

July 31, 2008

CIRCULAR LETTER TO ALL MEMBER COMPANIES

Re: NCCI Item RM-W-8028: Loss Sensitive Rating Plan (LSRP) changes for Assigned Risk Market

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 approval is effective September 1, 2008, and will impact all Assigned Risk accounts by adding an informative endorsement (WC 00 04 17 A) onto all policies. The Loss Sensitive Rating Plan (LSRP) that this endorsement references will impact only those policies with more than \$200,000 in standard premium. The changes in the ***Basic Manual for Workers Compensation and Employers Liability Insurance*** relate to the Loss Sensitive Rating Plan (LSRP) for Assigned Risk policies.

Modifications were made to Endorsement WC 00 04 17 A. In addition, two North Carolina Specific Endorsements have been approved.

Endorsement WC 32 04 02-Assigned Risk Loss Sensitive Rating Plan Notification Endorsement for Professional Employer (PEO) and Temporary arrangements should be attached to all new and renewal PEO and Temporary Assignment assigned risk policies where North Carolina is listed in item 3A.

Endorsement WC 32 04 01-Assigned Risk Loss Sensitive Rating Plan Endorsement must be attached to all new and renewal assigned risk policies meeting the standard premium eligibility threshold for LSRP where North Carolina is listed in item 3A.

Additional details are provided beginning on the following page.

<b>Endorsement Number</b>	<b>Endorsement Description</b>	<b>Endorsement Purpose</b>
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 Organizations (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 Assignment 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.

The endorsements described above are attached as Exhibits to this Circular.

The above changes are applicable to new and renewal assigned risk policies with effective dates on or after September 1, 2008.

If you have any questions, please contact the Information Center at 919-582-1056 or [winfo@ncrb.org](mailto:winfo@ncrb.org).

Sincerely,

Sue Taylor

Director of Insurance Operations

ST:dg

C-08-13

Effective September 1, 2008

**ASSIGNED RISK LOSS SENSITIVE RATING PLAN NOTIFICATION ENDORSEMENT**

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 assigned risk policies, except for professional employer organization (PEO) and temporary arrangements, 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 contingent 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 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.
4. If the 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% LSRP contingency deposit will be required within 30 days of us issuing notice to you of the application of LSRP.
5. If the 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(s).
6. If the standard premium increases after the first 120 days, and meets the LSRP premium eligibility threshold, your policy(s) will remain a guaranteed cost policy(s) and the LSRP will be applied at renewal, subject to meeting the eligibility requirements on the renewal policy(s).
7. 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 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 reasonable access to your facilities or your files and records for audit or inspection
  - Failure to disclose to the assigned carrier or NCCI the full nature and scope of the your exposure or business operations
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 premiumIt may not always be possible for a single carrier to provide coverage for all requested states; additional policies may be necessary.

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.

Schedule

**State**

**Premium Eligibility**

This endorsement changes the policy to which it is attached and is effective on the date issued unless otherwise stated.

**(The information below is required only when this endorsement is issued subsequent to preparation of the policy.)**

Endorsement  
Insured

Effective Policy No.

Endorsement No.  
Premium

Insurance Company

Countersigned by \_\_\_\_\_

Effective September 1, 2008

**ASSIGNED RISK LOSS SENSITIVE RATING PLAN NOTIFICATION ENDORSEMENT FOR PROFESSIONAL EMPLOYER ORGANIZATION (PEO) AND TEMPORARY ARRANGEMENTS**

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
 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**

**Notes:**

1. The company may show additional column(s) in the schedule in order to include necessary information such as specific states on a multistate policy.
2. This endorsement must be used for every PEO and Temporary Arrangement assigned risk policy.

Effective September 1, 2008

### ASSIGNED RISK LOSS SENSITIVE RATING PLAN ENDORSEMENT

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.
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

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**2. LSRP Formula**

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

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

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 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 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:
  - 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

**Notes:**

1. The Loss Sensitive Rating Plan is a mandatory program in the assigned risk market for risks that meet the eligibility threshold.