



JUNE 25, 2014

CIF-2014-14

**ITEM FILING APPROVAL****Countrywide—Approval of Item R-1408—2014 Update to the Retrospective Rating Plan Parameters—Excess Loss Pure Premium Factors (ELPPFs) and Excess Loss and Allocated Expense Pure Premium Factors (ELAEPFs) in Eleven States (Revised)****ACTION  
NEEDED**

This circular announces the approval of Item R-1408—2014 Update to the Retrospective Rating Plan Parameters—Excess Loss Pure Premium Factors and Excess Loss and Allocated Expense Pure Premium Factors in Arkansas, Kentucky, Maine, Mississippi, Montana, Nebraska, Nevada, South Dakota, Tennessee, and West Virginia.

**BACKGROUND**

Circular CIF-2014-12, dated June 16, 2014, announced the filing of Item R-1408. As of **June 16, 2014**, the following states have approved this item:

State	Effective Date
Arkansas	July 1, 2015
Kentucky	October 1, 2014
Louisiana	May 1, 2015
Maine	April 1, 2015
Mississippi	March 1, 2015
Montana	July 1, 2015
Nebraska	February 1, 2015
Nevada	March 1, 2015
South Dakota	July 1, 2015
Tennessee	March 1, 2015
West Virginia	November 1, 2014

A participating company may respond to an NCCI filing in any of the following ways:

**Arkansas Company Response**

Rates, rules, and supplementary rating information must be filed and approved or deemed approved before use.

NCCI's filings are advisory only. Upon approval of a filing, a participating company must decide whether to use NCCI's advisory loss costs, rules, and supplementary information or file independently. It may satisfy its obligation by filing, via SERFF, a reference to NCCI's approved filing. **See Arkansas Bulletin 9-2010.**

A company satisfying its filing obligation by referencing NCCI's filing must submit an additional filing, via SERFF, when NCCI submits a subsequent filing, indicating whether the company intends to use the advisory prospective loss costs, rules, and supplementary rating information contained in the subsequent NCCI filing or to continue to use the information

previously filed by NCCI. If the company intends to continue using NCCI's previous filing, the company must also submit justifying information.

A company may also file deviations from an NCCI filing.

**Contact the department's P&C Division if further clarification is needed.**

#### **Kentucky Company Response**

When an insurer chooses to adopt only a specific NCCI filing, it shall do so in accordance with usual filing procedures and shall clearly identify the NCCI reference document number.

When an insurer chooses to adopt all NCCI current and future loss costs, rating plans, rating rules, rating schedules, other supplementary rating information, underwriting rules or guidelines, or statistical plans, the insurer must file written notice of 'blanket reference adoption' with the Commissioner that it is adopting by referencing all the NCCI current and future loss costs, rating plans, rating rules, rating schedules, other supplementary rating information, underwriting rules or guidelines, or statistical plans as filed.

When a participating company receives a circular announcing approval of a reference filing containing supporting information including loss cost data, the company must decide whether to use the NCCI supporting information to revise its rates, rules, and supplementary information and to act in accordance with any prior blanket reference adoption.

#### **Louisiana Company Response**

When a company that has given NCCI filing authorization receives an approval circular of a filing containing new or revised rules and other supplementary rating information, the company must decide whether to revise its rules and other supplementary information and when to make any revision effective.

**Company Action Table**

<b>If</b>	<b>Then</b>
Company chooses to automatically adopt NCCI's approved rules and supplementary information	No action is necessary.
Company wants to change the effective date of NCCI's approved rules and supplementary information	Company is required to make a filing. Otherwise, NCCI's approved effective date is assumed to be the effective date for the company.
Company chooses <b>not</b> to automatically adopt NCCI's approved rules and supplementary information	Company must file to decline the adoption. In all other cases, a notice of nonadoption is not required.

#### **Maine Company Response**

When a participating company receives an approval circular of the filing, the company must decide whether to adhere to the filing made on its behalf or file independently. Every company must adhere to the approved uniform classification system and uniform experience rating plan on file with the Superintendent.

**Company Action Table**

<b>If</b>	<b>Then</b>
Insurer decides to use the revisions and effective date as filed	Insurer does not file anything with the Superintendent
Insurer decides to use the revisions as filed <b>but</b> with a different effective date	Insurer must notify the Superintendent of its effective date at least 30 days prior to its use

### Company Action Table

If	Then
Insurer decides <b>not</b> to use the revision	Insurer must notify the Superintendent not later than the advisory organization's effective date, or 30 days from receipt of the revised Supplementary Rating Information from the advisory organization
Insurer decides to use the revisions with modifications	Insurer must file the modification with the Superintendent specifying the basis for the modification and the insurer's proposed effective date if different from the effective date filed by the advisory organization

### Mississippi Company Response

Upon approval of the filing, a participating company must decide whether to use NCCI's rules and supplementary information or to file independently.

### Company Action Table

If	Then
Company decides to use the revisions and effective date as filed	Company does not file anything with the Insurance Department
Company decides to use the revisions as filed but with a different effective date	Company must notify the Insurance Department of its effective date before NCCI's approved effective date
Company decides <b>not</b> to use the revision	Company must notify the Insurance Department before NCCI's effective date
Company decides to use the revision with modification(s)	Company must file the modification with the Insurance Department for approval, specifying the basis for the modification and company's proposed effective date if different than the effective date filed by NCCI

### Montana Company Response

Company must adhere to the rules, classification system, uniform experience rating plan, and statistical plan that has been filed by NCCI and approved by the Commissioner.

### Nebraska Company Response

When a company that has given NCCI filing authorization receives an approval circular of a filing containing new or revised rules and other supplementary information, the company must decide whether to revise its rules and other supplementary information and when to make any revision effective.

**Company Action Table**

<b>If</b>	<b>Then</b>
Company decides to use NCCI's rules and other supplementary information	Company does not file anything with the Department of Insurance
Company decides to use a modification(s) of NCCI's rules and other supplementary information	Company must notify the Department of Insurance of its modification(s) before the effective date of the rules or other supplementary information

### Nevada Company Response

Every insurer shall adhere to the Uniform System of Classifications of Risks and Uniform Plan for Rating Experience filed with the Commissioner by NCCI.

### South Dakota Company Response

When a company that has given NCCI filing authorization receives an approval circular of a filing containing new or revised rules and other supplementary information, the company must decide whether to revise its rules and other supplementary information and when to make any revision effective.

**Company Action Table**

<b>If</b>	<b>Then</b>
Company accepts the filing including the effective date	Company does not file with the Division of Insurance
Company wishes to deviate from the filing	Company must file with the Division of Insurance and specify the basis for the modification
Company wishes to delay or defer the adoption	Company must file with the Division of Insurance and specify the basis for the delay or deferment

### Tennessee Company Response

Companies must adhere to the approved rules filed by NCCI, pursuant to §56-5-320(b). Additionally, companies will adhere to a uniform classification system, experience rating plan, and retrospective rating plan that have been filed by NCCI and approved by the Commissioner.

## West Virginia Company Response

When a company that has given NCCI filing authorization receives an approval circular of a filing containing new or revised rules and other supplementary information, the company must decide whether to revise its rules and other supplementary information and when to make any revision effective.

**Company Action Table**

<b>If</b>	<b>Then</b>
Company accepts the filing, including the effective date	Company does <b>not</b> file with the OIC
Company decides to make a change to the filing or effective date	Company files the change, specifying the basis for the modification

Per West Virginia Code, every company must adhere to the uniform classification plan and uniform experience rating plan developed by NCCI, and approved by the Commissioner. In addition, every company shall record and report its experience to NCCI as set forth in the uniform statistical plan approved by the Commissioner.

If a member or subscriber deviates in any way from the NCCI filing, the insurer must make written application to the Commissioner for permission to file a deviation from the class rates, schedules, rating plans, or rules respecting any kind of insurance or class of risk within a kind of insurance or a combination thereof. This application must specify the basis for modification and a copy must also be sent simultaneously to the rating organization. The Commissioner will give consideration to the available statistics and the applicable principles for ratemaking as in §33-20-3. Initial or amended loss cost multipliers or modifiers must be filed independently.

The following will be considered deviations:

- Use of rates higher or lower than those approved for NCCI
- Non-adoption of an approved rating organization filing
- Delay in the implementation of an approved NCCI filing
- Modification of a deviation currently in use

The material contained herein is based on NCCI's latest research, but is subject to periodic change. This information is provided as a guide to voluntary market carriers, and is not intended as an interpretation of state law. Refer to state law for current and detailed information since there may be additional laws that may impact your response to an NCCI item filing. While all due effort is made to keep the material up to date, NCCI assumes no material responsibility for the use of this material.

## IMPACT

The proposed ELPPFs and ELAEPPFs are necessary to maintain the aggregate expected balance between the retrospectively rated premium and the guaranteed cost premium. If the ELPPFs and ELAEPPFs are not updated, there will be a natural erosion of rate adequacy over time caused by inflation acting to increase the percentage of losses over any fixed loss limit.

This item introduces a newly enhanced methodology for determining ELPPFs and ELAEPPFs. This proposal to adjust the ELPPFs and ELAEPPFs may increase or decrease premium for an employer that chooses to purchase an individual loss limitation, depending on which limit is purchased.

An overview of the proposed new methodology is provided in Informational Exhibit 3. The impact from implementation of the proposed new methodology varies by state, by loss limit selected, and by hazard group. Informational Exhibit 3 provides the areas where the proposed ELPPFs and ELAEPPFs are typically increasing or decreasing on a countrywide basis when compared to the current ELPPFs and ELAEPPFs. The proposed ELPPFs and ELAEPPFs also reflect an updated mix of loss weights by injury type. Because retrospectively rated policies

represent a small percentage of a state's premium, changes are expected to have a negligible impact on overall statewide premium levels.

In states for which loss costs are developed rather than final rates, this item proposes to update the ELPPFs and ELAEPPFs that are used with an optional loss limitation in the ***Retrospective Rating Plan Manual for Workers Compensation and Employers Liability Insurance (Retrospective Rating Plan Manual)***. Exhibits 1 and 2 contain the proposed ELPPFs and ELAEPPFs. For Arizona, Florida, Idaho, Iowa, and Virginia, updated ELPPFs and ELAEPPFs will be included in each state's next loss cost/rate filing.

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**NCCI ACTION**

NCCI's ***Status of Item Filings*** circular will provide you with the latest information on the approval of Item R-1408, in addition to all NCCI filings. NCCI's ***Status of Rate Revisions*** circular will provide you with the latest rate revision information. The circulars are updated weekly on **ncci.com**.

NCCI will release updated national and state special pages for the ***Retrospective Rating Plan Manual*** prior to the effective date.

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**PERSON TO CONTACT**

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