

State: Missouri **Filing Company:** NCCI
TOI/Sub-TOI: 16.0 Workers Compensation/16.0004 Standard WC
Product Name: R-1409 - 2014 Update to the Retrospective Rating Plan Parameters - Hazard Group Differentials
Project Name/Number: /

Filing at a Glance

Company: NCCI
Product Name: R-1409 - 2014 Update to the Retrospective Rating Plan Parameters - Hazard Group Differentials
State: Missouri
TOI: 16.0 Workers Compensation
Sub-TOI: 16.0004 Standard WC
Filing Type: Rule
Date Submitted: 06/26/2014
SERFF Tr Num: NCCI-129606692
SERFF Status: Closed-APPROVED
State Tr Num: 18
State Status: APPROVED
Co Tr Num: R-1409 (MJ)

Effective Date 01/01/2015
Requested (New):
Effective Date 01/01/2015
Requested (Renewal):
Author(s): Lesley O'Brien, Alison Herwig, Frank Gnolfo, Roy Wood, Dennis Kokulak, Robert Dalton, Michelle Baker, Miguel Joubert
Reviewer(s): Jon Meyer (PC) (primary)
Disposition Date: 07/23/2014
Disposition Status: APPROVED
Effective Date (New): 01/01/2015
Effective Date (Renewal): 01/01/2015

State Filing Description:

State: Missouri **Filing Company:** NCCI
TOI/Sub-TOI: 16.0 Workers Compensation/16.0004 Standard WC
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Project Name/Number: /

General Information

Project Name: Status of Filing in Domicile:
 Project Number: Domicile Status Comments:
 Reference Organization: Reference Number:
 Reference Title: Advisory Org. Circular:
 Filing Status Changed: 07/23/2014
 State Status Changed: 07/23/2014 Deemer Date:
 Created By: Frank Gnolfo Submitted By: Frank Gnolfo
 Corresponding Filing Tracking Number:
 State TOI: 16.0 Workers Compensation State Sub-TOI: 16.0004 Standard WC

Filing Description:

This item revises the Hazard Group Differentials (commonly referred to as Relativities) in NCCI's Retrospective Rating Plan Manual for Workers Compensation and Employers Liability Insurance (Retrospective Rating Plan Manual).

Company and Contact

Filing Contact Information

Roy Wood, State Relations Executive roy_wood@ncci.com
 11430 Gravois Road 314-843-4001 [Phone]
 Suite 310 314-842-3188 [FAX]
 St. Louis, MO 63126

Filing Company Information

NCCI CoCode: State of Domicile: Florida
 901 Peninsula Corporate Circle Group Code: Company Type:
 Boca Raton, FL 33487 Group Name: State ID Number: 9999-85000
 (561) 893-3186 ext. [Phone] FEIN Number: 65-0439698

Filing Fees

Fee Required? Yes
 Fee Amount: \$50.00
 Retaliatory? No
 Fee Explanation: Rule
 Per Company: Yes

Company	Amount	Date Processed	Transaction #
NCCI	\$50.00	06/26/2014	83484686

State Specific

NAIC Number: NA

Have you reviewed the General Instructions document? (yes/no)(General Instructions updated 9/14/07): NA

If this is a rate filing, was rate data added on the rate/rule schedule? (yes/no): No

Are you paying the \$50 per company per submission filing fee electronically using EFT or would you like to be billed in arrears? All companies and filing entities are strongly encouraged to take advantage of the EFT payment option. The utilization of SERFF and EFT for the payment of filing fees in other states has resulted in a more efficient filing review process

State: Missouri

Filing Company: NCCI

TOI/Sub-TOI: 16.0 Workers Compensation/16.0004 Standard WC

Product Name: R-1409 - 2014 Update to the Retrospective Rating Plan Parameters - Hazard Group Differentials

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and has provided a significant administrative cost savings for the industry.: EFT

State: Missouri
TOI/Sub-TOI: 16.0 Workers Compensation/16.0004 Standard WC
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Filing Company: NCCI

Correspondence Summary

Dispositions

Status	Created By	Created On	Date Submitted
APPROVED	Jon Meyer (PC)	07/23/2014	07/23/2014

Objection Letters and Response Letters

Objection Letters

Status	Created By	Created On	Date Submitted
PENDING INDUSTRY RESPONSE	Jon Meyer (PC)	07/22/2014	07/22/2014
PENDING INDUSTRY RESPONSE	Jon Meyer (PC)	07/08/2014	07/08/2014

Response Letters

Responded By	Created On	Date Submitted
Frank Gnolfo	07/22/2014	07/22/2014
Frank Gnolfo	07/22/2014	07/22/2014

State: Missouri **Filing Company:** NCCI
TOI/Sub-TOI: 16.0 Workers Compensation/16.0004 Standard WC
Product Name: R-1409 - 2014 Update to the Retrospective Rating Plan Parameters - Hazard Group Differentials
Project Name/Number: /

Disposition

Disposition Date: 07/23/2014
 Effective Date (New): 01/01/2015
 Effective Date (Renewal): 01/01/2015
 Status: APPROVED

Comment:

Rate data does NOT apply to filing.

Schedule	Schedule Item	Schedule Item Status	Public Access
Supporting Document	Filing Memorandum	APPROVED	Yes
Supporting Document	Exhibit 2 Information ONLY	APPROVED	Yes
Supporting Document	Response to 7/8/14 Objection	APPROVED	Yes
Rate	Exhibit 1	APPROVED	Yes

State: Missouri **Filing Company:** NCCI
TOI/Sub-TOI: 16.0 Workers Compensation/16.0004 Standard WC
Product Name: R-1409 - 2014 Update to the Retrospective Rating Plan Parameters - Hazard Group Differentials
Project Name/Number: /

Objection Letter

Objection Letter Status	PENDING INDUSTRY RESPONSE
Objection Letter Date	07/22/2014
Submitted Date	07/22/2014
Respond By Date	07/29/2014

Dear Roy Wood,

Introduction:

NOTICE: IMMEDIATE ATTENTION NEEDED

To date, this agency has not received a response to Objection Letter dated 7/8/14. It can only be surmised that this lack of response from you indicates a loss of interest in continued pursuit of this program.

At this time, you have two options: 1) you may withdraw this filing or 2) you may provide us with the requested information.

In the case of oversight, the filing's review is extended an additional week, through close of business on the date indicated above.

Conclusion:

Please respond to this letter by the above date. This submission will be held in suspense pending your response. Feel free to contact me at 573/751-1926 should you have any questions or concerns.

Sincerely,

Jon Meyer (PC)

State: Missouri **Filing Company:** NCCI
TOI/Sub-TOI: 16.0 Workers Compensation/16.0004 Standard WC
Product Name: R-1409 - 2014 Update to the Retrospective Rating Plan Parameters - Hazard Group Differentials
Project Name/Number: /

Objection Letter

Objection Letter Status	PENDING INDUSTRY RESPONSE
Objection Letter Date	07/08/2014
Submitted Date	07/08/2014
Respond By Date	07/22/2014

Dear Roy Wood,

Introduction:

Thank you for the filing recently submitted to this Department. Please be advised that although we have begun the review process, the company remains responsible for assuring that coverage provided to Missouri citizens fully complies with all applicable statutes and regulations. Upon preliminary review, the following issues raised concerns and need clarification:

Objection 1

Comments: How often are these differentials revised?

Objection 2

Comments: Who will be impacted by this change in Missouri and what is the range of any impacts?

Conclusion:

Please respond to this letter by the above date. This submission will be held in suspense pending your response. Feel free to contact me at 573/751-1926 should you have any questions or concerns.

Sincerely,
Jon Meyer (PC)

State: Missouri **Filing Company:** NCCI
TOI/Sub-TOI: 16.0 Workers Compensation/16.0004 Standard WC
Product Name: R-1409 - 2014 Update to the Retrospective Rating Plan Parameters - Hazard Group Differentials
Project Name/Number: /

Response Letter

Response Letter Status	Submitted to State
Response Letter Date	07/22/2014
Submitted Date	07/22/2014

Dear Jon Meyer (PC),

Introduction:

Hello

Response 1

Comments:

Response submitted today. Located in supporting doc folder

Changed Items:

No Supporting Documents changed.

No Form Schedule items changed.

No Rate/Rule Schedule items changed.

Conclusion:

Thank hyou

Sincerely,

Frank Gnolfo

State: Missouri **Filing Company:** NCCI
TOI/Sub-TOI: 16.0 Workers Compensation/16.0004 Standard WC
Product Name: R-1409 - 2014 Update to the Retrospective Rating Plan Parameters - Hazard Group Differentials
Project Name/Number: /

Response Letter

Response Letter Status Submitted to State
 Response Letter Date 07/22/2014
 Submitted Date 07/22/2014

Dear Jon Meyer (PC),

Introduction:

Hello

Response 1

Comments:

Response is in the supporting doc folder

Related Objection 1

Comments: How often are these differentials revised?

Changed Items:

No Supporting Documents changed.

No Form Schedule items changed.

No Rate/Rule Schedule items changed.

Response 2

Comments:

Response is in the supporting doc folder

Related Objection 2

Comments: Who will be impacted by this change in Missouri and what is the range of any impacts?

Changed Items:

Supporting Document Schedule Item Changes

Satisfied - Item: Response to 7/8/14 Objection

Comments:

Attachment(s): MO Interrogatory Response.pdf

SERFF Tracking #:

NCCI-129606692

State Tracking #:

18

Company Tracking #:

R-1409 (MJ)

State: Missouri **Filing Company:** NCCI
TOI/Sub-TOI: 16.0 Workers Compensation/16.0004 Standard WC
Product Name: R-1409 - 2014 Update to the Retrospective Rating Plan Parameters - Hazard Group Differentials
Project Name/Number: /

No Form Schedule items changed.

No Rate/Rule Schedule items changed.

Conclusion:

Thank you

Sincerely,

Frank Gnolfo

State: Missouri Filing Company: NCCI
 TOI/Sub-TOI: 16.0 Workers Compensation/16.0004 Standard WC
 Product Name: R-1409 - 2014 Update to the Retrospective Rating Plan Parameters - Hazard Group Differentials
 Project Name/Number: /

Rate/Rule Schedule

Item No.	Schedule Item Status	Exhibit Name	Rule # or Page #	Rate Action	Previous State Filing Number	Attachments
1	APPROVED 07/23/2014	Exhibit 1	Hazard Group Differentials	Replacement	R-1407	Exhibit 1.pdf

**ITEM R-1409—2014 UPDATE TO RETROSPECTIVE RATING PLAN PARAMETERS
— HAZARD GROUP DIFFERENTIALS**

**EXHIBIT 1
RETROSPECTIVE RATING PLAN MANUAL—2009 EDITION
STATE SPECIAL RATING VALUES**

1. HAZARD GROUP DIFFERENTIALS

(Applies in: AK, AL, AR, AZ, CO, CT, DC, FL, GA, HI, IA, ID, IL, IN, KS, KY, LA, MD, ME, MI, MO, MS, MT, NC, NE, NH, NM, NV, OK, OR, RI, SC, SD, TN, TX, UT, VT, WI, WV)

State	Hazard Group						
	A	B	C	D	E	F	G
AK	1.19	0.95	0.88	0.74	0.62	0.52	0.44
AL	1.37	1.07	0.97	0.81	0.67	0.56	0.45
AR	1.98	1.55	1.41	1.18	0.97	0.81	0.65
AZ	1.77	1.37	1.24	1.03	0.84	0.70	0.55
CO	2.18	1.73	1.61	1.35	1.14	0.95	0.80
CT	1.37	1.09	1.01	0.85	0.72	0.60	0.51
DC	1.44	1.13	1.04	0.87	0.73	0.60	0.50
FL	2.22	1.72	1.56	1.30	1.07	0.89	0.71
GA	1.46	1.14	1.05	0.88	0.73	0.61	0.50
HI	2.55	2.04	1.92	1.61	1.37	1.15	1.00
IA	1.30	1.03	0.96	0.81	0.68	0.57	0.48
ID	1.81	1.44	1.34	1.13	0.96	0.81	0.69
IL	1.09	0.87	0.82	0.69	0.59	0.49	0.43
IN	1.77	1.42	1.34	1.13	0.97	0.82	0.72
KS	1.69	1.34	1.24	1.04	0.87	0.73	0.61
KY	1.70	1.34	1.23	1.03	0.86	0.72	0.59
LA	0.96	0.76	0.72	0.60	0.51	0.43	0.37
MD	1.32	1.04	0.97	0.81	0.68	0.57	0.48
ME	1.74	1.38	1.28	1.08	0.91	0.77	0.65
MI	1.89	1.48	1.38	1.17	0.99	0.84	0.72
MO	1.65	1.30	1.20	1.00	0.83	0.70	0.57
MS	1.80	1.42	1.31	1.10	0.92	0.77	0.64
MT	1.55	1.19	1.08	0.90	0.73	0.61	0.48
NC	1.25	0.98	0.90	0.75	0.63	0.52	0.43
NE	1.56	1.23	1.12	0.94	0.78	0.65	0.52
NH	1.29	1.03	0.97	0.82	0.70	0.59	0.51
NM	1.32	1.05	0.98	0.82	0.70	0.58	0.50
NV	1.49	1.14	1.01	0.84	0.67	0.56	0.42
OK	1.61	1.27	1.18	0.98	0.82	0.68	0.56
OR	2.61	2.06	1.90	1.60	1.34	1.12	0.92
RI	2.10	1.68	1.58	1.33	1.14	0.96	0.83
SC	1.64	1.30	1.20	1.01	0.84	0.71	0.59
SD	1.71	1.31	1.17	0.97	0.78	0.65	0.50
TN	1.98	1.56	1.45	1.21	1.02	0.85	0.71
TX	2.78	2.13	1.91	1.71	1.47	1.20	0.91
UT	1.63	1.26	1.15	0.96	0.78	0.65	0.52
VT	1.36	1.08	1.01	0.85	0.73	0.61	0.52
WI	1.66	1.30	1.21	1.03	0.88	0.75	0.65
WV	1.99	1.57	1.43	1.20	1.00	0.83	0.69

State: Missouri **Filing Company:** NCCI
TOI/Sub-TOI: 16.0 Workers Compensation/16.0004 Standard WC
Product Name: R-1409 - 2014 Update to the Retrospective Rating Plan Parameters - Hazard Group Differentials
Project Name/Number: /

Supporting Document Schedules

Satisfied - Item:	Filing Memorandum
Comments:	
Attachment(s):	R-1409-Filing Memo.pdf
Item Status:	APPROVED
Status Date:	07/23/2014

Satisfied - Item:	Exhibit 2 Information ONLY
Comments:	
Attachment(s):	Missouri.pdf
Item Status:	APPROVED
Status Date:	07/23/2014

Satisfied - Item:	Response to 7/8/14 Objection
Comments:	
Attachment(s):	MO Interrogatory Response.pdf
Item Status:	APPROVED
Status Date:	07/23/2014

FILING MEMORANDUM

**ITEM R-1409—2014 UPDATE TO THE RETROSPECTIVE RATING PLAN PARAMETERS—
 HAZARD GROUP DIFFERENTIALS**

PURPOSE

This item revises the Hazard Group Differentials (commonly referred to as Relativities) in NCCI’s *Retrospective Rating Plan Manual for Workers Compensation and Employers Liability Insurance (Retrospective Rating Plan Manual)*.

BACKGROUND

A retrospective rating plan adjusts the premium for an employer’s policy on the basis of losses incurred during the term of that policy. At the simplest level, an employer’s retrospective rating premium is determined by the formula $RRP = (BP + LCF * L) * TM$, where:

RRP	=	Retrospective Rating Premium, subject to minimum and maximum amounts
BP	=	Basic Premium
LCF	=	Loss Conversion Factor, generally reflecting loss adjustment expense
L	=	Actual incurred loss during the effective policy period
TM	=	Tax Multiplier

The retrospective rating premium, RRP, is not known until after the policy has expired and the actual losses are fully developed. The basic premium contains provisions for the expenses of the carrier. It also includes a net insurance charge, which results from the maximum and minimum limitations on the retrospective rating premium. The net insurance charge reflects the charge to compensate for the possibility that RRP will exceed the maximum premium amount. It also reflects the savings resulting from the possibility that RRP will be less than the minimum premium amount. The net insurance charge is the difference between the charge for the maximum and the savings from the minimum.

Appendix B—Table of Insurance Charges in NCCI’s *Retrospective Rating Plan Manual* contains the excess ratios needed to quantify the insurance charge and savings described above. The ratio of the loss limit to expected losses—the entry ratio—is used to identify the values in the Table of Insurance Charges. The charges depend not only on the maximum and minimum subject losses but also on the size of the employer. This is because the expected variation in losses is lower for larger employers.

Hazard Group Differentials

The variation in the loss ratios for employers in the lower hazard groups generally should be smaller than the variation for employers in the higher hazard groups. The Hazard Group Differential factors adjust for this difference by placing lower hazard group employers in a higher Expected Loss Range and higher hazard group employers in a lower Expected Loss Range than would otherwise be the case. This adjustment affects the column selection in the Table of Insurance Charges, which then impacts the basic premium portion of the retrospective policy premium. The Hazard Group Differentials should be updated regularly to reflect changes in the circumstances (e.g., state statutory benefit levels and inflation) underlying each state’s severity.

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FILING MEMORANDUM

**ITEM R-1409—2014 UPDATE TO THE RETROSPECTIVE RATING PLAN PARAMETERS—
 HAZARD GROUP DIFFERENTIALS**

The Hazard Group Differential is determined by dividing the countrywide average cost per case by the average cost per case for the state and hazard group. For the states of Michigan, Texas, West Virginia, and Wisconsin, a credibility formula is applied for determining each state's average cost per case using a sum of the latest five years of lost-time claim counts relative to a standard of 155,000 to achieve 100% credibility. The complement of credibility (i.e., 1.0 – state credibility) is applied to the countrywide average cost per case for the hazard group.

As described in 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, the methodology proposed in determining the excess loss pure premium factors (ELPPFs) and excess loss and allocated expense pure premium factors (ELAEPFs) has been modified significantly. To maintain the consistency in average cost per case values between Item R-1408 and this item, the methodology for determining the state (and countrywide) average cost per case by hazard group used in the calculation of the proposed Hazard Group Differentials is being modified this year for all states except Michigan, Texas, West Virginia, and Wisconsin.

The current and proposed Hazard Group Differentials both use data reported in accordance with NCCI's *Statistical Plan for Workers Compensation and Employers Liability Insurance (Statistical Plan)* as its source. The following table provides a comparison of the current and proposed Hazard Group Differential methodologies:

Component	Current Methodology	Proposed Methodology
Number of years of data used	Three policy periods	Five policy periods
Average cost per case	Based on empirical data	Fitted using statistical modeling*
Lost-time claim counts	Implied	Fitted using statistical modeling*
Credibility	Uses square root rule using countrywide complement	Implicitly calculated using statistical modeling*
Swing limits	+/- 15% from prior year	None applied

*The Fitted State Average Cost Per Case and Fitted State Claim Counts are consistent with the values underlying the ELPPF and ELAEPF calculations in Item R-1408. The data for Michigan, Texas, West Virginia, and Wisconsin is not included in the modeling.

PROPOSAL

This item proposes to revise the Hazard Group Differentials in NCCI's *Retrospective Rating Plan Manual*.

IMPACT

Retrospective rating should produce premium that is equitably distributed to all employers but, on average, close to the guaranteed cost premium. The objective of the change in the Hazard Group Differentials is to maintain the aggregate expected balance, although the impact will vary slightly for each employer. For most

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FILING MEMORANDUM

**ITEM R-1409—2014 UPDATE TO THE RETROSPECTIVE RATING PLAN PARAMETERS—
 HAZARD GROUP DIFFERENTIALS**

employers electing retrospective rating, the impact on final premium from these changes is expected to be negligible. The improved equity afforded by retrospective rating from this change will result in no change to the insurance charges for many employers.

The statewide impact will be negligible. The program is designed to be revenue-neutral countrywide. The development of the Hazard Group Differentials in each state is provided in Informational Exhibit 2.

EXHIBIT COMMENTS AND IMPLEMENTATION SUMMARY

Exhibit	Exhibit Comments	Implementation Summary
1	Displays the revised Hazard Group Differentials.	<ul style="list-style-type: none"> • In all states except Hawaii and Texas, this item will become effective for new and renewal voluntary policies only effective on and after 12:01 a.m. on January 1, 2015. • This item will be implemented in Hawaii's loss cost filing proposed to be effective January 1, 2015. The effective date is determined upon regulatory approval of the individual carrier's election to adopt this change. • In Texas, this item will become effective for new and renewal voluntary policies only effective on and after 12:01 a.m. on December 1, 2014.
2	Describes the development of the Hazard Group Differentials for each state.	Provides informational exhibits related to the proposed changes.

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**ITEM R-1409—2014 UPDATE TO THE RETROSPECTIVE RATING PLAN PARAMETERS
—HAZARD GROUP DIFFERENTIALS**

**EXHIBIT 2
INFORMATIONAL EXHIBIT
DEVELOPMENT OF MISSOURI HAZARD GROUP DIFFERENTIALS
FOR HAZARD GROUPS A TO G**

Five years of historical experience is trended, on-leveled, and developed to estimate the severities for each state, hazard group and claim group. The observed data for 36 states is input into a Bayesian multilevel model which produces fitted severities by state, hazard group and claim group. Similarly, a second Bayesian multilevel model produces fitted claim counts from the same observed data by state, hazard group and claim group. For a given hazard group, state severities are calculated by weighting the fitted severities by claim group together using fitted claim counts. The fitted severities and fitted claim counts by state are consistent with the values underlying NCCI's new excess loss factor methodology.

The severities for all states are weighted together to calculate the average countrywide severity. The state and hazard group differentials are calculated by dividing the countrywide severity by the individual state hazard group severities.

(1) Hazard Group	(2) Missouri Fitted Severities	(3) Countrywide Average Severity	(4) = (3) / (2) Indicated State and Hazard Group Differentials
A	35,825		1.65
B	45,555		1.30
C	49,544		1.20
D	59,205		1.00
E	71,161		0.83
F	85,103		0.70
G	104,461		0.57
All		59,215	

Hazard Group	Current Differentials Effective 1/1/2014*	Proposed Differentials Effective 1/1/2015
A	1.88	1.65
B	1.45	1.30
C	1.30	1.20
D	1.17	1.00
E	1.01	0.83
F	0.82	0.70
G	0.64	0.57

Note: The underlying data source for the above calculations is NCCI's **Statistical Plan**, excluding medical-only claims. The **Statistical Plan** data for each state is adjusted accordingly, as reflected in the data underlying the Excess Loss Pure Premium Factor (ELPPF) calculation.

*Effective January 1, 2014, per Item R-1407.



**National Council on
Compensation Insurance**

Roy O Wood
State Relations Executive
Regulatory Services Division
(P) 314-843-4001 (F) 561-893-5550
Email: Roy_Wood@ncci.com

July 22, 2014

Missouri Department of Insurance, Financial Institutions and Professional Registration (DIFP)
PO Box 690
Jefferson City, MO 65102-0690

Attn: Jon Meyer, WC Specialist

**RE: Item R-1409—2014 Update to the Retrospective Rating Plan Parameters – Hazard Group
Differentials NCCI SERFF Tracking Number: NCCI-129606692; State Tracking #: 10**

Dear Mr. Meyer,

Thank you for your July 8, 2014 objection regarding the above-referenced item filing. After review and consideration, below please find our responses.

Objection 1: How often are these differentials revised?

Response: The state hazard group differentials are revised annually to be effective January 1st of the subsequent year.

Objection 2: Who will be impacted by this change in Missouri and what is the range of any impacts?

Response: For a Missouri policyholder who purchases a retrospectively rated policy, the impact on the final premium from these changes is expected to be negligible. The change in hazard group differentials will result in no change to the insurance charge for some insureds, and a very slight increase to the insurance charge for others, assuming all else equal, and the same maximum and/or minimum to their retrospectively rated premium is selected as last year. The statewide impact is expected to be negligible. NCCI does not collect the level of policy detail required to determine the range of impacts for individual insureds.

Thank you for your consideration of this item. If you have further questions, please do not hesitate to contact me.

Sincerely,

A handwritten signature in black ink, appearing to read "Roy O. Wood", written over a horizontal line.

Roy O. Wood
State Relations Executive