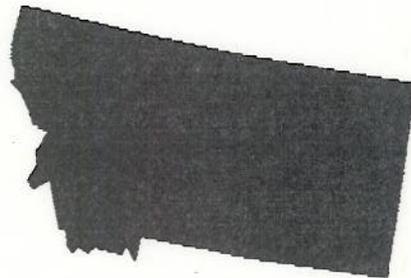




Workers Compensation Loss Costs Insurer Filings

Sample Forms and Instructions



Montana

MONTANA WORKERS COMPENSATION RATE FILING PROCEDURES FOR INDIVIDUAL INSURERS REFERENCING NCCI ADVISORY LOSS COSTS

Circular MT-96-07, dated April 9, 1996, announced revised Montana workers compensation advisory loss costs. This represents the first time that loss costs were updated in Montana (previously, only advisory rates were provided with each update).

This circular details the procedures and requirements for individual insurers who choose to reference NCCI advisory prospective loss costs in their rate filings. In addition, samples of a Reference Filing Adoption Form and Summary of Supporting Information Form for use in referencing NCCI loss costs are included in this circular, along with line-by-line explanations.

Section I - Loss Cost Reference Filings

A) NCCI's Role

NCCI will no longer develop or file advisory rates that contain provisions for expenses or profit and contingencies. Instead, NCCI will file with the Montana Insurance Commissioner a reference filing containing advisory loss costs. In addition, NCCI will no longer develop or file any minimum premiums, minimum premium formulas, expense constants or premium discount plans for the Montana market. NCCI will also file loss elimination ratios for the various deductible options in lieu of deductible credits (percentage premium reductions).

B) Insurer Action

Each insurer must individually determine the final rates it will file for approval and the effective date of any rate changes. In order to do so, insurers have the option to reference NCCI advisory loss costs.

Whether or not an insurer opts to reference these loss costs, rates must be developed and established based upon each individual insurer's experience in the state of Montana to the extent actuarially credible. Where the experience of an insurer is less than fully credible, such experience may be credibility-weighted against the latest corresponding experience as filed by NCCI with the Montana Insurance Department. As discussed below, there may be instances where an insurer would file for adoption of NCCI loss costs without modification.

If an insurer that is an affiliate of NCCI decides to use the prospective loss costs from NCCI's reference filing in support of its own filing, the insurer can make a filing for approval using the Reference Filing Adoption Form and the Summary of Supporting Information Form (see attached). Insurers would file modifications (lines 2A and 2B of the Montana Summary of Supporting Information Form) to the loss costs in the NCCI reference filing based on their own experience and its associated credibility as described above. Supporting documentation containing such experience will be required with each insurer's filing. The insurer's rates would then be the combination of the loss costs, the loss cost modifications and the insurer's filed expense and profit and contingency provisions as contained in the Montana Summary of Supporting Information Form.

Section II - Explanation of Filing Forms

A) Loss Costs Reference Filing Adoption Form

The Reference Filing Adoption Form asks for general information about the insurer, including name, address and NAIC number. It also requests the name of the advisory organization and the reference filing, and the reference filing number that is appropriate for the company filing.

Lines 5A and 5B should show the effects of the proposed revision and the effective date. The rate level change measures the effect on manual rate level; the premium level change is the change in collected premium. If the only changes a carrier is making is in its multiplier or its underlying loss costs, the rate level change would equal the premium level change. However, when parts of the filing such as the expense constant or the minimum premiums are changed, the effect on rate level may be different from the effect on premium level.

The proposed rate level change is a change in manual rate levels. For example, when NCCI files loss costs for a certain percentage change which the carrier adopts. The proposed rate level change would be the change indicated in the Montana loss cost filing. Alternately, suppose NCCI filed for a decrease in loss costs of 8.5%, or a factor of 0.915. Also, suppose a carrier were changing its multiplier from 1.5 to 1.575; that is, an increase of 5% or 1.05. The overall rate level change would be 0.915×1.05 , which is 0.961, or a decrease of 3.9%.

The premium level change could be different if the carrier were changing its expense constant or its minimum premium. If the change in one of these items or in some other factor results in a change in the premium that will be received, this change should be reflected in Line 5B, Proposed Premium Level Change.

Note that the first time an insurer is applying a multiplier to NCCI loss costs, the proposed rate level change should be relative to the implied "multiplier" underlying the NCCI advisory rates that the insurer was previously referencing. In NCCI's 7/1/95 filing, which contained the last NCCI advisory rates approved in Montana, the implied "multiplier" was 1.395. Consider an example where a carrier is currently deviating 5% below NCCI's 7/1/95 advisory rates (factor of 0.95), loss costs are decreased by 8.5% (factor of 0.915), and the carrier selects a multiplier of 1.4. The proposed rate level change in this case would be $(0.915 \times 1.4) / (1.395 \times 0.95)$, which is 0.967, or a decrease of 3.3%.

B) Summary of Supporting Information Form

Line 1 asks if the filing applies to all workers compensation classifications. If the answer is no, a list of affected classes must be provided. If the filing applies to all except a selected number of classes (e.g., USL&HW Act classifications), an attachment should be included to justify why those classes are excluded.

Line 2 relates to loss cost modifications. The purpose of this section is for carriers to recognize how their own loss experience may differ from that filed by NCCI. As discussed in Section I of this circular, carriers must reflect their own experience to the extent it is actuarially credible.

On Line 2A, Line 1 should be checked if a company believes the NCCI loss experience is appropriate for them and/or their own experience has limited credibility, and thus they wish to adopt the loss costs without modification.

The second line, however, would be selected by companies who are modifying the NCCI loss costs based on their own experience or any other relevant factors. They should supply a percentage of deviation, supporting data and rationale to the Montana Insurance Department.

Line 2B should show the loss cost modification expressed as a factor. If a company checks Line 1, the factor would be 1.000. If a company chooses some other modification, the following examples explain the calculation of the factor:

Ex. 1: If a company expects its losses to be 10% lower than the loss costs in NCCI's filing, a factor of .90 should be used. $(= 1 - .100)$

Ex 2. If a company expects its losses to be 15% higher than the loss costs in NCCI's filing, then a factor of 1.15 should be used. $(= 1 + .15)$

The NCCI-filed loss costs will include losses and loss adjustment expenses and all loss-based expenses developed to ultimate and trended; however, no other expenses (or provision for profit and contingencies) will be included in the loss costs. NCCI has not filed provisions for any of the expenses (or profit and contingencies) listed on the

form. In Section 3 of the filing form the carrier fills in its provisions for each of the items shown. Again, these factors are not supplied in the NCCI loss cost filing. Each carrier must develop these factors on its own.

Net/Standard Premium

In order for the Formula Loss Cost Multiplier in Line 7 to be calculated properly, the expense percentages must be derived by relating NET expense amounts to STANDARD premium (i.e., before any premium discount, expense constants, or other individual risk rating plans). One way this can be done is to adjust Net percentages by the ratio of Net/Standard Premium. For example, if a carrier has a Net Production Expense of \$9, Net Premium of \$90, and Standard Premium of \$100, it should show 9% (=9/100) on Line 3A. It could have derived this percentage by multiplying its Net Production Expense of 10% (=9/90) by the ratio of Net/Standard (=90/100). This would yield the same 9% provision (10% x 90/100 = 9%).

Line 3A is for the Total Production Expense provision, includes commissions, other acquisition expenses, and expenses involved in producing business.

Line 3B is for the General Expense provision. The Insurance Expense Exhibit (I.E.E.) can be used as a guide in determining which expenses fall under this category.

Line 3C is Taxes, Licenses, and Fees. Although part of this provision (such as miscellaneous taxes) may be derived from the I.E.E., Montana provisions should be used where possible.

Line 3D is Profit and Contingencies. Underwriting profit is premium less losses and expenses. The carrier will have to determine the appropriate underwriting profit needed to write workers compensation business in Montana. A contingency provision might be included to encompass unforeseen circumstances or to account for variation in loss experience over time. Carriers must make this determination on their own.

Carriers are also required to explain how investment income has been taken into consideration in their proposed rates.

Line 3E, Other, would be any expense that a carrier incurs as a cost of doing business that did not fall under and of the other categories. An examples of this would be a provision for assigned risk subsidy.

The Total figure in **Line 3F** is the sum of the five categories.

Line 4 is the expected loss and loss adjustment expense ratio, or target cost ratio. It is calculated by subtracting Line 3F from 100% and then converting to decimal form. For example, if Line 3F were equal to 30% then Line 4 should show .700 (=100% - 30% and converted to decimal). It should be emphasized that this expected loss ratio is a function of the ratio of Net Expenses to Standard Premium, and is therefore not directly comparable to the more typical loss ratios that are a function of Net to Net ratios or Standard to Standard ratios.

Under the Montana loss costs system, carriers will have to determine and file with the Montana Insurance Department their own Expense Constants, Minimum Premiums and Premium Discounts. It is not possible for NCCI to publish these values because they involve expenses, which are now purely in the province of insurance carriers.

On Line 5, carriers must indicate the impact on premium which will be generated by using Expense Constants and Minimum Premiums, regardless of whether or not they are being changed. This impact should measure the additional premium which will be generated by using Expense Constants and Minimum Premiums relative to what would be collected if they were not used. This can be calculated with the following ratio:

Total Dollars Produced by Expense Constants and Minimum Premiums

Standard Premium excluding the above dollars

For example, if Standard Premium is expected to be \$50,000 under the proposed rates with \$2,000 of this attributable to Expense Constants and Minimum Premiums, the impact would be:

$$\frac{2,000}{50,000 - 2,000} = \frac{2,000}{48,000} = 4.2\%$$

This impact would be expressed as 1.042 on Line 5.

Minimum Premiums represent the minimum amount for which a carrier is willing to write a policy. In NCCI's 7/1/95 filing, minimum premiums were calculated for each class by multiplying the class rate by 185, and then adding a \$180 Expense Constant. The result was subject to a maximum of \$750. The multiplier of 185 that was used represents exposure comparable to \$18,500 in payroll ($18,500/100 = 185$), which is less than the average annual wage for one employee in Montana.

The Expense Constant is used to recognize that certain expenses are involved in the writing of every policy, regardless of size. These are generally referred to as "fixed" expenses. An example of these would be the clerical cost and paper cost of preparing the policy form. The same fixed cost is incurred on both a \$1,000 policy and a \$100,000 policy; it does not vary by premium size. The Expense Constant would generally be used to reflect these fixed expenses.

On Line 6, carriers must indicate the impact on premium of their proposed Premium Discounts and their expense gradation used in retrospective rating, regardless of whether or not they are being changed. This impact should measure the reduction in premium which results from the use of these relative to Standard Premium. For example, if Standard Premium is expected to be \$50,000 under the proposed rates with

\$4,000 of this to be returned in the form of Premium Discounts and expense gradation in retrospective rating, the impact would be:

$$\frac{4,000}{50,000} = 8.0\%$$

This impact would be expressed as .920 (= 1 - .080) on Line 6.

Premium Discounts and expense gradation in retrospective rating are used because expenses become a smaller proportion of premium as premium size increases.

The formula on Line 7 derives the carrier's Loss Cost Multiplier as indicated by the data provided on this form. This Multiplier is a factor which is applied to the NCCI loss costs to produce the carrier's manual rates.

The Loss Cost Multiplier that is selected by the carrier should be shown on Line 8. If this Multiplier is different from that shown on Line 7, an explanation should be provided.

The Company Selected Expense Constant should be shown on Line 9.

Line 10 and Line 11 request support and documentation for any changes that are proposed in the carrier's Minimum Premiums or Premium Discounts, respectively.

Section III - Definition of Terms

A) Expenses

means that portion of a rate attributable to acquisition, field supervision, collection expenses, general expenses, taxes, licenses, and fees.

B) Rate

means the cost of insurance per exposure unit, whether expressed as a single number or as a prospective loss cost with an adjustment to account for the treatment of expenses, profit and variations in loss experience, prior to any application of individual risk variations, such as Experience or Retrospective Rating, and does not include minimum premiums.

C) Developed losses

means losses adjusted, using standard actuarial techniques, to eliminate the effect of differences between current payment or reserve estimates and those needed to provide actual ultimate loss payments.

D) Loss trending

means any procedure for projecting developed losses to the average date of loss for the period during which the policies are to be effective.

E) Loss costs

are that portion of a rate that does not include provisions for any expenses (except loss adjustment expense and loss-based expenses) or profit and contingencies, and are based on historical aggregate losses adjusted through development to their ultimate value and projected through trending to a future point in time.

F) Supplementary rating information

includes any manual or plan of rates, classification, rating schedule, minimum premium, policy fee, rating rule, underwriting rule, statistical plan and any other similar information needed to determine the applicable rate in effect or to be in effect.

MONTANA

REFERENCE FILING ADOPTION
WORKERS COMPENSATION
ADOPTION OF ADVISORY / RATING ORGANIZATION PROSPECTIVE LOSS COSTS

1. INSURER NAME _____ DATE: _____
ADDRESS _____
CONTACT PERSON _____
TITLE _____

2. INSURER NAIC # _____

3. ADVISORY / RATING ORGANIZATION REFERENCE FILING # _____

4. CHECK ONE OF THE FOLLOWING:

- The insurer hereby files to have one loss cost multiplier applicable to all lost costs filed by the advisory / rating organization.
- The insurer hereby files to have various loss cost multipliers applicable to specific classifications or groupings which are referenced as follows:

(Attach a separate Calculation of Company Loss Cost Multiplier Form for each classification or grouping. Please duplicate forms as needed.)

5. A. PROPOSED RATE LEVEL CHANGE _____ % EFFECTIVE DATE _____
B. PROPOSED PREMIUM LEVEL CHANGE* _____ % EFFECTIVE DATE _____

6. CHECK ONE OF THE FOLLOWING:

- The insurer hereby files to have its loss cost multipliers and, if utilized, expense constants be applicable to future revisions of the advisory organization's prospective loss costs for this line of insurance. The insurer's rates will be the combination of the advisory organization's prospective loss costs and the insurer's loss cost multipliers and, if utilized, expense constants specified in the attachments. The rates will apply to policies written on or after the effective date of the advisory organization's prospective loss costs. This authorization is effective until disapproved by the Commissioner, or amended or withdrawn by the insurer.
- The insurer hereby files to have its loss cost multipliers and, if utilized, expense constants be applicable only to the above Advisory Organization Reference Filing.

*The premium level change is the change in the insurer's annual collectible premium.

MONTANA

SUMMARY OF SUPPORTING INFORMATION FORM
WORKERS COMPENSATION - INSURER RATE FILING
ADOPTION OF ADVISORY / RATING ORGANIZATION LOSS COSTS

CALCULATION OF COMPANY LOSS COST MULTIPLIER

NAME OF INSURER _____ Date _____

NAIC NUMBER _____

1. Does this filing apply to all classes contained in Item 4 of the Reference Filing Adoption Form? ___ Yes ___ No. If no, attach a list of affected classes or groups.

2. Loss Cost Modification:

A. The insurer hereby files to adopt the prospective loss costs in the captioned reference filing (CHECK ONE):

___ Without modification (factor = 1.000). ENTER IN 2B.

___ With the following modification(s). (Cite the nature and percent modification to the advisory organization's loss experience. Attach supporting data and/or rationale.) ENTER IN 2B.

B. Loss Cost Modification expressed as a Factor

(A -25% modification would be expressed as .750) _____

3. Development of Expected Loss and Loss Adjustment Expense Ratio. (Attach exhibit detailing insurer expense data, impact of premium discount plans, and other supporting information.)

PROJECTED EXPENSES: Compared to standard premium at company rates.

A. Total Production Expense	_____	%
B. General Expense	_____	%
C. Taxes, Licenses & Fees	_____	%
D. Profit & Contingencies including offset for Investment Income	_____	%
E. Other (Explain)	_____	%
F. TOTAL	_____	%

4. Expected Loss and Loss Adjustment Expense Ratio:
ELR = 1.000 - 3F (Expressed in decimal form) _____

5. Overall impact of expense constant & minimum premiums:
(A 2.3% impact would be expressed as 1.023) _____

6. Overall impact of size-of-risk discounts:
(An 8.6% impact would be expressed as 0.914) _____

7. Company Formula Loss Cost Multiplier
Loss Cost Multiplier = 2B / [(6 - 3F) x 5] = _____

8. Company Selected Loss Cost Multiplier:
Attach exhibit explaining any differences between 7 and 8. _____

9. Company Selected Expense Constant: _____

10. Are you amending your minimum premium formula? ___ Yes ___ No. (If yes, attach documentation including rate level impact as well as changes in multipliers, expense constants, etc.)

11. Are you changing your premium discount schedules? ___ Yes ___ No. (If yes, attach schedules and support detailing premium or rate level change.)