

**ATTENTION: RATE FILING PERSONNEL**

March 1, 2007

**ALL ASSOCIATION MEMBERS**

Circular Letter No. 07-1504

**RE: NCCI Item B-1403 — Revision to *Minnesota Basic Manual* and *Retrospective Rating Plan Manual*; 2006 Update to Hazard Group and Retrospective Rating Plan Parameters**

The Minnesota Department of Commerce has approved the above filing to become effective July 1, 2007.

The purpose of the above filing item is to revise the Hazard Groups and update the Expected Loss Ranges and State Hazard Group Relativities in the *Minnesota Basic Manual*, and NCCI's *Retrospective Rating Plan Manual for Workers Compensation and Employers Liability Insurance*. As a result of this filing, the following changes will occur:

- The number of hazard groups will be increased from four to seven (this filing also provides a revised four-hazard group system)
- A Table of Classifications by Hazard Group will be created as a new Appendix D in the *Minnesota Basic Manual*
- Part Four F—Table of Classifications by Hazard Group will be removed from NCCI's *Retrospective Rating Plan Manual*

The seven new hazard groups created by this filing will be labeled A, B, C, D, E, F, and G, with A being the lowest hazard group with the least likelihood of serious claims and G being the hazard group with the highest likelihood of serious claims.

Exhibit I details the changes to the *Minnesota Basic Manual* to add the new hazard group table as Appendix D. Appendix D will provide the appropriate hazard group for each classification. Exhibit II illustrates the removal of the Table of Classifications by Hazard Group from NCCI's *Retrospective Rating Plan Manual*. Appendix D in the *Minnesota Basic Manual* will be the new location for the *Table of Classifications by Hazard Group*.

MWCIA has filed the new seven hazard group and revised four hazard group assignments and information associated with Item B-1403 on behalf of carriers licensed to write workers' compensation in Minnesota to be effective July 1, 2007, for new and renewal business only. **To implement either of the newly approved hazard group or retrospective rating options into a current rate schedule will require member carriers to refile their rates and rating schedules for approval with the Minnesota Department of Commerce prior to using any of the newly approved items in their current rates and/or rating programs.** Carriers who wish to have their revised filings in effect by July 1<sup>st</sup> should keep in mind, however, that these filings must be received by Commerce **on or before** May 1, 2007 to comply with Minn. Stat. §79.56, subd. 1(a).

Carriers who require more lead time for computer programming, etc and do not intend to refile their current rates and rating schedules effective July 1<sup>st</sup> to incorporate either of the two new hazard group options must continue to use the hazard group table already used in their current rate filing until such time that they have a new rate schedule and/or rating programs filed and approved for use in Minnesota.

The new four-hazard-group option will be labeled 1 to 4. Please note: new hazard groups 1 to 4 will not be the same as current hazard groups I to IV (for example, some classifications in the current hazard group II will be in the new hazard group 2, while others will be in the new 1 or 3).

Item B-1403 also updates the *Table of Expected Loss Ranges* for entry into the Table of Insurance Charges and updates Excess Loss Pure Premium Factors, Loss Elimination Ratios and State Hazard Group Relativities in the **2007 Minnesota Ratemaking Report**. The proposed *Table of Expected Loss Ranges* are illustrated in Exhibit III. The proposed Excess Loss Pure Premium Factors for the seven hazard groups and four hazard groups are illustrated in Exhibit IV and Exhibit V, respectively. The proposed Loss Elimination Ratios are found in Exhibit VI and Exhibit VII for the seven hazard groups and four hazard groups, respectively. The proposed State Hazard Group Relativities for the seven hazard groups and four hazard groups are found in Exhibits VIII and IX, respectively.

The proposed changes are expected to have a minimal impact on overall premium levels. Individual policies, however, could be impacted if they are written under deductible programs, or if they have a loss limit under the Retrospective Rating Plan. Individual risks may experience increases or decreases, but individual risk equity will be improved as the deductibles and ELFs would more precisely identify high risks from low risks.

As you review the exhibits for Item B-1403, please note that strikethroughs indicate deleted text while underlining indicates new or added text. A copy of National Council's original filing memorandum is included for your convenience to provide additional background information on Item B-1403.

Should you have any questions regarding this item, please direct them to MWCIA's Actuarial Services Department at 952.897.1737 (Option 3) or by sending an email to [info@mwcia.org](mailto:info@mwcia.org).

### **A NOTICE TO MEMBERSHIP:**

The Minnesota Department of Commerce requests that MWCIA remind its members that the above filing only applies automatically to insurance companies who have filed a Limited Power of Attorney agreement with our Commerce Department. A properly executed Limited Power of Attorney authorizes MWCIA to make filings on behalf of individual insurance companies. Any insurance company who has not filed a Limited Power of Attorney must independently submit the changes represented in each filing item to the Minnesota Department of Commerce for their approval.

**EXHIBIT I**

**Minnesota Basic Manual—2006 Edition**  
**Original Printing** *Effective July 1, 2007*

**APPENDIX**  
**AD1**

**Table of Classifications by Hazard Group**

| Class Code | Hazard Group A-G | Hazard Group 1-4 | Class Code | Hazard Group A-G | Hazard Group 1-4 | Class Code | Hazard Group A-G | Hazard Group 1-4 | Class Code | Hazard Group A-G | Hazard Group 1-4 |
|------------|------------------|------------------|------------|------------------|------------------|------------|------------------|------------------|------------|------------------|------------------|
| 0005       | C                | 2                | 2041       | B                | 1                | 2790       | B                | 1                | 3365       | E                | 3                |
| 0006       | C                | 2                | 2065       | C                | 2                | 2802       | D                | 2                | 3372       | D                | 2                |
| 0008       | D                | 2                | 2070       | C                | 2                | 2812       | C                | 2                | 3373       | C                | 2                |
| 0016       | E                | 3                | 2081       | C                | 2                | 2881       | A                | 1                | 3382       | E                | 3                |
| 0034       | C                | 2                | 2089       | C                | 2                | 2883       | C                | 2                | 3383       | B                | 1                |
| 0035       | B                | 1                | 2095       | C                | 2                | 2915       | D                | 2                | 3385       | B                | 1                |
| 0042       | D                | 2                | 2105       | B                | 1                | 2916       | F                | 3                | 3400       | D                | 2                |
| 0050       | C                | 2                | 2111       | B                | 1                | 2923       | B                | 1                | 3507       | C                | 2                |
| 0079       | E                | 3                | 2121       | C                | 2                | 2960       | C                | 2                | 3515       | C                | 2                |
| 0106       | F                | 3                | 2130       | C                | 2                | 3004       | E                | 3                | 3548       | C                | 2                |
| 0113       | C                | 2                | 2131       | C                | 2                | 3018       | E                | 3                | 3559       | C                | 2                |
| 0170       | C                | 2                | 2157       | C                | 2                | 3022       | B                | 1                | 3571       | B                | 1                |
| 0251       | C                | 2                | 2172       | D                | 2                | 3027       | E                | 3                | 3574       | B                | 1                |
| 0400       | D                | 2                | 2174       | B                | 1                | 3028       | C                | 2                | 3612       | D                | 2                |
| 0401       | F                | 3                | 2211       | E                | 3                | 3030       | E                | 3                | 3620       | E                | 3                |
| 0908       | C                | 2                | 2220       | C                | 2                | 3040       | E                | 3                | 3629       | B                | 1                |
| 0909       | B                | 1                | 2286       | B                | 1                | 3042       | D                | 2                | 3632       | D                | 2                |
| 0912       | B                | 1                | 2288       | B                | 1                | 3064       | C                | 2                | 3634       | B                | 1                |
| 0913       | C                | 2                | 2302       | C                | 2                | 3066       | C                | 2                | 3635       | C                | 2                |
| 0917       | B                | 1                | 2305       | D                | 2                | 3076       | B                | 1                | 3638       | B                | 1                |
| 1164       | G                | 4                | 2361       | C                | 2                | 3081       | E                | 3                | 3642       | C                | 2                |
| 1165       | F                | 3                | 2362       | C                | 2                | 3082       | E                | 3                | 3643       | C                | 2                |
| 1320       | F                | 3                | 2380       | C                | 2                | 3085       | E                | 3                | 3647       | D                | 2                |
| 1322       | F                | 3                | 2388       | B                | 1                | 3110       | C                | 2                | 3648       | B                | 1                |
| 1430       | E                | 3                | 2402       | E                | 3                | 3111       | C                | 2                | 3681       | B                | 1                |
| 1438       | F                | 3                | 2413       | C                | 2                | 3113       | C                | 2                | 3685       | B                | 1                |
| 1452       | E                | 3                | 2416       | C                | 2                | 3114       | C                | 2                | 3719       | G                | 4                |
| 1463       | F                | 3                | 2417       | C                | 2                | 3126       | C                | 2                | 3724       | F                | 3                |
| 1472       | F                | 3                | 2501       | C                | 2                | 3131       | C                | 2                | 3726       | G                | 4                |
| 1624       | F                | 3                | 2503       | B                | 1                | 3132       | C                | 2                | 3803       | C                | 2                |
| 1642       | E                | 3                | 2534       | B                | 1                | 3145       | C                | 2                | 3807       | B                | 1                |
| 1654       | E                | 3                | 2570       | B                | 1                | 3146       | C                | 2                | 3808       | D                | 2                |
| 1655       | E                | 3                | 2585       | B                | 1                | 3169       | C                | 2                | 3821       | D                | 2                |
| 1699       | E                | 3                | 2586       | C                | 2                | 3175       | C                | 2                | 3822       | D                | 2                |
| 1701       | E                | 3                | 2587       | B                | 1                | 3179       | B                | 1                | 3824       | D                | 2                |
| 1710       | E                | 3                | 2623       | D                | 2                | 3180       | B                | 1                | 3826       | C                | 2                |
| 1747       | E                | 3                | 2640       | D                | 2                | 3188       | B                | 1                | 3827       | D                | 2                |
| 1803       | F                | 3                | 2651       | B                | 1                | 3220       | C                | 2                | 3830       | D                | 2                |
| 1852       | G                | 4                | 2660       | B                | 1                | 3223       | A                | 1                | 3851       | B                | 1                |
| 1853       | D                | 2                | 2670       | A                | 1                | 3224       | B                | 1                | 3881       | C                | 2                |
| 1860       | B                | 1                | 2683       | B                | 1                | 3227       | B                | 1                | 4000       | F                | 3                |
| 1924       | B                | 1                | 2686       | B                | 1                | 3241       | C                | 2                | 4021       | E                | 3                |
| 1925       | D                | 2                | 2688       | B                | 1                | 3255       | A                | 1                | 4024       | E                | 3                |
| 2001       | B                | 1                | 2702       | G                | 4                | 3257       | C                | 2                | 4034       | E                | 3                |
| 2002       | B                | 1                | 2710       | F                | 3                | 3300       | C                | 2                | 4036       | E                | 3                |
| 2003       | C                | 2                | 2714       | B                | 1                | 3303       | B                | 1                | 4038       | A                | 1                |
| 2014       | E                | 3                | 2729       | E                | 3                | 3307       | C                | 2                | 4053       | C                | 2                |
| 2016       | B                | 1                | 2731       | E                | 3                | 3315       | B                | 1                | 4061       | B                | 1                |
| 2021       | D                | 2                | 2735       | B                | 1                | 3334       | C                | 2                | 4062       | C                | 2                |
| 2039       | B                | 1                | 2759       | B                | 1                | 3341       | E                | 3                | 4101       | D                | 2                |

**EXHIBIT I**

**Minnesota Basic Manual—2006 Edition**  
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**APPENDIX**  
**AD2**

**Table of Classifications by Hazard Group (Cont'd)**

| Class Code | Hazard Group A-G | Hazard Group 1-4 | Class Code | Hazard Group A-G | Hazard Group 1-4 | Class Code | Hazard Group A-G | Hazard Group 1-4 | Class Code | Hazard Group A-G | Hazard Group 1-4 |
|------------|------------------|------------------|------------|------------------|------------------|------------|------------------|------------------|------------|------------------|------------------|
| 4112       | C                | 2                | 4740       | E                | 3                | 5649       | F                | 3                | 7151M      | E                | 3                |
| 4114       | C                | 2                | 4741       | C                | 2                | 5651       | F                | 3                | 7152M      | E                | 3                |
| 4130       | C                | 2                | 4751       | E                | 3                | 5703       | E                | 3                | 7153M      | E                | 3                |
| 4131       | B                | 1                | 4767       | G                | 4                | 5705       | E                | 3                | 7201       | C                | 2                |
| 4133       | B                | 1                | 4771       | G                | 4                | 5951       | B                | 1                | 7207       | E                | 3                |
| 4150       | A                | 1                | 4777       | G                | 4                | 6003       | E                | 3                | 7222       | E                | 3                |
| 4206       | C                | 2                | 4825       | E                | 3                | 6017       | E                | 3                | 7228       | E                | 3                |
| 4207       | E                | 3                | 4828       | D                | 2                | 6204       | F                | 3                | 7229       | F                | 3                |
| 4239       | E                | 3                | 4829       | F                | 3                | 6213       | F                | 3                | 7230       | D                | 2                |
| 4240       | B                | 1                | 4902       | B                | 1                | 6216       | G                | 4                | 7231       | D                | 2                |
| 4243       | C                | 2                | 4923       | C                | 2                | 6217       | F                | 3                | 7232       | F                | 3                |
| 4244       | C                | 2                | 5000       | F                | 3                | 6229       | F                | 3                | 7309F      | G                | 4                |
| 4250       | C                | 2                | 5020       | E                | 3                | 6233       | F                | 3                | 7313F      | G                | 4                |
| 4251       | C                | 2                | 5022       | F                | 3                | 6235       | G                | 4                | 7317F      | G                | 4                |
| 4263       | C                | 2                | 5037       | G                | 4                | 6236       | E                | 3                | 7327F      | G                | 4                |
| 4273       | C                | 2                | 5040       | G                | 4                | 6237       | E                | 3                | 7333M      | G                | 4                |
| 4279       | C                | 2                | 5057       | G                | 4                | 6248       | F                | 3                | 7335M      | G                | 4                |
| 4283       | C                | 2                | 5059       | G                | 4                | 6251       | F                | 3                | 7337M      | G                | 4                |
| 4299       | B                | 1                | 5102       | F                | 3                | 6252       | G                | 4                | 7350F      | F                | 3                |
| 4304       | D                | 2                | 5146       | E                | 3                | 6260       | G                | 4                | 7360       | E                | 3                |
| 4307       | A                | 1                | 5160       | F                | 3                | 6306       | F                | 3                | 7370       | C                | 2                |
| 4314       | D                | 2                | 5183       | E                | 3                | 6319       | F                | 3                | 7380       | D                | 2                |
| 4351       | C                | 2                | 5188       | E                | 3                | 6325       | F                | 3                | 7382       | C                | 2                |
| 4352       | B                | 1                | 5190       | E                | 3                | 6400       | D                | 2                | 7390       | C                | 2                |
| 4361       | B                | 1                | 5191       | C                | 2                | 6504       | B                | 1                | 7394M      | G                | 4                |
| 4410       | C                | 2                | 5192       | C                | 2                | 6702M      | F                | 3                | 7395M      | G                | 4                |
| 4420       | F                | 3                | 5213       | F                | 3                | 6703M      | F                | 3                | 7398M      | G                | 4                |
| 4432       | A                | 1                | 5215       | D                | 2                | 6704M      | F                | 3                | 7403       | E                | 3                |
| 4452       | C                | 2                | 5221       | E                | 3                | 6801F      | E                | 3                | 7405       | E                | 3                |
| 4459       | C                | 2                | 5222       | F                | 3                | 6811       | E                | 3                | 7420       | G                | 4                |
| 4470       | C                | 2                | 5348       | E                | 3                | 6824F      | F                | 3                | 7421       | F                | 3                |
| 4484       | C                | 2                | 5403       | F                | 3                | 6826F      | E                | 3                | 7422       | G                | 4                |
| 4493       | C                | 2                | 5437       | E                | 3                | 6834       | D                | 2                | 7425       | G                | 4                |
| 4511       | D                | 2                | 5445       | F                | 3                | 6836       | E                | 3                | 7431       | G                | 4                |
| 4557       | B                | 1                | 5462       | E                | 3                | 6843F      | G                | 4                | 7502       | E                | 3                |
| 4558       | C                | 2                | 5472       | G                | 4                | 6845F      | G                | 4                | 7515       | G                | 4                |
| 4568       | E                | 3                | 5473       | G                | 4                | 6854       | G                | 4                | 7520       | C                | 2                |
| 4581       | F                | 3                | 5474       | F                | 3                | 6872F      | G                | 4                | 7529       | G                | 4                |
| 4583       | F                | 3                | 5478       | E                | 3                | 6874F      | G                | 4                | 7538       | G                | 4                |
| 4611       | B                | 1                | 5479       | D                | 2                | 6882       | G                | 4                | 7539       | F                | 3                |
| 4635       | G                | 4                | 5480       | F                | 3                | 6884       | G                | 4                | 7540       | G                | 4                |
| 4653       | B                | 1                | 5491       | F                | 3                | 7016M      | G                | 4                | 7580       | E                | 3                |
| 4665       | E                | 3                | 5506       | G                | 4                | 7024M      | G                | 4                | 7590       | D                | 2                |
| 4670       | E                | 3                | 5507       | F                | 3                | 7038M      | G                | 4                | 7600       | E                | 3                |
| 4683       | C                | 2                | 5508       | E                | 3                | 7046M      | G                | 4                | 7601       | F                | 3                |
| 4686       | E                | 3                | 5537       | E                | 3                | 7047M      | G                | 4                | 7605       | E                | 3                |
| 4692       | B                | 1                | 5538       | E                | 3                | 7050M      | G                | 4                | 7610       | D                | 2                |
| 4693       | C                | 2                | 5551       | G                | 4                | 7090M      | G                | 4                | 7706       | F                | 3                |
| 4703       | C                | 2                | 5606       | F                | 3                | 7098M      | G                | 4                | 7708       | F                | 3                |
| 4720       | C                | 2                | 5645       | F                | 3                | 7099M      | G                | 4                | 7720       | E                | 3                |

**EXHIBIT I**

**Minnesota Basic Manual—2006 Edition**  
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**APPENDIX**  
**AD3**

**Table of Classifications by Hazard Group (Cont'd)**

| Class Code | Hazard Group A-G | Hazard Group 1-4 | Class Code | Hazard Group A-G | Hazard Group 1-4 | Class Code | Hazard Group A-G | Hazard Group 1-4 | Class Code | Hazard Group A-G | Hazard Group 1-4 |
|------------|------------------|------------------|------------|------------------|------------------|------------|------------------|------------------|------------|------------------|------------------|
| 7855       | E                | 3                | 8350       | F                | 3                | 9040       | B                | 1                |            |                  |                  |
| 8001       | B                | 1                | 8353       | E                | 3                | 9044       | B                | 1                |            |                  |                  |
| 8002       | C                | 2                | 8380       | D                | 2                | 9052       | B                | 1                |            |                  |                  |
| 8006       | C                | 2                | 8381       | D                | 2                | 9054       | B                | 1                |            |                  |                  |
| 8008       | B                | 1                | 8385       | E                | 3                | 9058       | A                | 1                |            |                  |                  |
|            |                  |                  |            |                  |                  |            |                  |                  |            |                  |                  |
| 8013       | C                | 2                | 8392       | C                | 2                | 9059       | D                | 2                |            |                  |                  |
| 8015       | C                | 2                | 8393       | C                | 2                | 9060       | B                | 1                |            |                  |                  |
| 8017       | B                | 1                | 8395       | D                | 2                | 9061       | A                | 1                |            |                  |                  |
| 8018       | B                | 1                | 8500       | E                | 3                | 9062       | A                | 1                |            |                  |                  |
| 8021       | C                | 2                | 8601       | D                | 2                | 9063       | B                | 1                |            |                  |                  |
|            |                  |                  |            |                  |                  |            |                  |                  |            |                  |                  |
| 8029       | B                | 1                | 8606       | F                | 3                | 9077F      | C                | 2                |            |                  |                  |
| 8031       | C                | 2                | 8709F      | G                | 4                | 9082       | A                | 1                |            |                  |                  |
| 8032       | B                | 1                | 8719       | G                | 4                | 9083       | A                | 1                |            |                  |                  |
| 8033       | C                | 2                | 8720       | E                | 3                | 9084       | C                | 2                |            |                  |                  |
| 8034       | C                | 2                | 8721       | E                | 3                | 9088       | G                | 4                |            |                  |                  |
|            |                  |                  |            |                  |                  |            |                  |                  |            |                  |                  |
| 8036       | B                | 1                | 8726F      | E                | 3                | 9093       | B                | 1                |            |                  |                  |
| 8039       | B                | 1                | 8734M      | B                | 1                | 9101       | B                | 1                |            |                  |                  |
| 8044       | D                | 2                | 8737M      | B                | 1                | 9102       | C                | 2                |            |                  |                  |
| 8045       | B                | 1                | 8738M      | B                | 1                | 9110       | C                | 2                |            |                  |                  |
| 8047       | B                | 1                | 8742       | E                | 3                | 9149       | C                | 2                |            |                  |                  |
|            |                  |                  |            |                  |                  |            |                  |                  |            |                  |                  |
| 8048       | B                | 1                | 8745       | D                | 2                | 9154       | C                | 2                |            |                  |                  |
| 8052       | C                | 2                | 8748       | D                | 2                | 9156       | D                | 2                |            |                  |                  |
| 8058       | C                | 2                | 8800       | A                | 1                | 9178       | A                | 1                |            |                  |                  |
| 8072       | B                | 1                | 8803       | E                | 3                | 9179       | B                | 1                |            |                  |                  |
| 8102       | B                | 1                | 8805M      | B                | 1                | 9180       | E                | 3                |            |                  |                  |
|            |                  |                  |            |                  |                  |            |                  |                  |            |                  |                  |
| 8103       | D                | 2                | 8810       | C                | 2                | 9182       | C                | 2                |            |                  |                  |
| 8106       | E                | 3                | 8814M      | B                | 1                | 9186       | F                | 3                |            |                  |                  |
| 8107       | E                | 3                | 8815M      | B                | 1                | 9220       | D                | 2                |            |                  |                  |
| 8111       | C                | 2                | 8820       | D                | 2                | 9402       | E                | 3                |            |                  |                  |
| 8116       | C                | 2                | 8824       | B                | 1                | 9403       | F                | 3                |            |                  |                  |
|            |                  |                  |            |                  |                  |            |                  |                  |            |                  |                  |
| 8203       | C                | 2                | 8825       | A                | 1                | 9410       | C                | 2                |            |                  |                  |
| 8204       | E                | 3                | 8826       | C                | 2                | 9501       | D                | 2                |            |                  |                  |
| 8209       | C                | 2                | 8828       | C                | 2                | 9516       | E                | 3                |            |                  |                  |
| 8215       | E                | 3                | 8829       | C                | 2                | 9519       | E                | 3                |            |                  |                  |
| 8227       | G                | 4                | 8830       | C                | 2                | 9521       | E                | 3                |            |                  |                  |
|            |                  |                  |            |                  |                  |            |                  |                  |            |                  |                  |
| 8232       | E                | 3                | 8831       | C                | 2                | 9522       | C                | 2                |            |                  |                  |
| 8233       | E                | 3                | 8832       | C                | 2                | 9534       | F                | 3                |            |                  |                  |
| 8235       | C                | 2                | 8833       | C                | 2                | 9539       | F                | 3                |            |                  |                  |
| 8263       | D                | 2                | 8835       | C                | 2                | 9554       | F                | 3                |            |                  |                  |
| 8264       | E                | 3                | 8844       | C                | 2                | 9586       | A                | 1                |            |                  |                  |
|            |                  |                  |            |                  |                  |            |                  |                  |            |                  |                  |
| 8265       | F                | 3                | 8845       | C                | 2                | 9600       | B                | 1                |            |                  |                  |
| 8279       | F                | 3                | 8861       | C                | 2                | 9620       | D                | 2                |            |                  |                  |
| 8280       | E                | 3                | 8868       | B                | 1                |            |                  |                  |            |                  |                  |
| 8284       | E                | 3                | 8869       | B                | 1                |            |                  |                  |            |                  |                  |
| 8285       | E                | 3                | 8901       | D                | 2                |            |                  |                  |            |                  |                  |
|            |                  |                  |            |                  |                  |            |                  |                  |            |                  |                  |
| 8286       | E                | 3                | 9012       | D                | 2                |            |                  |                  |            |                  |                  |
| 8291       | D                | 2                | 9014       | C                | 2                |            |                  |                  |            |                  |                  |
| 8292       | C                | 2                | 9015       | C                | 2                |            |                  |                  |            |                  |                  |
| 8293       | E                | 3                | 9016       | C                | 2                |            |                  |                  |            |                  |                  |
| 8304       | E                | 3                | 9033       | C                | 2                |            |                  |                  |            |                  |                  |

**EXHIBIT II**

**RETROSPECTIVE RATING PLAN MANUAL  
PART FOUR—F**

**TABLE OF CLASSIFICATIONS BY HAZARD GROUP**

This Table is to be used in the determination of the excess loss premium factor. This factor is determined based on the selected loss limitation, and the hazard group assignment shown below for the classification producing the largest amount of estimated Workers' Compensation standard premium for each state included in the plan.

**See state retrospective rating pages for hazard group assignment of state special classifications.**

| Code No. | Hazard Group | Code No. | Hazard Group | Code No. | Hazard Group | Code No. | Hazard Group | Code No. | Hazard Group |
|----------|--------------|----------|--------------|----------|--------------|----------|--------------|----------|--------------|
| 0005     | II           | 1654     | III          | 2143     | II           | 2660     | II           | 3076     | II           |
| 0008     | II           | 1655     | III          | 2150     | II           | 2670     | I            | 3081     | III          |
| 0016     | II           | 1699     | III          | 2156     | II           | 2683     | II           | 3082     | III          |
| 0034     | II           | 1701     | III          | 2157     | II           | 2688     | II           | 3085     | III          |
| 0035     | II           | 1710     | III          | 2172     | II           | 2702     | III          | 3110     | II           |
| 0036     | II           | 1741     | IV           | 2174     | I            | 2710     | III          | 3111     | II           |
| 0037     | II           | 1747     | III          | 2211     | III          | 2714     | II           | 3113     | II           |
| 0042     | II           | 1748     | III          | 2220     | II           | 2731     | II           | 3114     | II           |
| 0050     | II           | 1803     | IV           | 2286     | II           | 2735     | II           | 3118     | II           |
| 0079     | III          | 1852     | III          | 2288     | II           | 2759     | II           | 3119     | I            |
| 0083     | II           | 1853     | II           | 2300     | I            | 2790     | II           | 3122     | II           |
| 0106     | III          | 1860     | II           | 2302     | II           | 2802     | II           | 3126     | II           |
| 0113     | II           | 1924     | II           | 2305     | II           | 2812     | II           | 3131     | II           |
| 0170     | II           | 1925     | II           | 2361     | II           | 2835     | I            | 3132     | III          |
| 0251     | II           | 2001     | II           | 2362     | II           | 2836     | I            | 3145     | II           |
| 0400     | II           | 2002     | II           | 2380     | II           | 2841     | II           | 3146     | II           |
| 0401     | III          | 2003     | III          | 2386     | I            | 2881     | II           | 3169     | II           |
| 0908     | II           | 2014     | III          | 2388     | II           | 2883     | II           | 3175     | II           |
| 0909     | II           | 2016     | II           | 2402     | III          | 2913     | II           | 3179     | II           |
| 0912     | II           | 2021     | II           | 2413     | II           | 2915     | II           | 3180     | II           |
| 0913     | II           | 2039     | II           | 2416     | II           | 2916     | II           | 3188     | II           |
| 0917     | II           | 2041     | II           | 2417     | II           | 2923     | II           | 3220     | II           |
| 1005     | IV           | 2065     | II           | 2501     | II           | 2942     | I            | 3223     | I            |
| 1016     | IV           | 2070     | II           | 2503     | II           | 2960     | II           | 3224     | I            |
| 1164     | IV           | 2081     | II           | 2534     | II           | 3004     | III          | 3227     | II           |
| 1165     | III          | 2089     | II           | 2570     | II           | 3018     | II           | 3240     | II           |
| 1320     | III          | 2095     | II           | 2576     | II           | 3022     | II           | 3241     | II           |
| 1322     | III          | 2105     | II           | 2578     | II           | 3027     | II           | 3255     | I            |
| 1430     | III          | 2110     | II           | 2585     | II           | 3028     | II           | 3257     | II           |
| 1438     | III          | 2111     | II           | 2586     | II           | 3030     | III          | 3270     | II           |
| 1452     | III          | 2112     | II           | 2587     | II           | 3040     | III          | 3300     | I            |
| 1463     | III          | 2114     | II           | 2589     | II           | 3041     | II           | 3303     | II           |
| 1472     | III          | 2121     | II           | 2600     | II           | 3042     | II           | 3307     | II           |
| 1624     | III          | 2130     | II           | 2623     | II           | 3064     | II           | 3315     | II           |
| 1642     | III          | 2131     | II           | 2651     | II           | 3066     | II           | 3334     | II           |

EXHIBIT II

RETROSPECTIVE RATING PLAN MANUAL  
PART FOUR—F

Table of Classifications by Hazard Group (Cont'd)

| Code No. | Hazard Group | Code No. | Hazard Group | Code No. | Hazard Group | Code No. | Hazard Group | Code No. | Hazard Group |
|----------|--------------|----------|--------------|----------|--------------|----------|--------------|----------|--------------|
| 3336     | II           | 3881     | II           | 4362     | III          | 5020     | III          | 5551     | III          |
| 3365     | III          | 4000     | III          | 4410     | II           | 5022     | III          | 5606     | III          |
| 3372     | III          | 4021     | II           | 4420     | III          | 5037     | IV           | 5610     | II           |
| 3373     | III          | 4024     | III          | 4431     | I            | 5040     | IV           | 5645     | III          |
| 3383     | II           | 4034     | III          | 4432     | I            | 5057     | IV           | 5651     | III          |
| 3385     | II           | 4036     | III          | 4439     | III          | 5059     | IV           | 5703     | III          |
| 3400     | II           | 4038     | I            | 4452     | II           | 5069     | III          | 5705     | III          |
| 3507     | II           | 4053     | II           | 4459     | II           | 5102     | III          | 5951     | II           |
| 3515     | II           | 4061     | II           | 4470     | III          | 5146     | III          | 6003     | III          |
| 3548     | II           | 4062     | II           | 4484     | II           | 5160     | III          | 6005     | III          |
| 3559     | II           | 4101     | III          | 4493     | II           | 5183     | III          | 6017     | III          |
| 3574     | II           | 4111     | II           | 4511     | II           | 5188     | III          | 6018     | III          |
| 3681     | II           | 4112     | II           | 4557     | II           | 5190     | III          | 6045     | III          |
| 3612     | II           | 4113     | II           | 4558     | II           | 5191     | III          | 6204     | III          |
| 3620     | III          | 4114     | II           | 4561     | II           | 5192     | II           | 6206     | IV           |
| 3629     | II           | 4130     | II           | 4568     | III          | 5213     | III          | 6213     | III          |
| 3632     | II           | 4131     | II           | 4581     | III          | 5215     | II           | 6214     | III          |
| 3634     | II           | 4133     | II           | 4583     | III          | 5221     | III          | 6216     | III          |
| 3635     | II           | 4150     | I            | 4611     | II           | 5222     | IV           | 6217     | III          |
| 3638     | II           | 4206     | II           | 4635     | IV           | 5223     | III          | 6229     | II           |
| 3642     | II           | 4207     | II           | 4653     | II           | 5348     | III          | 6233     | III          |
| 3643     | II           | 4239     | III          | 4665     | III          | 5402     | II           | 6235     | III          |
| 3647     | II           | 4240     | II           | 4670     | III          | 5403     | III          | 6236     | III          |
| 3648     | II           | 4243     | II           | 4683     | II           | 5437     | III          | 6237     | III          |
| 3681     | II           | 4244     | II           | 4686     | III          | 5443     | II           | 6251     | IV           |
| 3685     | II           | 4250     | II           | 4692     | II           | 5445     | III          | 6252     | IV           |
| 3719     | III          | 4251     | II           | 4693     | II           | 5462     | III          | 6260     | IV           |
| 3724     | III          | 4263     | II           | 4703     | II           | 5472     | III          | 6306     | III          |
| 3726     | IV           | 4273     | II           | 4717     | I            | 5473     | III          | 6319     | III          |
| 3803     | II           | 4279     | II           | 4720     | II           | 5474     | III          | 6325     | III          |
| 3807     | II           | 4282     | II           | 4740     | III          | 5478     | III          | 6400     | II           |
| 3808     | II           | 4283     | II           | 4741     | II           | 5479     | III          | 6504     | II           |
| 3821     | III          | 4299     | II           | 4751     | III          | 5480     | III          | 6702M    | III          |
| 3822     | II           | 4304     | II           | 4771     | IV           | 5491     | III          | 6703M    | III          |
| 3824     | II           | 4307     | I            | 4777     | III          | 5506     | III          | 6704M    | III          |
| 3826     | II           | 4308     | II           | 4825     | III          | 5507     | III          | 6801F    | III          |
| 3827     | II           | 4351     | II           | 4828     | III          | 5508     | III          | 6811     | III          |
| 3830     | III          | 4352     | II           | 4829     | III          | 5536     | III          | 6824F    | III          |
| 3851     | I            | 4360     | II           | 4902     | II           | 5537*    | III          | 6826F    | III          |
| 3865     | I            | 4361     | II           | 4923     | II           | 5538     | III          | 6834     | III          |

\* Please review the Status of Item Filing Circular for B-1391 for each state's status.

EXHIBIT II

RETROSPECTIVE RATING PLAN MANUAL  
PART FOUR—F

Table of Classifications by Hazard Group (Cont'd)

| Code No. | Hazard Group | Code No. | Hazard Group | Code No. | Hazard Group | Code No. | Hazard Group | Code No. | Hazard Group |
|----------|--------------|----------|--------------|----------|--------------|----------|--------------|----------|--------------|
| 6836     | III          | 7409     | IV           | 8072     | II           | 8755     | III          | 9110     | II           |
| 6843F    | IV           | 7420     | IV           | 8102     | II           | 8800     | I            | 9154     | III          |
| 6845F    | III          | 7421     | III          | 8103     | II           | 8803     | III          | 9156     | II           |
| 6854     | IV           | 7422     | IV           | 8105     | II           | 8805M    | II           | 9178     | II           |
| 6872F    | IV           | 7423     | III          | 8106     | III          | 8810     | II           | 9179     | II           |
| 6874F    | III          | 7425     | IV           | 8107     | III          | 8814M    | II           | 9180     | II           |
| 6882     | IV           | 7431     | IV           | 8111     | II           | 8815M    | II           | 9182     | II           |
| 6884     | III          | 7502     | III          | 8116     | II           | 8820     | III          | 9186     | III          |
| 7016M    | IV           | 7515     | IV           | 8203     | II           | 8824     | I            | 9220     | II           |
| 7024M    | IV           | 7520     | III          | 8204     | III          | 8825     | II           | 9402     | III          |
| 7038M    | IV           | 7538     | IV           | 8209     | II           | 8826     | II           | 9403     | III          |
| 7046M    | IV           | 7539     | III          | 8215     | III          | 8829     | II           | 9410     | II           |
| 7047M    | IV           | 7540     | IV           | 8227     | III          | 8831     | II           | 9501     | II           |
| 7050M    | IV           | 7580     | III          | 8232     | III          | 8832     | III          | 9505     | II           |
| 7090M    | IV           | 7590     | II           | 8233     | III          | 8833     | II           | 9516     | III          |
| 7098M    | IV           | 7600     | III          | 8235     | II           | 8835     | II           | 9519     | III          |
| 7099M    | IV           | 7601     | III          | 8263     | II           | 8861     | II           | 9521     | III          |
| 7133     | III          | 7605     | III          | 8264     | II           | 8868     | II           | 9522     | II           |
| 7151M    | III          | 7610     | III          | 8265     | III          | 8869     | II           | 9534     | III          |
| 7152M    | III          | 7611     | III          | 8279     | II           | 8871     | II           | 9554     | III          |
| 7153M    | III          | 7612     | III          | 8288     | II           | 8901     | III          | 9586     | I            |
| 7222     | III          | 7613     | III          | 8291     | II           | 9012     | III          | 9600     | II           |
| 7228     | III          | 7704     | III          | 8292     | II           | 9014     | II           | 9620     | III          |
| 7229     | III          | 7720     | III          | 8293     | II           | 9015     | III          |          |              |
| 7230     | III          | 7855     | III          | 8304     | III          | 9016     | II           |          |              |
| 7231     | III          | 8001     | I            | 8350     | III          | 9019     | III          |          |              |
| 7232     | III          | 8002     | II           | 8380     | III          | 9033     | II           |          |              |
| 7309F    | IV           | 8006     | II           | 8381     | II           | 9040     | II           |          |              |
| 7313F    | IV           | 8008     | II           | 8385     | III          | 9044     | II           |          |              |
| 7317F    | IV           | 8010     | II           | 8392     | II           | 9052     | II           |          |              |
| 7327F    | IV           | 8013     | II           | 8393     | III          | 9058     | II           |          |              |
| 7333M    | IV           | 8015     | II           | 8500     | III          | 9059     | II           |          |              |
| 7335M    | IV           | 8017     | II           | 8601     | III          | 9060     | II           |          |              |
| 7337M    | IV           | 8018     | II           | 8606     | III          | 9061     | II           |          |              |
| 7350F    | IV           | 8021     | II           | 8709F    | IV           | 9062     | II           |          |              |
| 7360     | III          | 8031     | II           | 8719     | III          | 9063     | III          |          |              |
| 7370     | II           | 8032     | II           | 8720     | III          | 9077F    | II           |          |              |
| 7380     | III          | 8033     | II           | 8721     | III          | 9082     | II           |          |              |
| 7382     | III          | 8039     | II           | 8726F    | III          | 9083     | II           |          |              |
| 7390     | III          | 8044     | II           | 8734M    | II           | 9084     | II           |          |              |
| 7394M    | IV           | 8045     | II           | 8737M    | II           | 9088     | IV           |          |              |
| 7395M    | IV           | 8046     | II           | 8738M    | II           | 9089     | II           |          |              |
| 7398M    | IV           | 8047     | II           | 8742     | III          | 9093     | I            |          |              |
| 7403     | II           | 8050     | II           | 8745     | II           | 9101     | II           |          |              |
| 7405     | III          | 8058     | II           | 8748     | III          | 9102     | II           |          |              |



## EXHIBIT III

## RETROSPECTIVE RATING PLAN MANUAL

**2007 Expected Loss Ranges**  
**Effective July 1, 2007**

| Expected<br>Loss<br>Group | Range<br>Rounded Values |          | Expected<br>Loss<br>Group | Range<br>Rounded Values |           | Expected<br>Loss<br>Group | Range<br>Rounded Values |               |
|---------------------------|-------------------------|----------|---------------------------|-------------------------|-----------|---------------------------|-------------------------|---------------|
| 95                        | 950                     | — 1,482  | 65                        | 79,631                  | — 86,005  | 35                        | 993,169                 | — 1,115,100   |
| 94                        | 1,483                   | — 2,195  | 64                        | 86,006                  | — 92,890  | 34                        | 1,115,101               | — 1,252,005   |
| 93                        | 2,196                   | — 2,899  | 63                        | 92,891                  | — 100,326 | 33                        | 1,252,006               | — 1,427,664   |
| 92                        | 2,900                   | — 3,832  | 62                        | 100,327                 | — 108,357 | 32                        | 1,427,665               | — 1,641,009   |
| 91                        | 3,833                   | — 4,985  | 61                        | 108,358                 | — 117,031 | 31                        | 1,641,010               | — 1,886,237   |
| 90                        | 4,986                   | — 6,020  | 60                        | 117,032                 | — 126,424 | 30                        | 1,886,238               | — 2,168,113   |
| 89                        | 6,021                   | — 7,266  | 59                        | 126,425                 | — 136,696 | 29                        | 2,168,114               | — 2,577,266   |
| 88                        | 7,267                   | — 8,435  | 58                        | 136,697                 | — 147,592 | 28                        | 2,577,267               | — 3,081,849   |
| 87                        | 8,436                   | — 9,791  | 57                        | 147,593                 | — 159,021 | 27                        | 3,081,850               | — 3,685,227   |
| 86                        | 9,792                   | — 11,357 | 56                        | 159,022                 | — 171,339 | 26                        | 3,685,228               | — 4,543,120   |
| 85                        | 11,358                  | — 12,844 | 55                        | 171,340                 | — 184,612 | 25                        | 4,543,121               | — 5,781,252   |
| 84                        | 12,845                  | — 14,520 | 54                        | 184,613                 | — 199,613 | 24                        | 5,781,253               | — 7,356,812   |
| 83                        | 14,521                  | — 16,398 | 53                        | 199,614                 | — 215,895 | 23                        | 7,356,813               | — 9,400,713   |
| 82                        | 16,399                  | — 18,246 | 52                        | 215,896                 | — 233,510 | 22                        | 9,400,714               | — 12,029,102  |
| 81                        | 18,247                  | — 20,301 | 51                        | 233,511                 | — 252,554 | 21                        | 12,029,103              | — 15,392,375  |
| 80                        | 20,302                  | — 22,583 | 50                        | 252,555                 | — 272,532 | 20                        | 15,392,376              | — 19,696,001  |
| 79                        | 22,584                  | — 25,126 | 49                        | 272,533                 | — 294,043 | 19                        | 19,696,002              | — 25,202,895  |
| 78                        | 25,127                  | — 27,726 | 48                        | 294,044                 | — 317,406 | 18                        | 25,202,896              | — 34,570,976  |
| 77                        | 27,727                  | — 30,525 | 47                        | 317,407                 | — 345,321 | 17                        | 34,570,977              | — 51,130,195  |
| 76                        | 30,526                  | — 33,609 | 46                        | 345,322                 | — 375,689 | 16                        | 51,130,196              | — 75,621,156  |
| 75                        | 33,610                  | — 36,933 | 45                        | 375,690                 | — 408,729 | 15                        | 75,621,157              | — 111,843,086 |
| 74                        | 36,934                  | — 40,435 | 44                        | 408,730                 | — 446,652 | 14                        | 111,843,087             | — 165,415,034 |
| 73                        | 40,436                  | — 44,268 | 43                        | 446,653                 | — 488,733 | 13                        | 165,415,035             | — 244,647,514 |
| 72                        | 44,269                  | — 48,471 | 42                        | 488,734                 | — 534,783 | 12                        | 244,647,515             | — 382,966,802 |
| 71                        | 48,472                  | — 52,908 | 41                        | 534,784                 | — 589,532 | 11                        | 382,966,803             | — 606,006,859 |
| 70                        | 52,909                  | — 57,713 | 40                        | 589,533                 | — 651,490 | 10                        | 606,006,860             | — 958,945,559 |
| 69                        | 57,714                  | — 62,948 | 39                        | 651,491                 | — 719,961 | 9                         | 958,945,560             | — & over      |
| 68                        | 62,949                  | — 68,250 | 38                        | 719,962                 | — 795,628 |                           |                         |               |
| 67                        | 68,251                  | — 73,720 | 37                        | 795,629                 | — 884,563 |                           |                         |               |
| 66                        | 73,721                  | — 79,630 | 36                        | 884,564                 | — 993,168 |                           |                         |               |

## Excess Loss Pure Premium Factors

The advisory ELPPFs are a percentage of ultimate loss whereby the loss has been developed to an ultimate basis and trended to the midpoint of the rating period for which the ELPPFs are intended. The advisory ELPPFs reflect the following considerations.

- The annual severity trends which underlie the projected severities by injury type are 6.5% for indemnity loss and 12.5% for medical loss.
- A factor of 1.125 for indemnity loss and 1.325 for medical loss are used to project loss from an eighth report to an ultimate basis.
- The advisory ELPPFs include adjustments to be on an occurrence basis and for "Large Events".

| Loss<br>Limit | Hazard Group |       |       |       |       |       |       |
|---------------|--------------|-------|-------|-------|-------|-------|-------|
|               | A            | B     | C     | D     | E     | F     | G     |
| 10,000        | .734         | .782  | .810  | .833  | .856  | .890  | .916  |
| 15,000        | .684         | .738  | .768  | .794  | .823  | .861  | .893  |
| 20,000        | .647         | .702  | .735  | .763  | .794  | .836  | .873  |
| 25,000        | .617         | .674  | .707  | .736  | .770  | .816  | .855  |
| 30,000        | .591         | .649  | .684  | .714  | .749  | .797  | .839  |
| 35,000        | .569         | .627  | .663  | .694  | .730  | .780  | .826  |
| 40,000        | .550         | .608  | .644  | .676  | .713  | .764  | .813  |
| 50,000        | .517         | .575  | .613  | .645  | .684  | .737  | .789  |
| 75,000        | .456         | .513  | .551  | .585  | .627  | .683  | .741  |
| 100,000       | .411         | .466  | .505  | .539  | .582  | .641  | .703  |
| 125,000       | .375         | .429  | .468  | .502  | .545  | .606  | .671  |
| 150,000       | .346         | .398  | .437  | .470  | .514  | .575  | .643  |
| 175,000       | .322         | .373  | .410  | .443  | .487  | .548  | .617  |
| 200,000       | .302         | .351  | .388  | .420  | .463  | .524  | .594  |
| 225,000       | .284         | .332  | .368  | .399  | .442  | .502  | .573  |
| 250,000       | .269         | .315  | .351  | .381  | .423  | .483  | .554  |
| 275,000       | .256         | .300  | .335  | .365  | .406  | .466  | .536  |
| 300,000       | .244         | .287  | .321  | .350  | .390  | .449  | .520  |
| 325,000       | .233         | .275  | .308  | .337  | .376  | .435  | .505  |
| 350,000       | .223         | .264  | .297  | .325  | .364  | .421  | .492  |
| 375,000       | .214         | .254  | .286  | .313  | .352  | .408  | .479  |
| 400,000       | .206         | .245  | .277  | .303  | .341  | .397  | .467  |
| 425,000       | .199         | .237  | .268  | .294  | .331  | .386  | .455  |
| 450,000       | .192         | .229  | .259  | .285  | .321  | .375  | .444  |
| 475,000       | .185         | .222  | .252  | .277  | .312  | .366  | .434  |
| 500,000       | .179         | .215  | .244  | .269  | .304  | .357  | .425  |
| 600,000       | .159         | .192  | .219  | .242  | .275  | .325  | .391  |
| 700,000       | .142         | .173  | .199  | .220  | .252  | .300  | .363  |
| 800,000       | .128         | .158  | .182  | .202  | .232  | .278  | .340  |
| 900,000       | .117         | .145  | .168  | .187  | .216  | .260  | .320  |
| 1,000,000     | .1070        | .1331 | .1554 | .1740 | .2014 | .2437 | .3018 |
| 2,000,000     | .0590        | .0750 | .0897 | .1015 | .1198 | .1500 | .1946 |
| 3,000,000     | .0403        | .0521 | .0632 | .0718 | .0854 | .1083 | .1442 |
| 4,000,000     | .0303        | .0396 | .0484 | .0551 | .0660 | .0847 | .1148 |
| 5,000,000     | .0243        | .0318 | .0390 | .0446 | .0534 | .0692 | .0951 |
| 6,000,000     | .0203        | .0266 | .0326 | .0372 | .0448 | .0582 | .0809 |
| 7,000,000     | .0174        | .0228 | .0280 | .0319 | .0383 | .0500 | .0700 |
| 8,000,000     | .0152        | .0200 | .0244 | .0279 | .0335 | .0437 | .0615 |
| 9,000,000     | .0134        | .0178 | .0217 | .0248 | .0297 | .0387 | .0546 |
| 10,000,000    | .0119        | .0160 | .0195 | .0222 | .0266 | .0347 | .0491 |

## Excess Loss Pure Premium Factors

The advisory ELPPFs are a percentage of ultimate loss whereby the loss has been developed to an ultimate basis and trended to the midpoint of the rating period for which the ELPPFs are intended. The advisory ELPPFs reflect the following considerations.

- The annual severity trends which underlie the projected severities by injury type are 6.5% for indemnity loss and 12.5% for medical loss.
- A factor of 1.125 for indemnity loss and 1.325 for medical loss are used to project loss from an eighth report to an ultimate basis.
- The advisory ELPPFs include adjustments to be on an occurrence basis and for "Large Events".

| Loss<br>Limit | Hazard Group |       |       |       |
|---------------|--------------|-------|-------|-------|
|               | 1            | 2     | 3     | 4     |
| 10,000        | .774         | .817  | .872  | .916  |
| 15,000        | .728         | .777  | .840  | .893  |
| 20,000        | .693         | .744  | .814  | .873  |
| 25,000        | .664         | .717  | .791  | .855  |
| 30,000        | .639         | .694  | .771  | .839  |
| 35,000        | .617         | .673  | .753  | .826  |
| 40,000        | .598         | .655  | .737  | .813  |
| 50,000        | .565         | .623  | .709  | .789  |
| 75,000        | .503         | .563  | .653  | .741  |
| 100,000       | .457         | .516  | .610  | .703  |
| 125,000       | .420         | .479  | .573  | .671  |
| 150,000       | .389         | .448  | .542  | .643  |
| 175,000       | .364         | .421  | .515  | .617  |
| 200,000       | .342         | .398  | .492  | .594  |
| 225,000       | .324         | .378  | .470  | .573  |
| 250,000       | .307         | .361  | .451  | .554  |
| 275,000       | .292         | .345  | .433  | .536  |
| 300,000       | .279         | .331  | .418  | .520  |
| 325,000       | .268         | .318  | .403  | .505  |
| 350,000       | .257         | .306  | .390  | .492  |
| 375,000       | .247         | .295  | .378  | .479  |
| 400,000       | .238         | .286  | .366  | .467  |
| 425,000       | .230         | .276  | .356  | .455  |
| 450,000       | .222         | .268  | .346  | .444  |
| 475,000       | .215         | .260  | .337  | .434  |
| 500,000       | .209         | .253  | .328  | .425  |
| 600,000       | .186         | .227  | .298  | .391  |
| 700,000       | .168         | .206  | .274  | .363  |
| 800,000       | .152         | .189  | .253  | .340  |
| 900,000       | .140         | .174  | .236  | .320  |
| 1,000,000     | .1282        | .1616 | .2206 | .3018 |
| 2,000,000     | .0720        | .0936 | .1334 | .1946 |
| 3,000,000     | .0499        | .0660 | .0957 | .1442 |
| 4,000,000     | .0378        | .0507 | .0745 | .1148 |
| 5,000,000     | .0303        | .0408 | .0605 | .0951 |
| 6,000,000     | .0253        | .0341 | .0508 | .0809 |
| 7,000,000     | .0217        | .0293 | .0436 | .0700 |
| 8,000,000     | .0191        | .0256 | .0380 | .0615 |
| 9,000,000     | .0169        | .0227 | .0337 | .0546 |
| 10,000,000    | .0152        | .0203 | .0302 | .0491 |

## Loss Elimination Ratios

The advisory LERs are a percentage of ultimate loss whereby the loss has been developed to an ultimate basis and trended to the midpoint of the rating period for which the LERs are intended. The advisory LERs reflect the following considerations

- The annual severity trends which underlie the projected severities by injury type are 6.5% for indemnity loss and 12.5% for medical loss.
- A factor of 1.125 for indemnity loss and 1.325 for medical loss are used to project loss from an eighth report to an ultimate basis.
- The advisory LERs are on a per claim basis.

| Hazard Group A    |                          |                              | Hazard Group B    |                          |                              | Hazard Group C    |                          |                              |
|-------------------|--------------------------|------------------------------|-------------------|--------------------------|------------------------------|-------------------|--------------------------|------------------------------|
| <u>Deductible</u> | <u>Medical Loss Only</u> | <u>Total Loss Deductible</u> | <u>Deductible</u> | <u>Medical Loss Only</u> | <u>Total Loss Deductible</u> | <u>Deductible</u> | <u>Medical Loss Only</u> | <u>Total Loss Deductible</u> |
| 100               | .0145                    | .0145                        | 100               | .0105                    | .0105                        | 100               | .0086                    | .0086                        |
| 150               | .0214                    | .0215                        | 150               | .0156                    | .0156                        | 150               | .0128                    | .0128                        |
| 200               | .0279                    | .0280                        | 200               | .0204                    | .0204                        | 200               | .0168                    | .0168                        |
| 250               | .0340                    | .0341                        | 250               | .0249                    | .0250                        | 250               | .0205                    | .0206                        |
| 500               | .0584                    | .0587                        | 500               | .0438                    | .0441                        | 500               | .0363                    | .0366                        |
| 1,000             | .0889                    | .0903                        | 1,000             | .0686                    | .0696                        | 1,000             | .0573                    | .0582                        |
| 1,500             | .1092                    | .1117                        | 1,500             | .0851                    | .0870                        | 1,500             | .0716                    | .0733                        |
| 2,000             | .1251                    | .1289                        | 2,000             | .0981                    | .1011                        | 2,000             | .0829                    | .0856                        |
| 2,500             | .1383                    | .1435                        | 2,500             | .1091                    | .1131                        | 2,500             | .0925                    | .0962                        |
| 5,000             | .1853                    | .1968                        | 5,000             | .1486                    | .1578                        | 5,000             | .1277                    | .1361                        |
| 10,000            | .2432                    | .2667                        | 10,000            | .1987                    | .2180                        | 10,000            | .1733                    | .1909                        |
| 25,000            | .3248                    | .3834                        | 25,000            | .2759                    | .3267                        | 25,000            | .2459                    | .2930                        |
| 50,000            | .3760                    | .4825                        | 50,000            | .3289                    | .4248                        | 50,000            | .2976                    | .3876                        |

| Hazard Group D    |                          |                              | Hazard Group E    |                          |                              | Hazard Group F    |                          |                              |
|-------------------|--------------------------|------------------------------|-------------------|--------------------------|------------------------------|-------------------|--------------------------|------------------------------|
| <u>Deductible</u> | <u>Medical Loss Only</u> | <u>Total Loss Deductible</u> | <u>Deductible</u> | <u>Medical Loss Only</u> | <u>Total Loss Deductible</u> | <u>Deductible</u> | <u>Medical Loss Only</u> | <u>Total Loss Deductible</u> |
| 100               | .0070                    | .0070                        | 100               | .0057                    | .0057                        | 100               | .0037                    | .0037                        |
| 150               | .0104                    | .0105                        | 150               | .0085                    | .0085                        | 150               | .0055                    | .0055                        |
| 200               | .0137                    | .0137                        | 200               | .0111                    | .0111                        | 200               | .0072                    | .0073                        |
| 250               | .0168                    | .0169                        | 250               | .0136                    | .0137                        | 250               | .0089                    | .0090                        |
| 500               | .0299                    | .0301                        | 500               | .0244                    | .0246                        | 500               | .0161                    | .0163                        |
| 1,000             | .0477                    | .0486                        | 1,000             | .0393                    | .0400                        | 1,000             | .0265                    | .0272                        |
| 1,500             | .0600                    | .0617                        | 1,500             | .0497                    | .0511                        | 1,500             | .0342                    | .0354                        |
| 2,000             | .0699                    | .0724                        | 2,000             | .0581                    | .0603                        | 2,000             | .0404                    | .0423                        |
| 2,500             | .0784                    | .0818                        | 2,500             | .0653                    | .0683                        | 2,500             | .0460                    | .0485                        |
| 5,000             | .1099                    | .1176                        | 5,000             | .0926                    | .0994                        | 5,000             | .0675                    | .0732                        |
| 10,000            | .1515                    | .1678                        | 10,000            | .1291                    | .1435                        | 10,000            | .0976                    | .1098                        |
| 25,000            | .2200                    | .2640                        | 25,000            | .1911                    | .2304                        | 25,000            | .1514                    | .1851                        |
| 50,000            | .2705                    | .3555                        | 50,000            | .2392                    | .3163                        | 50,000            | .1959                    | .2634                        |

| Hazard Group G    |                          |                              |
|-------------------|--------------------------|------------------------------|
| <u>Deductible</u> | <u>Medical Loss Only</u> | <u>Total Loss Deductible</u> |
| 100               | .0027                    | .0027                        |
| 150               | .0040                    | .0040                        |
| 200               | .0052                    | .0052                        |
| 250               | .0064                    | .0065                        |
| 500               | .0117                    | .0119                        |
| 1,000             | .0195                    | .0200                        |
| 1,500             | .0253                    | .0262                        |
| 2,000             | .0300                    | .0314                        |
| 2,500             | .0342                    | .0361                        |
| 5,000             | .0508                    | .0551                        |
| 10,000            | .0743                    | .0836                        |
| 25,000            | .1180                    | .1446                        |
| 50,000            | .1568                    | .2116                        |

**Loss Elimination Ratios**

The advisory LERs are a percentage of ultimate loss whereby the loss has been developed to an ultimate basis and trended to the midpoint of the rating period for which the LERs are intended. The advisory LERs reflect the following considerations.

- The annual severity trends which underlie the projected severities by injury type are 6.5% for indemnity loss and 12.5% for medical loss.
- A factor of 1.125 for indemnity loss and 1.325 for medical loss are used to project loss from an eighth report to an ultimate basis.
- The advisory LERs are on a per claim basis.

| Hazard Group 1    |                           |                                | Hazard Group 2    |                           |                                |
|-------------------|---------------------------|--------------------------------|-------------------|---------------------------|--------------------------------|
| <u>Loss Limit</u> | <u>Medical Deductible</u> | <u>Total Claims Deductible</u> | <u>Loss Limit</u> | <u>Medical Deductible</u> | <u>Total Claims Deductible</u> |
| 100               | .0112                     | .0112                          | 100               | .0081                     | .0081                          |
| 150               | .0166                     | .0166                          | 150               | .0120                     | .0120                          |
| 200               | .0217                     | .0218                          | 200               | .0157                     | .0158                          |
| 250               | .0266                     | .0266                          | 250               | .0193                     | .0193                          |
| 500               | .0465                     | .0468                          | 500               | .0342                     | .0344                          |
| 1,000             | .0723                     | .0733                          | 1,000             | .0541                     | .0550                          |
| 1,500             | .0894                     | .0915                          | 1,500             | .0677                     | .0694                          |
| 2,000             | .1029                     | .1061                          | 2,000             | .0785                     | .0812                          |
| 2,500             | .1143                     | .1186                          | 2,500             | .0878                     | .0914                          |
| 5,000             | .1551                     | .1647                          | 5,000             | .1217                     | .1299                          |
| 10,000            | .2066                     | .2266                          | 10,000            | .1660                     | .1832                          |
| 25,000            | .2845                     | .3366                          | 25,000            | .2372                     | .2832                          |
| 50,000            | .3372                     | .4348                          | 50,000            | .2885                     | .3768                          |

| Hazard Group 3    |                           |                                | Hazard Group 4    |                           |                                |
|-------------------|---------------------------|--------------------------------|-------------------|---------------------------|--------------------------------|
| <u>Loss Limit</u> | <u>Medical Deductible</u> | <u>Total Claims Deductible</u> | <u>Loss Limit</u> | <u>Medical Deductible</u> | <u>Total Claims Deductible</u> |
| 100               | .0048                     | .0048                          | 100               | .0027                     | .0027                          |
| 150               | .0071                     | .0071                          | 150               | .0040                     | .0040                          |
| 200               | .0093                     | .0094                          | 200               | .0052                     | .0052                          |
| 250               | .0115                     | .0115                          | 250               | .0064                     | .0065                          |
| 500               | .0206                     | .0208                          | 500               | .0117                     | .0119                          |
| 1,000             | .0335                     | .0342                          | 1,000             | .0195                     | .0200                          |
| 1,500             | .0426                     | .0439                          | 1,500             | .0253                     | .0262                          |
| 2,000             | .0500                     | .0520                          | 2,000             | .0300                     | .0314                          |
| 2,500             | .0565                     | .0592                          | 2,500             | .0342                     | .0361                          |
| 5,000             | .0810                     | .0873                          | 5,000             | .0508                     | .0551                          |
| 10,000            | .1146                     | .1279                          | 10,000            | .0743                     | .0836                          |
| 25,000            | .1727                     | .2093                          | 25,000            | .1180                     | .1446                          |
| 50,000            | .2191                     | .2917                          | 50,000            | .1568                     | .2116                          |

MINNESOTA

State Special Classifications Only

| <u>Class Code</u> | <u>Hazard Group</u> | <u>Class Code</u> | <u>Hazard Group</u> | <u>Class Code</u> | <u>Hazard Group</u> |
|-------------------|---------------------|-------------------|---------------------|-------------------|---------------------|
| 0006              | C                   | 7706              | F                   | 8844              | C                   |
| 2640              | D                   | 7708              | F                   | 8845              | C                   |
| 2686              | B                   | 8029              | B                   | 9054              | B                   |
| 2729              | E                   | 8034              | C                   | 9149              | C                   |
| 3341              | E                   | 8036              | B                   | 9539              | F                   |
| 3382              | E                   | 8048              | B                   |                   |                     |
| 3571              | B                   | 8052              | C                   |                   |                     |
| 4314              | D                   | 8280              | E                   |                   |                     |
| 4767              | G                   | 8284              | E                   |                   |                     |
| 5000              | F                   | 8285              | E                   |                   |                     |
| 5649              | F                   | 8286              | E                   |                   |                     |
| 6248              | F                   | 8353              | E                   |                   |                     |
| 7201              | C                   | 8395              | D                   |                   |                     |
| 7207              | E                   | 8828              | C                   |                   |                     |
| 7529              | G                   | 8830              | C                   |                   |                     |

State and Hazard Group Differentials

| <u>Hazard Group A</u> | <u>Hazard Group B</u> | <u>Hazard Group C</u> | <u>Hazard Group D</u> | <u>Hazard Group E</u> | <u>Hazard Group F</u> | <u>Hazard Group G</u> |
|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| 1.530                 | 1.135                 | 1.004                 | .905                  | .775                  | .625                  | .466                  |

MINNESOTA

State Special Classifications Only

| <u>Class Code</u> | <u>Hazard Group</u> | <u>Class Code</u> | <u>Hazard Group</u> | <u>Class Code</u> | <u>Hazard Group</u> |
|-------------------|---------------------|-------------------|---------------------|-------------------|---------------------|
| 0006              | 2                   | 7706              | 3                   | 8844              | 2                   |
| 2640              | 2                   | 7708              | 3                   | 8845              | 2                   |
| 2686              | 1                   | 8029              | 1                   | 9054              | 1                   |
| 2729              | 3                   | 8034              | 2                   | 9149              | 2                   |
| 3341              | 3                   | 8036              | 1                   | 9539              | 3                   |
| 3382              | 3                   | 8048              | 1                   |                   |                     |
| 3571              | 1                   | 8052              | 2                   |                   |                     |
| 4314              | 2                   | 8280              | 3                   |                   |                     |
| 4767              | 4                   | 8284              | 3                   |                   |                     |
| 5000              | 3                   | 8285              | 3                   |                   |                     |
| 5649              | 3                   | 8286              | 3                   |                   |                     |
| 6248              | 3                   | 8353              | 3                   |                   |                     |
| 7201              | 2                   | 8395              | 2                   |                   |                     |
| 7207              | 3                   | 8828              | 2                   |                   |                     |
| 7529              | 4                   | 8830              | 2                   |                   |                     |

State and Hazard Group Differentials

| <u>Hazard Group</u> | <u>Hazard Group</u> | <u>Hazard Group</u> | <u>Hazard Group</u> |
|---------------------|---------------------|---------------------|---------------------|
| 1                   | 2                   | 3                   | 4                   |
| 1.205               | .971                | .702                | .466                |

## FILING MEMORANDUM

### ITEM B-1403—REVISION TO BASIC MANUAL AND RETROSPECTIVE RATING PLAN MANUAL/2006 UPDATE TO HAZARD GROUPS AND RETROSPECTIVE RATING PLAN PARAMETERS

(To be effective on new and renewal voluntary and assigned risk business.)

#### PURPOSE

The purpose of this item is to revise the Hazard Groups and update the Expected Loss Ranges and State Hazard Group Relativities in NCCI's *Basic Manual for Workers Compensation and Employers Liability Insurance* and *Retrospective Rating Plan Manual for Workers Compensation and Employers Liability Insurance*. In addition, updated Excess Loss Factors are included for United States Longshore and Harbor Workers' Act (USL&HW) and for loss cost states with loss cost filings that are effective between January 1, 2007 and July 1, 2007. As a result of this filing, the following changes will occur:

- The number of hazard groups will be increased from four to seven. Since some carriers may not be able to update their systems with the seven-hazard-group system in the time required, this filing also provides a revised four-hazard-group system.
- All assigned risk carriers in the states of AL, AR, CT, GA, KS, NV, NH, NM, NC, SC, SD will apply the seven-hazard-group system uniformly to residual market accounts that select deductible options.
- One Table of Classifications by Hazard Group will be created as Appendix E of the *Basic Manual*; both hazard group systems (seven and four) will be included.
- Part Four F—Table of Classifications by Hazard Group will be removed from the *Retrospective Rating Plan Manual*.
- Individual state Tables of Classifications by Hazard Group will be removed from each individual state's Miscellaneous Rules section of the *Basic Manual*.

#### BACKGROUND

Retrospective rating is a plan for adjusting the risk premium of 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 carriers. 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

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## **FILING MEMORANDUM**

### **ITEM B-1403—REVISION TO BASIC MANUAL AND RETROSPECTIVE RATING PLAN MANUAL/2006 UPDATE TO HAZARD GROUPS AND RETROSPECTIVE RATING PLAN PARAMETERS**

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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.

The Retrospective Rating Plan contains an optional provision—an individual loss limitation—which limits the amount of loss arising out of any one accident that will be used in the calculation of retrospective premium adjustments. The charge for limiting losses is determined by application of an Excess Loss Factor (ELF) to the standard premium multiplied by the appropriate Loss Conversion Factor.

#### **Hazard Groups**

Hazard group assignments are used to establish the proper ELF for risks electing a loss limitation under a retrospective rating plan. Class codes are assigned to hazard groups based on their ELFs. This effectively categorizes the relative extent to which workers are exposed to serious occupational injuries.

NCCI completed a statistical analysis that was supplemented from an underwriting perspective. The statistical analysis was based on classification data in those states where NCCI collects workers compensation statistical plan data. Cluster analysis was used to optimally group classifications with similar ELFs.

Hazard groups are also used in deductible programs, which are offered in several states on an optional basis. In these states, the premium reduction percentages vary by hazard group. Revised deductible values that incorporate the new hazard group assignments will be included in the next rate or loss cost filing that is effective on or after January 1, 2007. The hazard group assignments are based on the classification, subject to any deductible amount, that produces the largest amount of estimated workers compensation standard premium for that state.

#### **Expected Loss Ranges**

The Table of Insurance Charges contains the excess ratios needed to quantify the insurance charge and savings described above. The ratio of actual losses to expected losses—the entry ratio—is used to look up the values in the Table of Insurance Charges. The charges depend on the maximum and minimum subject losses, and on the size of the insured. The variation in the loss ratios, hence the charges, of the larger employers for which greater losses are expected should be much lower than the variation for smaller employers.

As inflation increases claim size, there is an apparent growth in the size of the insured, measured in expected losses, but no real growth in the size of the insured, measured in the expected number of claims. To correct for the impact of loss size inflation, NCCI is proposing that the Table of Expected Loss Ranges be updated for the trend in average size of loss. The last time such an update was made was in 2005 (Item R-1395—2005 Update to Retrospective Rating Plan Parameters). The current Table of Expected Loss Ranges was based on a projected annual increase in severity of 9% from March 5, 2002 to August 15, 2006. NCCI has since observed an actual annualized growth in severity of 10.1% from March 5, 2002 to February 15, 2003. NCCI projects an annual growth in severity of 9% from February 15, 2003 to January 1, 2008. The new table incorporates both these observed and projected changes in severity.

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### ITEM B-1403—REVISION TO BASIC MANUAL AND RETROSPECTIVE RATING PLAN MANUAL/2006 UPDATE TO HAZARD GROUPS AND RETROSPECTIVE RATING PLAN PARAMETERS

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#### State Hazard Group Relativities

The variation in the loss ratios of employers in the lower hazard groups generally should be smaller than the variation for employers in the higher hazard groups. The State Hazard Group Relativity Factors adjust for this difference by placing lower hazard group employers in a higher Expected Loss Size Range and higher hazard group employers in a lower Expected Loss Size 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.

NCCI will review the State Hazard Group Relativities and recommend appropriate item filings regularly due to changes in the circumstances (changes in state statutory benefit levels, inflation, etc.) underlying each state's severity.

#### Excess Loss Factors

The ELF's vary by loss limitation and hazard group; ELF's are produced for each state and for USL&HW. This variation in ELF's across hazard groups reflects the varying degrees of severity exposure to occupational hazards inherent to operations associated with each classification. ELF's must be updated for three reasons:

1. ELF's vary by hazard group and so they must be updated when the hazard groups change.
2. ELF's are computed from excess ratios giving the percentage of losses expected to be above a given limit. For any fixed limit, inflation will increase the percentage of losses above that limit and so excess ratios and ELF's must be updated regularly to reflect this.
3. Overall excess ratios are computed as a weighted average of injury type excess ratios; therefore, excess ratios, and consequently ELF's, must be updated regularly for changes in the mix of injury types.

The proposed state ELF's are based on the data underlying the currently approved ELF's in each state. This data was trended forward to the effective date of the next filing, and the proposed state ELF's were then computed in the same way as the currently approved ELF's.

#### PROPOSAL

It is proposed that NCCI's *Basic Manual* and *Retrospective Rating Plan Manual* be amended as contained in the attached exhibits.

#### Hazard Groups

It is proposed that the number of hazard groups be increased from the current four to seven. The seven new hazard groups will be labeled A, B, C, D, E, F, and G, with A being the lowest hazard group with the least likelihood of serious claims and G being the hazard group with the highest likelihood of serious claims.

**Exhibit 1** details the changes to NCCI's *Basic Manual* for inclusion of the hazard group table located in a new Appendix E. Appendix E will provide the applicable state(s) and the appropriate hazard group for each classification. The term "National" means that the classification code applies in all jurisdictions that follow the NCCI classification system (excluding West Virginia). In the future, NCCI will provide notification of changes to those states where the change is applicable. These changes will be added to the chart and supplied to all subscribers in all states.

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**Exhibit 2** details the removal of the Table of Classifications by Hazard Group from NCCI's *Retrospective Rating Plan Manual*. The new Appendix E of NCCI's *Basic Manual* will be the location for the Table of Classifications by Hazard Group.

NCCI is filing the revised seven hazard group assignments and associated information on behalf of all carriers licensed to write in NCCI states.

Some carriers may wish to maintain four hazard groups, due to lead time needed for computer programming or other considerations. This filing also incorporates the appropriate tables for these carriers to reference if they need to separately file for four hazard groups. The new four-hazard-group option will be labeled 1 to 4. The new groups 1 to 4 will not be the same as the current groups I to IV (for example, some classifications in the current hazard group II will be in the new hazard group 2, while others will be in the new 1 or 3).

The four- and seven-hazard-group options are related. The new hazard group 1 is the result of combining hazard groups A and B, the new hazard group 2 is the result of combining hazard groups C and D, the new hazard group 3 is the result of combining hazard groups E and F, and the new hazard group 4 is the same as hazard group G. The proposed hazard group assignments are shown in Exhibit 1.

**Carriers that elect to use NCCI's four hazard groups must make a filing in each state to adopt the filed four-hazard-groups referenced in this item. If a carrier does not file to elect the four-hazard-groups, they are considered to have accepted the seven- hazard-groups..**

#### Expected Loss Ranges

This filing updates the Table of Expected Loss Ranges for entry into the Table of Insurance Charges. The proposed ranges are found in **Exhibit 3**.

#### State Hazard Group Relativities

This filing also updates the State Hazard Group Relativities of the Retrospective Rating Plan for each state. **Exhibit 4** provides a description of the development of the relativities for the seven-hazard-groups and **Exhibit 5** provides a description of the development of the relativities for the four-hazard-groups. As explained in these exhibits, individual state severities, as well as countrywide severities, are used in the calculation of the relativities.

The proposed State Hazard Group Relativities are found in **Exhibit 6** and **Exhibit 7** for the seven-hazard-groups and four-hazard-groups, respectively.

#### Excess Loss Factors

For USL&HW and states that publish loss costs rather than final rates and that have loss cost filing effective dates between January 1, 2007 and July 1, 2007, this filing updates the ELFs for the new hazard groups. The proposed USL&HW ELFs are shown in **Exhibit 8**.

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#### State Specific Exhibits – Hazard Group Relativities and Basic Manual Revisions

The proposed state ELF's are shown in **Exhibit 9**. **Exhibit 10** provides the four-hazard-group state ELF's for those carriers that prefer to adopt the new four-hazard-groups. In states that publish final rates, and in loss cost states with filings effective after July 1, 2007, revised ELF's will be included in the state's next rate filing.

**Exhibit 11** shows the revisions required to state miscellaneous rules, where applicable, in order to implement this item. Many of the state's Deductible Insurance Rules cite that the applicable hazard group is determined from the Table of Classifications by Hazard Group "shown below." The Table of Classifications by Hazard Group will move to Appendix E of the *Basic Manual*, so there must be a revision to the Deductible Insurance Rules to provide the proper location of the Table of Classifications by Hazard Group. In reviewing the Deductible Insurance Rules, there were some states that specified the appropriate endorsement number in the rules. To make the information consistent, the appropriate endorsement number was added to those states that did not have this information. Since there will be one Table of Classifications by Hazard Group, the elimination of individual state Tables of Classifications by Hazard Group is also included in this filing as **Exhibits 12**. For states that currently have Loss Elimination Ratios included in their Miscellaneous Rules, updated values will be included with the next loss cost/rate filing.

#### IMPACT

##### Hazard Groups and Excess Loss Factors

The proposed changes are expected to have minimal impact on overall premium levels. However, individual policies will be impacted if they are written under deductible programs or if they have a loss limit under the Retrospective Rating Plan. Individual risks may experience increases or decreases, but individual risk equity would be improved as the deductibles and ELF's would more precisely identify high risks from low risks. For deductibles of \$5,000 or less, the impact of the revised credit on the loss cost premium of most risks will be less than 5%. The deductible programs being discussed are optional; they can be chosen by the insured in place of a standard full coverage guaranteed cost policy.

##### Expected Loss Ranges

The proposed Expected Loss Ranges are necessary to maintain the aggregate expected balance between the retrospectively rated premium and the guaranteed cost premium. If these ranges were not updated, there would be a natural slippage caused by inflation over time because risks would have an apparent growth in size as seen by increasing expected losses, but no real growth in size as seen by their expected number of claims.

##### State Hazard Group Relativities

Retrospective rating should produce premium that is equitably distributed to all insured employers, but on average close to the guaranteed cost in the approved rate. The objective of this change is to maintain the aggregate expected balance, but the impact will vary slightly for individual insured employers. Thus, insurance charges and premiums will be higher for some insureds and lower for others. The impact on final premium from these changes probably will be small for most of the insured employers electing retrospective rating.

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The improved equitability from this change will result in slightly lower average insurance charges for some states, and slightly higher average insurance charges for others; the state-wide impact will be negligible. The program is designed to be revenue-neutral countrywide.

#### **IMPLEMENTATION**

It is proposed that this item filing and the attached exhibits be implemented:

- In each respective state except Hawaii and Virginia, effective at 12:01 a.m. with the next loss cost/rate filing that is effective on or after January 1, 2007, applicable to new and renewal voluntary and assigned risk business
- In Hawaii, the effective date is determined upon regulatory approval of the individual carrier's election to adopt this change
- In Virginia, this item will be implemented with the next loss cost filing that is effective on or after 12:01 a.m., January 1, 2007, applicable to new and renewal voluntary and assigned risk business

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