

NORTH CAROLINA RATE BUREAU

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November 7, 2001

CIRCULAR LETTER TO ALL MEMBER COMPANIES (Home Offices Only)

Re: Workers Compensation Insurance

Loss Costs Filing

A loss costs reference filing has been filed with and approved by the North Carolina Commissioner of Insurance to become effective April 1, 2002. Pursuant to the provisions of North Carolina General Statute 58-36-100, a copy of the approved reference filing is enclosed.

The enclosed filing includes exhibits that display (i) the derivation of the pure premium level change; (ii) a summary of the expense provisions that are included in the loss costs, (iii) the advisory loss costs and rating values, by class code; (iv) appendices that underlie the derivation of the overall pure premium level change and the distribution of that change by industry group and by class code; (v) the derivation of "F" classification loss costs; (vi) a summary of benefit changes; and (vii) a comparison, by class code, of the April 1, 2001 loss costs to the April 1, 2002 loss costs. Appendix D recites statutory requirements for data to be included in NCRB rate filings. The extensive data that were submitted to the Department of Insurance as an adjunct to the loss costs reference filing, referenced as "11 NCAC 10.1111 responses", are not being reproduced for distribution. Similarly, the Bureau's pre-filed testimony that accompanied the filing is not being distributed.

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

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

With regard to the Bureau's prospective loss costs reference filings, NCGS 58-36-100(j), as amended, provides as follows:

- (1) If the insurer has filed to have its loss multiplier remain on file, applicable to subsequent reference filings, and a new reference filing is filed and approved and if:
 - a. The insurer decides to use the revision of the prospective loss costs and effective date as filed, then the insurer does not file anything with the Commissioner. Rates are the combination of the prospective loss costs and the on-file loss multiplier and become effective on the effective date of the loss costs.
 - b. The insurer decides to use the prospective loss costs as filed but with a different effective date, then the insurer must notify the Commissioner of its effective date before the effective date of the loss costs.
 - c. The insurer decides to use the revision of the prospective loss costs, but wishes to change its loss multiplier, then the insurer must file a revised reference filing adoption form before the effective date of the reference filing.
 - d. The insurer decides not to revise its rates using the prospective loss costs, then the insurer must notify the Commissioner before the effective date of the loss costs.
- (2) If an insurer has not elected to have its loss multiplier remain on file, applicable to future prospective loss costs reference filings, and a new reference filing is filed and approved, and if:
 - a. The insurer decides to use the prospective loss costs to revise its rates, then the insurer must file a reference filing adoption form, including its effective date.
 - b. The insurer decides not to use the revisions, then the insurer does not file anything with the Commissioner.
 - c. The insurer decides to change its multiplier, then the insurer must file a reference filing adoption form referencing the current approved prospective loss costs, including its effective date and, if applicable, its loss costs modification factor and supporting documentation. The insurer shall not make a change to its loss cost multiplier based on any reference filing other than the current approved reference filing.

Included in Part I, Exhibit III of the filing are approved advisory Miscellaneous Values and Retrospective Rating Plan State Special Rating Values. Pursuant to NCGS §58-36-100(1), as a result of the Commissioner's approval of the miscellaneous and Retrospective Rating Plan values, (i) a carrier may elect to implement the values, in which event the carrier need not file anything with the Commissioner; (ii) a carrier may elect to implement the values with a different effective date, in which event the carrier must notify the Commissioner of its effective date before the effective date of the Bureau filing; (iii) a carrier may elect not to implement the values, in which event the carrier must notify the Commissioner before the effective date of the Bureau filing; or (iv) a carrier may elect to implement the values with modifications, in which event the carrier must file the modifications with the Commissioner, must specify the basis for the modifications and must specify the carrier's proposed effective date, if different from the effective date of the Bureau filing.

With regard to the Loss Elimination Ratios shown with the advisory Miscellaneous Values, a carrier should file with the Commissioner its factor(s) to be applied to the approved Loss Elimination Ratios or its own table of deductible percentages. Similarly, with regard to the Retrospective Rating Plan, each carrier should file its

factor(s) to be applied to the Excess Loss Pure Premium Factors and Excess Loss and Allocated Expense Pure Premium Factors or file its own tables. It is the Rate Bureau's interpretation of the statute that, if the factors for these tables have previously been filed and approved, or, if filed on or after September 1, 1997 and not disapproved, and, if the factors will not be revised, they may be applied to the April 1, 2002 tables without a new filing with the Commissioner.

Note: The obligations of carriers with respect to use of the prospective loss costs and use of the advisory Miscellaneous Values and Retrospective Rating Plan State Special Rating Values are different. The statutory provisions with regard to use of the approved prospective loss costs and an insurer's loss multiplier are set forth in NCGS 58-36-100, portions of which have been quoted above. With respect to the advisory Miscellaneous Values and Retrospective Rating Plan State Special Rating Values, a carrier is required to implement those values effective April 1, 2002 unless it makes a filing with the Commissioner indicating that it elects to do otherwise, as described above.

As previously stated, except for loss adjustment expenses, the approved prospective loss costs include no provisions for expenses. For your information, the premium tax is currently 2.5% of premium and House Bill 232, ratified on September 20, 2001, set the insurance regulatory charge at 6.5% of the premium tax for the 2001 calendar year.

Enclosed are copies of the North Carolina Department of Insurance (i) Reference Filing Adoption Form, (ii) Summary of Supporting Information Form - Calculation of Company Loss Costs Multiplier and (iii) Summary of Supporting Information Form - Expense Provisions Exhibit which have been developed for insurers to file their loss costs multipliers. These forms may also be found under "Publications" at the Workers Comp Services section of the Rate Bureau's web site (www.ncrb.org).

Note: The Reference Filing Adoption Form should be completed to show NCDOI File Number : PC044623, NCRB Reference Filing Number: August 31, 2001 and NCRB Effective Date: April 1, 2002. Item 7, "Provision for loss based assessments" of the Summary of Supporting Information Form - Calculation of Company Loss Costs Multiplier should be completed to include .00 (See NCRB Reference Filing, Part I, Exhibit II).

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

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

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

The April 1, 2002 advisory loss costs, residual market rates, rating values and miscellaneous values are posted on our web site. To assist carriers in the mechanics of generating individual class code rates, there is also a file identified as "April 2002 Loss Costs by Industry Group" (See the On-Line Database Services section under Workers Comp Services on our web site) which has each class code assigned to one of the following industry groups:

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

If you do not have access to the internet and would like to have the loss costs and residual market rates on a diskette, please send us a written request and we will promptly forward a diskette to you.

If you want an additional copy of the approved reference filing for your internal use, or for other carriers in your group, please make your request in writing and include a check in the amount of \$100, payable to the North Carolina Rate Bureau.

Very truly yours,

Jerry G. Hamrick

Workers Compensation Manager

JGH:dg

Enclosure

C-01-16