

## Bulletin 241

### Loss cost and rate filing procedures workers' compensation insurance

March 6, 1995

This bulletin specifies the framework under which advisory organizations licensed pursuant to 24-A M.R.S.A. § 2321-A, and participating insurers, will operate in a loss cost system. Under this system, advisory organizations no longer develop or file final rates but instead develop and file, for approval, advisory prospective loss costs and supporting actuarial and statistical data. Each insurer must individually determine and file the rates it will use as a result of its own independent company decision-making process. Advisory organizations continue to develop and file rules, relativities, and supplementary rating information on behalf of their participating insurers.

Nothing in these procedures requires advisory organizations or their participating insurers to refile loss costs or rates previously implemented. Any participating insurer of an advisory organization is authorized to continue to use all rates and deviations filed and approved for its use until disapproved, or the insurer makes its own filing to change its rates, either by making an independent filing or by filing a Reference Filing Adoption Form adopting or modifying the advisory organization's prospective loss costs. However an insurer may not use rates approved for a rating organization prior to January 1, 1993 unless those rates have been filed by the insurer pursuant to 24-A M.R.S.A. § 2382-C. The National Council on Compensation Insurance had no rates approved for policies effective on or after January 1, 1993.

#### DEFINITIONS

For the purposes of this bulletin, the following terms are defined as follows:

- 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 based on loss or expense considerations. Rate does not include minimum premiums.
- C. "Losses" include loss adjustment expenses and any loss-based assessments.
- D. "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.
- E. "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.
- F. "Prospective loss costs" are that portion of a rate that does not include provisions for expenses (other than loss adjustment expenses) or profit. Loss costs are based on historical aggregate losses adjusted through development to their ultimate value and projected through trending to a future point in time.
- G. "Supplementary rating information" includes any manual or plan of rates, classification, rating schedule, minimum premium, policy fee, rating rule, rate-related underwriting rule, experience rating plan, statistical plan, and any other similar information needed to determine the applicable rate in effect or to be in effect.

## SECTION I. RATES/LOSS COSTS

### A. Advisory Organization Action

-- Advisory organizations no longer develop or file final rates that contain provisions for expenses (other than loss adjustment expenses) and profit. Instead, for workers compensation, advisory organizations develop and file for approval with the Superintendent, in accordance with 24-A <sup>00</sup> 2382-C(5) and 2384-A, a Reference Filing containing advisory prospective loss costs and supporting actuarial and statistical data.

-- Reference Filings contain the loss costs and the underlying loss data and other supporting actuarial information for any calculations or assumptions underlying those loss costs. Loss-based assessments should be included in the prospective loss costs.

-- After a Reference Filing has been filed with the Bureau of Insurance and approved, the advisory organization will provide its participating insurers with a copy of the approved Reference Filing.

-- The advisory organization may print and distribute manuals of prospective loss costs as well as rules and other supplementary rating information described in Section II (A).

-- Advisory organizations do not develop or file any minimum premiums, minimum premium formulas, or expense constants.

### B. Insurer Action

-- Each insurer must individually determine the final rates it will file pursuant to <sup>0</sup> 2382-C and the effective date of any rate changes. This will be the result of the independent decision making process of each insurer. The Superintendent, upon request, has the discretion to waive the 30 day prefiling requirement.

-- If an insurer that is a member, subscriber, or service purchaser of an advisory organization decides to use the loss costs in the approved Reference Filing in support of its own filing, the insurer should make a filing for approval using the Reference Filing Adoption Form. The insurer's rates are the combination of the advisory organization's loss costs and the loss cost adjustments contained in the insurer's Reference Filing Adoption Form.

-- Insurers may file modifications of the prospective loss costs in the approved Reference Filing, based on their own anticipated experience. Supporting documentation may be requested by the Superintendent for any modifications (upwards or downwards) of the prospective loss costs in the approved Reference Filing.

### EXAMPLES

The Summary of Supporting Information Form contains a reference to examples of how to apply a company's loss cost modification factor to the advisory organization's prospective loss costs. Two examples follow:

Example 1: Loss Cost modification factor: If your company's loss cost modification is - 10%, a factor of .90 (1.000 - .100) should be used.

Example 2: Loss Cost modification factor: If your company's loss cost modification is +15%, a factor of 1.15 (1.000 + .150) should be used.

- Insurers may vary expense loads by individual classification or grouping. Insurers may use variable or fixed expense loads or a combination of these to establish their expense loadings. Insurers may offer premium discount plans.

- An insurer must file the minimum premium rules, formulas, or amounts it proposes to use.
- The insurer may request to have its loss cost adjustments remain on file and reference all subsequent loss costs Reference Filings. Upon receipt of subsequent approved advisory organization Reference Filings, the insurer's rates are the combination of the approved loss costs and the loss cost adjustments contained in the Reference Filing Adoption Form on file with the Bureau of Insurance. However, the insurer must notify the Bureau of Insurance at least 30 days before the proposed effective date of its adoption of the loss cost Reference Filing.
- If an insurer that has filed to have its loss cost adjustments remain on file with the Bureau of Insurance intends to delay, modify, or not adopt particular advisory organization's Reference Filing, the insurer must make an appropriate filing with the Bureau of Insurance.
- The insurer's filed loss cost adjustments will remain in effect until the insurer withdraws them or files and receives approval of a revised Reference Filing Adoption Form.
- Insurers may file any other information they consider relevant and must provide any further information the Bureau of Insurance may request.
- To the extent that an insurer's final rates are determined solely by applying its loss cost adjustments, as presented in the Reference Filing Adoption Form, to the loss costs contained in an advisory organization's Reference Filing and printed in the advisory organization's rating manual, the insurer need not develop or file its final rate pages with the Bureau of Insurance.

If an insurer chooses to print and distribute final rate pages for its own use, based solely upon the application of its filed loss costs, the insurer need not file those pages with the Superintendent. However, if the advisory organization does not print the loss costs in its manual, the insurer must submit its rates to the Superintendent.

For future Reference Filings filed by the advisory organization:

- If the insurer HAS filed to have its loss cost adjustments remain on file, applicable to subsequent Reference Filings, and a new Reference Filing is filed and approved:

**If . . . .**

- 1.** the insurer decides to use the revision of the loss costs and effective date as filed . . .
- 2.** the insurer decides to use the prospective loss costs as filed BUT with a different effective date . . .
- 3.** the insurer decides to use the revision of the prospective loss costs, but wishes to change its loss cost adjustments . . .
- 4.** the insurer decides NOT to revise its rates using the prospective loss costs . . .

**Then . . . .**

- 1.** the insurer must file with the Superintendent giving notice of its intent to adopt the revised loss cost rates at least 30 days prior to their proposed effective date. Rates are the combination of the new loss costs and the on-file loss cost adjustments.
- 2.** the insurer must notify the Superintendent of its effective date before the effective date of the loss costs, or within 30 days of receipt of the loss costs from the advisory organization.
- 3.** the insurer must file a revised Reference Filing Adoption Form at least 30 days before the effective date of the Reference Filing.
- 4.** the insurer must notify the Superintendent not later than the effective date of the loss costs, or 30 days from receipt of the loss costs from the advisory organization, whichever is later.

- If an answer has NOT elected to have its loss cost adjustments remain on file, applicable to future

prospective loss costs reference filings, and a new Reference Filing is filed and approved, and

**If . . . .**

1. the insurer decides to use the prospective loss costs to revise its rates . . .
2. the insurer decides NOT to use the revisions . . .

**Then . . . .**

1. the insurer must file a new Reference Filing Adoption Form for approval, including an effective date, at least 30 days before the requested effective date . .
2. the insurer does not file anything with the Superintendent.

SECTION II. SUPPLEMENTARY RATING INFORMATION

A. Advisory Organization Action

- The advisory organization submits, for the Superintendent's approval, filings containing a revision of rules and supplementary rating information. This includes policy-writing rules, rating plans, classification codes, and descriptions and rules which include factors or relativities such as employers' liability increased limits factors, classification relativities, or similar factors. Minimum premiums are excluded because they must be determined individually by each insurer . .

- These filings are made by the advisory organization on behalf of those insurers that have authorized the advisory organization to file rules, relativities, and supplementary rating information on their behalf.

- Advisory organizations may print and distribute manuals of rules and supplementary rating information (excluding minimum premiums).

B. Insurer Action

- If an insurer has authorized an advisory organization to file on its behalf, and a new filing of rules, relativities and supplementary rating information is filed and approved;

**If . . . .**

1. the insurer decides to use the revisions and effective date as filed. . .
2. the insurer decides to use the revisions as filed BUT with a different effective date. . .
3. the insurer decides not to use the revision. . .
4. the insurer decides to use the revision with modifications. . .

**Then . . . .**

1. the insurer does NOT file anything with the Superintendent.
2. the insurer must notify the Superintendent of its effective date at least 30 days prior to its use.
3. the 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.
4. the insurer must file the modification with the Superintendent specifying the basis for the proposed effective date if different than the effective date filed by the advisory organization.

All inquiries concerning this Directive should be addressed to the Workers' Compensation Section Supervisor.

Brian K. Atchinson  
Superintendent of Insurance

NOTE: This bulletin is intended solely for informational purposes. It is not intended to set forth legal rights, duties or privileges nor is it intended to provide legal advice. Readers are encouraged to consult applicable statutes and regulations and to contact the Bureau of Insurance if additional information is needed.