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CIRCULAR LETTER TO ALL MEMBER COMPANIES

Re: Workers Compensation Insurance
Loss Costs Filing

As previously announced, the Rate Bureau's workers compensation insurance loss costs reference filing was submitted to the North Carolina Commissioner of Insurance on September 1, 1999.

The filing proposed an average increase of 3.4% from the loss costs approved effective April 1, 1998. However, as a result of a Settlement Agreement and Consent Order, an average overall change of 0% has been approved. By industry group, the approved changes are: Manufacturing, 1.3% increase; Contracting, 1.4%, decrease; Office and Clerical, 4.5% increase; Goods and Services, 1.9% decrease; and Miscellaneous, 0.4% decrease. Within each industry group, the change will vary from the average by classification depending upon the volume and character of the particular classification experience.

Also approved is an average pure premium level decrease of 25.0% for classifications which contemplate exposure under the United States Longshore and Harbor Workers Compensation Act (AF@ classifications).

The prospective loss costs, rating values and miscellaneous values have been approved by the Commissioner of Insurance for use with policies that have an anniversary rating date effective on or after April 1, 2000. Exhibits which reflect the approved loss costs, rating values and miscellaneous values are attached.

The 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. Taxes, licenses and fees, which have heretofore been included in the loss costs, have now been excluded as a result of recent legislative changes.

With regard to taxes, current loss costs include a provision of 2.68%, which is comprised of the 2.5% premium tax and an insurance regulatory charge of 7.25% of that premium tax. House Bill 296, ratified on May 24, 1999 by the General Assembly of North Carolina, removed premium taxes, licensing costs and fees from the definition of loss costs and included those components in the definition of expenses. The loss costs approved effective April 1, 2000, therefore, do not include any provision for premium taxes, licenses or fees. To the extent any insurer desires to include those items in its final rates, it should incorporate the appropriate provisions as part of its expenses in the calculation of its loss cost multiplier. The premium tax is currently 2.5% of premium and House Bill 1289, ratified on July 20, 1999, sets the insurance regulatory charge at 7% of the premium tax for the 1999 calendar year.

Pursuant to NCGS 58-36-100, the 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 it reads on and after September 1, 1997, 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.

A diskette which contains loss costs/residual market rates and rating values, by class code, is available from the Rate Bureau. The diskettes are IBM -PC compatible, high-density 3.5" diskettes with the data in Lotus 1-2-3 worksheet format. Data on the diskette can be easily loaded into most PC spreadsheet applications (e.g. Lotus 1-2-3, Excel, Quattro Pro) and database managers (e.g. FoxPro, Access, dBase, Paradox). If you want a copy of the diskette, please make your request in writing and include a check in the amount of \$20, payable to the North Carolina Rate Bureau.

Included in the attached documents 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, 2000 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, 2000 unless it makes a filing with the Commissioner indicating that it elects to do otherwise, as described above.

Under separate cover we will distribute a complete copy of the approved loss costs reference filing to the Home Office of each member insurance company or insurance company group. North Carolina Department of Insurance forms for filing of an individual insurer's loss costs multiplier and/or changes in (i) minimum premium formula, (ii) expense constant(s) and/or (iii) premium discount schedules will be included in that mailing.

Very truly yours,

Jerry G. Hamrick

Workers Compensation Manager

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[Enclosures](#)

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