIP) LOSS SENSITIVE RATING PLAN (LSRP) BASIC MANUAL RULE 4-C ENHANCEMENT

**EXHIBIT 1
BASIC MANUAL—2001 EDITION
RULE 4—WORKERS COMPENSATION INSURANCE PLAN RULES**

C. LOSS SENSITIVE RATING PLAN

1. Introduction to the Loss Sensitive Rating Plan

- a. Loss Sensitive Rating Plan (LSRP) is a mandatory assigned risk retrospective rating plan for those employers that have a qualifying workers compensation and employers liability insurance policy(ies) through the Workers Compensation Insurance Plans (WCIP).
- b. LSRP adjusts the premium for an employer’s WCIP policy(ies) on the basis of losses incurred during a particular policy term. LSRP reflects the actual experience of the employer by using the losses incurred during the term of the policy(ies) to establish the cost of insurance, including provisions for all expenses and taxes on premium. The result of the actual experience may be additional premium, return premium, or no change to the estimated premium.
- c. The LSRP is designed to:
 - Encourage safety and loss prevention
 - Provide incentives for employers with favorable loss experience through lower premiums
 - Provide a disincentive for employers with unfavorable loss experience through higher premiums
 - Depopulate the residual market

2. Eligibility

- a. Eligibility for LSRP is determined in accordance with the Eligibility Tables below. Refer to Rule 4-C-5-c(12) for the definition of LSRP standard premium. Refer to the **User’s Guide** for examples.

Eligibility Table 1

<u>If a single-state employer has operations in ...</u>	<u>Then ...</u>
<ul style="list-style-type: none"> • <u>One LSRP-approved state, and</u> • <u>Has a single-state WCIP policy covering such operations in the state</u> 	<p><u>The single-state WCIP policy must meet or exceed LSRP standard premium of \$200,000</u></p>
<ul style="list-style-type: none"> • <u>One LSRP-approved state, and</u> • <u>Has two or more WCIP policies covering such operations in the state, and</u> • <u>The two or more policies are written by the same assigned carrier</u> 	<p><u>The combined LSRP standard premium of all policies written by the same assigned carrier must meet or exceed \$200,000</u></p>

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EXHIBIT 1 (CONT'D)
 BASIC MANUAL—2001 EDITION
 RULE 4—WORKERS COMPENSATION INSURANCE PLAN RULES

Eligibility Table 2

<u>If a multistate employer has operations in ...</u>	<u>Then ...</u>
<ul style="list-style-type: none"> • <u>Two or more LSRP-approved states, and</u> • <u>Has one multistate WCIP policy covering such operations in those states</u> 	<p>The combined LSRP standard premium of all states on the policy must meet or exceed:</p> <ul style="list-style-type: none"> • <u>\$200,000, or</u> • <u>The premium eligibility requirement for the LSRP state generating the largest LSRP standard premium if such state's eligibility requirement is less than \$200,000</u>
<ul style="list-style-type: none"> • <u>Two or more LSRP-approved states, and</u> • <u>Has multiple WCIP policies covering such operations in those states, and</u> • <u>The two or more policies are written by the same assigned carrier</u> 	<p>The combined LSRP standard premium of all policies written by the same assigned carrier must meet or exceed:</p> <ul style="list-style-type: none"> • <u>\$200,000, or</u> • <u>The premium eligibility requirement for the LSRP state generating the largest LSRP standard premium if such state's eligibility requirement is less than \$200,000</u>

- b. It may not always be possible for a single carrier to provide coverage for all requested states; additional policies issued by more than one carrier may be necessary. Refer to Rule 4-C-5-b(3) for more information about policy issuance and corresponding deposits.
- c. WCIP policies issued in non-LSRP-approved jurisdictions are not subject to LSRP and are not combinable with WCIP policies in LSRP-approved jurisdictions for eligibility purposes.
- d. LSRP eligibility may be impacted by ownership or combinability status in accordance with NCCI's **Experience Rating Plan Manual**.

3. Evasion of LSRP

- a. Some employers may take actions for the purpose of avoiding the application of LSRP. Other employers may take actions for otherwise legitimate business reasons that nonetheless result in the improper calculation and/or application of LSRP. Regardless of intent, any action that results in the miscalculation and/or misapplication of LSRP determined in accordance with these LSRP rules is prohibited. These actions include, but are not limited to:
 - Misrepresentation and/or miscalculation of payroll at application, audit, or renewal
 - Failure to report changes in ownership or ownership information according to the WCIP and NCCI's **Experience Rating Plan Manual**
 - Violation of any of the terms and conditions under the policy for which this insurance was issued
 - Failure to allow the assigned carrier and/or Plan Administrator and/or rating organization reasonable access to facilities or files and records for audit or inspection
 - Failure to disclose to the assigned carrier and/or Plan Administrator and/or rating organization the full nature and scope of the employer's exposure or business operations
- b. In such circumstances, the assigned carrier and/or Plan Administrator and/or rating organization may obtain any information that indicates evasion or improper calculation or application of LSRP due to actions included, but not limited to, those listed in Rule 4-C-3-a. The assigned carrier

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RULE 4—WORKERS COMPENSATION INSURANCE PLAN RULES

and/or Plan Administrator and/or rating organization will act to ensure the proper calculation and application of LSRP to inception of all current and preceding WCIP policies impacted by these actions.

4. Assigned Carrier Responsibilities

Assigned carrier responsibilities include, but are not limited to:

- a. Administering, managing, and applying LSRP in accordance with these rules to:
 - (1) Individual LSRP policies within an LSRP-approved jurisdiction.
 - (2) Other WCIP policies related through common majority ownership as defined in NCCI's **Experience Rating Plan Manual**.
- b. Providing the employer with a full explanation and potential impact of LSRP at policy issuance, in accordance with Rules 4-C-6-b(2) and (3).
- c. Completing preliminary physical and final physical audits for all new business qualifying for LSRP (and any other audit requirements for renewal business) in accordance with NCCI's **Assigned Carrier Performance Standards**.
- d. Indicating on all renewal quotes to employers with premium of \$150,000 or more that payment of the renewal deposit constitutes knowledge and acceptance of the possible application of LSRP to the policy(ies).
- e. Attaching all appropriate LSRP endorsement(s) to the policy(ies) in accordance with Rule 4-C-6-b(3).
- f. Filing for Proof of Claim when it receives notification that the employer has declared bankruptcy; for information about off-cycle valuations, refer to Rule 4-C-9-e.
- g. Performing valuations of losses in accordance with Rule 4-C-9.
- h. Calculating all LSRP premiums.
- i. Collecting or returning any LSRP premium and/or LSRP contingency deposit.

5. LSRP Definitions**a. Assigned Carrier**

Assigned carrier refers to direct assignment carriers and servicing carriers as defined in Rule 4-A-2-e or applicable state workers compensation insurance plan approved for use in a jurisdiction.

b. Deposits**(1) Deposit or Initial Premium**

For purposes of LSRP, deposit or initial premium is paid on all new and renewal WCIP policies, including LSRP policies, in accordance with Rules 3-A-6 and 4-A-3-h or other applicable state rules. On LSRP policies, it is paid in addition to the LSRP contingency deposit as detailed below and in Rule 4-C-6-c. For more information about all payment methods, refer to NCCI's **Assigned Risk Supplement**.

(2) LSRP Contingency Deposit

- (a) In addition to the WCIP initial or deposit premium, new and renewal LSRP policies are secured with a LSRP contingency deposit.

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**EXHIBIT 1 (CONT'D)
BASIC MANUAL—2001 EDITION
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- (b) The LSRP contingency deposit serves as collateral for premium that may be due to the assigned carrier as a result of losses incurred during the policy term.
- (c) The LSRP contingency deposit must be paid in accordance with Rule 4-C-6-c, as applicable.
- (d) At policy inception, the LSRP contingency deposit is calculated by multiplying the LSRP standard premium by 20%. When WCIP policies are combined for LSRP purposes, the LSRP contingency deposit is calculated by multiplying the combined LSRP standard premium for all policies by 20%.

(3) Deposit/Initial Premium and LSRP Contingency Deposit Submission Requirements

Deposit/initial premium and LSRP contingency deposits are submitted for single and multiple policy employers in accordance with the table below.

Deposit/Initial Premium, LSRP Contingency Deposit, and Policy Issuance Table

<u>Application and Conditions</u>	<u>Application Assignment and Policy Issuance</u>	<u>The employer must submit ...</u>
<u>One application—No other applications or existing policies are in effect that may be combined for LSRP eligibility determination and/or coverage</u>	<ul style="list-style-type: none"> • <u>Individual application assigned to carrier</u> • <u>Assigned carrier issues one policy</u> 	<ol style="list-style-type: none"> 1. <u>Individual WCIP deposit or initial premium for the WCIP policy, and</u> 2. <u>An additional 20% LSRP contingency deposit based on the LSRP standard premium</u>
<u>Multiple applications—To determine LSRP eligibility, review possible combination with any applications and/or policies in effect for an employer with common majority ownership as defined in NCCI's <i>Experience Rating Plan Manual</i></u>	<ul style="list-style-type: none"> • <u>Multiple applications assigned to same carrier</u> • <u>Assigned carrier issues LSRP policies for those that meet the eligibility requirement</u> • <u>Policy inception dates may vary; however, all policies must have a common expiration date</u> • <u>Refer to Rule 4-C-6-a for anniversary rating date application</u> 	<ol style="list-style-type: none"> 1. <u>Individual WCIP deposit or initial premium for each WCIP policy (e.g., two WCIP policies require two WCIP initial or deposit premiums), and</u> 2. <u>An additional 20% LSRP contingency deposit based on the combined LSRP standard premium</u>

ITEM RM-W-8035—WORKERS COMPENSATION INSURANCE PLAN (WCIP) LOSS SENSITIVE RATING PLAN (LSRP) BASIC MANUAL RULE 4-C ENHANCEMENT

**EXHIBIT 1 (CONT'D)
BASIC MANUAL—2001 EDITION
RULE 4—WORKERS COMPENSATION INSURANCE PLAN RULES
Deposit/Initial Premium, LSRP Contingency Deposit, and Policy Issuance Table (Cont'd)**

Application and Conditions	Application Assignment and Policy Issuance	The employer must submit ...
<p><u>Multiple applications—For the rare circumstance when applications and/or policies in effect for an employer with common majority ownership as defined in NCCI's <i>Experience Rating Plan Manual</i> cannot be assigned to an individual carrier</u></p>	<ul style="list-style-type: none"> • <u>Multiple applications assigned to multiple carriers, including affiliated insurers when possible</u> • <u>Assigned carriers issue LSRP policies for those that meet the eligibility requirement</u> • <u>Policy effective dates may vary</u> • <u>Refer to Rule 4-C-6-a for anniversary rating date application</u> 	<ol style="list-style-type: none"> 1. <u>Individual WCIP deposit or initial premium for each WCIP policy (e.g., two WCIP policies require two WCIP initial or deposit premiums), and</u> 2. <u>Additional 20% LSRP contingency deposits based on individual eligible LSRP standard premium(s)</u>
<p><u>Assigned carriers must issue a guaranteed cost policy(ies) for a state(s) where LSRP is not approved.</u></p>		

c. Elements of the LSRP

(1) Basic Premium Factor (BPF)

The basic premium factor (BPF) is a fixed factor of 0.30 used to determine the basic premium.

(2) Basic Premium

- (a) Basic premium is determined by multiplying the total LSRP standard premium by the BPF.
- (b) The basic premium contributes to the recovery of expenses, such as those for servicing the LSRP policy, loss prevention services, premium audit, and general administration of the LSRP policy.
- (c) The basic premium does not include premium taxes or claim adjustment expenses. These elements are provided for in the tax multiplier and the loss conversion factor.

(3) Loss Conversion Factor (LCF)

A loss conversion factor (LCF) is applied to actual incurred losses to determine converted losses. The LCF:

- Includes claim adjustment expenses
- Includes the costs of the assigned carrier's claim services, such as investigation of claims and filing claim reports
- Applies on a state basis, as shown in the individual state assigned risk miscellaneous values pages

ITEM RM-W-8035—WORKERS COMPENSATION INSURANCE PLAN (WCIP) LOSS SENSITIVE RATING PLAN (LSRP) BASIC MANUAL RULE 4-C ENHANCEMENT

EXHIBIT 1 (CONT'D)
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RULE 4—WORKERS COMPENSATION INSURANCE PLAN RULES

(4) Converted Losses

Converted losses are determined by applying an LCF to the actual incurred losses. A converted loss is the loss amount including an approximate load for claim adjustment expenses.

(5) Incurred Losses (ICL)

Losses used in the LSRP calculation are those incurred losses (ICL) reported in accordance with the applicable statistical plan, subject to exclusions in accordance with Rule 4-C-9-f.

(6) Loss Limitations

For purposes of LSRP, losses are not limited.

(7) Loss Development Factor (LDF)

The loss development factor (LDF) is included in all four adjustments of LSRP premium. The LDF:

- Anticipates a pattern of increasing loss valuations during the adjustment periods
- Stabilizes premium adjustments
- Applies on a state basis, as shown in the individual state assigned risk miscellaneous values pages

(8) Maximum Premium Factor (MaxPF)

The maximum premium factor (MaxPF) is a fixed factor of 1.75 used to determine the greatest amount of premium that may be paid.

(9) LSRP Maximum Premium

LSRP maximum premium is determined by multiplying LSRP standard premium by the MaxPF. It limits the impact of incurred losses on LSRP premium. The policyholder will not pay more than the calculated LSRP maximum premium. For combinable policies, the LSRP maximum premium is based on the combined LSRP standard premium for all combinable policies.

(10) Minimum Premium Factor (MinPF)

The minimum premium factor (MinPF) is a fixed factor of 0.75 used to determine the least amount of premium that may be paid.

(11) LSRP Minimum Premium

LSRP minimum premium is determined by multiplying LSRP standard premium by the MinPF. The policyholder will not pay less than the calculated LSRP minimum premium. For combinable policies, the LSRP minimum premium is based on the combined LSRP standard premium for all combinable policies.

(12) LSRP Standard Premium (SP)

(a) LSRP standard premium (SP) is determined on the basis of authorized rates (including premium developed from payroll assigned to aircraft classifications), and includes any:

- Increased limits of liability

ITEM RM-W-8035—WORKERS COMPENSATION INSURANCE PLAN (WCIP) LOSS SENSITIVE RATING PLAN (LSRP) BASIC MANUAL RULE 4-C ENHANCEMENT

EXHIBIT 1 (CONT'D)
BASIC MANUAL—2001 EDITION
RULE 4—WORKERS COMPENSATION INSURANCE PLAN RULES

- Experience rating modification
- Deductible credit, if applied
- ARAP and/or assigned risk surcharge programs and/or other assigned risk pricing programs other than LSRP
- Minimum premium
- (b) Determination of LSRP standard premium must exclude:
 - Premium resulting from non-ratable elements
 - Premium developed by the passenger seat surcharge under Code 7421
 - Premium discount
 - Premium developed by the occupational disease rates for employers subject to the Federal Coal Mine Safety and Health Act
 - Expense constant
 - Premium developed by catastrophe provisions in accordance with Rule 3-A-24
- (c) LSRP standard premium is calculated differently than standard premium as defined in Rule 3-A-20.
- (d) LSRP standard premium may change before, during, and/or after a policy period due to reasons including, but not limited to:
 - Premium endorsements
 - Preliminary and/or final audits
 - A change in ownership or combinability status in accordance with NCCI's **Experience Rating Plan Manual**

(13) Tax Multiplier (TM)

The tax multiplier (TM) varies by state and includes licenses, fees, assessments, and taxes that an assigned carrier must pay on the premium it collects. The appropriate factors for these elements are located in the individual state assigned risk miscellaneous values pages.

d. Total Standard Premium, Estimated Annual Premium, and Final Annual Premium

Premiums developed in accordance with state-specific premium algorithms include premium elements that may be excluded from LSRP standard premium as detailed in Rule 4-C-5-c(12). Although these elements are excluded from LSRP standard premium and the calculation as detailed in Rule 4-C-9-c for LSRP purposes, these elements are still charged as part of a WCIP policy's total standard premium, estimated annual premium, and final annual premium as determined in accordance with the applicable algorithms and **Basic Manual** rules.

6. General Explanations**a. Anniversary Rating Date**

All LSRP rating values are applied on an anniversary rating date (ARD) basis for all single and multiple LSRP policy risks where Rule 3-A-2 applies.

**EXHIBIT 1 (CONT'D)
BASIC MANUAL—2001 EDITION
RULE 4—WORKERS COMPENSATION INSURANCE PLAN RULES**

b. Application of LSRP

(1) Applicable Rating Programs, Pricing Programs, and Premium Elements

Although certain rating and/or pricing programs and corresponding premium elements (if any) may be specifically excluded from LSRP standard premium, the rating and/or pricing programs may still apply to LSRP policies. These include:

- Increased limits of liability
- Wrap-up construction policies, including Owner-Controlled Insurance Programs (OCIPs)
- Premium discount

(2) Assigned Risk Policyholder Notices

(a) ACORD® 133 Application

Notification about LSRP is provided to the employer and its representative when submitting the ACORD® 133 application for coverage in the residual market. By signing the applicant statement on the ACORD® 133, the applicant understands and agrees that they are acknowledging that the LSRP has been explained, and agrees to the terms of LSRP if the employer meets the eligibility requirements. The applicant also agrees to submit an additional LSRP contingency deposit in accordance with Rules 4-C-5-b(2) and 4-C-6-c.

(b) Binder

In states that have approved LSRP, notification about the application of LSRP to an employer's WCIP policy is provided to the employer and its representative on the binder notification pages.

(3) Endorsements

The following endorsements are applied to **all** new and renewal assigned risk policies in accordance with the LSRP rules.

LSRP Endorsements Table

<u>Endorsement</u>	<u>Instructions and Purpose</u>
<u>WC 00 04 17 B—Assigned Risk Loss Sensitive Rating Plan Notification Endorsement</u>	<ul style="list-style-type: none"> • <u>Assigned carriers must attach this endorsement to all new and renewal assigned risk policies regardless of premium size</u> • <u>This endorsement ensures that all assigned risk employers, regardless of premium size, are notified of the intent and details of LSRP as well as possible application of LSRP if the employer meets the eligibility requirements</u>
<u>WC 00 04 18 F—Assigned Risk Loss Sensitive Rating Plan Endorsement</u>	<ul style="list-style-type: none"> • <u>All assigned carriers must attach this endorsement to all new and renewal assigned risk policies meeting the LSRP eligibility requirements</u>

ITEM RM-W-8035—WORKERS COMPENSATION INSURANCE PLAN (WCIP) LOSS SENSITIVE RATING PLAN (LSRP) BASIC MANUAL RULE 4-C ENHANCEMENT

EXHIBIT 1 (CONT'D)
BASIC MANUAL—2001 EDITION
RULE 4—WORKERS COMPENSATION INSURANCE PLAN RULES
LSRP Endorsements Table (Cont'd)

<u>Endorsement</u>	<u>Instructions and Purpose</u>
	<ul style="list-style-type: none"> This endorsement advises policyholders meeting the eligibility requirements of the applicable LSRP factors and how LSRP premium is calculated

c. LSRP Contingency Deposit Procedures

(1) Mandatory LSRP Contingency Deposit

- (a) In accordance with Rule 4-C-5-b(2), the employer must pay the LSRP contingency deposit as collateral. Nonpayment of the LSRP contingency deposit will result in:
- Cancellation of the WCIP policy according to the Plan rules, state law, or NCCI's **Assigned Carrier Performance Standards**, whichever is more stringent, and
 - Ineligibility in good faith for coverage in the residual market
- (b) Upon receipt, LSRP contingency deposits are treated in accordance with Rules 4-C-7 and 4-C-10.

(2) LSRP Contingency Deposit Submission Methods

The LSRP contingency deposit payment methods below are approved by the Plan Administrator. For details about submission methods, refer to NCCI's **Assigned Risk Supplement**.

(a) Automated Clearing House/Electronic Funds Transfer (ACH/EFT)

Assigned carriers may offer policyholders the ability to pay LSRP contingency deposit by ACH (Automated Clearing House) in the form of an EFT (electronic funds transfer).

(b) Credit Card

Assigned carriers may offer policyholders the ability to pay LSRP contingency deposit by credit card.

(c) Personal or Business Check

A personal or business check may be provided to pay the LSRP contingency deposit. For details on how to tender the check, based on whether submitting a new application or payment for renewal policies, refer to Rules 4-C-6-c(3) and (4) below, respectively.

(d) Irrevocable Letter of Credit (ILOC)

An Irrevocable Letter of Credit (ILOC) may be provided as collateral for the LSRP contingency deposit. The ILOC must:

- Be drawn on a member bank of the U.S. Federal Reserve System.
- Be acceptable, clean, unconditional, and irrevocable.
- Name the insured on the policy as the Applicant.
- Name the assigned carrier as the Beneficiary. The Plan Administrator and/or NCCI and/or the rating organization must **not** be named as the Beneficiary(ies).

ITEM RM-W-8035—WORKERS COMPENSATION INSURANCE PLAN (WCIP) LOSS SENSITIVE RATING PLAN (LSRP) BASIC MANUAL RULE 4-C ENHANCEMENT

**EXHIBIT 1 (CONT'D)
BASIC MANUAL—2001 EDITION
RULE 4—WORKERS COMPENSATION INSURANCE PLAN RULES**

- (5) Contain a provision where the assigned carrier is notified by the issuing bank in advance of any proposed alteration, modification, amendment, or waiver of terms and conditions. No alterations, modifications, amendments, or waivers of terms and conditions are permitted without the advance express written consent of the Beneficiary.
- (6) Not be assignable or transferable.
- (7) Have an initial expiration date no earlier than 10 months following the policy expiration date.
- (8) Have an automatic annual renewal clause for as many as three additional one-year periods.

(3) New Application Submission

- (a) The employer must pay the deposit or initial premium, as defined in Rule 4-C-5-b(1), at time of application submission for a binder to be issued. Additionally, LSRP contingency deposits are treated in accordance with the Deposit/Initial Premium, LSRP Contingency Deposit, and Policy Issuance Table in Rule 4-C-5-b(3) and the New Application LSRP Contingency Deposit Table.

New Application LSRP Contingency Deposit Table

<u>If at the time of application, the employer ...</u>	<u>Then ...</u>
<u>Pays the LSRP contingency deposit</u>	<u>The Plan Administrator forwards the LSRP contingency deposit to the assigned carrier with the deposit premium and binder package</u>
<u>Does not pay the LSRP contingency deposit</u>	<u>Within 30 days of the issue date of the binder, the employer must submit the LSRP contingency deposit to the assigned carrier</u>
<u>Indicates that the LSRP contingency deposit will be secured with an ILOC and does not obtain an acceptable ILOC within 30 days of the issue date of the binder</u>	<ul style="list-style-type: none"> • <u>The employer must tender a check to the assigned carrier for the LSRP contingency deposit</u> • <u>The check must be made payable to the assigned carrier</u> • <u>The check must be received by the assigned carrier within 10 days of the employer informing the assigned carrier that an ILOC could not be obtained</u>

- (b) A binder is issued by the Plan Administrator in accordance with Rule 4-A or other applicable state rules when an employer is determined to be eligible for coverage under the WCIP and is eligible for LSRP.
- (c) The binder also specifies the appropriate LSRP contingency deposit, which is determined at the time of application submission.
- (d) The employer may be considered ineligible for coverage under the WCIP, and the binder may be revoked or cancelled in accordance with Plan rules, state law, and NCCI's **Assigned Carrier Performance Standards**, whichever is more stringent, if for any reason:

ITEM RM-W-8035—WORKERS COMPENSATION INSURANCE PLAN (WCIP) LOSS SENSITIVE RATING PLAN (LSRP) BASIC MANUAL RULE 4-C ENHANCEMENT

**EXHIBIT 1 (CONT'D)
BASIC MANUAL—2001 EDITION
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- The funds provided are insufficient or are not received by the assigned carrier, or
- An ILOC is not secured

(4) Renewal of Coverage

- (a) Assigned carriers must include notice of any new LSRP contingency deposit in its renewal quote.
- (b) The new LSRP contingency deposit must be paid to the assigned carrier in accordance with Rules 4-C-5-b(2) and 4-C-6-c(1) and (2) before the expiration of the current policy for coverage to be renewed without any gap in coverage.
- (c) If the employer is unable to obtain an ILOC for the renewal policy and has notified the assigned carrier, to avoid any gap in coverage, the new LSRP contingency deposit must still be paid for the renewal policy to the assigned carrier before expiration of the current policy.
- (d) Effective dates for renewal LSRP policies are established in accordance with Rule 4-A-4-a(4) or other applicable state rules.

7. Changes in LSRP Standard Premium

- a. For all policies except for professional employer organizations and temporary arrangements, in accordance with the tables below, during a policy term:
 - (1) LSRP may be applied to a policy, or
 - (2) A policy may be converted to a guaranteed cost policy
- b. For treatment of professional employer organizations and temporary arrangements, refer to Rule 4-C-11.

Application of LSRP During the Policy Term—Table 1

If during the first 120 days of the policy term ...	Then ...
<p><u>The LSRP standard premium decreases and falls below the LSRP eligibility threshold</u></p>	<ul style="list-style-type: none"> • <u>The policy is converted to a guaranteed cost policy, retroactively to policy inception</u> • <u>LSRP contingency deposit is returned</u>
<p><u>The LSRP standard premium increases and meets the LSRP eligibility threshold</u></p>	<ul style="list-style-type: none"> • <u>LSRP is applied retroactively to policy inception</u> • <u>An LSRP contingency deposit must be paid within 30 days of the assigned carrier issuing notice of the application of LSRP</u> • <u>Valuations are calculated in accordance with Rule 4-C-9</u> • <u>The assigned carrier must hold the LSRP contingency deposit in accordance with Rule 4-C-10</u>

ITEM RM-W-8035—WORKERS COMPENSATION INSURANCE PLAN (WCIP) LOSS SENSITIVE RATING PLAN (LSRP) BASIC MANUAL RULE 4-C ENHANCEMENT

EXHIBIT 1 (CONT'D)
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RULE 4—WORKERS COMPENSATION INSURANCE PLAN RULES
Application of LSRP During the Policy Term—Table 1 (Cont'd)

If during the first 120 days of the policy term ...	Then ...
The employer's LSRP policy is cancelled due to reasons detailed in Rule 3-A-3-b, Cancellation Provisions Tables 1, 2, or 3	<ul style="list-style-type: none"> - The policy is converted to a guaranteed cost policy, retroactively to policy inception - The policy is cancelled pro rata - The LSRP contingency deposit and any unearned premium is returned, subject to final audit
The employer's LSRP policy is cancelled due to reasons detailed in Rule 3-A-3-b, Cancellation Provisions Table 4	<ul style="list-style-type: none"> - The policy is converted to a guaranteed cost policy, retroactively to policy inception - The policy is cancelled short rate - The LSRP contingency deposit and any unearned premium is returned, subject to final audit

Application of LSRP During the Policy Term—Table 2

If after the first 120 days of the policy term ...	Then ...
The LSRP standard premium decreases and falls below the LSRP eligibility threshold	<ul style="list-style-type: none"> - LSRP continues to apply to the policy - Valuations are calculated in accordance with Rule 4-C-9
The LSRP standard premium increases and meets the LSRP eligibility threshold	<ul style="list-style-type: none"> - The policy remains a guaranteed cost policy - LSRP is applied at renewal, subject to meeting the eligibility requirements on the renewal policy
The employer's LSRP policy is cancelled due to reasons detailed in Rule 3-A-3-b, Cancellation Provisions Tables 1, 2, or 3	<ul style="list-style-type: none"> - LSRP continues to apply to the policy - The policy is cancelled pro rata in accordance with Rule 4-C-8 - Valuations are calculated in accordance with Rule 4-C-9 - The assigned carrier must hold the LSRP contingency deposit in accordance with Rule 4-C-10
The employer's LSRP policy is cancelled due to reasons detailed in Rule 3-A-3-b, Cancellation Provisions Table 4	<ul style="list-style-type: none"> - LSRP continues to apply to the policy - The policy is cancelled short rate in accordance with Rule 4-C-8 - Valuations are calculated in accordance with Rule 4-C-9 - The assigned carrier must hold the LSRP contingency deposit in accordance with Rule 4-C-10

Refer to Rule 4-C-6-b(3) for further information on the proper application of endorsements.

- c. Application of LSRP in accordance with Rule 4-C-3 applies retroactively to policy inception, regardless of the 120-day timing requirement detailed in Application of LSRP During the Policy Term—Table 1 and Application of LSRP During the Policy Term—Table 2.

EXHIBIT 1 (CONT'D)
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RULE 4—WORKERS COMPENSATION INSURANCE PLAN RULES

8. Cancellation of LSRP Policies**a. General Information**

- (1) Cancellation of LSRP policies must be in accordance with the standard workers compensation and employers liability insurance policy.
- (2) Cancellation of LSRP policies is subject to pro rata or short-rate calculation of LSRP standard premium in accordance with Rule 3-A-3.
- (3) The assigned carrier must report noncompliance and any subsequent compliance to the Plan Administrator.
- (4) Cancelled LSRP policies are subject to all LSRP rules, as applicable.
- (5) Employers with cancelled LSRP policies are responsible for any additional premium due for reasons including, but not limited to:
 - (a) Premium endorsements
 - (b) Audits
 - (c) An ownership change or change in combinability status in accordance with NCCI's *Experience Rating Plan Manual*
 - (d) An employer retiring from business
 - (e) Any applicable and/or remaining LSRP valuations

b. Calculation of Minimum and Maximum Premium**(1) Elements**

Based on the type of policy cancellation (pro rata or short rate), minimum and maximum premiums for LSRP policies are adjusted in accordance with the applicable calculation method, using the following elements:

- SP represents LSRP Standard Premium
- PRF represents Pro Rata Factor
- SR represents Short-Rate Factor
- MinPF represents Minimum Premium Factor
- MaxPF represents Maximum Premium Factor

(2) Methods**(a) Pro Rata LSRP Minimum Premium Calculation Method (PMnP)**

$$\text{PMnP} = \text{SP} \times \text{PRF} \times \text{MinPF}$$

(b) Pro Rata LSRP Maximum Premium Calculation Method (PMxP)

$$\text{PMxP} = \text{SP} \times \text{PRF} \times \text{MaxPF}$$

(c) Short-Rate LSRP Minimum Premium Calculation Method (SMnP)

$$\text{SMnP} = \text{SP} \times \text{SR} \times \text{MinPF}$$

(d) Short-Rate LSRP Maximum Premium Calculation Method (SMxP)

$$\text{SMxP} = \text{SP} \times \text{SR} \times \text{MaxPF}$$

ITEM RM-W-8035—WORKERS COMPENSATION INSURANCE PLAN (WCIP) LOSS SENSITIVE RATING PLAN (LSRP) BASIC MANUAL RULE 4-C ENHANCEMENT

EXHIBIT 1 (CONT'D)
BASIC MANUAL—2001 EDITION
RULE 4—WORKERS COMPENSATION INSURANCE PLAN RULES

9. LSRP Valuation**a. General Information**

LSRP policies are subject to a first valuation with three subsequent valuations for a maximum of four valuations. The valuations adjust LSRP standard premium to reflect the actual experience of the employer. The result of the actual experience may be additional premium, return premium, or no change to the estimated premium. Refer to the User's Guide for examples.

b. Timing and Reporting of Valuations

- (1) LSRP valuations and resulting premium adjustments must be based on losses valued at 18, 30, 42, and 54 months after the month in which the policy became effective in accordance with the applicable statistical plan.
- (2) For policies in effect for less than 12 months, the first LSRP valuation must be calculated as soon as practical based on losses valued six months after the WCIP policy(ies) expiration. Three additional LSRP valuations must be calculated at 30, 42, and 54 months after the month in which the policy(ies) became effective in accordance with the applicable statistical plan. Refer to Rule 4-C-9-e for information about off-cycle valuations.
- (3) Reporting subsequent valuations must occur in accordance with the applicable statistical plan reporting requirements for open, closed, and/or reopened claims.

c. Formula

The LSRP formula is designed to allow for a premium that is not less than the LSRP minimum premium or more than the LSRP maximum premium in accordance with Rules 4-C-5-c(9) and (11). The formula is:

LSRP (Additional/Return) Premium = {[(SP x BPF) + (ICL x LCF) + (SP x LDF x LCF)] x TM} – SP

d. Calculation of LSRP (Additional/Return) Premium

- (1) LSRP (additional/return) premium is calculated by the assigned carrier.
- (2) The data used must be reported in accordance with the applicable statistical plan.
- (3) LSRP (additional/return) premium adjustments are calculated as soon as practical.
- (4) A maximum of four valuations are calculated to determine the LSRP (additional/return) premium per policy period.

e. Off-Cycle Valuation of LSRP (Additional/Return) Premium

- (1) In certain circumstances, the assigned carrier may perform an off-cycle (early) valuation to determine LSRP (additional/return) premium. Such cases include, but are not limited to cancellation of the policy; and/or the employer's:
 - Noncompliance with policy terms and conditions
 - Bankruptcy
 - Default on premium
 - Involvement in any liquidation, reorganization, or receivership
 - Disposal of all, or substantially all, of its assets
- (2) The employer or the bankruptcy estate, if applicable, is responsible for any additional premium due as a result of any off-cycle valuations or other applicable remaining valuations.

ITEM RM-W-8035—WORKERS COMPENSATION INSURANCE PLAN (WCIP) LOSS SENSITIVE RATING PLAN (LSRP) BASIC MANUAL RULE 4-C ENHANCEMENT

EXHIBIT 1 (CONT'D)
 BASIC MANUAL—2001 EDITION
 RULE 4—WORKERS COMPENSATION INSURANCE PLAN RULES

(3) Reporting of off-cycle valuations must be in accordance with the applicable statistical plan.

f. Treatment of Incurred Losses in Valuation Calculation

For purposes of calculating LSRP (additional/return) premium, certain losses associated with classifications or rating and/or pricing programs are treated in accordance with the Loss Treatment Table.

Loss Treatment Table

<u>Program or Loss Type</u>	<u>Treatment</u>
<u>Losses associated with aircraft passenger seat surcharge reported under Code 9108</u>	<u>Exclude losses</u>
<u>Deductible programs</u>	<u>Include all losses at the net amount, regardless of net/gross reporting</u>
<u>Federal Coal Mine Safety and Health Act</u>	<u>Exclude the disease-related portion of losses covered under the Act</u>
<u>Catastrophe provisions in accordance with Rule 3-A-24</u>	<u>Exclude losses</u>
<u>Any other losses where premium is non-ratable</u>	<u>Exclude losses</u>

10. Application of LSRP (Additional/Return) Premium

Application of LSRP (additional/return) premium is determined in accordance with the tables below. LSRP contingency deposits are typically held until the fourth or final valuation.

First and/or Subsequent Valuations Table

<u>If the first and/or a subsequent valuation results in ...</u>	<u>Then ...</u>
<u>Additional premium due to the assigned carrier</u>	<ul style="list-style-type: none"> • <u>The assigned carrier must:</u> <ul style="list-style-type: none"> • <u>Bill the employer for additional LSRP premium due, and</u> • <u>Hold the LSRP contingency deposit until the fourth or final valuation</u> • <u>Payment must be postmarked or submitted electronically on or before 30 days from the date of billing or earlier, if required by state law</u> • <u>If the employer is noncompliant for nonpayment, any existing WCIP policy may be cancelled; the employer will no longer be eligible in good faith for coverage under the WCIP</u>
<u>Return premium due to the employer</u>	<p><u>The assigned carrier must:</u></p> <ul style="list-style-type: none"> • <u>Return the LSRP premium due, and</u> • <u>Hold the LSRP contingency deposit until the fourth or final valuation, subject to earlier return</u>

EXHIBIT 1 (CONT'D)
BASIC MANUAL—2001 EDITION
RULE 4—WORKERS COMPENSATION INSURANCE PLAN RULES
First and/or Subsequent Valuations Table (Cont'd)

<u>If the first and/or a subsequent valuation results in ...</u>	<u>Then ...</u>
	<p>based on sound underwriting judgment except for all professional employer organizations and temporary arrangements policies; the file must be documented with sufficient level of detail when an early return of the contingency deposit is made, and</p> <ul style="list-style-type: none"> • Provide the employer with a billing statement, including a reason for the return.

Fourth and/or Final Valuation Table

<u>If the fourth and/or final valuation results in ...</u>	<u>Then ...</u>
<u>Additional premium due to the assigned carrier</u>	<ul style="list-style-type: none"> • The assigned carrier: <ul style="list-style-type: none"> • <u>Must bill the employer for additional LSRP premium due</u> • <u>May offset the additional LSRP premium with the LSRP contingency deposit if the employer requests that contingency deposit funds or an Irrevocable Letter of Credit originally provided be applied</u> • <u>Payment must be postmarked or submitted electronically on or before 30 days from the date of billing or earlier, if required by state law</u> • <u>If the employer is noncompliant for nonpayment, any existing WCIP policy may be cancelled; the employer will no longer be eligible in good faith for coverage under the WCIP</u>
<u>Return premium due to the employer</u>	<p>Within 10 days after the valuation, the assigned carrier must:</p> <ul style="list-style-type: none"> • <u>Return the LSRP premium due and LSRP contingency deposit, if any</u> • <u>Provide the employer with a billing statement, including a reason for the return</u>
<u>No premium due to the assigned carrier or employer</u>	<p>Within 10 days after the valuation, the assigned carrier must:</p> <ul style="list-style-type: none"> • <u>Return the LSRP contingency deposit, if any</u> • <u>Provide the employer with a billing statement</u>

EXHIBIT 1 (CONT'D)
BASIC MANUAL—2001 EDITION
RULE 4—WORKERS COMPENSATION INSURANCE PLAN RULES

11. Professional Employer Organizations (PEO) and Temporary Arrangements

a. General Information

- (1) LSRP is a mandatory assigned risk retrospective rating plan for those professional employer organizations (PEO) and its individual clients and temporary arrangement employers that have a qualifying workers compensation and employers liability insurance policy(ies) through the Workers Compensation Insurance Plans (WCIP).
- (2) Unless otherwise specified, Rules 4-C-1 through 10 apply to PEO, individual client, and temporary arrangement WCIP policies.

b. Definitions

(1) Client

Client is defined in accordance with Rule 4-B-1-b or other applicable state rules. For purposes of LSRP, clients are referred to as individual clients when used in conjunction with multiple coordinated policies.

(2) Master Policy

A WCIP policy issued to the PEO which covers the leased employees of the client companies that may be listed on the policy. Refer to applicable state rules and laws for the state-specific definition.

(3) Multiple Coordinated Policies (MCP) Basis

WCIP policies written in accordance with Rule 4-B-1-h or other applicable state rules.

(4) Professional Employer Organizations (PEO) and PEO Arrangement

PEO is defined in accordance with Rule 4-B-1-j or other applicable state rules; PEO arrangement is defined in accordance with Rule 4-B-1-k or other applicable state rules.

(5) Temporary Arrangement

Temporary arrangement is defined in accordance with Rule 4-B-1-m or other applicable state rules.

c. Eligibility

- (1) Eligibility for LSRP for PEOs, its individual clients, and temporary arrangement employers is determined in accordance with the Eligibility Tables below. Refer to Rule 4-C-5-c(12) for the definition of LSRP standard premium.

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EXHIBIT 1 (CONT'D)
 BASIC MANUAL—2001 EDITION
 RULE 4—WORKERS COMPENSATION INSURANCE PLAN RULES

Eligibility Table 1

<u>If a single-state employer has operations in...</u>	<u>Then ...</u>
<ul style="list-style-type: none"> • <u>One LSRP-approved state, and</u> • <u>Has a single-state WCIP policy covering such operations in the state</u> 	<p>The single-state WCIP policy must meet or exceed LSRP standard premium of \$200,000</p>
<ul style="list-style-type: none"> • <u>One LSRP-approved state, and</u> • <u>Has two or more WCIP policies covering such operations in the state, and</u> • <u>The two or more policies are written by the same assigned carrier</u> 	<p>The combined LSRP standard premium of all policies written by the same assigned carrier must meet or exceed \$200,000</p>

Eligibility Table 2

<u>If a multistate employer has operations in ...</u>	<u>Then ...</u>
<ul style="list-style-type: none"> • <u>Two or more LSRP-approved states, and</u> • <u>Has one multistate WCIP policy covering such operations in those states</u> 	<p>The combined LSRP standard premium of all states on the policy must meet or exceed:</p> <ul style="list-style-type: none"> • <u>\$200,000, or</u> • <u>The premium eligibility requirement for the LSRP state generating the largest LSRP standard premium if such state's eligibility requirement is less than \$200,000</u>
<ul style="list-style-type: none"> • <u>Two or more LSRP-approved states, and</u> • <u>Has multiple WCIP policies covering such operations in those states, and</u> • <u>The two or more policies are written by the same assigned carrier</u> 	<p>The combined LSRP standard premium of all policies written by the same assigned carrier must meet or exceed:</p> <ul style="list-style-type: none"> • <u>\$200,000, or</u> • <u>The premium eligibility requirement for the LSRP state generating the largest LSRP standard premium if such state's eligibility requirement is less than \$200,000</u>

- (2) It may not always be possible for a single carrier to provide coverage for all requested states; additional policies issued by more than one carrier may be necessary. Refer to Rule 4-C-5-b(3) for more information about policy issuance and corresponding deposits.
- (3) WCIP policies issued in non-LSRP-approved jurisdictions are not subject to LSRP and are not combinable with WCIP policies in LSRP-approved jurisdictions for eligibility purposes.
- (4) LSRP eligibility may be impacted by ownership or combinability status in accordance with NCCI's **Experience Rating Plan Manual**.
- (5) LSRP standard premium is determined in accordance with Rule 4-C-5-c(12); however, the policy type/type of arrangement must be considered when determining LSRP standard premium as referenced in the Arrangement Type Eligibility Table below.

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EXHIBIT 1 (CONT'D)
 BASIC MANUAL—2001 EDITION
 RULE 4—WORKERS COMPENSATION INSURANCE PLAN RULES

Arrangement Type Eligibility Table

<u>Policy Type/Type of Arrangement</u>	<u>LSRP eligibility is determined ...</u>
<u>PEO master policy</u>	<u>Using LSRP standard premium for the entire master policy (PEO and clients)</u>
<u>PEO multiple coordinated policy (MCP)</u>	<ul style="list-style-type: none"> • <u>For PEOs (excluding clients), using LSRP standard premium of any PEO policy written in accordance with Rule 4-B-4-b(2) or other applicable state-specific WCIP MCP rule</u> • <u>For individual clients of PEOs, using LSRP standard premium separately for each individual client PEO policy written in accordance with Rule 4-B-4-b(1) or other applicable state-specific WCIP MCP rule</u>
<u>Temporary Arrangement</u>	<u>Using LSRP standard premium for the entire temporary arrangement policy</u>

d. Deposit/Initial Premium and LSRP Contingency Deposits

Deposit and initial premium and LSRP contingency deposits are applied in accordance with Rules 4-C-5-b and 4-C-10.

e. Application of LSRP

PEO arrangement and temporary arrangement policies are subject to Rule 4-C-5-c(12). If the LSRP eligibility threshold is met at any time then:

- LSRP is applied retroactively to policy inception
- An LSRP contingency deposit is required to be paid within 30 days of the assigned carrier issuing notice of the application of LSRP
- Valuations are calculated in accordance with Rule 4-C-9
- The assigned carrier **must** hold the LSRP contingency deposit until the fourth or final valuation is completed

**EXHIBIT 2-A
BASIC MANUAL—2001 EDITION
NORTH CAROLINA STATE RULE EXCEPTIONS
RULE 4—WORKERS COMPENSATION INSURANCE PLAN RULES
C. LOSS SENSITIVE RATING PLAN
5. LSRP Definitions
b. Deposits**

(1) Deposit or Initial Premium

Change Rule 4-C-5-b(1) as follows:

For purposes of LSRP, deposit or initial premium is paid on all new and renewal WCIP policies, including LSRP policies, in accordance with the WCIP. On LSRP policies, it is paid in addition to the LSRP contingency deposit as detailed below and in Rule 4-C-6-c. For more information about all payment methods, refer to www.ncrb.org.

EXHIBIT 2-B
BASIC MANUAL—2001 EDITION
NORTH CAROLINA STATE RULE EXCEPTIONS
RULE 4—WORKERS COMPENSATION INSURANCE PLAN RULES
C. LOSS SENSITIVE RATING PLAN
6. General Explanations
b. Application of LSRP

(2) Assigned Risk Policyholder Notices

Add the following to Rule 4-C-6-b(2):

(c) **ACORD® 135 NC Application**

The ACORD® 135 NC application will include the following language above the signature of the employer:

“By signing below I acknowledge that the loss sensitive rating plan, if applicable, has been explained to me by my agent. I agree that I shall be bound by the terms of such plan if my estimated annual premium or preliminary physical audit premium meets or exceeds the premium eligibility requirement.”

ITEM RM-W-8035—WORKERS COMPENSATION INSURANCE PLAN (WCIP) LOSS SENSITIVE RATING PLAN (LSRP) BASIC MANUAL RULE 4-C ENHANCEMENT

EXHIBIT 3-A
BASIC MANUAL—2001 EDITION
RULE-4 WORKERS COMPENSATION INSURANCE PLAN RULES

C. ~~LOSS SENSITIVE RATING PLAN~~

1. ~~Introduction to the Loss Sensitive Rating Plan~~

- a. ~~The purpose of the mandatory Loss Sensitive Rating Plan (LSRP) is to provide an assigned risk retrospective rating plan for those employers that have a workers compensation and employers liability insurance policy(s) through the Workers Compensation Insurance Plan (WCIP) with a standard premium that equals or exceeds \$200,000.~~
- b. ~~The LSRP is designed to:~~
 - ~~Encourage safety and loss prevention~~
 - ~~Depopulate the residual market~~
 - ~~Provide incentives for employers with favorable loss experience through lower premiums~~
 - ~~Provide a disincentive for employers with unfavorable loss experience through higher premiums~~
- c. ~~The rules in this section apply only in those states that have approved the LSRP.~~
- d. ~~The elements of the LSRP and how premium is determined are defined in Rule 4 C 2.~~

2. ~~LSRP Definitions~~

a. ~~Anniversary Rating Date~~

(1) ~~Single Policy~~

~~The application of the LSRP for a single WCIP policy is based upon policy effective date, not anniversary rating date.~~

(2) ~~Multiple Policy~~

~~To determine the application of the LSRP for multiple WCIP policies, refer to Rule 3 A 2.~~

b. ~~Assigned Carrier~~

~~An insurer assigned to provide coverage to an employer who has applied for and is good faith eligible for workers compensation insurance under the Plan. An assigned carrier can either be defined as one of the following:~~

- ~~**Servicing Carrier**—An insurer authorized by the regulatory authority to receive Plan assignments and provide coverage to eligible employers on behalf of those participating companies subscribing to the Association Bylaws incorporated as part of the WCIP, or~~
- ~~**Direct Assignment Carrier**—An insurer that has elected and has been authorized by the regulatory authority to receive assignments under Option 1 of Rule 4 A 5 of the WCIP, directly from the Plan Administrator without reinsurance through the Reinsurance Agreement(s). Insurers selecting the direct assignment option will be solely responsible for the financial results of the assignments they received.~~

~~Assigned carrier references throughout the Plan mean direct assignment carriers and servicing carriers. If a carrier is specifically referenced as either direct assignment carrier or servicing carrier, the language is exclusive of that carrier's status.~~

ITEM RM-W-8035—WORKERS COMPENSATION INSURANCE PLAN (WCIP) LOSS SENSITIVE RATING PLAN (LSRP) BASIC MANUAL RULE 4-C ENHANCEMENT

**EXHIBIT 3-A (CONT'D)
BASIC MANUAL—2001 EDITION
RULE 4 WORKERS COMPENSATION INSURANCE PLAN RULES****c. ~~Deposit Premium~~**

~~The deposit premium is the minimum premium amount that is required to be paid at the time of application or upon policy renewal. Under the LSRP, deposit premium consists of the WCIP initial or deposit premium and the LSRP contingency deposit premium.~~

~~WCIP Initial or Deposit Premium~~

~~The employer or its representative must submit the total appropriate WCIP initial or deposit premium to the Plan Administrator at the time of application or the assigned carrier at time of renewal. The WCIP initial or deposit premium is calculated by multiplying the total estimated annual premium by the required deposit premium percentage in accordance with the individual State Rule Exception pages of NCCI's *Basic Manual* or the ACORD® State Instruction Pages, available on ncci.com.~~

~~LSRP Contingency Deposit Premium~~

~~In addition to the WCIP initial or deposit premium, employers qualifying for the LSRP are required to submit an LSRP contingency deposit premium. The LSRP contingency deposit premium is calculated by multiplying the standard premium by 20%. The contingency deposit premium is intended to collateralize premium that may be due to the assigned carrier as a result of losses incurred during the policy term. The LSRP contingency deposit premium may also be paid for with an irrevocable letter of credit. Refer to Rule 4 C 4 b.~~

d. ~~Elements of the LSRP~~**~~Basic Premium Factor~~**

~~The basic premium factor is a fixed factor of .30, which includes insurance carrier expenses such as those for servicing the insured's account, loss prevention services, premium audit, and general administration of the insurance. The basic premium factor does not cover premium taxes or claim adjustment expenses. These elements are usually provided for in the tax multiplier and the loss conversion factor. Basic premium is determined by multiplying the standard premium by the basic premium factor.~~

~~Converted Losses~~

~~A loss conversion factor is applied to actual losses that are incurred during the LSRP policy(s) period to determine the converted losses.~~

~~Individual Loss Limitations~~

~~There are no individual loss limitations under the mandatory LSRP.~~

~~Loss Conversion Factor~~

~~This factor varies by state and covers claim adjustment expenses and the cost of the insurance carrier's claim services, such as investigation of claims and filing claim reports.~~

~~Loss Development Factor~~

~~This factor varies by state and stabilizes premium adjustments for the insured subject to the LSRP. The LSRP loss development factor anticipates a pattern of increasing valuation of losses after the policy is expired. The loss development factor is included in the first three adjustments of the LSRP premium.~~

~~Maximum Premium~~

~~The maximum premium is determined by multiplying the standard premium by the maximum premium factor. The maximum premium factor is a fixed factor of 1.75. This is the greatest~~

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~~amount of premium that may be paid by an employer subject to the LSRP. It places a limit on the impact of incurred losses on the LSRP premium.~~

~~• Minimum Premium~~

~~The minimum premium is determined by multiplying the standard premium by the minimum premium factor. The minimum premium factor is a fixed factor of .75. This is the minimum amount of premium that may be paid by an employer subject to the LSRP.~~

~~• Tax Multiplier~~

~~The tax multiplier varies by state and covers licenses, fees, assessments, and taxes that the insurance carrier must pay on the premium it collects. The appropriate factors for these elements can be found in the individual state assigned risk miscellaneous values pages in NCCI's *Basic Manual*.~~

~~e. Incurred Losses~~

~~Incurred losses include paid, outstanding, and any reserves set on open losses. They are used in the rating formula for determining premium under the LSRP for those losses reported under the rules of NCCI's *Statistical Plan*.~~

~~f. Standard Premium~~

~~For the purpose of the LSRP, standard premium is determined on the basis of authorized rates, any experience rating modification, ARAP, SARAP, assigned risk surcharge programs other than the LSRP, and minimum premiums. Determination of standard premium must exclude:~~

- ~~• Premium discount~~
- ~~• Expense constant~~
- ~~• Premium resulting from the nonratable element codes~~
- ~~• Premium developed by the passenger seat surcharge under Code 7421—Aircraft Operation—Flying Crew~~
- ~~• Premium developed by the occupational disease rates for employers subject to the Federal Coal Mine Health and Safety Act~~
- ~~• Premium developed by catastrophe provisions as outlined in *Rule 3-A-24* of NCCI's *Basic Manual*~~

~~Standard premium as referenced throughout these rules means estimated annual standard premium and includes preliminary physical audited premium and final audited premium. If a premium is specifically referenced as either estimated annual standard premium, preliminary physical audited premium, or final audited premium, the language is exclusive to that type of premium's definition.~~

~~3. General Explanations~~**~~a. Scope of the LSRP~~**

- ~~(1) LSRP eligibility is established at \$200,000 in standard premium because employers of this size are expected to have a sufficient number of claims to allow loss prevention services to be effective.~~
- ~~(2) The LSRP adjusts the premium for an employer's WCIP policy(s) on the basis of losses incurred during the period covered by a particular policy term. The intent is to charge~~

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~~or return premium that closely reflects the actual experience of the employer, based on the employer's loss history.~~

- (3) ~~The LSRP uses the losses incurred during the term of the policy to establish the cost of insurance and includes provisions for all expenses and taxes on premium.~~

b. ~~Application of LSRP~~

(1) ~~Employers With a Single WCIP Policy~~

~~Each LSRP policy term, the employer:~~

- ~~• Must meet the premium eligibility threshold for the LSRP~~
- ~~• Will be required to submit a separate WCIP initial or deposit premium and the LSRP contingency deposit premium~~

(2) ~~Employers With More Than One WCIP Policy in a Single State~~

~~Employers submitting separate applications or receiving separate policies in the WCIP that share common majority ownership as defined in NCCI's **Experience Rating Plan Manual** will be assigned to the same assigned carrier, whenever possible. When this occurs:~~

- ~~• The total standard premium for all WCIP policies will be combined to determine the eligibility for the LSRP~~
- ~~• Each single WCIP application or policy will require a separate WCIP initial or deposit premium~~
- ~~• All WCIP policies of an employer will be combined to determine a single LSRP contingency deposit premium~~

(3) ~~Employers Operating in More Than One State~~

~~The LSRP is designed to accommodate the large assigned risk employer when that employer has operations in several states. Refer to the **Basic Manual User's Guide** for a listing of states that have approved the LSRP. The LSRP provides for a multistate policy when separate applications or policies in the WCIP share common majority ownership as defined in NCCI's **Experience Rating Plan Manual**. The assignment will be made to the same assigned carrier, whenever possible. When this occurs:~~

- ~~• The assigned carrier will issue a guaranteed cost policy(s) for state(s) where the LSRP has not been approved~~
- ~~• The total standard premium of all states that have approved the LSRP must meet the premium eligibility requirement for the LSRP state generating the largest standard premium~~
- ~~• All WCIP policies of an employer will be combined to determine a single LSRP contingency deposit premium~~
- ~~• Each single WCIP application or policy will require a separate WCIP initial or deposit premium~~

~~It may not always be possible for a single carrier to provide coverage for all requested states; additional policies may be necessary.~~

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~~4. Treatment of LSRP During the Policy~~

~~a. Changes in Standard Premium~~

~~The LSRP may be applied to a policy or a policy can be converted to a guaranteed cost policy during the policy term under the following conditions:~~

~~Application of LSRP During the Policy Term Table 1~~

If the standard premium . . .	Then . . .
Decreases during the first 120 days and falls below the LSRP premium eligibility threshold	<ul style="list-style-type: none"> The policy is converted to a guaranteed cost policy, retroactive to policy inception LSRP contingency deposit premium will be returned
Increases during the first 120 days and meets the LSRP premium eligibility threshold	<ul style="list-style-type: none"> The LSRP is applied retroactive to policy inception The LSRP contingency deposit premium will be required within 30 days of the assigned carrier issuing notice of the application of LSRP
Decreases after the first 120 days and falls below the LSRP premium eligibility threshold	The LSRP continues to be applied to the policy(s)
Increases after the first 120 days and meets the LSRP premium eligibility threshold	<ul style="list-style-type: none"> The policy(s) will remain a guaranteed cost policy(s) The LSRP will be applied at renewal, subject to meeting the eligibility requirements on the renewal policy(s)

~~Note: Any action as outlined in Rule 4 C 6 will result in the application of the LSRP from policy inception. Refer to Rule 4 C 9 for treatment of professional employer organizations and temporary arrangements.~~

~~Application of LSRP During the Policy Term Table 2~~

If an employer with a LSRP policy(s) obtains coverage in the voluntary market . . .	Then . . .
Within the first 120 days of the policy term	<ul style="list-style-type: none"> The policy is converted to a guaranteed cost policy, retroactive to policy inception The policy will be cancelled pro rata The LSRP contingency deposit premium and any unearned premium will be returned
After the first 120 days	<ul style="list-style-type: none"> The policy will be cancelled pro rata The first valuation will be completed as soon as practical The assigned carrier must hold the LSRP contingency deposit premium until the final valuation is completed

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~~b. LSRP Contingency Deposit Premium Procedures~~

~~(1) LSRP Contingency Deposit Premium Submission Methods~~

~~The employer must pay the LSRP contingency deposit premium to the assigned carrier. Nonpayment of the LSRP contingency deposit premium will result in cancellation of the WCIP policy according to the Plan rules, state law, or assigned carrier performance standards, whichever is more restrictive and in good faith be ineligible for coverage in the residual market. The methods approved by the Plan Administrator in which employers may submit the LSRP contingency deposit premium are as follows:~~

~~(a) Deposit by Check~~

~~A deposit paid by check may be provided as collateral for the LSRP contingency deposit premium as long as the check is made payable to the assigned carrier. Refer to *Rule 4-C-2-b* for procedures for determining the appropriate LSRP contingency deposit premium.~~

~~(b) Irrevocable Letter of Credit (ILOC)~~

~~When the ILOC is provided as collateral for the LSRP contingency deposit premium in lieu of a check deposit, it must meet the following conditions:~~

- ~~• Must be drawn on a Federal Reserve Bank~~
- ~~• Must be acceptable, clean, unconditional, and irrevocable~~
- ~~• The name must be the same as the named insured on the policy~~
- ~~• The assigned carrier must be named as beneficiary~~
- ~~• Must contain a provision where the assigned carrier is notified by the issuing bank of any alteration, modification, amendment, or waiver of terms and conditions~~
- ~~• Must not be assignable or transferable~~
- ~~• Must have an automatic renewal clause for up to four years per LSRP policy period~~

~~Failure by the employer to obtain an ILOC as outlined in *Rule 4-C-4-b(2)* and (3), will require the employer to tender a check made payable to the assigned carrier within 10 days of the employer informing the assigned carrier that an ILOC could not be obtained.~~

~~(2) New Application/Binder Submission Method~~

- ~~• Once the employer is determined to be eligible for coverage under the WCIP, a binder will be issued subject to payment to the assigned carrier of the LSRP contingency deposit. Refer to *Rule 4-A-3-i*.~~
- ~~• If the employer is determined to be eligible, the binder will specify the appropriate LSRP contingency deposit premium.~~
- ~~• The employer must submit the 20% LSRP contingency deposit premium to the assigned carrier, using one of the submission methods outlined in *Rule 4-C-4-b(1)*.~~
- ~~• The 20% LSRP contingency deposit premium must be paid with funds that have cleared through the federal banking system to the assigned carrier within 30 days of the issue date of the binder. If for any reason the funds provided are insufficient or are not received by the assigned carrier, the employer may be considered ineligible for coverage under the WCIP and the binder may be revoked or cancelled as applicable under state law.~~

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- ~~When the employer is unable to obtain an ILOC and has notified the assigned carrier, the LSRP contingency deposit premium must still be paid to the assigned carrier **within** 30 days of the issue date of the binder. Refer to Rule 4 A 4 a(4).~~

(3) ~~Renewal of Coverage~~

- ~~The renewal notice will include any required LSRP contingency deposit premium.~~
- ~~The LSRP contingency deposit premium must be paid to the assigned carrier with funds that have cleared through the federal banking system **before** expiration of the current policy in order for coverage to be renewed, without any gap in coverage.~~
- ~~When the employer is unable to obtain an ILOC and has notified the assigned carrier, the LSRP contingency deposit premium must still be paid to the assigned carrier before expiration of the current policy to avoid any gap in coverage. Refer to Rule 4 A 4 a(4).~~

5. ~~WCIP Policy Premium Elements /Programs~~

- a. ~~Any applicable WCIP premium pricing program approved by the state, and included in the calculation of standard premium, is included when determining an employer's eligibility for the LSRP. See the **Basic Manual User's Guide** for a listing of states' WCIP pricing programs.~~
- b. ~~Below is a list of premium elements/programs in the order they appear on the states' WCIP premium algorithm and how they relate to the LSRP policy. Refer to the individual state Assigned Risk Workers Compensation Premium Algorithms for information on the application of additional premium elements.~~

Premium Elements / Programs	Application
Increased Limits	If the policy includes increased limits for employers liability, such premium and incurred losses are subject to the LSRP.
Aircraft Classification	If the policy includes any of the aircraft classifications, the premium and losses for such classifications, including passenger seat surcharge, under Code 7421 Aircraft Operations Flying Crew, must be excluded in the determination of the LSRP.
Deductible Program	If available, deductible credits may be applied to the LSRP policy. However, the applicable credit, if applied, is excluded when determining LSRP eligibility.
Premium Discount	In those states with a premium discount program, the premium discount will not be applied to the LSRP policy.
Exclusion of Statutory Medical Benefits (Ex Medical Coverage)	Policies written on an ex medical basis are subject to the LSRP where the LSRP has been approved.
Wrap Up Construction Projects	Wrap up construction projects are subject to the LSRP.

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Premium Elements / Programs	Application
Terrorism	The application of Terrorism premium is mandatory for all WCIP policies. It is excluded when determining an employer's eligibility for the LSRP. Additionally, any related losses are not included in any of the LSRP valuations.
Catastrophe (other than Certified Acts of Terrorism)	The application of Catastrophe (other than Certified Acts of Terrorism) premium is mandatory for all WCIP policies. The Catastrophe (other than Certified Acts of Terrorism) premium is excluded when determining an employer's eligibility for the LSRP. Additionally, any related losses are not included in any of the LSRP valuations.

~~6. Evasion of the Loss Sensitive Rating Plan~~

~~Some employers may take actions for the purpose of avoiding the application of the LSRP. Other employers may take actions for otherwise legitimate business reasons that nonetheless result in the improper application of LSRP. Regardless of intent, any action that results in the miscalculation or misapplication of the LSRP determined in accordance with these LSRP rules is prohibited. These actions include, but are not limited to:~~

- ~~• Misrepresentation and/or miscalculation of payroll at application, audit or renewal~~
- ~~• Failure to report changes in ownership or ownership information according to the WCIP and NCCI's **Experience Rating Plan Manual**~~
- ~~• Violation of any of the terms and conditions under the policy for which this insurance was issued~~
- ~~• Failure to allow the assigned carrier or NCCI reasonable access to facilities or files and records for audit or inspection~~
- ~~• Failure to disclose to the assigned carrier or NCCI the full nature and scope of the employer's exposure or business operations~~

~~7. Operation of the Loss Sensitive Rating Plan~~

~~a. Calculating the LSRP Premium~~

~~The LSRP premium is to be calculated as soon as practicable based upon losses valued six months after the WCIP policy(s) expiration. The data used in the LSRP calculation must be the same data that is reported under the rules of NCCI's **Statistical Plan**. In certain cases, the assigned carrier may make an early calculation of the LSRP premium. Such cases include, but are not limited to:~~

- ~~• Cancellation of policy(s) as outlined in *Rule 4-C-11*~~
- ~~• Bankruptcy~~
- ~~• Liquidation, reorganization, or receivership~~

~~b. LSRP Formula~~

~~The LSRP premium for an employer subject to this program is determined by the following formula:~~

$$\text{--}[(SP \times BPF) + (IL \times LCF) + (SP \times LDF \times LCF)] \times TM$$

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Where . . .	Equals . . .
SP	Standard Premium
BPF	Basic Premium Factor
IL	Incurred Losses
LCF	Loss Conversion Factor
LDF	Loss Development Factor
TM	Tax Multiplier

~~The LSRP is designed to allow for a premium that is not less than the LSRP minimum premium or more than the LSRP maximum premium as outlined in *Rule 4 C 2 c.*~~

8. ~~Assigned Carrier Responsibilities~~

a. ~~General Duties~~

~~It is the responsibility of the assigned carrier to administer the LSRP by:~~

- ~~• Administering, managing, and enforcing the LSRP subject to the provisions contained herein~~
- ~~• Providing the employer with a full explanation and potential impact of the LSRP at policy issuance~~
- ~~• Completing a preliminary physical audit within 90 days of policy effective date or receipt of assignment, whichever is later, for all employers qualifying for the LSRP (refer to NCCI's **Assigned Risk Supplement** for any state exceptions to the Assigned Carrier Performance Standards)~~
- ~~• Indicating on all renewal quotations to employers with premium of \$150,000 or more that payment of the renewal deposit constitutes knowledge and acceptance of the possible application of the LSRP to the policy(s)~~
- ~~• Attaching the LSRP Endorsement(s) to the policy(s)~~
- ~~• Making the required LSRP calculations in accordance with *Rule 4 C 12*~~
- ~~• Collecting or returning any LSRP premium or LSRP contingency deposit premium in a timely manner~~
- ~~• Reporting the data for the LSRP to NCCI in accordance with the reporting requirements listed in NCCI's **Servicing Carrier Reference Guide**~~

b. ~~Bankruptcy of the Employer~~

~~When an assigned carrier is notified that the employer has declared bankruptcy, the assigned carrier must file for Proof of Claim. In addition, the assigned carrier may make a special adjustment for the purpose of calculating the LSRP premium to determine if additional or return premium is due when the employer:~~

- ~~• Has declared bankruptcy~~
- ~~• Has defaulted on its premium~~
- ~~• Is involved in any reorganization, receivership, or liquidation~~
- ~~• Disposes of all, or substantially all, of its assets~~

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~~The employer or the bankruptcy estate, if applicable, will be responsible for any additional premium due to this special adjustment in accordance with Rule 4 C 12.~~

9. Professional Employer Organization (PEO) Arrangements and Temporary Arrangements

~~There are separate rules for the application of the LSRP to PEO and temporary arrangements due to the fluctuation in the exposures of these types of operations.~~

a. Procedures

(1) Application of the LSRP at Time of Application

~~PEO arrangements and their clients are eligible for the application of the LSRP. However, the method in which they qualify depends on the type of PEO arrangement approved in the LSRP state by the regulatory authority. The following table provides how LSRP eligibility is determined for PEO and temporary arrangements.~~

If the arrangement is covered under a . . .	Then eligibility for the LSRP will be . . .
Master Policy	Based upon the standard premium for the entire master policy (PEO and clients)
Multiple Coordinated Policy	<ul style="list-style-type: none"> • For Clients—Determined separately by each individual client. • For PEOs—Based upon the standard premium for the PEO's direct employees
Temporary Arrangement	Based upon the standard premium for the entire temporary arrangement policy

(2) Application of the LSRP During the Policy Term

If the arrangement is covered . . .	Then the LSRP will be applied . . .
Under a master policy, and at any time during the policy period the master policy meets the eligibility threshold	Retroactive to policy inception, and the LSRP contingency deposit premium will be due to the assigned carrier within 30 days of the application of the LSRP
Under a multiple coordinated policy basis for the PEO's direct employees, and at any time during the policy period the multiple coordinated policy meets the eligibility threshold	To the PEO's policy retroactive to policy inception, and the LSRP contingency deposit premium will be due to the assigned carrier within 30 days of the application of the LSRP

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If the arrangement is covered . . .	Then the LSRP will be applied . . .
Under a multiple coordinated policy, and a client individually meets the eligibility threshold during the policy period at any time	To the individual client's policy(s) retroactive to policy inception, and the LSRP contingency deposit premium will be due to the assigned carrier within 30 days of the application of the LSRP
Under a temporary arrangement, and at any time during the policy period the temporary arrangement meets the eligibility threshold	To the policy retroactive to policy inception, and the LSRP contingency deposit premium will be due to the assigned carrier within 30 days of the application of the LSRP

~~Refer to Rule 4 B 1 for definition of PEO and Temporary Arrangement.~~

10. ~~LSRP Notifications~~

a. ~~Assigned Risk Policyholder Notices~~

(1) ~~ACORD® 133 Application~~

~~The ACORD® 133 application will include the following language immediately above the signature of the employer:~~

~~“By signing below, I acknowledge that the Loss Sensitive Rating Plan (LSRP) has been explained to me, and I agree to be bound by the terms of such plan if my standard premium meets or exceeds the premium eligibility requirement. If these conditions are met, an additional LSRP contingency deposit premium equal to 20% of standard premium will be required.”~~

(2) ~~WCIP Binder~~

~~A notice will be included on all Binder Notification pages for states that have approved the LSRP. The notice will state the following:~~

~~“Coverage is being bound subject to your signed statement on the application acknowledging and agreeing to the terms of the Loss Sensitive Rating Plan (LSRP). In the event that you meet the eligibility requirements of the LSRP, a LSRP contingent deposit premium equal to 20% of standard premium will be required.”~~

b. ~~Endorsements~~

~~The following endorsements are applied to new and renewal assigned risk policies in accordance with the LSRP rules.~~

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Endorsement	Purpose
WC 00 04 17 A—Assigned Risk Loss Sensitive Rating Plan Notification Endorsement	Ensures that all employers potentially qualifying for LSRP during the policy or upon renewal, if applicable are notified of the intent and details of the LSRP. All assigned carriers will be required to attach this endorsement to all new and renewal assigned risk policies. Refer to WC 00 04 23 for treatment of PEO's and Temporary Arrangements.
WC 00 04 23—Assigned Risk Loss Sensitive Rating Plan Notification Endorsement for Professional Employer Organization (PEO) and Temporary Arrangements	Ensures that all PEO and Temporary Arrangements potentially qualifying for LSRP are notified of the intent and details of the LSRP. All assigned carriers will be required to attach this endorsement to all new and renewal PEO and Temporary Arrangement assigned risk policies.
WC 00 04 18 D—Assigned Risk Loss Sensitive Rating Plan Endorsement	Attached to all new and renewal assigned risk policies meeting the eligibility threshold for LSRP. This endorsement advises employers meeting the eligibility threshold of the applicable LSRP factors and how LSRP premium will be calculated.

11. ~~Policy Cancellation~~

a. ~~Explanation~~

~~Cancellation provisions of the standard policy permit cancellation by the insured or the insurance carrier. The premium determination for a cancelled policy is referenced in *Rule 3 A 3*.~~

b. ~~Treatment of LSRP Premium~~

~~The first valuation of the LSRP may be completed earlier than six months of policy expiration, if practicable.~~

~~Refer to *Rule 4 C 12 b* for rules regarding the return premium on LSRP valuations.~~

c. ~~Cancellation Procedures~~

(1) ~~The LSRP policy will be cancelled pro rata in accordance with NCCI's *Basic Manual* rules when the policy is cancelled:~~

- ~~• By the insured when retiring from business as referenced in *Rule 3 A 3 b*~~
- ~~• By the assigned carrier for nonpayment of premium, and the employer is in noncompliance of the WCIP rules and procedures and is no longer in good faith eligible for coverage~~
- ~~• Because the insured leaves the residual market and has secured coverage in the voluntary market~~

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- (2) ~~The LSRP will be cancelled short rate in accordance with NCCI's **Basic Manual** rules when the policy is cancelled:~~
- ~~• By the assigned carrier for any reason **except** for nonpayment of premium, and the employer is in noncompliance of WCIP rules and procedures and is no longer in good faith eligible for coverage~~
 - ~~• By the insured for reasons other than retiring from business~~
- (3) ~~The assigned carrier must report noncompliance and any subsequent compliance to the Plan Administrator.~~
- (4) ~~For the purpose of this rule, a change in ownership that results in elimination of experience under the rules of NCCI's **Basic Manual** does not constitute retiring from business as referenced in *Rule 3-A-3-b*.~~

d. ~~Determining Minimum and Maximum Premium for Cancelled LSRP Policies~~

(1) ~~Pro Rata Cancellation~~

- ~~• Minimum premium is calculated in the following manner:
 $SP \times PRF \times MinPF$~~
- ~~• Maximum premium is calculated in the following manner:
 $SP \times PRF \times MaxPF$~~

Where . . .	Equals . . .
SP	Standard Premium
PRF	Pro Rata Factor
MinPF	Minimum Premium Factor
MaxPF	Maximum Premium Factor

(2) ~~Short Rate Cancellation~~

~~If the LSRP policy is cancelled on a short rate basis:~~

- ~~• Minimum premium is calculated in the following manner:
 $SP \times SR \times MinPF$~~
- ~~• Maximum premium is calculated in the following manner:
 $SP \times SR \times MaxPF$~~

Where . . .	Equals . . .
SP	Standard Premium
SR	Short Rate
MinPF	Minimum Premium Factor
MaxPF	Maximum Premium Factor

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12. ~~Valuation of the Loss Sensitive Rating Plan Premium~~

a. ~~Procedures~~

- ~~There will be a maximum of four valuations calculated to determine the LSRP premium per policy period.~~
- ~~Losses will be valued at month 18, 30, 42, 54, and adjustments will be calculated as soon as practicable.~~
- ~~The loss development factor is included in the first three adjustments of the LSRP premium and is not included in the fourth and/or final adjustment.~~
- ~~The valuations of premiums are to be calculated by the assigned carrier, using premium and loss data that has been reported according to NCCI's *Statistical Plan*.~~

b. ~~LSRP Valuation Tables~~

~~The assigned carrier must value the policy annually after the first valuation and subsequent valuations as needed (up to four valuations). The assigned carrier is not required to perform subsequent valuations if there are no open losses.~~

~~The assigned carrier should use sound underwriting judgement to determine whether to return the LSRP contingency deposit premium at first valuation or hold until further or final valuations.~~

~~The following tables provide procedures for the valuations.~~

(1) ~~First Valuation of the LSRP Premium:~~

If after the first valuation of the LSRP policy is completed and . . .	Then . . .
Additional premium is due	<ul style="list-style-type: none"> • The assigned carrier must notify the employer that additional LSRP premium is due • The premium will be due to the assigned carrier within 30 days of the notification to the employer
Return premium is due	<ul style="list-style-type: none"> • The assigned carrier will return the premium, but hold LSRP the contingency deposit until the fourth or final valuation • The assigned carrier will provide the employer with a reason for the return

(2) ~~Subsequent LSRP Valuations~~

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If subsequent valuations result in	Then
Additional premium	<ul style="list-style-type: none"> • The assigned carrier must notify the employer that additional LSRP premium is needed • The premium will be due to the carrier promptly within 30 days of the notification to the employer
Return premium	<ul style="list-style-type: none"> • The assigned carrier will return the premium, but hold the LSRP contingency deposit until the fourth or final valuation • The assigned carrier will provide the employer with a reason for the return

(3) ~~Final Valuation of the LSRP~~

If the fourth or final valuation results in	Then the premium
Additional premium	<ul style="list-style-type: none"> • Can be offset by the LSRP contingency deposit premium if cash was provided and the employer makes this request • May be offset by the assigned carrier with an Irrevocable Letter of Credit that was provided for the LSRP contingency deposit premium • Will be due to the assigned carrier within 30 days of written notice by the assigned carrier
No additional premium	Must be returned to the employer within 10 days after the assigned carrier calculates the LSRP adjustment

Note: ~~If any additional premium is not paid to any assigned carrier, this may result in cancellation of any existing WCIP policy, and the employer, as defined under the WCIP, will no longer be in good faith eligible for coverage under the WCIP.~~

~~Any remaining contingency deposit premium must be returned to the employer within 10 days after the assigned carrier calculates the fourth or final valuation.~~

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**EXHIBIT 3-B
BASIC MANUAL—2001 EDITION
NORTH CAROLINA STATE RULE EXCEPTIONS
RULE 4—WORKERS COMPENSATION INSURANCE PLAN RULES
C. LOSS SENSITIVE RATING PLAN**

2. ~~LSRP Definitions~~**c. ~~Deposit Premium~~**

~~Change Rule 4 C 2 c as follows:~~

~~The deposit premium is the minimum premium amount that is required to be paid at the time of application or upon policy renewal. Under the LSRP, deposit premium consists of the WCIP initial or deposit premium and the LSRP contingency deposit premium.~~

- **~~WCIP Initial or Deposit Premium~~**

~~The employer or its representative must submit the total appropriate WCIP initial or deposit premium to the Plan Administrator at the time of application or the assigned carrier at time of renewal. The WCIP initial or deposit premium is calculated by multiplying the total estimated annual premium by the required deposit premium percentage in accordance with the individual State Rule Exception pages of NCCI's *Basic Manual* or the ACORD[®] North Carolina Workers Compensation Assigned Risk Application form available on www.ncrb.org.~~

- **~~LSRP Contingency Deposit Premium~~**

~~In addition to the WCIP initial or deposit premium, employers qualifying for the LSRP are required to submit an LSRP contingency deposit premium. The LSRP contingency deposit premium is calculated by multiplying the standard premium by 20%. The contingency deposit premium is intended to collateralize premium that may be due to the assigned carrier as a result of losses incurred during the policy term. The LSRP contingency deposit premium may also be paid for with an irrevocable letter of credit. Refer to Rule 4 C 4 b.~~

e. ~~Inurred Losses~~

~~Change Rule 4 C 2 e as follows:~~

~~Inurred losses include paid, outstanding, and any reserves set on open losses. They are used in the rating formula for determining premium under the LSRP for those losses reported under the rules of the North Carolina Rate Bureau's *Statistical Plan Manual*.~~

f. ~~Standard Premium~~

~~Change Rule 4 C 2 f as follows:~~

~~For the purpose of the LSRP, standard premium is determined on the basis of authorized rates, any experience rating modification, ARAP, SARAP, assigned risk surcharge programs other than the LSRP, and minimum premiums. Determination of standard premium must exclude:~~

- ~~Premium discount~~
- ~~Expense constant~~
- ~~Premium resulting from the nonratable element codes~~
- ~~Premium developed by the passenger seat surcharge under Code 7421 Aviation Transportation of Personnel in Conduct of Employer's Business Flying Crew~~
- ~~Premium developed by the occupational disease rates for employers subject to the Federal Coal Mine Health and Safety Act~~
- ~~Premium developed by catastrophe provisions as outlined in Rule 3 A 24 of NCCI's *Basic Manual*~~

ITEM RM-W-8035—WORKERS COMPENSATION INSURANCE PLAN (WCIP) LOSS SENSITIVE RATING PLAN (LSRP) BASIC MANUAL RULE 4-C ENHANCEMENT

EXHIBIT 3-B (CONT'D)
BASIC MANUAL—2001 EDITION
NORTH CAROLINA STATE RULE EXCEPTIONS
RULE 4—WORKERS COMPENSATION INSURANCE PLAN RULES
C. LOSS SENSITIVE RATING PLAN

~~Standard premium as referenced throughout these rules means estimated annual standard premium and includes preliminary physical audited premium, and final audited premium. If a premium is specifically referenced as either estimated annual standard premium, preliminary physical audited premium, or final audited premium, the language is exclusive to that type of premium's definition.~~

EXHIBIT 3-C
BASIC MANUAL—2001 EDITION
NORTH CAROLINA STATE RULE EXCEPTIONS
RULE 4—WORKERS COMPENSATION INSURANCE PLAN RULES
C. LOSS SENSITIVE RATING PLAN

6. ~~Evasion of the Loss Sensitive Rating Plan~~

~~Change Rule 4 C 6 as follows:~~

~~Some employers may take actions for the purpose of avoiding the application of the LSRP. Other employers may take actions for otherwise legitimate business reasons that nonetheless result in the improper application of the LSRP. Regardless of intent, any action that results in the miscalculation or misapplication of LSRP determined in accordance with these LSRP rules is prohibited. These actions include, but are not limited to:~~

- ~~• Misrepresentation and/or miscalculation of payroll at application, audit or renewal~~
- ~~• Failure to report changes in ownership or ownership information according to the WCIP and NCCI's **Experience Rating Plan Manual**~~
- ~~• Violation of any of the terms and conditions under the policy for which this insurance was issued~~
- ~~• Failure to allow the assigned carrier or the North Carolina Rate Bureau reasonable access to facilities or files and records for audit or inspection~~
- ~~• Failure to disclose to the assigned carrier or the North Carolina Rate Bureau the full nature and scope of the employer's exposure or business operations~~

EXHIBIT 3-D
BASIC MANUAL—2001 EDITION
NORTH CAROLINA STATE EXCEPTIONS
RULE 4—WORKERS COMPENSATION INSURANCE PLAN RULES
C. LOSS SENSITIVE RATING PLAN
7. Operation of the Loss Sensitive Rating Plan

a. ~~Calculating the LSRP Premium~~

~~Change Rule 4 C 7 a as follows:~~

~~The LSRP premium is to be calculated as soon as practicable based upon losses valued six months after the WCIP policy(s) expiration. The data used in the LSRP calculation must be the same data that is reported under the rules of the North Carolina Rate Bureau's **Statistical Plan Manual**. In certain cases, the assigned carrier may make an early calculation of the LSRP premium. Such cases include, but are not limited to:~~

- ~~• Cancellation of policy(s) as outlined in Rule 4 C 11~~
- ~~• Bankruptcy~~
- ~~• Liquidation, reorganization, or receivership~~

ITEM RM-W-8035—WORKERS COMPENSATION INSURANCE PLAN (WCIP) LOSS SENSITIVE RATING PLAN (LSRP) BASIC MANUAL RULE 4-C ENHANCEMENT

**EXHIBIT 3-E
BASIC MANUAL—2001 EDITION
NORTH CAROLINA STATE EXCEPTIONS
RULE 4—WORKERS COMPENSATION INSURANCE PLAN RULES
C. LOSS SENSITIVE RATING PLAN**

10. ~~LSRP Notifications~~

a. ~~Assigned Risk Policyholder Notices~~

(1) ~~ACORD® 135 NC Application~~

~~Change Rule 4 C 10 a(1) as follows:-~~

~~The ACORD® 135 NC application will include the following language above the signature of the employer:-~~

~~“By signing below I acknowledge that the loss sensitive rating plan, if applicable, has been explained to me by my agent. I agree that I shall be bound by the terms of such plan if my estimated annual premium or preliminary physical audit premium meets or exceeds the premium eligibility requirement.”~~

b. ~~Endorsements~~

~~Change Rule 4 C 10 b as follows:-~~

~~The following endorsements are applied to new and renewal assigned risk policies in accordance with the LSRP rules:-~~

Endorsement	Purpose
WC 00 04 17 A Assigned Risk Loss Sensitive Rating Plan Notification Endorsement	Ensures that all employers potentially qualifying for LSRP during the policy or upon renewal, if applicable, are notified of the intent and details of the LSRP. All assigned carriers will be required to attach this endorsement to all new and renewal assigned risk policies. Refer to WC 32 04 02 for treatment of PEOs and Temporary Arrangements.
WC 32 04 02 Assigned Risk Loss Sensitive Rating Plan Notification Endorsement for Professional Employer Organization (PEO) and Temporary Arrangements	Ensures that all PEO and Temporary Arrangements potentially qualifying for LSRP are notified of the intent and details of the LSRP. All assigned carriers will be required to attach this endorsement to all new and renewal PEO and Temporary Arrangement assigned risk policies
WC 32 04 01 Assigned Risk Loss Sensitive Rating Plan Endorsement	Attached to all new and renewal assigned risk policies meeting the eligibility threshold for LSRP. This endorsement advises employers meeting the eligibility threshold of the applicable LSRP factors and of how LSRP premium will be calculated.

ITEM RM-W-8035—WORKERS COMPENSATION INSURANCE PLAN (WCIP) LOSS SENSITIVE RATING PLAN (LSRP) BASIC MANUAL RULE 4-C ENHANCEMENT

EXHIBIT 3-F
BASIC MANUAL—2001 EDITION
NORTH CAROLINA STATE RULE EXCEPTIONS
RULE 4—WORKERS COMPENSATION INSURANCE PLAN RULES
C. LOSS SENSITIVE RATING PLAN

12. Valuation of the Loss Sensitive Rating Plan Premium

a. ~~Procedures~~

~~Change Rule 4 C 12 a as follows:~~

- ~~• There will be a maximum of four valuations calculated to determine the LSRP premium per policy period.~~
- ~~• Losses will be valued at month 18, 30, 42, 54, and adjustments will be calculated as soon as practicable.~~
- ~~• The loss development factor is included in the first three adjustments of the LSRP premium and is not included in the fourth and/or final adjustment.~~
- ~~• The valuations of premiums are to be calculated by the assigned carrier, using premium and loss data that has been reported according to the North Carolina Rate Bureau's **Statistical Plan Manual**.~~

FILING MEMORANDUM

ITEM RM-W-8036—ENHANCEMENTS TO LSRP ENDORSEMENTS WC 00 04 17 A AND WC 00 04 18 E AND WITHDRAWAL OF LSRP ENDORSEMENTS WC 00 04 23 A, WC 32 04 01, WC 32 04 02, AND WC 36 04 07

(To be effective 12:01 a.m. on January 1, 2011, applicable to new and renewal assigned risk policies only.)

PURPOSE

The purpose of this item is to enhance the current national assigned risk Loss Sensitive Rating Plan (LSRP) endorsements. The enhancements include:

- Updating the LSRP endorsements to reflect the clarification of LSRP rules to ensure users' comprehension
- Combining endorsements to ensure consistent application for all risks, regardless of business operations
- Eliminating unneeded endorsements due to the combining and updating of other endorsements

BACKGROUND

In 2006, the current version of NCCI's LSRP rules, located in Rule 4-C of NCCI's *Basic Manual for Workers Compensation and Employers Liability Insurance*, and endorsements, located in NCCI's *Forms Manual of Workers Compensation and Employers Liability Insurance*, were implemented through the approval of Item RM-W-8028. Oregon implemented a state-specific endorsement in 2008 through the approval of Item RM-01-OR-2008. Using a plain language approach, Item RM-W-8028 created a national program to address changes in the market and advancement in technology, which was also carried over to the LSRP endorsements.

Since the implementation of *Basic Manual* Rule 4-C, the Plan Administrator has monitored the program and solicited feedback from various stakeholders regarding possible future improvements, culminating in a review of the program and the attached proposed changes.

PROPOSAL

The revisions proposed in this item include:

- Enhancement of LSRP endorsements to incorporate all necessary national and state-specific, if any, changes to correspond with the rules proposed in Item RM-W-8035:
 - Form WC 00 04 17 B—Assigned Risk Loss Sensitive Rating Plan Notification Endorsement merges Form WC 00 04 17 A with Form WC 00 04 23 A—Assigned Risk Loss Sensitive Rating Plan Notification Endorsement for Professional Employer Organization (PEO) and Temporary Arrangements
 - Form WC 00 04 18 F—Assigned Risk Loss Sensitive Rating Plan Endorsement updates Form WC 00 04 18 E
- Withdrawal of the following due to the changes in the new national Forms WC 00 04 17 B and WC 00 04 18 F:
 - Form WC 00 04 23 A—Assigned Risk Loss Sensitive Rating Plan Notification Endorsement for Professional Employer Organization (PEO) and Temporary Arrangements

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FILING MEMORANDUM

ITEM RM-W-8036—ENHANCEMENTS TO LSRP ENDORSEMENTS WC 00 04 17 A AND WC 00 04 18 E AND WITHDRAWAL OF LSRP ENDORSEMENTS WC 00 04 23 A, WC 32 04 01, WC 32 04 02, AND WC 36 04 07

- North Carolina Forms WC 32 04 01—Assigned Risk Loss Sensitive Rating Plan Endorsement and WC 32 04 02—Assigned Risk Loss Sensitive Rating Plan Notification Endorsement for Professional Employer Organization (PEO) and Temporary Arrangements
- Oregon Form WC 36 04 07—Oregon Assigned Risk Loss Sensitive Rating Plan Notification Endorsement

This item is being filed in conjunction with Item RM-W-8035—Workers Compensation Insurance Plan (WCIP) Loss Sensitive Rating Plan (LSRP) Basic Manual Rule 4-C Enhancement. Item RM-W-8035 proposes that effective January 1, 2011, the LSRP rules located in NCCI's national *Basic Manual* Rule 4-C be enhanced. Item RM-W-8036 and Item RM-W-8035 should be adopted concurrently.

IMPACT

There is no impact to statewide premium as a result of this item. No changes are being proposed to any of the LSRP factors or formulas. NCCI anticipates that the proposed revisions will enhance the understanding of the endorsements as they relate to the rules and procedures pertaining to the consistent application of LSRP to assigned risk policies.

IMPLEMENTATION

Upon regulatory approval, the attached exhibits will be implemented, effective 12:01 a.m. on January 1, 2011, applicable to new and renewal assigned risk policies only.

The following is a summary of the exhibits included in this item:

- **Exhibit 1** contains the revisions to Form WC 00 04 17 A
- **Exhibit 2** contains the revisions to Form WC 00 04 18 E
- **Exhibit 3** withdraws Form WC 00 04 23 A.
- **Exhibit 4** withdraws Forms WC 32 04 01 and WC 32 04 02
- **Exhibit 5** withdraws Form WC 36 04 07

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ITEM RM-W-8036—ENHANCEMENTS TO LSRP ENDORSEMENTS WC 00 04 17 A AND WC 00 04 18 E AND WITHDRAWAL OF LSRP ENDORSEMENTS WC 00 04 23 A, WC 32 04 01, WC 32 04 02, AND WC 36 04 07

EXHIBIT 1

FORMS MANUAL OF WORKERS COMPENSATION AND EMPLOYERS LIABILITY INSURANCE
ASSIGNED RISK LOSS SENSITIVE RATING PLAN NOTIFICATION ENDORSEMENT (WC
00 04 17 B)

(Applies in: AL, CT, DC, GA, ID, IL, IN, KS, MS, NC, NH, NV, OR, SC, SD, VT, WV)

ASSIGNED RISK LOSS SENSITIVE RATING PLAN NOTIFICATION ENDORSEMENT (WC 00 04 17 ~~A B~~)

A. LSRP Mandatory Assigned Risk Retrospective Rating Plan

This endorsement is to advise you that, during the term of this policy or upon renewal, you may become subject to the mandatory assigned risk ~~mandatory~~ Loss Sensitive Rating Plan (LSRP), which is a retrospective rating plan that may adjust the cost of your workers compensation and employers liability insurance policy. This endorsement must be attached to all assigned risk policies, ~~except for including policies for~~ professional employer organization (PEO) and temporary arrangements, regardless of LSRP standard premium size in states that have approved the LSRP. In the event that you meet or exceed the eligibility requirements of ~~the~~ LSRP, an LSRP contingent deposit ~~premium~~ equal to 20% of LSRP standard premium ~~will be~~ is required.

B. Eligibility

1. Your insurance is written under a Workers Compensation Insurance Plan (WCIP) in a state that has approved LSRP ~~the Loss Sensitive Rating Plan (LSRP).~~
2.
 - a. ~~The~~ LSRP will apply to an individual assigned risk policy if the standard premium ~~equals~~ meets or exceeds the amount noted in the Schedule, in accordance with NCCI's *Basic Manual*.
 - b. It may not always be possible for a single carrier to provide coverage for all requested states; additional policies issued by more than one carrier may be necessary.
 - c. WCIP policies issued in non-LSRP-approved jurisdictions are not subject to LSRP and are not combinable with WCIP policies in LSRP-approved jurisdictions for eligibility purposes.
 - d. LSRP eligibility may be impacted by ownership or combinability status in accordance with NCCI's *Experience Rating Plan Manual*.
3. LSRP standard premium is defined in accordance with NCCI's *Basic Manual*.

C. Deposit/Initial Premium and LSRP Contingency Deposit

1. Deposit or initial premium is paid on all new and renewal WCIP policies, including LSRP policies, in accordance with NCCI's *Basic Manual*. It is paid to us in addition to the LSRP contingency deposit, which secures all new and renewal LSRP policies as detailed in the LSRP rules.
2. The LSRP contingency deposit paid to us serves as collateral for premium that may be due to us as a result of losses incurred during the policy term.
3. At policy inception, the LSRP contingency deposit is calculated by multiplying the LSRP standard premium by 20%. If WCIP policies are combined for LSRP purposes, the LSRP contingency deposit is calculated by multiplying the combined LSRP standard premium for all policies by 20%.

D. Impact of Changes in LSRP Standard Premium

1. For all policies except for professional employer organizations (PEOs) and temporary arrangements, LSRP may be applied to a policy, or an LSRP policy may be converted to a guaranteed cost policy:
 - a. ~~3-~~ If the LSRP standard premium decreases during the first 120 days, and falls below the LSRP ~~premium~~ eligibility threshold, your policy will be converted to a guaranteed cost policy, retroactive to policy inception, and your LSRP contingency deposit will be returned.
 - b. ~~4-~~ If the LSRP standard premium increases during the first 120 days, and meets the LSRP ~~premium~~ eligibility threshold, LSRP will be applied retroactively to policy inception and the 20%

ITEM RM-W-8036—ENHANCEMENTS TO LSRP ENDORSEMENTS WC 00 04 17 A AND WC 00 04 18 E AND WITHDRAWAL OF LSRP ENDORSEMENTS WC 00 04 23 A, WC 32 04 01, WC 32 04 02, AND WC 36 04 07

EXHIBIT 1 (CONT'D)

FORMS MANUAL OF WORKERS COMPENSATION AND EMPLOYERS LIABILITY INSURANCE
ASSIGNED RISK LOSS SENSITIVE RATING PLAN NOTIFICATION ENDORSEMENT (WC
00 04 17 B)

(Applies in: AL, CT, DC, GA, ID, IL, IN, KS, MS, NC, NH, NV, OR, SC, SD, VT, WV)

LSRP contingency deposit ~~will be required~~ must be paid to us within 30 days of us issuing notice to you of the application of LSRP.

- c. ~~5.~~ If the LSRP standard premium decreases after the first 120 days and falls below the LSRP ~~premium~~ eligibility threshold, the LSRP continues to be applied to your policy(ies).
 - d. ~~6.~~ If the LSRP standard premium increases after the first 120 days, and meets the LSRP ~~premium~~ eligibility threshold, your policy(ies) will remain a guaranteed cost policy(ies) and the LSRP ~~will be is~~ applied at renewal, subject to meeting the eligibility requirements on the renewal policy(ies).
2. For all PEO and temporary arrangement WCIP policies, if the LSRP standard premium meets or exceeds the eligibility threshold **at any time**, LSRP is applied retroactively to policy inception. The 20% LSRP contingency deposit must be paid to us within 30 days of us issuing notice to you of the application of LSRP.

E. Evasion of LSRP

1. ~~7.~~ ~~Some employers may~~ If you take actions for the purpose of avoiding the application of the LSRP, ~~or Other employers may take actions~~ for otherwise legitimate business reasons that nonetheless result in the improper calculation and/or application of the LSRP, ~~and~~ regardless of intent, any action that results in the miscalculation and/or misapplication of LSRP determined in accordance with the LSRP rules is prohibited. These actions include, but are not limited to:
 - Misrepresentation and/or miscalculation of payroll at application, audit, or renewal
 - Failure to report changes in ownership or ownership information according to the WCIP and NCCI's *Experience Rating Plan Manual*
 - Violation of any of the terms and conditions under the policy for which this insurance was issued
 - Failure to allow ~~the assigned carrier or NCCI us~~ and/or the Plan Administrator and/or rating organization reasonable access to your facilities or ~~your~~ files and records for audit or inspection
 - Failure to disclose ~~to the assigned carrier or NCCI us~~ and/or the Plan Administrator and/or rating organization the full nature and scope of ~~the your~~ exposure or business operations
 2. In such circumstances, we and/or the Plan Administrator and/or rating organization may obtain any information that indicates evasion or improper calculation or application of LSRP due to actions including, but not limited to, those listed above. We and/or the Plan Administrator and/or rating organization will act to ensure the proper calculation and application of LSRP to inception of all current and preceding WCIP policies impacted by these actions.
- ~~8.~~ ~~If you meet the eligibility requirement for the LSRP and you have operations in more than one state, your policy(s) must meet the premium eligibility threshold requirements for the state with the greatest standard premium. When this occurs:~~
- ~~The total standard premium of all states that have approved the LSRP must meet the premium eligibility requirement for the LSRP state generating the largest standard premium~~
 - ~~All of your WCIP policies will be combined to determine a single LSRP contingency deposit premium~~
 - ~~Each single WCIP application or policy will require a separate WCIP initial or deposit premium~~
- ~~It may not always be possible for a single carrier to provide coverage for all requested states; additional policies may be necessary.~~

ITEM RM-W-8036—ENHANCEMENTS TO LSRP ENDORSEMENTS WC 00 04 17 A AND WC 00 04 18 E AND WITHDRAWAL OF LSRP ENDORSEMENTS WC 00 04 23 A, WC 32 04 01, WC 32 04 02, AND WC 36 04 07

EXHIBIT 1 (CONT'D)
FORMS MANUAL OF WORKERS COMPENSATION AND EMPLOYERS LIABILITY INSURANCE
ASSIGNED RISK LOSS SENSITIVE RATING PLAN NOTIFICATION ENDORSEMENT (WC
00 04 17 B)

(Applies in: AL, CT, DC, GA, ID, IL, IN, KS, MS, NC, NH, NV, OR, SC, SD, VT, WV)

~~This LSRP program will adjust your premium for this insurance based upon the losses incurred during the period covered by this policy or any renewal policy.~~

This endorsement applies in the states listed in the Schedule below.

Schedule

State

Premium Eligibility

ITEM RM-W-8036—ENHANCEMENTS TO LSRP ENDORSEMENTS WC 00 04 17 A AND WC 00 04 18 E AND WITHDRAWAL OF LSRP ENDORSEMENTS WC 00 04 23 A, WC 32 04 01, WC 32 04 02, AND WC 36 04 07

EXHIBIT 2

**FORMS MANUAL OF WORKERS COMPENSATION AND EMPLOYERS LIABILITY INSURANCE
ASSIGNED RISK LOSS SENSITIVE RATING PLAN ENDORSEMENT (WC 00 04 18 F)
(Applies in: AL, CT, DC, GA, ID, IL, IN, KS, MS, NC, NH, NV, OR, SC, SD, VT, WV)**

ASSIGNED RISK LOSS SENSITIVE RATING PLAN ENDORSEMENT (WC 00 04 18-E-F)

This endorsement amends and is added to Part Five (Premium) of your Policy to explain how the mandatory assigned risk Loss Sensitive Rating Plan (LSRP) (additional/return) premium will be is determined.

This endorsement applies in states where the LSRP has been approved. ~~It determines the LSRP premium for the insurance provided during this policy term.~~ This endorsement is attached to all assigned risk policies, including ~~P~~ professional ~~E~~ employer ~~O~~ organization (PEO) ~~A~~rrangements and ~~T~~ temporary ~~A~~rrangements, that ~~have meet or exceeded the LSRP eligibility requirements of the LSRP.~~ A 20% LSRP contingency deposit premium is required should you qualify for LSRP.

A. ~~Assigned Risk Loss Sensitive Rating Plan LSRP~~ Premium Elements

~~The amount of Assigned Risk Loss Sensitive Rating Plan premium depends on the six standard elements, which are explained below: LSRP uses specific elements to determine premium. The elements are listed below and are determined in accordance with *Basic Manual* Rule 4-C and applicable state rating values.~~

- ~~1. **Standard premium** means the premium for you determined on the basis of authorized rates, any experience rating modification, Assigned Risk Adjustment Program (ARAP), Simplified Assigned Risk Adjustment Program (SARAP), assigned risk surcharge programs other than the LSRP, and minimum premiums.~~

~~Determination of standard premium must exclude:~~

- ~~• Premium discount~~
- ~~• Expense constant~~
- ~~• Premium resulting from the nonratable element codes~~
- ~~• Premium developed by the passenger seat surcharge under Code 7421~~
- ~~• Premium developed by the occupational disease rates for employers subject to the Federal Coal Mine Health and Safety Act~~
- ~~• Premium developed by catastrophe provisions as outlined in Rule 3 A 24 of NCCI's *Basic Manual*~~

~~Standard premium as referenced throughout this endorsement means estimated annual standard premium and includes preliminary physical audited premium and final audited premium. If a premium is specifically referenced as estimated annual standard premium, preliminary physical audited premium, or final audited premium, the language is exclusive to that type of premium's definition.~~

- ~~2. **Basic premium factor** is a fixed factor of .30, which includes insurance carrier expenses such as those for servicing the insured's account, loss prevention services, premium audit, and general administration of the insurance. The basic premium factor does not cover premium taxes or claim adjustment expenses; these elements are usually provided for in the tax multiplier and the loss conversion factor. Basic premium is determined by multiplying the standard premium by a basic premium factor. The basic premium factor is shown in the Schedule.~~
- ~~3. **Incurred losses** includes paid, outstanding, and any reserves set on open losses. Incurred losses are used in the rating formula for determining premium under the LSRP for those losses reported under the rules of NCCI's *Statistical Plan Manual*.~~

ITEM RM-W-8036—ENHANCEMENTS TO LSRP ENDORSEMENTS WC 00 04 17 A AND WC 00 04 18 E AND WITHDRAWAL OF LSRP ENDORSEMENTS WC 00 04 23 A, WC 32 04 01, WC 32 04 02, AND WC 36 04 07

EXHIBIT 2 (CONT'D)
FORMS MANUAL OF WORKERS COMPENSATION AND EMPLOYERS LIABILITY INSURANCE
ASSIGNED RISK LOSS SENSITIVE RATING PLAN ENDORSEMENT (WC 00 04 18 F)
(Applies in: AL, CT, DC, GA, ID, IL, IN, KS, MS, NC, NH, NV, OR, SC, SD, VT, WV)

- 4. ~~Converted losses~~ include a loss conversion factor that is applied to actual losses that are incurred during the LSRP policy(s) to determine the converted losses. The loss conversion factor is shown in the Schedule.
- 5. ~~Tax multiplier~~ varies by state and covers licenses, fees, assessments, and taxes that we must pay on the premium we collect. The tax multiplier(s) for each state is shown in the schedule.
- 6. ~~Loss development factor~~ varies by state and stabilizes premium adjustments for you subject to the LSRP. The LSRP loss development factor anticipates a pattern of increasing valuation of losses after the policy is expired. The loss development factor is included in the first three adjustments of the LSRP premium. The premium development factors are shown in the Schedule.

- 1. LSRP Standard Premium
- 2. Basic Premium Factor
- 3. Loss Conversion Factor
- 4. Converted Losses
- 5. Incurred Losses
- 6. Loss Development Factor
- 7. Maximum Premium Factor
- 8. Minimum Premium Factor
- 9. Tax Multiplier

B. ~~Assigned Risk Loss Sensitive Rating Plan~~ LSRP Formula

1. ~~Calculating the LSRP~~ (Additional/Return) Premium Under This Plan

The first LSRP valuation to determine the (additional/return) premium is to be calculated as soon as practical ~~be based up on losses valued six months after the WCIP policy(ies) expiration.~~ The data used in the LSRP calculation must be the same data that is reported under the rules of NCCI's ~~Statistical Plan Manual~~ the applicable statistical plan. In accordance with Section C-7 of this endorsement and **Basic Manual** Rule 4-C, in certain cases, we may ~~make perform~~ an early calculation of the LSRP premium. ~~Such cases include, but are not limited to:~~

- Cancellation of policy(ies) as outlined in NCCI's **Basic Manual** Rule 4 C 11.
- ~~Bankruptcy~~
- ~~Liquidation, reorganization, or receivership~~

2. LSRP Formula

The LSRP formula is designed to allow for premium that is not less than the LSRP minimum premium or more than the LSRP maximum premium in accordance with **Basic Manual** Rule 4-C. The LSRP premium subject to this program is determined by the following formula is:

$$\underline{LSRP (Additional/Return) Premium = \{[(SP \times BPF) + (ICL \times LCF) + (SP \times LDF \times LCF)] \times TM\} - SP}$$

Where ...	Equals ...
SP	LSRP Standard Premium
BPF	Basic Premium Factor

ITEM RM-W-8036—ENHANCEMENTS TO LSRP ENDORSEMENTS WC 00 04 17 A AND WC 00 04 18 E AND WITHDRAWAL OF LSRP ENDORSEMENTS WC 00 04 23 A, WC 32 04 01, WC 32 04 02, AND WC 36 04 07

EXHIBIT 2 (CONT'D)

**FORMS MANUAL OF WORKERS COMPENSATION AND EMPLOYERS LIABILITY INSURANCE
ASSIGNED RISK LOSS SENSITIVE RATING PLAN ENDORSEMENT (WC 00 04 18 F)**

(Applies in: AL, CT, DC, GA, ID, IL, IN, KS, MS, NC, NH, NV, OR, SC, SD, VT, WV)

Where ...	Equals ...
ICL	Incurred Losses
LCF	Loss Conversion Factor
LDF	Loss Development Factor
TM	Tax Multiplier

3. LSRP Minimum and Maximum Premium

~~The LSRP will result in a premium that is not~~ You will not pay less than the LSRP minimum premium or more than the LSRP maximum premium. The LSRP minimum premium is determined by multiplying the LSRP standard premium by the applicable minimum premium factor. The LSRP maximum premium is determined by multiplying the LSRP standard premium by the applicable maximum premium factor. The minimum premium factor and the maximum premium factor are shown in the Schedule. If this policy is combinable with another LSRP policy, the LSRP minimum and maximum premiums are based on the combined LSRP standard premium for all combinable policies.

C. Premium Calculation and Payments

1. You will pay a premium in accordance with the approved Workers Compensation Insurance Plan (WCIP) rules, rates, and rating values that will equal 100% of the standard premium.
2. You will pay an LSRP contingency deposit premium that will equal 20% of the LSRP standard premium.
3. Your LSRP (additional/return) premium ~~will be~~ is determined after the policy period ends.
4. The first valuation of LSRP premium ~~will be~~ is determined using all loss information valued as of six months after policy expiration or as soon as practicable. Three additional annual premium adjustment calculations shall be made based on losses ~~information~~ information valued ~~as of~~ at 30, 42, and 54 months after the month in which the ~~rating plan period~~ policy became effective.
5. We must value the policy annually after the first valuation and subsequent valuations as needed (up to four valuations). We will not need to do subsequent valuations if there are no open losses.
6. If we are notified that the employer has declared bankruptcy, we must file for Proof of Claim.
7. ~~In addition, we~~ We may make a special adjustment for the purpose of calculating the LSRP premium to determine if additional or return premium is due when the policy is cancelled and/or you:
 - Are in noncompliance with policy terms and conditions
 - Have declared bankruptcy
 - Have defaulted on your premium
 - Are involved in any liquidation, reorganization, or receivership, ~~or liquidation~~
 - Disposed of all, or substantially all, of your assets

You or the bankruptcy estate, if applicable, ~~will be~~ is responsible for any additional premium due ~~to this special adjustment~~ as a result of any special valuations or other applicable remaining valuations.

8. After each valuation, you will pay to us the amount due within 30 days. If you fail to pay all LSRP premium due ~~under this LSRP~~, your current policy will be cancelled in accordance with the WCIP rules, state law, or NCCI's ~~a~~ **Assigned e Carrier p Performance s Standards**, whichever is more restrictive. You will no longer be in good faith eligible for coverage under the applicable WCIP.

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EXHIBIT 2 (CONT'D)
 FORMS MANUAL OF WORKERS COMPENSATION AND EMPLOYERS LIABILITY INSURANCE
 ASSIGNED RISK LOSS SENSITIVE RATING PLAN ENDORSEMENT (WC 00 04 18 F)
 (Applies in: AL, CT, DC, GA, ID, IL, IN, KS, MS, NC, NH, NV, OR, SC, SD, VT, WV)

D. Evasion of the ~~Loss Sensitive Rating Plan~~ LSRP

1. ~~Some employers may~~ If you take actions for the purpose of avoiding the application of the LSRP ~~Other employers may take actions~~, or for otherwise legitimate business reasons that nonetheless result in the improper calculation and/or application of the LSRP, ~~regardless of intent~~, any action that results in the miscalculation and/or misapplication of the LSRP determined in accordance with the LSRP rules is prohibited. These actions include, but are not limited to:
 - Misrepresentation and/or miscalculation of payroll at application, audit, or renewal
 - Failure to report changes in ownership or ownership information according to the WCIP and NCCI's *Experience Rating Plan Manual*
 - Violation of any of the terms and conditions under the policy(ies) for which ~~this insurance~~ the WCIP policy(ies) was issued
 - Failure to allow us and/or the Plan Administrator and/or rating organization ~~NCI~~ reasonable access to your facilities or files and records for audit or inspection
 - Failure to disclose to us and/or the Plan Administrator and/or rating organization ~~NCI~~ the full nature and scope of your exposure or business operations
2. In such circumstances, we and/or the Plan Administrator and/or rating organization may obtain any information that indicates evasion or improper calculation or application of LSRP due to actions including, but not limited to, those listed above. We and/or the Plan Administrator and/or rating organization will act to ensure the proper calculation and application of LSRP to inception of all current and preceding WCIP policies impacted by these actions.

E. Cancellation

1. ~~The LSRP policy will be cancelled pro rata in accordance with NCCI's *Basic Manual* rules when the policy is cancelled:~~
 - ~~By you when retiring from business~~
 - ~~By us for nonpayment of premium, and you are in noncompliance of the WCIP rules and procedures and are no longer in good faith eligible for coverage~~
 - ~~Because you leave the residual market and have secured coverage in the voluntary market~~ If your policy is cancelled, LSRP is applied in accordance with Part Five (Premium), E. of your workers compensation and employers liability insurance policy.
2. ~~The LSRP will be cancelled short rate in accordance with the NCCI's *Basic Manual* rules when the policy is cancelled:~~
 - ~~By us for any reason **except** for nonpayment of premium, and you are in noncompliance of WCIP rules and procedures and are no longer in good faith eligible for coverage~~
 - ~~By you for reasons other than retiring from business~~ Cancellation of LSRP policies are subject to pro rata or short rate calculation of LSRP standard premium in accordance with LSRP rules located in NCCI's *Basic Manual*.
3. We must report noncompliance and any subsequent compliance to the Plan Administrator.
4. ~~For the purpose of LSRP, a change in ownership that results in elimination of experience under the rules of NCCI's *Basic Manual* does not constitute retiring from business.~~ Cancelled LSRP policies are subject to all LSRP rules, as applicable.
5. If your LSRP policy is cancelled by you or us, you are responsible for any LSRP additional premium due for reasons including, but not limited to:
 - a. Premium endorsements

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EXHIBIT 2 (CONT'D)

FORMS MANUAL OF WORKERS COMPENSATION AND EMPLOYERS LIABILITY INSURANCE
ASSIGNED RISK LOSS SENSITIVE RATING PLAN ENDORSEMENT (WC 00 04 18 F)
(Applies in: AL, CT, DC, GA, ID, IL, IN, KS, MS, NC, NH, NV, OR, SC, SD, VT, WV)

- b. Audits
- c. An ownership change or change in combinability status in accordance with NCCI's *Experience Rating Plan Manual*
- d. Your retirement from business
- e. Any applicable and/or remaining LSRP valuations

Schedule

1. Basic Premium Factor	<u>0.30</u>
2. Loss Conversion Factor	<u> </u>
3. Tax Multiplier	<u> </u>
4. Minimum Premium Factor	<u> </u>
5. Maximum Premium Factor	<u> </u>
6. Loss Development Factor:	<u> </u>
1st Adjustment	<u> </u>
2nd Adjustment	<u> </u>
3rd Adjustment	<u> </u>
Subsequent Adjustments	<u>0.00</u>

ITEM RM-W-8036—ENHANCEMENTS TO LSRP ENDORSEMENTS WC 00 04 17 A AND WC 00 04 18 E AND WITHDRAWAL OF LSRP ENDORSEMENTS WC 00 04 23 A, WC 32 04 01, WC 32 04 02, AND WC 36 04 07

EXHIBIT 4-A
FORMS MANUAL OF WORKERS COMPENSATION AND EMPLOYERS LIABILITY INSURANCE
ASSIGNED RISK LOSS SENSITIVE RATING PLAN ENDORSEMENT (WC 32 04 01)
(Applies in: NC)

~~ASSIGNED RISK LOSS SENSITIVE RATING PLAN ENDORSEMENT (WC 32 04 01)~~

~~This endorsement amends and is added to Part Five (Premium) of your Policy to explain how the Assigned Risk Loss Sensitive Rating Plan (LSRP) premium will be determined.~~

~~This endorsement applies in states where the LSRP has been approved. It determines the LSRP premium for the insurance provided during this policy term. This endorsement is attached to all assigned risk policies, including Professional Employer Organization (PEO) Arrangements and Temporary Arrangements, that have met or exceeded eligibility requirements of the LSRP. A 20% LSRP contingency deposit premium is required should you qualify for LSRP.~~

~~A. Assigned Risk Loss Sensitive Rating Plan Premium Elements~~

~~The amount of Assigned Risk Loss Sensitive Rating Plan premium depends on the six standard elements, which are explained below:~~

- ~~1. **Standard premium** means the premium for you determined on the basis of authorized rates, any experience rating modification, Assigned Risk Adjustment Program (ARAP), Simplified Assigned Risk Adjustment Program (SARAP), assigned risk surcharge programs other than the LSRP, and minimum premiums.~~

~~Determination of standard premium must exclude:~~

- ~~• Premium discount~~
- ~~• Expense constant~~
- ~~• Premium resulting from the nonratable element codes~~
- ~~• Premium developed by the passenger seat surcharge under Code 7421~~
- ~~• Premium developed by the occupational disease rates for employers subject to the Federal Coal Mine Health and Safety Act~~
- ~~• Premium developed by catastrophe provisions as outlined in Rule 3 A 24 of NCCI's **Basic Manual**~~

~~Standard premium as referenced throughout this endorsement means estimated annual standard premium and includes preliminary physical audited premium and final audited premium. If a premium is specifically referenced as estimated annual standard premium, preliminary physical audited premium, or final audited premium, the language is exclusive to that type of premium's definition.~~

- ~~2. **Basic premium factor** is a fixed factor of .30, which includes insurance carrier expenses such as those for servicing the insured's account, loss prevention services, premium audit, and general administration of the insurance. The basic premium factor does not cover premium taxes or claim adjustment expenses; these elements are usually provided for in the tax multiplier and the loss conversion factor. Basic premium is determined by multiplying the standard premium by a basic premium factor. The basic premium factor is shown in the Schedule.~~
- ~~3. **Incurred losses** includes paid, outstanding, and any reserves set on open losses. Incurred losses are used in the rating formula for determining premium under the LSRP for those losses reported under the rules of the North Carolina Rate Bureau's **Statistical Plan Manual**.~~
- ~~4. **Converted losses** include a loss conversion factor that is applied to actual losses that are incurred during the LSRP policy(s) to determine the converted losses. The loss conversion factor is shown in the Schedule.~~

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EXHIBIT 4-A (CONT'D)
FORMS MANUAL OF WORKERS COMPENSATION AND EMPLOYERS LIABILITY INSURANCE
ASSIGNED RISK LOSS SENSITIVE RATING PLAN ENDORSEMENT (WC 32 04 01)
(Applies in: NC)

5. ~~Tax multiplier varies by state and covers licenses, fees, assessments, and taxes that we must pay on the premium we collect. The tax multiplier(s) for each state is shown in the schedule.~~
6. ~~Loss development factor varies by state and stabilizes premium adjustments for you subject to the LSRP. The LSRP loss development factor anticipates a pattern of increasing valuation of losses after the policy is expired. The loss development factor is included in the first three adjustments of the LSRP premium. The loss development factors are shown in the Schedule.~~

B. ~~Assigned Risk Loss Sensitive Rating Plan Formula~~

1. ~~Calculating the LSRP Premium Under This Plan~~

~~The LSRP premium is to be calculated as soon as practicable based upon losses valued six months after the WCIP policy(s) expiration. The data used in the LSRP calculation must be the same data that is reported under the rules of the North Carolina Rate Bureau's *Statistical Plan Manual*. In certain cases, we may make an early calculation of the LSRP premium. Such cases include, but are not limited to:~~

- ~~• Cancellation of policy(s) as outlined in NCCI's *Basic Manual* Rule 4 C 11.~~
- ~~• Bankruptcy~~
- ~~• Liquidation, reorganization, or receivership~~

2. ~~LSRP Formula~~

~~The LSRP premium subject to this program is determined by the following formula:~~

$$\del{[(SP \times BPF) + (IL \times LCF) + (SP \times LDF \times LCF)] \times TM}$$

Where ...	Equals ...
SP	Standard Premium
BPF	Basic Premium Factor
IL	Inurred Losses
LCF	Loss Conversion Factor
LDF	Loss Development Factor
TM	Tax Multiplier

~~The LSRP will result in a premium that is not less than the LSRP minimum premium or more than the LSRP maximum premium. The LSRP minimum premium is determined by multiplying the standard premium by the minimum premium factor. The LSRP maximum premium is determined by multiplying the standard premium by the applicable maximum premium factor. The minimum premium factor and the maximum premium factor are shown in the Schedule.~~

C. ~~Premium Calculation and Payments~~

- ~~1. You will pay a premium that will equal 100% of the standard premium.~~
- ~~2. You will pay a LSRP contingency deposit premium that will equal 20% of the standard premium.~~
- ~~3. Your LSRP premium will be determined after the policy period ends.~~
- ~~4. The first valuation of LSRP premium will be determined using all loss information valued as of six months after policy expiration or as soon as practicable. Three additional annual premium adjustment~~

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EXHIBIT 4-A (CONT'D)
FORMS MANUAL OF WORKERS COMPENSATION AND EMPLOYERS LIABILITY INSURANCE
ASSIGNED RISK LOSS SENSITIVE RATING PLAN ENDORSEMENT (WC 32 04 01)
(Applies in: NC)

~~calculations shall be made based on loss information valued as of 30, 42, and 54 months after the month in which the rating plan period became effective.~~

- ~~5. We must value the policy annually after the first valuation and subsequent valuations as needed (up to four valuations). We will not need to do subsequent valuations if there are no open losses.~~
- ~~6. If we are notified that the employer has declared bankruptcy, we must file for Proof of Claim. In addition, we may make a special adjustment for the purpose of calculating the LSRP premium to determine if additional or return premium is due when you:~~
 - ~~• Have declared bankruptcy~~
 - ~~• Have defaulted on your premium~~
 - ~~• Are involved in any reorganization, receivership, or liquidation~~
 - ~~• Disposed of all, or substantially all, of your assets~~

~~You or the bankruptcy estate, if applicable, will be responsible for any additional premium due to this special adjustment.~~

- ~~7. After each valuation, you will pay to us the amount due within 30 days. If you fail to pay all premium due under this LSRP, your current policy will be cancelled in accordance with the WCIP rules, state law, or assigned carrier performance standards, whichever is more restrictive. You will no longer be in good faith eligible for coverage under the WCIP.~~

D. ~~Evasion of the Loss Sensitive Rating Plan~~

~~Some employers may take actions for the purpose of avoiding the application of the LSRP. Other employers may take actions for otherwise legitimate business reasons that nonetheless result in the improper application of the LSRP. Regardless of intent, any action that results in the miscalculation or misapplication of the LSRP determined in accordance with the LSRP rules is prohibited. These actions include, but are not limited to:~~

- ~~• Misrepresentation and/or miscalculation of payroll at application, audit or renewal~~
- ~~• Failure to report changes in ownership or ownership information according to the WCIP and NCCI's **Experience Rating Plan Manual**~~
- ~~• Violation of any of the terms and conditions under the policy for which this insurance was issued~~
- ~~• Failure to allow us or the North Carolina Rate Bureau reasonable access to your facilities or files and records for audit or inspection~~
- ~~• Failure to disclose to us or the North Carolina Rate Bureau the full nature and scope of your exposure or business operations~~

E. ~~Cancellation~~

- ~~1. The LSRP policy will be cancelled pro rata in accordance with NCCI's **Basic Manual** rules when the policy is cancelled:~~
 - ~~• By you when retiring from business~~
 - ~~• By us for nonpayment of premium, and you are in noncompliance of the WCIP rules and procedures and are no longer in good faith eligible for coverage~~
 - ~~• Because you leave the residual market and have secured coverage in the voluntary market~~
- ~~2. The LSRP will be cancelled short rate in accordance with the NCCI's **Basic Manual** rules when the policy is cancelled:~~

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EXHIBIT 4-A (CONT'D)
FORMS MANUAL OF WORKERS COMPENSATION AND EMPLOYERS LIABILITY INSURANCE
ASSIGNED RISK LOSS SENSITIVE RATING PLAN ENDORSEMENT (WC 32 04 01)
(Applies in: NC)

- ~~• By us for any reason except for nonpayment of premium, and you are in noncompliance of WCIP rules and procedures and are no longer in good faith eligible for coverage~~
 - ~~• By you for reasons other than retiring from business~~
3. ~~We must report noncompliance and any subsequent compliance to the Plan Administrator.~~
4. ~~For the purpose of LSRP, a change in ownership that results in elimination of experience under the rules of NCCI's **Basic Manual** does not constitute retiring from business.~~

Schedule

1. Basic Premium Factor	0.30
2. Loss Conversion Factor	_____
3. Tax Multiplier	_____
4. Minimum Premium Factor	_____
5. Maximum Premium Factor	_____
6. Loss Development Factor:	_____
1st Adjustment	_____
2nd Adjustment	_____
3rd Adjustment	_____
Subsequent Adjustments	0.00

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EXHIBIT 4-B
FORMS MANUAL OF WORKERS COMPENSATION AND EMPLOYERS LIABILITY INSURANCE
ASSIGNED RISK LOSS SENSITIVE RATING PLAN NOTIFICATION ENDORSEMENT FOR
PROFESSIONAL EMPLOYER ORGANIZATION (PEO) AND TEMPORARY ARRANGEMENTS
(WC 32 04 02)
(Applies in: NC)

~~ASSIGNED RISK LOSS SENSITIVE RATING PLAN NOTIFICATION ENDORSEMENT FOR
PROFESSIONAL EMPLOYER ORGANIZATION (PEO) AND TEMPORARY ARRANGEMENTS (WC 32-
04 02)~~

~~This endorsement is to advise you that, during the term of this policy or upon renewal, you may become subject to the assigned risk mandatory Loss Sensitive Rating Plan (LSRP), which may adjust the cost of your workers compensation policy. This endorsement must be attached to all professional employer organization (PEO) and temporary arrangement assigned risk policies, regardless of standard premium size, in states that have approved the LSRP. In the event that you meet or exceed the eligibility requirements of the LSRP, a LSRP contingency deposit premium equal to 20% of standard premium will be required.~~

~~**Eligibility**~~

- ~~1. Your insurance is written under a Workers Compensation Insurance Plan (WCIP) in a state that has approved the Loss Sensitive Rating Plan (LSRP).~~
- ~~2. The LSRP will apply to an individual assigned risk policy if the standard premium equals or exceeds the amount noted in the Schedule.~~
- ~~3. If the standard premium meets or exceeds the eligibility threshold at any time during the policy period, LSRP will be applied retroactive to the policy inception, and the 20% LSRP Contingency Deposit will be required within 30 days.~~
- ~~4. Some employers may take actions for the purpose of avoiding the application of the LSRP. Other employers may take actions for otherwise legitimate business reasons that nonetheless result in the improper application of the LSRP. Regardless of intent, any action that results in the miscalculation or misapplication of the LSRP determined in accordance with the LSRP rules is prohibited. These actions include, but are not limited to:~~
 - ~~• Misrepresentation and/or miscalculation of payroll at application, audit or renewal~~
 - ~~• Failure to report changes in ownership or ownership information according to the WCIP and NCCI's **Experience Rating Plan Manual**~~
 - ~~• Violation of any of the terms and conditions under the policy for which this insurance was issued~~
 - ~~• Failure to allow us or the North Carolina Rate Bureau reasonable access to your facilities or files and records for audit or inspection~~
 - ~~• Failure to disclose to us or the North Carolina Rate Bureau the full nature and scope of your exposure or business operations~~
- ~~5. If you meet the eligibility requirement for the LSRP and you have operations in more than one state, your policy(s) must meet the premium eligibility threshold requirements for the state with the greatest standard premium. When this occurs:~~
 - ~~• The total standard premium of all states that have approved the LSRP must meet or exceed the premium eligibility requirement for the LSRP state generating the largest standard premium~~
 - ~~• All of your WCIP policies will be combined to determine a single LSRP contingency deposit premium~~
 - ~~• Each single WCIP application or policy will require a separate WCIP initial or deposit premium~~

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EXHIBIT 4-B (CONT'D)
FORMS MANUAL OF WORKERS COMPENSATION AND EMPLOYERS LIABILITY INSURANCE
ASSIGNED RISK LOSS SENSITIVE RATING PLAN NOTIFICATION ENDORSEMENT FOR
PROFESSIONAL EMPLOYER ORGANIZATION (PEO) AND TEMPORARY ARRANGEMENTS
(WC 32 04 02)
(Applies in: NC)

~~It may not always be possible for a single carrier to provide coverage for all requested states; additional policies may be necessary.~~

~~The LSRP program will adjust your premium for this insurance based upon the losses incurred during the period covered by this policy or any renewal policy.~~

~~This endorsement applies in the states listed in the Schedule below.~~

~~Schedule~~

~~State~~

~~Premium Eligibility~~