



April 23, 2010

CIRCULAR LETTER TO ALL MEMBER COMPANIES

RE: Aggravated Inequity Rule

The North Carolina Rate Bureau has filed and the North Carolina Commissioner of Insurance has approved the elimination of the Aggravated Inequity Rule in North Carolina effective May 1, 2010. This change is effective immediately and, therefore, unit statistical reports reflecting Aggravated Inequity claims will no longer be accepted on or after May 1, 2010.

For a number of years, the Aggravated Inequity Rule has allowed interested parties to contact the North Carolina Rate Bureau or the member companies if circumstances have occurred that resulted in a standard premium change of 5% or more when the calculation of an experience modification, based on reserves at the normal valuation date, is compared with the cost of claims closed between such normal valuation date and the next effective date. Over the last several years, it has become increasingly difficult for this rule to be appropriately administered due to a number of factors not limited to:

- Carriers often issue their policies several months in advance. In order to appropriately determine whether the premium reduction is 5% or more, the premium would have to be evaluated both before and after the mod was calculated. This would be appropriate in the case where the policy was issued with the incorrect mod initially; however, in most instances the North Carolina Rate Bureau issues experience modifications 90 days or more prior to the effective date of the policy.
- Employers often change insurance carriers. If the employer changes insurance carriers from one year to the next, the new carrier has no way of determining whether the old carrier's submission of corrected data has resulted in a 5% reduction.

As a result of the elimination of the Aggravated Inequity provision, the *North Carolina Statistical Plan Manual* and the *NCCI Experience Rating Plan Manual* will be updated to reflect the elimination of the rule. The attachment provides a summary of the changes to the *North Carolina Statistical Plan Manual*. A complete copy of the revised *North Carolina Statistical Plan Manual* can be found on the Bureau website at www.ncrb.org.

Contact the Information Center at 919-582-1056 or winfo@ncrb.org if you require additional information.

Sincerely,

Sue Taylor

Director of Insurance Operations

ST:dms

C-10-5

NC Statistical Plan Changes

SECTION	CURRENT	APPROVED EFFECTIVE 05-01-10	REASON FOR CHANGE
Section Three- Page 1-Item 3	<p>Correction Type Report the 1-position alphabetic code that indicates the type of correction report being submitted.</p> <p>H Header Record Correction</p> <p>E Exposure Record Correction</p> <p>L Loss Record Correction (Excluding (Correction due to Aggravated Inequity)</p> <p>T Total Record Correction</p> <p>M Corrections to Multiple Record Types (Excluding Aggravated Inequity)</p> <p>A Loss Record Corrections due to Aggravated Inequity</p>	<p>Correction Type Report the 1-position alphabetic code that indicates the type of correction report being submitted.</p> <p>H Header Record Correction</p> <p>E Exposure Record Correction</p> <p>L Loss Record Correction</p> <p>T Total Record Correction</p> <p>M Corrections to Multiple Record Types</p> <p>Note: Correction Type A (Aggravated Inequity) can no longer be reported effective May 1, 2010.</p>	<p>Updated to remove Aggravated Inequity references</p>

SECTION	CURRENT	APPROVED EFFECTIVE 05-01-10	REASON FOR CHANGE
<p>Section Six – Pages 1 & 2- Item 2b.5</p>	<p>Loss Corrections. A correction of a loss report must also be filed when any of the following occur between valuation dates.</p> <p>(1) Loss values are found to have been included or excluded through a mistake other than error of judgment.</p> <p>(2) One or more claims, or any part thereof, are declared non-compensable as defined in the <i>Experience Rating Plan Manual</i>.</p> <p>(3) The carrier of the claimant has obtained a subrogation recovery in an action against a third party or has received reimbursement from the Second Injury Fund. Correction reports are required only for prior reports which reflect an amount higher than the net incurred cost. If the total recovery amount is less than 10% of the gross incurred cost of the claim, do not file a correction report.</p> <p>(4) A clerical error in either the classification assignment or the injury code assignment of a given claim, or group of claims, has been discovered.</p>	<p>Loss Corrections. A correction of a loss report must also be filed when any of the following occur between valuation dates.</p> <p>(1) Loss values are found to have been included or excluded through a mistake other than error of judgment.</p> <p>(2) One or more claims, or any part thereof, are declared non-compensable as defined in the <i>Experience Rating Plan Manual</i>.</p> <p>(3) The carrier of the claimant has obtained a subrogation recovery in an action against a third party or has received reimbursement from the Second Injury Fund. Correction reports are required only for prior reports which reflect an amount higher than the net incurred cost. If the total recovery amount is less than 10% of the gross incurred cost of the claim, do not file a correction report.</p> <p>(4) A clerical error in either the classification assignment or the injury code assignment of a given claim, or group of claims, has been discovered.</p>	<p>Updated to remove Aggravated Inequity references</p>

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<p>Section Six – Pages 1 & 2-Item 2b.5(cont.)</p>	<p>(5) The determination of an aggravated inequity has occurred. Refer to the North Carolina Pages of the <i>Experience Rating Plan Manual</i>. Correction reports shall not be filed to revise values because of developments in the claim amounts and/or injury type between two valuation dates except in cases involving an aggravated inequity.</p> <p>Developments that are not an aggravated inequity shall be reported as described in Part 1 of this Section.</p>	<p>Correction reports shall not be filed to revise values because of developments in the claim amounts and/or injury type between two valuation dates.</p>	<p>Updated to remove Aggravated Inequity references</p>																
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