

February 6, 2007

CIRCULAR LETTER TO ALL MEMBER COMPANIES

Re: Workers Compensation Insurance  
NCCI Item 01-NC-2006  
Revisions to Basic Manual Classifications  
Charitable or Welfare Organizations

The Bureau has adopted and the North Carolina Commissioner of Insurance has approved changes to several class codes relating to charitable or welfare organizations.

The purpose of this filing is to change the way in which charitable organizations currently assigned to class code 8837 are rated. The current process uses A-rates (average rates) which are manually calculated by averaging the loss costs or rates identified with the exposure. The proposed process uses a transition period during which the exposures will still be assigned to class code 8837 but the rate will be calculated using the most current A-rate calculated for the risk, weighted with a loss cost (or assigned risk rate if in the Residual Market) calculated by NCCI. The initial transition period loss cost will be \$2.45 and the initial transition period assigned risk rate will be \$4.31. The Rate Bureau will calculate the appropriate final loss cost or residual market rate for each individual risk.

This change will become effective 12:01 a.m. on October 1, 2007 applicable to new and renewal business. In the first year the loss cost for each policy will be calculated using the following formula:  $\frac{2}{3} \times \text{Current A-Rate} + \frac{1}{3} \times \text{Approved Transition Period Loss Cost}$ . If the current A-rate is \$1.50, the new loss cost for the policy will be:  $\frac{2}{3} \times \$1.50 + \frac{1}{3} \times \$2.45$  (initial transition loss cost) = \$1.00 + \$0.82 = \$1.82. The class code used will be 8837.

In the second year of the transition program the loss cost for each policy will be calculated using the following formula:  $\frac{1}{3} \times \text{Current A-Rate} + \frac{2}{3} \times \text{Approved Transition Period Loss Cost}$ . The current A-rate will be the same as used for the first year calculation but the approved transition period loss cost will reflect updated experience. If the approved transition period loss cost is \$2.70, then the new loss cost for the policy will be:  $\frac{1}{3} \times \$1.50 + \frac{2}{3} \times \$2.70$  = \$0.50 + \$1.80 = \$2.30. The class code used will remain 8837.

During the transition period new business will be assigned class code 8837 and will use the approved transition period loss cost without any weighting procedure. The transition program will end for both new and renewal business effective October 1, 2009. At that time class code 8837 will be retired and no longer available for use. Risks previously rated as class code 8837 will be reviewed by Rate Bureau staff and rated as either new class codes 8842 or 8864, or a more appropriate class code based on the operations of the insured. The initial loss costs for class codes 8842 and 8864 will be identical but they will be allowed to develop independently as experience is accumulated for each class. A similar process will be used for assigned risk rates. Also included in the proposal is the addition of a cross-reference to class code 7720.

A copy of 01-NC-2006 is attached.

Sincerely,

Sue Taylor

Director of Workers Compensation

ST:dg

C-07-4

**FILING MEMORANDUM**

**ITEM 01-NC-2006—REVISIONS TO BASIC MANUAL CLASSIFICATIONS TO CHARITABLE OR WELFARE ORGANIZATIONS**

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**(To be effective 12:01 a.m. on April 1, 2007 applicable to voluntary and assigned risk new and renewal business only.)**

**PURPOSE**

At the request of the North Carolina Rating Bureau (NCRB), the purpose of this item is to amend the classification treatment of Charitable/Welfare Organizations and Group Homes with the implementation of a three year rate/loss cost and rating values transition program that will:

- Discontinue the A-rating procedure for Code 8837 and manually rate the code
- After the transition period: Eliminate Code 8837—Charitable or Welfare Organization—All Operations & Drivers and assign these operations into a newly created state special phraseology, Code 8864—Social Services Organization—All Employees & Salespersons, Drivers except for those assigned to code 8842
- After the transition period: Remove group home operations from Code 8837 and reassign them to a newly created state special phraseology, Code 8842—Group Homes—All Employees & Salespersons, Drivers

**BACKGROUND**

Currently, Code 8837 is an A-rated classification code and is applicable to institutions providing charitable or welfare assistance for mentally, physically, or emotionally handicapped individuals. These organizations may provide sleeping accommodations, meals, on-site counseling or client assessments, education, training, and employment and offer limited medical services such as first aid. As an A-rated classification code, the rates are developed based on the individual operations of a particular insured. Each of the component operations of these businesses is assigned the rate of an analogous classification. These rates are then combined into a composite or average rate for the insured, usually weighted by the employee distribution.

The A-rate procedure exists today because it was believed to be the most equitable way to determine the rate for such operations. However, over the years, these businesses have decreased in diversity. The diverse occupations that were prevalent in the past have now shifted toward a more homogeneous group of insureds representing a similar, if not the same, exposure base. Due to the changes experienced by these types of businesses, it is believed that the most equitable way to rate these insureds is to use standard ratemaking practices and allow the code to develop its own experience.

NCCI conducted a review of charitable/welfare organizations. This study revealed that group homes, temporary shelters for abused persons, and halfway houses other than those for criminals have been identified as a large homogeneous group with similar exposures and operations. These operations provide living accommodations for various groups of individuals. They are easily identifiable and will have a significant amount of payroll to justify a separate classification. Although similar, rescue missions cater to transient individuals and are more similar in exposure to social service organizations.

Frequently, these organizations have employees who may, among other services, counsel, advise, guide, direct, or instruct clients. Typically, these employees are assigned to Code 8742 by analogy. It is believed that client contact elevates the exposure to the same level as other employees with client contact.

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Additionally, this review revealed that the terms “charitable” and “welfare” are subject to interpretation and have resulted in misclassification of businesses. There are several definitions for charitable and welfare, with most relating to the financial or tax status of the organization. Regardless of the financial or tax status of the organization, the common thread from a classification perspective is the management and provision of social services. While there are several definitions for charitable and welfare, all the operations currently encompassed under Code 8837 can be classified as social services, which is a broader and more generic definition.

**PROPOSAL**

It is proposed that:

1. Effective 12:01 a.m., April 1, 2007 for new and renewal business:
  - a. Code 8837 be manually rated using the current loss costs/rates and rating values as an introductory rate.
  - b. A transition program be executed by the North Carolina Rating Bureau (NCRB) to provide a rate/loss cost and rating value transition for all insureds previously classified to Code 8837. The transition program will be implemented on or after April 1, 2007.
2. Effective 12:01 a.m., April 1, 2009 for new and renewal business, Code 8837 be discontinued and all insureds having operations previously under Code 8837 be reassigned to the newly created state special phraseology, Code 8864—Social Services Organization—All Employees & Salespersons, Drivers except for those assigned to code 8842.
3. Effective 12:01 a.m., April 1, 2009 for new and renewal business, establish cross-reference Code 7720—Juvenile Detention Center—All Employees & Salespersons, Drivers.
4. Effective 12:01 a.m., April 1, 2009 for new and renewal business, group homes, temporary shelters, halfway houses (other than those for criminals), and independent supportive living homes be removed from Code 8837 and assigned to the newly created state special phraseology, Code 8842—Group Homes—All Employees & Salespersons, Drivers.
5. Effective 12:01 a.m., April 1, 2009 for new and renewal business, the introductory rates and/or loss costs and rating values for Code 8842 be the same as those for Code 8864.

**IMPACT**

This filing will eliminate the A-rating procedure currently used for Code 8837. The code will appear in the loss cost/rate pages with the corresponding manual loss cost/rate. The use of manual loss costs/rates in lieu of A-rates will serve to reduce the expenses of both policyholders and insurance companies by facilitating policy issuance and expediting the issuance of experience modifications.

Adoption of this proposal will facilitate a smoother, more orderly transition for the affected A-rated risks that are going from the A-rate procedure to conventional ratemaking methodologies. Risks that would otherwise experience significant increases or decreases in premium level during this period and possibly again when the full effect of conventional ratemaking methodologies is felt will, under this program, experience a gradual

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migration of their rates and experience modifications during the transition period toward the rate level determined by conventional ratemaking methodologies.

Finally, this item will foster the uniform and equitable treatment of risks within the charitable/welfare industry. It will reflect the common exposures and facilitate consistency in classifying social service organizations and group homes.

**IMPLEMENTATION**

In order to implement this item, the attached exhibits outline the changes required in NCCI's *Basic Manual for Workers Compensation and Employers Liability Insurance* and *Retrospective Rating Plan Manual for Workers Compensation and Employers Liability Insurance*.

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**ITEM 01-NC-2006—REVISIONS TO BASIC MANUAL CLASSIFICATIONS TO CHARITABLE  
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**EXHIBIT 1**  
**BASIC MANUAL—2001 EDITION**  
**Effective 12:01 a.m., April 1, 2007**

**Deductible Insurance**

Table of Classifications by Hazard Group

<u>Code No.</u>	Old	New	
	<u>I-IV</u>	<u>A-G*</u>	<u>1-4*</u>
8842	II	C	2
8864	II	C	2
<del>8837</del>	<del>II</del>	<del>C</del>	<del>2</del>

**RETROSPECTIVE RATING PLAN MANUAL**

**Effective 12:01 a.m., April 1, 2007**

**Deductible Insurance**

Table of Classifications by Hazard Group

<u>Code No.</u>	Old	New	
	<u>I-IV</u>	<u>A-G*</u>	<u>1-4*</u>
8842	II	C	2
8864	II	C	2
<del>8837</del>	<del>II</del>	<del>C</del>	<del>2</del>

\* Applicable upon North Carolina approving the Hazard Group remapping filing.

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**EXHIBIT 2  
BASIC MANUAL—2001 EDITION  
Effective 12:01 a.m., April 1, 2007  
TRANSITION PROGRAM**

**Transition Program For Risks Subject To Previously A-Rated Code 8837**

It is the responsibility of the North Carolina Rating Bureau to administer this transition program for rates. This program applies to insureds subject to the previously A-rated code indicated above. It does not apply to new risks.

For an individual risk, the manual rate to apply after discontinuance of the A-rate will be equal to a 2 to 1 weighting of the rate used prior to the discontinuance of the A-rate.

For the second year, a 1 to 2 weighting scheme is used.

From the third year on, this transition program no longer applies.

**Example of Transition Program Calculations:**

**Note:** The rates used in the following example are for illustration purposes only:

**Class 8837—Charitable or Welfare Organization—All Operations & Drivers**

	<b>Latest Rate (Code 8837)</b>		<b>Approved Rate (Code 8837)</b>	<b>Transition Rate</b>
Year 1	$(2 \times 5.00)$	+	$(1 \times 3.00)$	= 4.33
	2	+	1	
Year 2	$(1 \times 5.00)$	+	$(2 \times 2.90)$	= 3.60
	1	+	2	
Year 3			2.80	= 2.80

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**EXHIBIT 3  
EXPERIENCE RATING PLAN MANUAL—2003 EDITION  
Effective 12:01 a.m., April 1, 2007  
TRANSITION PROGRAM**

**Transition Program For Risks Subject To Previously A-Rated Code 8837**

It is the responsibility of the North Carolina Rating Bureau to administer this transition program for Expected Loss Rates (ELRs).

This transition program applies to insureds subject to the previously A-rated code indicated above. It does not apply to risks newly qualified for experience rating.

For an individual risk, the Expected Loss Rate (ELR) to apply for the first year after discontinuance of the A-rated code will be equal to a 2 to 1 weighting of the ELR used prior to the discontinuance of the A-rated code.

For the second year, a 1 to 2 weighting scheme is used.

From the third year on, this transition program no longer applies.

Discount (D) ratios are not subject to this transition plan.

**Example of Transition Program Calculations:**

**Note:** The ELRs used in the following example are for illustration purposes only:

**Class 8837—Charitable or Welfare Organization—All Operations & Drivers**

	<b>Latest Rate (Code 8837)</b>		<b>Approved Rate (Code 8837)</b>	<b>Transition Rate</b>
Year 1	$(2 \times 1.50)$	+	$(1 \times 1.30)$	= 1.43
	2	+	1	
Year 2	$(1 \times 1.50)$	+	$(2 \times 1.20)$	= 1.30
	1	+	2	
Year 3			1.10	= 1.10

Refer to the *Basic Manual for Workers Compensation and Employers Liability Insurance* for the Transition Program applicable to manual rates.

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EXHIBIT 4  
BASIC MANUAL—2001 EDITION  
NORTH CAROLINA SPECIAL CLASSIFICATIONS  
EFFECTIVE 12:01 A.M., APRIL 1, 2009

~~8837 CHARITABLE OR WELFARE ORGANIZATION—ALL OPERATIONS & DRIVERS~~  
~~Includes stores and collecting, conditioning and resale of used donated articles of the household~~  
~~type.~~



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EXHIBIT 5  
BASIC MANUAL—2001 EDITION  
NORTH CAROLINA SPECIAL CLASSIFICATIONS  
EFFECTIVE 12:01 A.M., APRIL 1, 2009

~~8837~~     ~~WELFARE OR CHARITABLE ORGANIZATION—ALL OPERATIONS & DRIVERS~~  
~~Includes stores and collecting, conditioning and resale of used donated articles of the household~~  
~~type.~~

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**EXHIBIT 6  
BASIC MANUAL—2001 EDITION  
NORTH CAROLINA SPECIAL CLASSIFICATIONS  
EFFECTIVE 12:01 A.M., APRIL 1, 2009**

**8842 GROUP HOMES—ALL EMPLOYEES & SALESPERSONS, DRIVERS**

Includes group homes, group foster homes, halfway houses licensed in accordance with North Carolina state statutes that provide rehabilitation services, shelters, and independent supportive living homes for mentally, physically or emotionally challenged individuals. Juvenile detention centers, "boot camps," and halfway houses for convicts are to be separately rated to Code 7720. Detoxification, treatment, and rehabilitation of alcoholics or narcotic addicts are separately rated to the appropriate hospital classification codes. Refer to Code 8864 for social service organizations.

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**EXHIBIT 7  
BASIC MANUAL—2001 EDITION  
NORTH CAROLINA SPECIAL CLASSIFICATIONS  
EFFECTIVE 12:01 A.M., APRIL 1, 2009**

**7720 JUVENILE DETENTION CENTER—ALL EMPLOYEES & SALESPERSONS, DRIVERS**

Includes halfway houses, juvenile detention centers, “boot camps,” or homes for convicts. Refer to Code 8842 for group homes, group foster homes, halfway houses licensed in accordance with North Carolina state statutes that provide rehabilitation services, shelters, and independent supportive living homes for mentally, physically or emotionally challenged individuals.

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**EXHIBIT 8  
BASIC MANUAL—2001 EDITION  
NORTH CAROLINA SPECIAL CLASSIFICATIONS  
EFFECTIVE 12:01 A.M., APRIL 1, 2009**

**8864 SOCIAL SERVICES ORGANIZATION—ALL EMPLOYEES & SALESPERSONS, DRIVERS**

Applicable to institutions licensed in accordance with North Carolina state statutes that provide social services to mentally, physically or emotionally challenged persons. Social service organizations may offer these individuals sleeping accommodations, meals, on-site counseling or client assessments, education, training, and employment and offer limited medical services such as first aid. Includes employees who may, among other services, counsel, advise, guide, direct, or instruct clients. Refer to Code 8842 for group homes, group foster homes, halfway houses that provide rehabilitation services, shelters, and independent supportive living homes for mentally, physically or emotionally challenged individuals. Refer to Code 7720 for juvenile detention centers, "boot camps," and halfway houses for convicts. Detoxification, treatment, and rehabilitation of alcoholics or narcotic addicts are separately rated to the appropriate hospital classification codes. Separately rate business ventures operated by social service organizations.