

State: Missouri **Filing Company:** NCCI
TOI/Sub-TOI: 16.0 Workers Compensation/16.0004 Standard WC
Product Name: R-1407 2013 Update to the Retrospective Rating Plan Parameters - State Hazard Group Differentials
Project Name/Number: /

Filing at a Glance

Company: NCCI
Product Name: R-1407 2013 Update to the Retrospective Rating Plan Parameters - State Hazard Group Differentials
State: Missouri
TOI: 16.0 Workers Compensation
Sub-TOI: 16.0004 Standard WC
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Author(s): Lesley O'Brien, Alison Herwig, Frank Gnolfo, Dennis Kokulak, Robert Dalton
Reviewer(s): Karen Rimel (primary)
Disposition Date:
Disposition Status:
Effective Date (New):
Effective Date (Renewal):
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General Information

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Filing Description:

This item updates the Hazard Group Differentials (common referred to as Relativities) in NCCI's 2009 Edition of its Retrospective Rating Plan Manual for Workers Compensation and Employers Liability Insurance (Retrospective Rating Plan Manual).

Company and Contact

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

Filing Fees

Fee Required? No

Retaliatory? No

Fee Explanation:

State Specific

NAIC Number: RO99985

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

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

Filing Company:

NCCI

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013 Update to the Retrospective Rating Plan Parameters - State Hazard Group Differentials

Exhibit Name	Rule # or Page #	Rate Action	Previous State Filing Number	Attachments
Exhibit 1	Hazard Group Differentials	Replacement	R-1405	Exhibit 1 R1407.pdf
Exhibit 2	Development	Replacement	R-1405	Exhibit 2 MO_R1407.pdf

ITEM R-1407—2013 UPDATE TO RETROSPECTIVE RATING PLAN PARAMETERS
—STATE HAZARD GROUP DIFFERENTIALS

EXHIBIT 1

RETROSPECTIVE RATING PLAN MANUAL—2009 EDITION
STATE SPECIAL RATING VALUES
1. HAZARD GROUP DIFFERENTIALS

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

State	Hazard Group						
	A	B	C	D	E	F	G
AL	1.55	1.18	1.04	0.94	0.80	0.65	0.49
AK	1.59	1.20	1.06	0.96	0.82	0.67	0.51
AZ	1.88	1.43	1.25	1.12	0.96	0.76	0.57
AR	1.79	1.37	1.20	1.08	0.93	0.75	0.58
CO	1.96	1.49	1.33	1.20	1.04	0.84	0.66
CT	1.48	1.11	0.98	0.88	0.75	0.61	0.47
DC	1.72	1.30	1.14	1.03	0.88	0.71	0.55
FL	2.07	1.59	1.41	1.28	1.11	0.89	0.63
GA	1.54	1.17	1.03	0.93	0.80	0.64	0.49
HI	1.99	1.50	1.33	1.20	1.04	0.85	0.67
ID	1.71	1.31	1.17	1.06	0.93	0.76	0.60
IL	1.26	0.96	0.87	0.78	0.68	0.55	0.45
IN	1.82	1.39	1.25	1.13	0.99	0.81	0.65
IA	1.63	1.23	1.09	0.98	0.84	0.68	0.53
KS	1.74	1.33	1.18	1.06	0.91	0.74	0.58
KY	1.69	1.28	1.13	1.01	0.87	0.70	0.53
LA	1.33	1.00	0.89	0.80	0.69	0.57	0.44
ME	1.71	1.29	1.14	1.04	0.90	0.73	0.58
MD	1.54	1.16	1.02	0.92	0.79	0.64	0.48
MI	1.74	1.31	1.18	1.07	0.93	0.77	0.60
MS	1.80	1.37	1.21	1.09	0.94	0.76	0.59
MO	1.88	1.45	1.30	1.17	1.01	0.82	0.64
MT	1.66	1.27	1.12	1.00	0.86	0.69	0.53
NE	1.67	1.27	1.12	1.01	0.87	0.71	0.55
NV	1.63	1.23	1.08	0.97	0.83	0.66	0.50
NH	1.51	1.14	1.01	0.91	0.79	0.64	0.50
NM	1.62	1.23	1.09	0.98	0.84	0.69	0.54
NC	1.36	1.03	0.92	0.82	0.71	0.57	0.44
OK	1.47	1.12	0.99	0.89	0.76	0.61	0.48
OR	2.22	1.67	1.48	1.34	1.15	0.94	0.73
RI	1.88	1.42	1.26	1.14	0.98	0.80	0.63
SC	1.67	1.27	1.13	1.02	0.88	0.71	0.56
SD	1.70	1.30	1.14	1.03	0.88	0.71	0.55
TN	1.62	1.23	1.10	0.99	0.86	0.70	0.55
TX	2.56	1.96	1.75	1.57	1.35	1.10	0.83
UT	1.73	1.31	1.15	1.04	0.89	0.72	0.55
VT	1.66	1.26	1.11	1.00	0.86	0.70	0.55
WI	1.62	1.22	1.10	0.99	0.86	0.71	0.57
WV	1.87	1.43	1.26	1.13	0.97	0.79	0.62

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—STATE HAZARD GROUP DIFFERENTIALS

EXHIBIT 2

DEVELOPMENT OF MISSOURI HAZARD GROUP RELATIVITIES
FOR HAZARD GROUPS A TO G

- Step 1.** Historical experience is trended, on-leveled, and developed to estimate the severities for each hazard group.
- Step 2.** The severities are weighted with the countrywide severities by hazard group using a credibility that varies by state. For this purpose, 155,000 claims are regarded as fully credible and the square root rule is used to compute partial credibilities.
- Step 3.** Credibility weighted severities for each state hazard group are produced. A new countrywide average severity is calculated by taking the weighted average of the formula for state severities using claim counts as weights.
- Step 4.** The relativities are calculated by dividing the countrywide severity by the individual state hazard group severities. The final relativities are derived by capping the indicated relativities at a 15.0% increase or decrease from the prior update.

<u>Step 1</u>	<u>Hazard Group</u>	<u>Missouri</u>	<u>Countrywide</u>
Severities	A	27,604	33,165
	B	35,545	43,451
	C	39,374	49,480
	D	43,804	54,759
	E	50,555	63,626
	F	61,886	78,636
	G	79,609	99,716

<u>Step 2</u>	Claim Count	=	59,778
	Credibility	=	$(59,778 / 155,000)^{0.5} = 0.621$

<u>Step 3</u>	<u>Hazard Group</u>	<u>Missouri</u>
Credibility	A	$29,712 = (0.621)(27,604) + (0.379)(33,165)$
Weighted	B	38,542
Severities	C	43,204
	D	47,956
	E	55,509
	F	68,234
	G	87,229
	Countrywide Overall:	55,954

<u>Step 4</u>	<u>Hazard Group</u>	<u>Relativities</u>
Relativities	A	$1.88 = 55,954 / 29,712$
	B	1.45
	C	1.30
	D	1.17
	E	1.01
	F	0.82
	G	0.64

Note: The underlying data source for the above calculations is NCCI's *Statistical Plan for Workers Compensation and Employers Liability Insurance (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 Factor (ELF) calculation.

Filing Company:

NCCI

ers Compensation/16.0004 Standard WC

013 Update to the Retrospective Rating Plan Parameters - State Hazard Group Differentials

Schedules

Filing Memorandum
MEMO R-1407.pdf

FILING MEMORANDUM

ITEM R-1407—2013 UPDATE TO THE RETROSPECTIVE RATING PLAN PARAMETERS—STATE HAZARD GROUP DIFFERENTIALS

PURPOSE

This item updates the Hazard Group Differentials (commonly referred to as Relativities) in NCCI's 2009 Edition of its *Retrospective Rating Plan Manual for Workers Compensation and Employers Liability Insurance (Retrospective Rating Plan Manual)*.

BACKGROUND

The Retrospective Rating Plan adjusts a risk's premium for a policy according to the loss experience during the effective period of the policy. At the simplest level, an insured's retrospective premium is determined by the formula $R = (b + cL) * T$, where:

R	=	Retrospective premium, subject to minimum and maximum amounts
b	=	Basic premium
c	=	Loss conversion factor, generally reflecting loss adjustment expense
L	=	Actual incurred loss during the effective policy period
T	=	Tax multiplier

The retrospective premium, R, 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 premium. The net insurance charge reflects the charge to compensate for the possibility that R will exceed the maximum premium amount. It also reflects the savings resulting from the possibility that R 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 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 look up 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 insured. 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 Appendix B—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, inflation, etc.) underlying each state's severity.

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FILING MEMORANDUM

ITEM R-1407—2013 UPDATE TO THE RETROSPECTIVE RATING PLAN PARAMETERS—STATE HAZARD GROUP DIFFERENTIALS

Appendix A—Table of Expected Loss Ranges in NCCI’s *Retrospective Rating Plan Manual* is not being updated with this item. Typically, the Hazard Group Differentials and the Expected Loss Ranges are updated at the same time; however, a review of recent changes in countrywide claim severities indicates that a change to the Expected Loss Ranges is not needed. The current Appendix A, which became effective on January 1, 2013, will continue to apply.

PROPOSAL

It is proposed that the Hazard Group Differentials to NCCI’s 2009 Edition of its *Retrospective Rating Plan Manual* be revised.

Please note that this item is not being filed in Virginia at this time. The proposed changes in this item will be included in the Virginia April 1, 2014 loss cost filing.

IMPACT

Retrospective rating should produce premium that is equitably distributed to all insureds, 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 insured employer. For most insureds electing retrospective rating, the impact on final premium from these changes is expected to be minimal. The improved equity afforded by retrospective rating from this change will result in no change to the insurance charges for the majority of insureds. The statewide impact will be negligible. The program is designed to be revenue-neutral countrywide.

EXHIBIT COMMENTS AND IMPLEMENTATION SUMMARY

Exhibit	Exhibit Comments	Implementation Summary
1	Provides the State Hazard Group Differentials	<ul style="list-style-type: none"> • In all states except Hawaii and Texas, this item will be implemented for new and renewal voluntary policies effective on or after 12:01 a.m. on January 1, 2014 • This item will be implemented in Hawaii’s loss cost filing proposed to be effective January 1, 2014. The effective date is determined upon regulatory approval of the individual carrier’s election to adopt this change • In Texas, this item will be implemented for new and renewal voluntary policies effective on or after 12:01 a.m. on December 1, 2013
2	Contains a description of the development of the differentials/relativities for each state. As explained in these exhibits, individual state severities, as well as countrywide severities, are used in the calculation of the relativities.	

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