

November 10, 2009

CIRCULAR LETTER TO ALL MEMBER COMPANIES

Re: Workers Compensation Insurance

NCCI Item R-1400 – Excess Loss Factors

The Bureau has adopted and the North Carolina Commissioner of Insurance has approved changes to the Retrospective Rating Plan table for Excess Loss Factors.

The attached Filing Memorandum further describes the changes which have been approved to become effective April 1, 2010, applicable to new and renewal business.

Sincerely,

Sue Taylor

Director of Insurance Operations

ST:dg

C-09-28

## FILING MEMORANDUM

### ITEM R-1400—2009 UPDATE TO RETROSPECTIVE RATING PLAN PARAMETERS—EXCESS LOSS FACTORS

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#### PURPOSE

This item proposes to update the Excess Loss Factors in NCCI's 2009 Edition of the *Retrospective Rating Plan Manual for Workers Compensation and Employers Liability Insurance*.

#### BACKGROUND

Retrospective rating is a plan for adjusting premium according to the loss experience during the effective period of a policy.

The Retrospective Rating Plan contains an optional provision—an individual loss limitation—which limits the amount of loss arising out of any one accident that will be used in the calculation of retrospective premium adjustments. The charge for limiting losses is determined by application of an Excess Loss Factor (ELF).

The ELFs vary by loss limitation and hazard group. The variation in ELFs across hazard groups reflects the varying degrees of severity exposure to occupational hazards inherent to operations associated with each classification. ELFs need to be updated periodically for two reasons:

1. ELFs are computed from excess ratios, giving the percentage of losses expected to be above a given limit. For any fixed limit, inflation will increase the percentage of losses above that limit. Therefore, excess ratios and ELFs are periodically updated to accurately reflect the effect of inflation on those losses.
2. Overall excess ratios are computed as a weighted average of injury type excess ratios. Thus, excess ratios, and consequently ELFs, need to be updated regularly for changes in the mix of injury types.

The proposed state ELFs are based on the data underlying the currently approved NCCI loss cost filing. This data was trended forward to the effective date of each state's next anticipated NCCI loss cost filing. The proposed ELFs were then computed in the same way as the currently approved ELFs.

#### PROPOSAL

In states for which loss costs are developed rather than final rates, this filing proposes to update the ELFs that are used with an optional loss limitation in the Retrospective Rating Plan. The proposed ELFs for loss cost states are found in Exhibit 1. For states where final rates are developed, updated ELFs will be included in the state's next rate filing.

#### IMPACT

The proposed ELFs are necessary to maintain the aggregate expected balance between the retrospectively rated premium and the guaranteed cost premium. If the ELFs were not updated, there would be a natural slippage caused by inflation acting over time to increase the percentage of losses over any fixed loss limit. The proposed ELFs also reflect the updated mix of injury types. These changes are not expected to have any significant impact on overall premium levels.

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**IMPLEMENTATION**

In order to implement this item, the attached exhibits detail the changes required in NCCI's 2009 Edition to the *Retrospective Rating Plan Manual*.

This item is applicable to new and renewal voluntary policies and will become effective concurrently with each state's approved rate/loss cost filing for the 2010 filing cycle. For example, this item will be effective January 1, 2010 for approved rate/loss cost filings that have a January 1, 2010 effective date. Similarly, this item will be effective July 1, 2010 for approved rate/loss filings that have a July 1, 2010 effective date. If there is no rate/loss cost filing for a state in a given year, this item will take effect on that state's "normal" rate effective date. (The "normal" rate effective date is the anniversary date of the state's previous year's rate effective date.)

The following chart shows the anticipated effective dates for each state:

State	Anticipated Effective Date <sup>†</sup>
Alabama	March 1, 2010
Alaska	January 1, 2010
Arkansas	July 1, 2010
Colorado	January 1, 2010
Connecticut	January 1, 2010
District of Columbia	November 1, 2009
Georgia	July 1, 2010
Hawaii	Effective date is determined upon regulatory approval of the individual carrier's election to adopt this change.
Illinois	January 1, 2010
Indiana	January 1, 2010
Kansas	January 1, 2010
Kentucky	October 1, 2009
Louisiana	May 1, 2010
Maine	January 1, 2010
Maryland	January 1, 2010
Mississippi	March 1, 2010
Missouri	January 1, 2010
Montana	July 1, 2010

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Nebraska	February 1, 2010
Nevada	March 1, 2010
New Hampshire	January 1, 2010
New Mexico	January 1, 2010
North Carolina	April 1, 2010
Oklahoma	January 1, 2010
Oregon	January 1, 2010
Rhode Island	June 1, 2010
South Carolina	If there is no rate/loss cost filing for South Carolina in a given year, this item will take effect on South Carolina's "normal" rate effective date. (The "normal" rate effective date is the anniversary date of the state's previous approved rate/loss cost filing.)
South Dakota	July 1, 2010
Tennessee	March 1, 2010
Utah	December 1, 2009
Vermont	April 1, 2010

† Subject to change depending on the approved effective date of the loss cost filing if a loss cost filing has been submitted for a state.

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ITEM R-1400—2009 UPDATE TO RETROSPECTIVE RATING PLAN - EXCESS LOSS FACTORS

**EXHIBIT 1**  
**RETROSPECTIVE RATING PLAN MANUAL**  
**APPLIES IN NORTH CAROLINA**  
**NORTH CAROLINA EXCESS LOSS PURE PREMIUM FACTORS**

<b>Excess Loss Pure Premium Factors</b>							
<b>Per Accident Limitation</b>	<b>Hazard Groups</b>						
	<b>A</b>	<b>B</b>	<b>C</b>	<b>D</b>	<b>E</b>	<b>F</b>	<b>G</b>
\$10,000 †	0.690	0.722	0.739	0.755	0.770	0.792	0.808
\$15,000 †	0.649	0.687	0.707	0.725	0.744	0.770	0.790
\$20,000 †	0.615	0.657	0.679	0.699	0.721	0.750	0.774
\$25,000	0.586	0.631	0.655	0.676	0.700	0.732	0.760
\$30,000	0.560	0.607	0.632	0.655	0.681	0.716	0.747
\$35,000	0.536	0.586	0.612	0.636	0.664	0.701	0.734
\$40,000	0.515	0.566	0.593	0.618	0.648	0.686	0.722
\$50,000	0.478	0.531	0.560	0.586	0.618	0.660	0.700
\$75,000	0.407	0.461	0.493	0.522	0.558	0.605	0.653
\$100,000	0.357	0.410	0.442	0.472	0.510	0.561	0.614
\$125,000	0.318	0.369	0.402	0.432	0.471	0.525	0.581
\$150,000	0.287	0.337	0.370	0.400	0.440	0.494	0.553
\$175,000	0.260	0.309	0.342	0.372	0.412	0.467	0.528
\$200,000	0.238	0.285	0.318	0.347	0.387	0.443	0.506
\$225,000	0.219	0.264	0.296	0.326	0.366	0.421	0.486
\$250,000	0.203	0.247	0.278	0.307	0.347	0.403	0.468
\$275,000	0.189	0.231	0.262	0.290	0.329	0.385	0.451
\$300,000	0.176	0.216	0.247	0.274	0.312	0.368	0.435
\$325,000	0.165	0.204	0.233	0.260	0.298	0.353	0.419
\$350,000	0.155	0.192	0.221	0.247	0.284	0.339	0.405
\$375,000	0.146	0.182	0.210	0.235	0.272	0.325	0.392
\$400,000	0.138	0.173	0.200	0.225	0.260	0.313	0.380
\$425,000	0.131	0.164	0.191	0.215	0.249	0.302	0.368
\$450,000	0.124	0.156	0.183	0.206	0.239	0.291	0.357
\$475,000	0.118	0.149	0.175	0.197	0.230	0.281	0.347
\$500,000	0.112	0.142	0.168	0.190	0.222	0.272	0.337
\$600,000	0.094	0.121	0.144	0.163	0.193	0.239	0.302
\$700,000	0.081	0.104	0.125	0.143	0.170	0.213	0.274
\$800,000	0.071	0.092	0.112	0.128	0.153	0.193	0.251
\$900,000	0.063	0.082	0.100	0.115	0.138	0.175	0.231
\$1,000,000	0.057	0.074	0.091	0.104	0.125	0.161	0.214
\$2,000,000	0.026	0.035	0.045	0.052	0.064	0.085	0.121
\$3,000,000	0.016	0.022	0.029	0.034	0.042	0.056	0.084
\$4,000,000	0.012	0.016	0.021	0.024	0.030	0.042	0.063
\$5,000,000	0.010	0.013	0.017	0.019	0.024	0.032	0.051
\$6,000,000	0.008	0.010	0.013	0.015	0.019	0.026	0.041
\$7,000,000	0.007	0.008	0.011	0.013	0.016	0.022	0.035
\$8,000,000	0.006	0.008	0.010	0.011	0.014	0.019	0.030
\$9,000,000	0.005	0.007	0.009	0.010	0.012	0.016	0.026
\$10,000,000	0.005	0.006	0.008	0.009	0.011	0.015	0.024

† This loss limit is not applicable for retrospective rating in this state.

ITEM R-1400—2009 UPDATE TO RETROSPECTIVE RATING PLAN - EXCESS LOSS FACTORS

**EXHIBIT 1**  
**RETROSPECTIVE RATING PLAN MANUAL**  
**APPLIES IN NORTH CAROLINA**  
**NORTH CAROLINA EXCESS LOSS AND ALLOCATED EXPENSE PURE PREMIUM FACTORS**

<b>Excess Loss and Allocated Expense Pure Premium Factors</b>							
<b>Per Accident Limitation</b>	<b>Hazard Groups</b>						
	<b>A</b>	<b>B</b>	<b>C</b>	<b>D</b>	<b>E</b>	<b>F</b>	<b>G</b>
\$10,000 †	0.755	0.789	0.806	0.822	0.838	0.860	0.876
\$15,000 †	0.714	0.753	0.774	0.792	0.811	0.837	0.858
\$20,000 †	0.679	0.723	0.745	0.766	0.788	0.818	0.842
\$25,000	0.648	0.696	0.720	0.742	0.767	0.800	0.828
\$30,000	0.622	0.671	0.697	0.721	0.748	0.783	0.814
\$35,000	0.597	0.649	0.676	0.701	0.730	0.768	0.801
\$40,000	0.575	0.628	0.657	0.683	0.713	0.753	0.789
\$50,000	0.536	0.592	0.622	0.650	0.683	0.726	0.767
\$75,000	0.462	0.519	0.552	0.582	0.620	0.670	0.719
\$100,000	0.407	0.464	0.498	0.530	0.570	0.624	0.679
\$125,000	0.365	0.420	0.456	0.488	0.529	0.585	0.644
\$150,000	0.331	0.386	0.421	0.453	0.496	0.553	0.615
\$175,000	0.302	0.355	0.391	0.423	0.466	0.525	0.589
\$200,000	0.277	0.329	0.365	0.397	0.440	0.499	0.565
\$225,000	0.256	0.306	0.341	0.373	0.416	0.476	0.544
\$250,000	0.238	0.287	0.322	0.353	0.396	0.456	0.525
\$275,000	0.222	0.269	0.303	0.334	0.376	0.437	0.506
\$300,000	0.207	0.253	0.286	0.317	0.359	0.419	0.489
\$325,000	0.195	0.238	0.271	0.301	0.342	0.402	0.474
\$350,000	0.183	0.225	0.258	0.287	0.327	0.387	0.458
\$375,000	0.173	0.214	0.245	0.273	0.313	0.373	0.444
\$400,000	0.164	0.203	0.234	0.261	0.301	0.359	0.431
\$425,000	0.155	0.193	0.224	0.250	0.289	0.346	0.418
\$450,000	0.147	0.184	0.214	0.240	0.278	0.335	0.406
\$475,000	0.140	0.176	0.205	0.230	0.267	0.323	0.395
\$500,000	0.134	0.169	0.197	0.222	0.258	0.313	0.384
\$600,000	0.113	0.143	0.169	0.192	0.225	0.277	0.346
\$700,000	0.097	0.124	0.148	0.168	0.199	0.248	0.315
\$800,000	0.085	0.110	0.132	0.151	0.179	0.225	0.290
\$900,000	0.076	0.098	0.119	0.136	0.162	0.205	0.267
\$1,000,000	0.068	0.088	0.108	0.123	0.148	0.188	0.248
\$2,000,000	0.031	0.042	0.054	0.062	0.076	0.100	0.142
\$3,000,000	0.020	0.026	0.035	0.040	0.050	0.067	0.099
\$4,000,000	0.014	0.019	0.025	0.029	0.036	0.050	0.075
\$5,000,000	0.011	0.015	0.020	0.023	0.028	0.039	0.060
\$6,000,000	0.009	0.012	0.015	0.018	0.022	0.031	0.049
\$7,000,000	0.008	0.010	0.013	0.015	0.019	0.026	0.041
\$8,000,000	0.007	0.009	0.012	0.013	0.016	0.022	0.036
\$9,000,000	0.006	0.008	0.010	0.012	0.015	0.020	0.031
\$10,000,000	0.006	0.007	0.009	0.011	0.013	0.018	0.028

† This loss limit is not applicable for retrospective rating in this state.