



Minnesota Workers' Compensation
Insurers Association, Inc.

7701 France Avenue South
Suite 450
Minneapolis, MN 55435-3203

952-897-1737 general
952-897-6495 fax

www.mwcia.org

June 6, 2017

ALL ASSOCIATION MEMBERS

Circular No. 17-1712

**RE: NCCI Item B-1433— Revisions to Basic Manual Rule 1—
Classification Assignment and Rule 2— Premium Basis and Payroll
Allocation**

The Minnesota Department of Commerce has approved the above filing to become effective at 12:01 a.m. on January 1, 2018, for new and renewal business.

The purpose of this item is to revise, clarify, and modernize certain language included in Rules 1 and 2 of the ***Minnesota Basic Manual***, including definitions and phrases, regarding classification assignments as well as payroll inclusions and exclusions. This filing also proposes certain formatting changes to simplify how the information is displayed. The proposed changes to modernize and enhance the language contained in the ***Minnesota Basic Manual*** are to ensure its continued value to market stakeholders.

Certain NCCI exhibits included in NCCI's filing memorandum are not applicable in Minnesota, and are not included in this Circular Letter. National Exhibits 1-8 are included in and detail the upcoming changes to the ***Minnesota Basic Manual***.

The attached exhibits illustrate necessary changes to the ***Minnesota Basic Manual***. As in past filings, strikethroughs indicate deleted text while underlining indicates new or added text. A copy of National Council's original filing memorandum is also included to provide additional background information regarding Item B-1433.

A NOTICE TO MEMBERSHIP:

MWCIA would like to remind our membership who have filed a Limited Power of Attorney with the Minnesota Department of Commerce that no materials referenced in the Circular Letter are required to be independently filed with the Department

Exhibit 1

Minnesota Basic Manual

Rule 1— CLASSIFICATION ASSIGNMENT

B. EXPLANATION OF CLASSIFICATIONS

2. Standard Exception Classifications

Effective January 1, 2018

CURRENT LANGUAGE	PROPOSED LANGUAGE
c. Salespersons, Collectors or Messengers- Outside (Code 8742)	SAME
<p>This classification is assigned to employees who perform these duties away from the employer's premises.</p> <p>This code excludes employees who:</p> <ul style="list-style-type: none"> • Deliver merchandise • Use vehicles to deliver or pick up goods, even if they collect or sell. These employees must be assigned to the classification applicable to the business for drivers. • Use public transportation or walk to deliver goods even if they collect or sell. These employees must be assigned to the governing classification applicable to the business. <p>Code 8742 does not apply when the basic classification wording includes outside salespersons, collectors or messengers.</p>	<p>(1) This classification is assigned to employees who perform these duties away from the employer's premises.</p> <p>(2) <u>This classification is not assigned to employees who:</u></p> <ul style="list-style-type: none"> (a.) Deliver merchandise. (b.) Use vehicles to deliver or pick up goods, even if they collect or sell. These employees must be assigned to the classification applicable to the business for drivers. (c.) Use public transportation or walk to deliver goods even if they collect or sell. These employees must be assigned to the governing classification applicable to the business. (d.) <u>Travel between locations of the employer as district or regional managers to perform various duties not involving outside sales or collection. Refer to Rule 2-G—Interchange of Labor.</u> <p>(3) Code 8742 does not apply when the basic classification wording includes outside salespersons, collectors or messengers.</p>

Exhibit 2

Minnesota Basic Manual

**Rule 1— CLASSIFICATION ASSIGNMENT
B. EXPLANATION OF CLASSIFICATIONS**

Effective January 1, 2018

CURRENT LANGUAGE	PROPOSED LANGUAGE
<p>3. General Inclusions</p> <p>Some operations appear to be separate businesses but are included within all basic classifications. These are called general inclusions. These operations are not separately classified. They include the following:</p> <ul style="list-style-type: none"> Restaurants or cafeterias operated by the insured for employee use <p>Exception: If these operations are conducted in connection with construction, erection, lumbering or mining operations, they must be separately classified.</p> <ul style="list-style-type: none"> Manufacture of containers by the insured, such as bags, barrels, bottles, boxes, cans, cartons or packing cases for sole use in the operations insured by the policy Hospitals or medical facilities operated by the insured for its employees Maintenance or repair of the insured's buildings or equipment by the insured's employees Printing or lithographing by the insured on its own products <p>Some employees may perform general inclusion duties for more than one basic classification. In such cases, <i>refer to Rule 2-G for classification treatment.</i></p> <p>Exceptions: A general inclusion operation must be separately classified if any of the following conditions apply:</p> <ul style="list-style-type: none"> The operation is conducted as a separate and distinct business of the insured (<i>refer to Rule 1-D-3</i>) The operation is specifically excluded in the wording of the basic classification The principal business is described by a standard exception classification <p><i>Refer to the Minnesota User's Guide for an example.</i></p>	<p>SAME</p> <p><u>a.</u> Some operations appear to be separate businesses but are included within all basic classifications. These are called general inclusions. These operations are not separately classified. They include the following:</p> <ol style="list-style-type: none"> <u>(1)</u> Restaurants or cafeterias, <u>stores, or day care services</u> operated by the <u>employer</u> for employee use. <p>Exception: If these operations are conducted in connection with construction, erection, lumbering or mining operations, they must be separately classified.</p> <ol style="list-style-type: none"> <u>(2)</u> Manufacture of containers by the <u>employer</u>, such as bags, barrels, bottles, boxes, cans, cartons or packing cases for sole use in the operations insured by the policy <u>(3)</u> Hospitals or medical facilities operated by the <u>employer</u> for its employees <u>(4)</u> Maintenance or repair of the <u>employer's</u> buildings or equipment by the <u>employer's</u> employees <u>(5)</u> Printing by the <u>employer</u> on its own products, <u>packaging, brochures, or promotional materials.</u> <p><u>b.</u> Some employees may perform general inclusion duties for more than one basic classification. In such cases, <i>refer to Rule 2-G for classification treatment.</i></p> <p><u>c.</u> A general inclusion operation must be separately classified if any of the following conditions apply:</p> <ol style="list-style-type: none"> <u>(1)</u> The operation is conducted as a separate and distinct business of the <u>employer</u> (<i>refer to Rule 1-D-3</i>) <u>(2)</u> The operation is specifically excluded in the wording of the basic classification <u>(3)</u> The principal business is described by a standard exception classification <p><i>Refer to the Minnesota User's Guide for an example.</i></p>

Exhibit 2 (cont.)

Minnesota Basic Manual

**Rule 1— CLASSIFICATION ASSIGNMENT
B. EXPLANATION OF CLASSIFICATIONS**

Effective January 1, 2018

CURRENT PHRASEOLOGY	PROPOSED PHRASEOLOGY
4. General Exclusions <p>Some operations in a business are so unusual for the type of business described by the applicable basic classification, that they are separately classified even though the operations are not conducted as a secondary business. These are called general exclusions. They are:</p> <ul style="list-style-type: none"> • Aviation—all operations of the flying and ground crews • New construction or alterations • Stevedoring • Sawmill operations • Employer-operated day care service <p>Refer to the Minnesota User's Guide for an example.</p>	<p>SAME</p> <p>Some operations in a business are so unusual for the type of business described by the applicable basic classification, that they are separately classified even though the operations are not conducted as a secondary business. These are called general exclusions. They are:</p> <ul style="list-style-type: none"> a. Aviation—all operations of the flying and ground crews b. New construction or alterations c. Stevedoring d. Sawmill operations <p>Refer to the Minnesota User's Guide for an example.</p>

Exhibit 2 (cont.)

Minnesota Basic Manual

**Rule 1— CLASSIFICATION ASSIGNMENT
B. EXPLANATION OF CLASSIFICATIONS**

Effective January 1, 2018

CURRENT PHRASEOLOGY	PROPOSED PHRASEOLOGY											
<p>5. Governing Classification</p> <p>The Governing Classification at a specific job or location is the classification, other than a standard exception classification, that produces the greatest amount of payroll.</p> <p>If a basic classification is not applicable, the governing classification is the standard exception classification that produces the greatest amount of payroll.</p> <p>The governing classification is used to determine the classification treatment of:</p> <ul style="list-style-type: none"> Miscellaneous employees Local managers Executive officers who regularly engage in duties that are ordinarily performed by a superintendent, foreperson or worker <p><i>Refer to the Minnesota User's Guide for an example.</i></p>	<p>SAME</p> <p><u>a.</u> The governing <u>classification</u> at a specific job or location is the <u>basic</u> classification, other than a standard exception classification.</p> <p><u>The governing classification is determined in accordance with the Governing Classification Determination Table.</u></p> <p style="text-align: center;">Governing Classification Determination Table</p> <table> <tr> <th><u>If...</u></th><th><u>Then the governing classification is the...</u></th></tr> <tr> <td><u>A basic classification produces the greatest amount of payroll</u></td><td rowspan="2"><u>Basic classification</u></td></tr> <tr> <td><u>A basic classification is applicable but no payroll is assigned</u></td></tr> <tr> <td><u>Multiple basic classifications apply</u></td><td><u>Basic classification that is assigned the greatest amount of payroll.</u></td></tr> <tr> <td><u>Multiple basic classifications apply but no payroll is assigned to any of the basic classifications</u></td><td><u>Basic classification that is the highest rated classification</u></td></tr> <tr> <td><u>A basic classification is not applicable</u></td><td><u>Standard exception classification that is assigned the greatest amount of payroll</u></td></tr> </table> <p><u>b.</u> The governing classification is used to determine the classification treatment of:</p> <ul style="list-style-type: none"> Miscellaneous employees Local managers Executive officers who regularly engage in duties that are ordinarily performed by a superintendent, foreperson or worker <p><i>Refer to the Minnesota User's Guide for an example.</i></p>	<u>If...</u>	<u>Then the governing classification is the...</u>	<u>A basic classification produces the greatest amount of payroll</u>	<u>Basic classification</u>	<u>A basic classification is applicable but no payroll is assigned</u>	<u>Multiple basic classifications apply</u>	<u>Basic classification that is assigned the greatest amount of payroll.</u>	<u>Multiple basic classifications apply but no payroll is assigned to any of the basic classifications</u>	<u>Basic classification that is the highest rated classification</u>	<u>A basic classification is not applicable</u>	<u>Standard exception classification that is assigned the greatest amount of payroll</u>
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<u>A basic classification produces the greatest amount of payroll</u>	<u>Basic classification</u>											
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<u>A basic classification is not applicable</u>	<u>Standard exception classification that is assigned the greatest amount of payroll</u>											

Exhibit 3

Minnesota Basic Manual

**Rule 1— CLASSIFICATION ASSIGNMENT
C. CLASSIFICATION WORDING**

Effective January 1, 2018

CURRENT PHRASEOLOGY	PROPOSED PHRASEOLOGY
1. Classification Captions and Notes	SAME
<p>The <i>caption</i> is the heading that precedes the classification itself and is part of the classification wording.</p> <p>The <i>note</i> is the phrase that follows the classification. It is part of the classification wording.</p> <p>The classification wording, including captions and notes, controls, restricts, or explains the classification usage.</p> <p>Refer to the Minnesota User's Guide for an example.</p>	<p>The <i>caption</i> is the heading <u>or title of</u> the classification.</p> <p>The <i>note</i> is the phrase that follows the <u>caption</u>.</p> <p>The classification wording <u>as a whole</u>, including <u>the</u> caption and note, controls, restricts, or explains the classification usage. <u>This wording is also referred to as the "phraseology"</u>.</p> <p>Refer to the Minnesota User's Guide for an example.</p>

Exhibit 4

Minnesota Basic Manual

Rule 1— CLASSIFICATION ASSIGNMENT

C. CLASSIFICATION WORDING

2. Words and Phrases

Effective January 1, 2018

CURRENT PHRASEOLOGY	PROPOSED PHRASEOLOGY
b. Clerical	SAME
"Clerical" means clerical-office employees and drafting employees as defined in Rule 1-B-2-a.	"Clerical" means office employees <u>and telecommuters</u> as defined in Rule 1-B-2-a.
j. Stories in Height	SAME
Certain classification wording refers to "stories in height". A story is defined as fifteen (15) feet in height. It is measured from the lowest point above ground level to the highest point above ground level. Some of these classifications are: <ul style="list-style-type: none"> • Code 5037—Painting: Metal Structures—Over Two Stories • Code 5059—Iron or Steel—Erection—Frame Structures Not Over Two Stories • Code 5651—Carpentry—Dwellings—Three Stories or Less 	Certain classification wording refers to "stories in height". A story is defined as 15 feet in height. It is measured from the lowest point above ground level to the highest point above ground level.
NONE	I. Separate and Distinct Business
NONE	<u>Separate and distinct business means an additional operation of the employer that is not included in the basic classification on the policy.</u> <u>Refer to the following:</u> <ul style="list-style-type: none"> <u>• Rule 1-D-3 for the assignment of more than one basic classification</u> <u>• Rule 3-A-5 for the combination of legal entities, locations, and operations on a single policy</u>

Exhibit 5

Minnesota Basic Manual

**Rule 1— CLASSIFICATION ASSIGNMENT
D. CLASSIFICATION PROCEDURES**

Effective January 1, 2018

CURRENT PHRASEOLOGY	PROPOSED PHRASEOLOGY
3. Assignment of More Than One Basic Classification	SAME
More than one basic classification may be assigned to an insured who meets conditions a, b, or c below. “ <i>Operation</i> ” means activities, enterprises, processes, secondary businesses or undertakings.	More than one basic classification may be assigned to an <u>employer that</u> meets conditions a, b, or c below. “ <i>Operation</i> ” means activities, enterprises, processes, secondary businesses or undertakings
f. Employee Leasing, Labor Contractors and Temporary Labor Services <p>(1) Workers assigned to clients must be classified the same as direct employees of the client performing the same or similar duties.</p> <p>(2) If the client has no direct employees performing the same or similar duties, leased employees are classified as if they were direct employees of the client entity.</p> <p>Refer to the Minnesota Basic Manual User’s Guide for an example.</p>	f. <u>Employee Leasing Firms, Labor Contractors, Professional Employer Organizations,</u> and Temporary Labor Services <p>(1) Workers assigned to clients must be classified the same as direct employees of the client performing the same or similar duties.</p> <p>(2) If the client has no direct employees performing the same or similar duties, leased employees are classified as if they were direct employees of the client entity.</p> <p>Refer to the Minnesota Basic Manual User’s Guide for an example.</p>
5. Businesses Described by a Standard Exception Classification	SAME
If the principal business is described by a Standard Exception Classification , the operations of all employees not included in the definition of Standard Exception classification must be assigned to the separate basic classification that most closely describes their operation. <i>Refer to the Minnesota User’s Guide for an example.</i>	<p>If the principal business is described by a <u>standard exception classification</u>, the operations of all employees not included in the definition of <u>standard exception classification</u> must be assigned to the separate basic classification that most closely describes their operation.</p> <p><u>This rule applies to both an employer’s business within the state and to individual jobs or locations where the governing classification is described by a standard exception classification.</u></p> <p><i>Refer to the Minnesota User’s Guide for an example.</i></p>
6. Classifications Limited to Separate Businesses	6. Classifications Limited to Separate <u>and Distinct</u> Businesses
The assignment of certain classifications is limited by their notes to separate and distinct businesses because the notes may describe an operation that frequently is an integral part of a business described by another classification. <i>Refer to the Minnesota User’s Guide for an example.</i>	<p>The assignment of certain classifications is limited by their <u>classification</u> notes to separate and distinct businesses. <u>The</u> notes may describe an operation that frequently is an integral part of a business described by another classification.</p> <p><i>Refer to the Minnesota User’s Guide for an example.</i></p>

Exhibit 6

Minnesota Basic Manual

Rule 1— CLASSIFICATION ASSIGNMENT

Effective January 1, 2018

CURRENT PHRASEOLOGY	PROPOSED PHRASEOLOGY																
F. CHANGES OR CORRECTIONS IN CLASSIFICATIONS	SAME																
<p>1. Changes in classification due to changes in an <u>insured's</u> operations will be applied pro rata as of the date the change in operations occurred.</p> <p>2. Corrections in classifications that result in a <i>decrease</i> in premium, whether determined during the policy period or at audit, must be applied retroactively to the inception of the policy.</p> <p>3. Corrections in classifications that result in an <i>increase</i> in premium, must be applied as follows:</p> <table border="1"> <tr> <th>If the correction in classification is effective...</th><th>Then the correction is applied...</th></tr> <tr> <td>During the first 60 days of the policy term...</td><td>Retroactively to the inception of the policy.</td></tr> <tr> <td>After the first 60 days of the policy term, but before the final 90 days...</td><td>Pro rata as of the date the company endorses the change onto the policy.</td></tr> <tr> <td>During the last 90 days of the policy term...</td><td>Only to a renewal policy, if any.</td></tr> </table> <p>The effective date of a change for purposes of time periods noted in the table above is the date a carrier determines it is necessary to apply a classification change.</p> <p>Exceptions to the table above:</p> <p>a. If the correction in classification is the result of a misrepresentation or omission by the <u>insured</u>, its agent, employees, officers or directors, then the correction must be applied pro rata from the date on which the changes would have applied if such misrepresentation or omission had not been made.</p> <p>b. The above rules do not apply to the following types of operations; therefor, classifications are assigned and applied at any time during the policy or at audit:</p> <ul style="list-style-type: none"> – Construction or erection risks – Employee Leasing firms – Labor contractors – Temporary labor services <p>c. The above rules do not apply to the extent that a carrier has filed with and obtained approval by the Minnesota Department of Commerce for a plan which corrections in classifications that result in an <i>increase</i> in premium would be applied to the policy under a schedule more favorable to the insured.</p> <p>4. For purposes of Rule 1-F, the reallocation of payroll among classifications on the policy is not considered a change or correction in classification(s). Refer to the Minnesota User's Guide for an example.</p>	If the correction in classification is effective...	Then the correction is applied...	During the first 60 days of the policy term...	Retroactively to the inception of the policy.	After the first 60 days of the policy term, but before the final 90 days...	Pro rata as of the date the company endorses the change onto the policy.	During the last 90 days of the policy term...	Only to a renewal policy, if any.	<p>1. Changes in classification due to changes in an <u>employer's</u> operations will be applied pro rata as of the date the change in operations occurred.</p> <p>2. Corrections in classifications that result in a <i>decrease</i> in premium, whether determined during the policy period or at audit, must be applied retroactively to the inception of the policy.</p> <p>3. Corrections in classifications that result in an <i>increase</i> in premium must be applied as follows:</p> <table border="1"> <tr> <th>If the correction in classification is effective...</th><th>Then the correction is applied...</th></tr> <tr> <td>During the first 60 days of the policy term...</td><td>Retroactively to the inception of the policy.</td></tr> <tr> <td>After the first 60 days of the policy term, but before the final 90 days...</td><td>Pro rata as of the date the company endorses the change onto the policy.</td></tr> <tr> <td>During the last 90 days of the policy term...</td><td>Only to a renewal policy, if any.</td></tr> </table> <p>The effective date of a change for purposes of time periods noted in the table above is the date a carrier determines it is necessary to apply a classification change.</p> <p>Exceptions to the table above:</p> <p>a. If the correction in classification is the result of a misrepresentation or omission by the <u>employer</u>, its agent, employees, officers or directors, then the correction must be applied pro rata from the date on which the changes would have applied if such misrepresentation or omission had not been made.</p> <p>b. The above rules do not apply to the following types of operations; therefor, classifications are assigned and applied at any time during the policy or at audit:</p> <ul style="list-style-type: none"> – Construction or erection – Employee Leasing – Labor <u>contracting</u> – Temporary labor services – <u>Professional employer organizations (PEOs)</u> – <u>Operations assigned to standard exception classifications</u> – <u>General exclusions</u> <p>c. The above rules do not apply to the extent that a carrier has filed with and obtained approval by the Minnesota Department of Commerce for a plan which corrections in classifications that result in an <i>increase</i> in premium would be applied to the policy under a schedule more favorable to the insured.</p> <p>4. For purposes of Rule 1-F, the reallocation of payroll among classifications on the policy is not considered a change or correction in classification(s). Refer to the Minnesota User's Guide for an example.</p>	If the correction in classification is effective...	Then the correction is applied...	During the first 60 days of the policy term...	Retroactively to the inception of the policy.	After the first 60 days of the policy term, but before the final 90 days...	Pro rata as of the date the company endorses the change onto the policy.	During the last 90 days of the policy term...	Only to a renewal policy, if any.
If the correction in classification is effective...	Then the correction is applied...																
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Exhibit 7

Minnesota Basic Manual

Rule 2— PREMIUM BASIS AND PAYROLL ALLOCATION

Effective January 1, 2018

CURRENT PHRASEOLOGY	PROPOSED PHRASEOLOGY
A. PREMIUM BASIS	SAME
Premium is calculated on the basis of the total payroll paid or payable by the insured for services of individuals who could receive workers' compensation benefits for work-related injuries as provided by the policy. Exceptions: Premium for domestic worker classifications is calculated on a per capita basis instead of payroll. Domestic workers are employees who perform household duties. Refer to Rule 3-C. A per capita classification uses the number of workers rather than payroll to measure exposure.	Premium is calculated on the basis of the total payroll paid or payable by the employer for services of employees who could receive workers' compensation benefits for work-related injuries as provided by the policy. Some classifications may have a different premium basis; <i>refer to the Minnesota User's Guide for examples.</i>
B. PAYROLL	SAME
For the purposes of this manual, payroll means money or substitutes for money.	For the purposes of this manual, <u>the terms "payroll" and "remuneration"</u> mean money or substitutes for money.
1. Includes	SAME
<ul style="list-style-type: none"> a. Wages or salaries (including retroactive wages or salaries). b. Total cash received by an employee for commissions and draws against commissions. c. Bonuses including stock bonus plans. {Refer to Rule 2-D.} d. Extra pay for overtime work except as provided in Rule 2-C-2. e. Pay for holidays, vacations, or periods of sickness. {Refer to Rule 2-G for allocation of payroll for employees subject to more than one classification code.} f. Payment by an employer of amounts that would have been withheld from employees to meet statutory obligations for insurance or pension plans such as the Federal Social Security Act or Medicare. g. Payment to employees on any basis other than time worked, such as piecework, profit sharing or incentive plans. h. Payment or allowances for hand tools or hand-held power tools used by employees in their work or operations for the insured. These tools may be supplied directly by the employee or to the employee through a third party. i. The rental value of an apartment or house provided to an employee based on comparable accommodations. 	<ul style="list-style-type: none"> a. Wages or salaries (including retroactive wages or salaries). b. Total <u>pay</u> received by an employee for commissions and draws against commissions. c. Bonuses including stock bonus plans. <i>Refer to Rule 2-D <u>for payroll limitation rules.</u></i> d. Extra pay for overtime work except as provided in Rule 2-C-2. e. Pay for holidays, vacations, or periods of sickness. <i>Refer to Rule 2-G for allocation of payroll for employees subject to more than one classification code.</i> f. Payment by an employer of amounts that would have been withheld from employees to meet statutory obligations for insurance or pension plans such as the Federal Social Security Act or Medicare. g. Payment to employees on any basis other than time worked, such as piecework, profit sharing or incentive plans. h. <u>(RESERVED FOR FUTURE USE)</u> i. The rental value of an apartment or house provided to an employee based on comparable accommodations.

Exhibit 7 (cont.)

Minnesota Basic Manual

Rule 2— PREMIUM BASIS AND PAYROLL ALLOCATION

Effective January 1, 2018

CURRENT PHRASEOLOGY	PROPOSED PHRASEOLOGY
1. Includes (cont.)	SAME (cont.)
j. The value of lodging, other than an apartment or house received by an employee as part of their pay to the extent shown in the insured's records.	j. The value of lodging, other than an apartment or house received by an employee as part of their pay to the extent shown in the <u>employer's</u> records.
k. The value of meals received by employees as part of their pay to the extent shown in the insured's records.	k. The value of meals received by employees as part of their pay to the extent shown in the <u>employer's</u> records.
l. The value of store certificates, merchandise, credits or any other substitute for money received by employees as part of their pay.	l. The value of store certificates, merchandise, credits or any other substitute for money received by employees as part of their pay.
m. Payments for salary reduction, employee savings plans, retirement or cafeteria plans (IRC 125) that are made through employee-authorized salary reduction from the employee's gross pay.	m. Payments for salary reduction, employee savings plans, retirement or cafeteria plans (IRC 125), <u>health savings accounts, and flexible accounts</u> that are made through employee-authorized salary reduction from the employee's gross pay.
n. Davis-Bacon wages or wages from a similar prevailing wage law.	n. Davis-Bacon wages or wages from a similar prevailing wage law.
o. Annuity plans.	o. Annuity plans.
p. Expense reimbursements to employees to the extent that an employer's records do not confirm that the expense was incurred as a valid business expense.	p. Expense reimbursements to employees <u>if the</u> employer's records do not confirm that the expense was incurred as a valid business expense. <u>Refer to Rule 2-B-2-h for contractual allowable travel expenses.</u>
q. Payment for filming of commercials excluding subsequent residuals that are earned by the commercial's participant(s) each time the commercial appears in print or is broadcast .	<p>Exception: <u>When it can be verified that the employee was away from home overnight on the business of the employer, but the employer did not maintain verifiable receipts for incurred expenses, a reasonable expense allowance is permitted to be excluded.</u> <u>Refer to Rule 2-B-2-h for additional information about exclusion of expense reimbursements.</u></p>
	q. Payment for filming of commercials excluding subsequent residuals that are earned by the commercial's participant(s) each time the commercial appears in <u>any type of media</u> .
	r. <u>Adjustments made by the employer to raise employees' wages to federal, state, or local minimum wage, whichever is applicable.</u>

Exhibit 7 (cont.)

Minnesota Basic Manual

Rule 2— PREMIUM BASIS AND PAYROLL ALLOCATION

Effective January 1, 2018

CURRENT PHRASEOLOGY	PROPOSED PHRASEOLOGY
<p>2. Excludes</p> <ul style="list-style-type: none"> a. Tips or other gratuities received by employees. b. Payments by an employer to group insurance or group pension plans for employees, other than those covered by Rule 2-B-1-f and Rule 2-B-1-m. c. Payments by an employer into third-party trusts for the Davis-Bacon Act or a similar prevailing wage law provided the pension trust is qualified under IRC Sections 401(a) and 501(a). d. The value of special rewards for individual invention or discovery. e. Dismissal or severance payments except for time worked or vacation accrued. f. Payments for active military duty. g. Employee discounts on goods purchased from the employee's employer. h. Expense reimbursements to employees to the extent that an employer's records confirm that the expense was incurred as a valid business expense. <p>Reimbursed expenses and flat expense allowances (except for hand or hand-held power tools) paid to employees may be excluded from the audit only if all three of the following conditions are met:</p> <ul style="list-style-type: none"> (1) The expenses are incurred for the business of the employer (2) The amount of each employee's expense payments or allowances are shown separately in the records of the employer (3) The amount of each employee's expense reimbursement is a fair estimate of the actual expenses incurred by the employee in the conduct of his/her work 	<p>SAME</p> <ul style="list-style-type: none"> a. Tips or other gratuities received by employees. b. Payments by an employer to group insurance or group pension plans for employees, other than those covered by Rule 2-B-1-f and Rule 2-B-1-m. c. Payments by an employer into third-party trusts for the Davis-Bacon Act or a similar prevailing wage law provided the pension trust is qualified under IRC Sections 401(a) and 501(a). d. The value of special rewards for individual invention or discovery. e. Dismissal or severance payments except for time worked or vacation accrued. f. Payments for active military duty. g. Employee discounts on goods purchased from the employee's employer. h. Expense reimbursements to employees <u>if the</u> employer's records confirm that the expense was incurred as a valid business expense. <p>Reimbursed expenses and flat expense allowances paid to employees may be excluded from the audit only if all three of the following conditions are met:</p> <ul style="list-style-type: none"> (1) The expenses <u>or allowances</u> are incurred for the business of the employer (2) The amount of each employee's expense or allowance <u>is</u> shown separately in the records of the employer (3) The amount of <u>the expense or allowance approximates</u> the actual expense incurred by the employee in the conduct of <u>their</u> work <p>Note: <u>If an employer did not maintain verifiable receipts for incurred expenses for an employee that was away from home overnight on the business of the employer a maximum expense allowance is permitted to be excluded. Refer to Rule 2-B-1-p Exception for the maximum employee expense allowance.</u></p> <p><u>Allowable travel expenses permitted by any contract with a federal, state, or local government entity, including, but not limited to, a city, borough, or village, are excluded from payroll. In lieu of verifiable receipts for incurred expenses, the employer</u></p>

Exhibit 7 (cont.)

Minnesota Basic Manual

Rule 2— PREMIUM BASIS AND PAYROLL ALLOCATION

Effective January 1, 2018

CURRENT PHRASEOLOGY	PROPOSED PHRASEOLOGY
2. Excludes (cont.)	SAME (cont.)
<p>i. Supper money for late work.</p> <p>j. Work uniform allowances.</p> <p>k. Sick pay paid to an employee by a third party such as an insured's group insurance carrier that is paying disability income benefits to a disabled employee.</p> <p>l. Employer provided perks such as:</p> <ul style="list-style-type: none"> • Use of company provided automobiles • Airplane flights • Incentive vacations (e.g., contest winners) • Discounts on property or services • Club memberships • Tickets to entertainment events <p>m. Employer contributions to employee benefit plans such as:</p> <ul style="list-style-type: none"> • Employee savings plans • Retirement plans • Cafeteria plans (IRC 125) <p>These include contributions made by the employer, at the employer's expense, which are determined by the amount contributed by the employee.</p>	<p><u>must produce a copy of the contract provision permitting the travel expenses at audit. The allowable travel expenses must be in addition to the current wage of the employee.</u></p> <p>i. <u>Meal</u> money for late work.</p> <p>j. Work uniform allowances.</p> <p>k. Sick pay paid to an employee by a third party such as an <u>employer's</u> group insurance carrier that is paying disability income benefits to a disabled employee.</p> <p>l. Employer provided perks such as:</p> <ul style="list-style-type: none"> • Use of company provided automobiles • Airplane flights • Incentive vacations (e.g., contest winners) • Discounts on property or services • Club memberships • Tickets to entertainment events • <u>Educational assistance</u> • <u>Relocation and moving expenses</u> <p>m. Employer contributions to employee benefit plans such as:</p> <ul style="list-style-type: none"> • Employee savings plans • Retirement plans • Cafeteria plans (IRC 125) • <u>Health Savings accounts</u> • <u>Flexible spending accounts</u> <p>These include contributions made by the employer, at the employer's expense, which are determined by the amount contributed by the employee.</p>

Exhibit 7 (cont.)

Minnesota Basic Manual

Rule 2— PREMIUM BASIS AND PAYROLL ALLOCATION

Effective January 1, 2018

CURRENT PHRASEOLOGY	PROPOSED PHRASEOLOGY
D. PAYROLL LIMITATIONS	SAME
<p>1. Payroll limitations do not apply to standard employees in Minnesota. Employees subject to payroll limitations are listed below.</p> <p>Exceptions:</p> <ul style="list-style-type: none"> Specific limitations apply to payroll for Sole Proprietors, Partners, Executive Officers, Members of Limited Liability Companies, Parents, Spouse, and Children of Owners; Code 9178 Athletic Teams: Non-Contact Sports and Code 9179 Athletic Teams: Contact Sports; and Players, Entertainers, and Musicians and to classifications with notes that indicate payroll limitations Payroll limitation applies after any deductions of extra pay for overtime. Partial weeks are considered full weeks when determining average weekly pay Bonuses are to be allocated according to the date paid <p>For additional information regarding payroll limitations for Sole Proprietors, Partners, Executive Officers, or Members of LLC's, refer to Rule 2-E.</p> <p>Refer to the Minnesota User's Guide for an example.</p>	<p>1. Specific limitations <u>may</u> apply to:</p> <ol style="list-style-type: none"> <u>Payroll for sole proprietors, partners, executive officers, members of limited liability companies, parents, spouse, and children of owners.</u> <u>Classifications with notes that indicate payroll limitations.</u> <p><u>Refer to:</u></p> <ul style="list-style-type: none"> <u>Classification Interpretations section of the Minnesota Basic Manual</u> <u>The miscellaneous values pages of the Minnesota Ratemaking Report</u> <u>Rule 2-E-1-b for additional information regarding executive officer payroll limitations</u> <p>2. Payroll limitation applies after any <u>exclusions</u> of extra pay for overtime; <u>refer to Rule 2-C-2-a.</u></p> <p>3. Payroll used to calculate premium must <u>exclude that part of the employee's average weekly pay that exceeds the applicable weekly limitation, provided:</u></p> <ol style="list-style-type: none"> <u>Books and records are maintained to show separately that the total payroll earned by each employee in excess of the weekly payroll limitation for the total time employed during the policy period, and</u> <u>Separate records are maintained, in summary, by classification for such employees.</u> <p><u>For more information on payroll, refer to Rule 2-B.</u></p> <p>4. <u>Partial weeks are considered full weeks when determining average weekly pay. Total time of any worker employed during the policy period is the sum of the portions of all verbal or written agreements with that employee that fall within the policy period.</u></p> <p>5. <u>For purposes of applying the payroll limitation rule, bonuses paid during the policy term must be earned during the policy term. They are prorated for the period of employment during the policy term to determine the average weekly bonus to be added to the average weekly pay.</u></p> <p><u>For additional information regarding payroll limitations for sole proprietors, partners, executive officers, or members of LLC's, refer to Rule 2-E.</u></p> <p><u>Refer to the Minnesota User's Guide for an example.</u></p>

Exhibit 8

Minnesota Basic Manual

Rule 2— PREMIUM BASIS AND PAYROLL ALLOCATION

E. EXECUTIVE OFFICERS, MEMBERS OF LIMITED LIABILITY COMPANIES, PARTNERS, AND SOLE PROPRIETORS

1. Executive Officers

Effective January 1, 2018

CURRENT PHRASEOLOGY	PROPOSED PHRASEOLOGY
b. Premium Determination	SAME
<p>The payroll of all executive officers covered by the policy shall be included in the statement of payroll and premium charged subject to the following limitations:</p> <p>(1) minimum individual per week payroll equal to the minimum individual payroll value for this rule stated in the Miscellaneous Values of the current Minnesota Ratemaking Report.</p> <p>(2) maximum individual per week payroll equal to the maximum individual payroll value for this rule stated in the Miscellaneous Values of the current Minnesota Ratemaking Report.</p> <p>(3) The payroll limitations in b (1) and b (2) apply to the average weekly payroll of each executive officer for the number of weeks the officer was covered under the policy. A part of a week is considered as a full week in determining the average weekly payroll.</p> <p>(4) Payroll is subject to minimum and maximum limitations and <i>included</i> when:</p> <ul style="list-style-type: none"> • The executive officer does not perform any duties but frequently visits the premises. • The executive officer frequently visits the premises of the risk for business conferences, directors' meetings or similar duties, even if the officer is an employee or officer of another risk in the operations of which he/she takes an active interest. • The officer receives no salary; however, a regular salary is credited to him or her on the books. In this instance the amount credited must be included in payroll. • The officer receives no salary, either drawn or credited, or the audit records fail to disclose the salary. In this instance the amount to be included in the payroll is the applicable minimum. <p>(5) Payroll is <i>excluded</i> when:</p> <ul style="list-style-type: none"> • The executive officer is elected for the value of his/her name or because of stock holdings, has no duties and does not visit the premises, except perhaps to attend directors' meetings- • The executive officer ceases to perform any duties and does not visit the premises, except perhaps to attend directors' meetings. 	<p>The payroll of all executive officers covered by the policy shall be included in the statement of payroll and premium charged subject to the following limitations:</p> <p>(1) minimum individual per week payroll equal to the minimum individual payroll value for this rule stated in the Miscellaneous Values of the current Minnesota Ratemaking Report.</p> <p>(2) maximum individual per week payroll equal to the maximum individual payroll value for this rule stated in the Miscellaneous Values of the current Minnesota Ratemaking Report.</p> <p>(3) The payroll limitations in b (1) and b (2) apply to the average weekly payroll of each executive officer for the number of weeks the officer was covered under the policy. A part of a week is considered as a full week in determining the average weekly payroll.</p> <p><u>When an individual is not an executive officer for the entire policy period, the payroll limitation is prorated based on the number of weeks that the individual was an executive officer.</u></p> <p>(4) Payroll is subject to minimum and maximum limitations and <i>included</i> when <u>one of the following apply</u>:</p> <ul style="list-style-type: none"> <u>a.</u> The executive officer does not perform any duties but frequently visits the premises. <u>b.</u> The executive officer frequently visits the premises of the <u>employer</u> for business conferences, directors' meetings or similar duties, even if the officer is an employee or officer of another <u>employer</u> in the operations of which he/she takes an active interest. <u>c.</u> The officer receives no salary; however, a regular salary is credited to him or her on the books. In this instance the amount credited must be included in payroll. <u>d.</u> The officer receives no salary, either drawn or credited, or the audit records fail to disclose the salary. In this instance the amount to be included in the payroll is the applicable minimum. <p>(5) Payroll is <i>excluded</i> when:</p> <ul style="list-style-type: none"> <u>a.</u> The executive officer is elected for the value of his/her name or because of stock holdings, has no duties and does not visit the premises, except perhaps to attend directors' meetings, <u>or</u> <u>b.</u> The executive officer ceases to perform any duties and does not visit the premises, except perhaps to attend directors' meetings.

Exhibit 8 (cont.)

Minnesota Basic Manual

Rule 2— PREMIUM BASIS AND PAYROLL ALLOCATION

E. EXECUTIVE OFFICERS, MEMBERS OF LIMITED LIABILITY COMPANIES, PARTNERS, AND SOLE PROPRIETORS

1. Executive Officers

Effective January 1, 2018

CURRENT PHRASEOLOGY	PROPOSED PHRASEOLOGY
c. Executive Officers Performing Flight Duties	SAME
Payroll of an executive officer who is a pilot or member of the flying crew of an aircraft used in the insured's business must be assigned as follows:	Payroll of an executive officer who is a pilot or member of the flying crew of an aircraft used in the <u>employer's</u> business must be assigned as follows:
(1) For each week that the executive officer did not perform flight duties, assign the executive officer's payroll to the classification that applies to the principal operations in which the executive officer is engaged.	(1) For each week that the executive officer did not perform flight duties, assign the executive officer's payroll to the classification that applies to the principal operations in which the executive officer is engaged.
(2) For each week that the executive officer performed flight duties, assign the officer's payroll for that week to the appropriate aviation classification. However, if the executive officer's non-flying duties in that week are subject to a higher rated classification, assign that higher rated classification for that week.	(2) For each week that the executive officer performed flight duties, assign the officer's payroll for that week to the appropriate aviation classification. However, if the executive officer's non-flying duties in that week are subject to a higher rated classification, assign that higher rated classification for that week.
Note: The above rules apply on the basis of the pilot's logbook, which is required under federal regulations, or on the basis of other verifiable records.	Note: The above rules apply on the basis of the pilot's logbook, which is required under federal regulations, or on the basis of other verifiable records.
(3) If verifiable records are not kept to indicate those weeks during which flying is performed by the executive officer, assign the executive officer's payroll to the highest rated classification that applies to any of their duties.	(3) If <u>an aviation classification applies and</u> verifiable records are not kept to indicate those weeks during which flying is performed by the executive officer, assign the executive officer's payroll to the highest rated classification that applies to any of their duties.



**National Council on
Compensation
Insurance**

Terri Robinson
State Relations Executive
Regulatory Services Division

(P) 501-753-5180 (F) 561-893-5655
Email: Terri_Robinson@ncci.com

August 10, 2016

Mr. Brandon Miller, President
Minnesota Workers' Compensation Insurers Association
7701 France Avenue South, Suite 450
Minneapolis, Minnesota 55435-3200

**Re: Item B-1433—Revisions to Basic Manual Rule 1—Classification Assignment and
Rule 2—Premium Basis and Payroll Allocation**

Dear Mr. Miller:

We are filing the above captioned item in a number of NCCI jurisdictions. The attached filing memorandum describes the proposed changes.

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NCCI maintains a report for use by our common members that contains the approval status of national and state item filings (*Status of Item Filings Circular*). Please notify Michelle Smith by phone (561-893-3016) or e-mail (michelle_smith@ncci.com) if your organization files and receives approval of this item. This information will be reflected in the *Status of Item Filings Circular*, which is located on our web site and to which you have been given access.

Sincerely,

A handwritten signature in black ink that reads "Terri Robinson". The signature is written in a cursive, flowing style.

Terri Robinson
State Relations Executive

TR:ah

Attachment

FILING MEMORANDUM

ITEM B-1433—REVISIONS TO BASIC MANUAL RULE 1—CLASSIFICATION ASSIGNMENT AND RULE 2—PREMIUM BASIS AND PAYROLL ALLOCATION

PURPOSE

This item clarifies and enhances NCCI's *Basic Manual for Workers Compensation and Employers Liability Insurance (Basic Manual)* Rule 1—Classification Assignment and Rule 2—Premium Basis and Payroll Allocation.

BACKGROUND

NCCI has an ongoing process dedicated to the systematic research, analysis, and maintenance of NCCI's manuals. This process ensures that NCCI products continue to add value to the various industry stakeholders. As a result of this research, NCCI is proposing certain changes to *Basic Manual* Rules 1 and 2.

PROPOSAL

The following is a summary of the key changes proposed to *Basic Manual* Rules 1 and 2:

- **Rule 1-B-2-c—Salespersons or Collectors—Outside (Code 8742)**

This item clarifies that district or regional managers who travel between locations of the employer to perform various duties not involving outside sales or collection are not assigned to Code 8742. They must be assigned to the classification that best describes their duties.

- **Rule 1-B-3—General Inclusions**

General inclusions are operations that appear to be separate businesses but are included within all basic classifications. These operations are not separately classified. The following operations are to be added to, or updated in, the list of general inclusions:

- Add stores and day care services operated by the employer for employee use. These operations have become common to many businesses.
- Update the description of an employer printing on its own products or of its own materials for advertising or packaging.

- **Rule 1-B-4—General Exclusions**

General exclusions are operations in a business so unusual for the type of business described by the applicable basic classification that they are separately classified even though the operations are not conducted as a secondary business. This item proposes to eliminate employer-operated day care service from the list of general exclusions. This type of operation has become common to many businesses and is proposed to be added as a general inclusion.

- **Rule 1-B-5—Governing Classification**

Generally, a governing classification at a specific job or location is the classification, other than a standard exception classification, that produces the greatest amount of payroll. This item clarifies how to determine the governing classification when:

- A basic classification produces the greatest amount of payroll
- A basic classification is applicable but no payroll is assigned

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FILING MEMORANDUM

ITEM B-1433—REVISIONS TO BASIC MANUAL RULE 1—CLASSIFICATION ASSIGNMENT AND RULE 2—PREMIUM BASIS AND PAYROLL ALLOCATION

- Multiple basic classifications apply
- Multiple classifications apply but no payroll is assigned to any of the basic classifications
- A basic classification is not applicable
- **Rule 1-C-1—Classification Captions and Notes**

This item clarifies the definitions for caption and note. It also adds the term “phraseology” as a common alternative to “classification wording.”

- **Rule 1-C-2—Words and Phrases**
 - The definition of “Clerical” will be updated to remove an obsolete reference to drafting.
 - The classification examples referenced under Stories in Height will be eliminated because they are unnecessary and do not provide value to the definition.
 - A rule will be added to define “Separate and Distinct Business.” This rule will provide guidance on what qualifies as a separate and distinct business or operation.
- **Rule 1-D-3-f—Employee Leasing, Labor Contractors and Temporary Labor Services**

The term “Professional Employer Organizations” will be added because it is commonly used in the industry and in NCCI’s manuals. Also “employee leasing” will be changed to “employee leasing firms.”

- **Rule 1-D-5—Businesses Described by a Standard Exception Classification**

This item clarifies that the rule applies to individual locations as well as to the overall business.

- **Rule 1-D-6—Classifications Limited to Separate Businesses**

This rule will be simplified but also updated with the addition of “and Distinct” to the title. This is for consistency with the proposed addition of Rule 1-C-2-I, which defines a separate and distinct business.

- **Rule 1-F—Changes or Corrections in Classifications**

The following will be added to the list of operations that are exempt from the rule:

- “Professional employer organization” is a common alternative term for an employee leasing firm. The policies for these entities often have numerous classifications for different operations that are added or deleted during a policy term.
- Operations assigned to standard exception classifications can be added to a policy at any time.
- General exclusions are operations so unusual for a business that they are classified separately even though they are not conducted as a secondary business. These operations could be added at any time during a policy term and should be classified appropriately.

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FILING MEMORANDUM

ITEM B-1433—REVISIONS TO BASIC MANUAL RULE 1—CLASSIFICATION ASSIGNMENT AND RULE 2—PREMIUM BASIS AND PAYROLL ALLOCATION

- **Rule 2-A—Premium Basis**

This item revises the exception to the rule to accommodate classifications using a premium basis other than per capita.

- **Rule 2-B—Payroll**

The following changes will be made to Rule 2-B:

- Clarify the rule to indicate that “payroll” and “remuneration” mean money or substitutes for money. The terms mean the same in all rule, classification, and endorsement references.
- Eliminate the inclusion of payments or allowances for hand tools or hand-held power tools used by employees in their work. This is an outdated concept because there are numerous items that employees purchase and are reimbursed for by their employer. These are allowed to be excluded from audit.
- Add employee-authorized salary reductions for health savings accounts and flexible spending accounts to the list of payroll inclusions. This is similar to employee savings plans and retirement or cafeteria plans.
- Increase the maximum amount for expense reimbursements without verifiable receipts from \$30 to \$75 per day. This revision provides a more current and reasonable expense allowance.
- Add a rule to address that reimbursements for allowable travel expenses permitted by a governmental contract are excluded from payroll. The employer must produce a copy of the contract, and the allowable travel expenses must be in addition to the current wage of the employee.
- Add a rule to include payroll adjustments by the employer to raise employees’ wages to federal, state, or local minimum wage, whichever is higher.
- Replace the term “supper money” with “meal money” for a more accurate description.
- Add educational assistance and relocation and moving expenses to the list of employer-provided perks that are excluded from payroll. These are common perks provided by employers to their employees.
- Add health savings accounts and flexible spending accounts to the list of employer contributions to employee benefit plans that are excluded from payroll.

- **Rule 2-D—Payroll Limitations**

The following changes will be made to Rule 2-D:

- Clarify the rule applies to executive officers, members of LLCs, partners, and sole proprietors, and to classifications with notes that indicate payroll limitations.
- Address how payroll limitations are impacted by overtime pay, partial weeks worked, and bonuses earned. This is part of NCCI’s continuing effort to clarify and modernize the rules.

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FILING MEMORANDUM

ITEM B-1433—REVISIONS TO BASIC MANUAL RULE 1—CLASSIFICATION ASSIGNMENT AND RULE 2—PREMIUM BASIS AND PAYROLL ALLOCATION

- **Rule 2-E—Executive Officers, Members of Limited Liability Companies, Partners, and Sole Proprietors**

This rule will be updated to address the treatment of an employee who is not an executive officer during the entire policy period. The payroll limitation will be prorated based on the number of weeks that such persons were executive officers during the policy period.

This item includes state-specific updates to address the national changes and/or to better organize the state rules exceptions.

This item also includes various formatting and grammatical changes.

IMPACT

The impact to overall statewide premium will vary as a result of the changes proposed in this item. Also, for some employers, a negligible premium change may result based on the revised rules. This item proposes changes to NCCI's **Basic Manual** that will modernize and clarify rules relevant to current market conditions. As part of NCCI's continuing effort to simplify and clarify manual rules, we anticipate that these changes will enhance the understanding of NCCI's **Basic Manual**.

EXHIBIT COMMENTS AND IMPLEMENTATION SUMMARY

To implement this item, the attached exhibits detail the changes required in NCCI's **Basic Manual**.

Exhibit	Exhibit Comments	Implementation Summary
National Exhibits		To become effective for new and renewal policies effective on and after 12:01 a.m. on October 1, 2017.
1	<ul style="list-style-type: none">• Details the revisions to Rule 1-B-2-c• Refer to state exhibit for TX• All state exceptions will continue to apply unless otherwise noted in the state-specific exhibits	
2	<ul style="list-style-type: none">• Details the revisions to Rules 1-B-3, 1-B-4, and 1-B-5• The revisions to Rules 1-B-4 and 1-B-5-b do not apply in TX• Refer to state exhibits for FL, OR, and TX	
3	<ul style="list-style-type: none">• Details the revisions to Rule 1-C-1	
4	<ul style="list-style-type: none">• Details the revisions to Rules 1-C-2-b and 1-C-2-j, and the establishment of Rule 1-C-2-l• The revisions to Rule 1-C-2-b do not apply in TX• Refer to state exhibits for FL, TX, and VA	

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FILING MEMORANDUM

**ITEM B-1433—REVISIONS TO BASIC MANUAL RULE 1—CLASSIFICATION ASSIGNMENT
 AND RULE 2—PREMIUM BASIS AND PAYROLL ALLOCATION**

Exhibit	Exhibit Comments	Implementation Summary
5	<ul style="list-style-type: none"> Details the revisions to Rules 1-D-3-f, 1-D-5, and 1-D-6 The revisions to Rules 1-D-3-f and 1-D-5 do not apply in TX Refer to state exhibits for CO, MT, TN, and TX 	
6	<ul style="list-style-type: none"> Details the revisions to Rule 1-F The revisions to Rules 1-F-1 and 1-F-3-a do not apply in VA The revisions to Rule 1-F-3-a and 1-F-3-b do not apply in FL and MO Refer to state exhibits for FL, MO, TX, and VA All state exceptions will continue to apply unless otherwise noted in the state-specific exhibits 	
7	<ul style="list-style-type: none"> Details the revisions to Rules 2-A, 2-B, and 2-D The revisions to Rule 2-A do not apply in FL, NV, and TN The revision to Rule 2-B-1-a does not apply in MT The revision to Rule 2-B-1-b does not apply in AK The revision to Rule 2-B-1-c does not apply in OR and TN The revisions to Rule 2-B-1-e do not apply in AR, IL, IN, KS, KY, MD, NM, OK, OR, SD, TN, and UT The revision to Rule 2-B-1-j does not apply in AZ, MT, and NV The revision to Rule 2-B-1-k does not apply in AZ, MT, and NV The revision to Rule 2-B-1-m does not apply in OK The revision to Rule 2-B-1-n does not apply in AK, CO, OR, and VA The revisions to Rule 2-B-1-p do not apply in AZ, MS, NV, and OR The revision to the Rule 2-B-1-p exception does not apply in MT and TX The revisions to Rule 2-B-2-h does not apply in OR The revisions to Rule 2-B-2-l do not apply in NV The revisions to Rule 2-B-2-m do not apply in VA The revisions to Rule 2-D do not apply in MT The revision to Rule 2-D-4 does not apply in NV Refer to state exhibits for AK, AR, AZ, CO, FL, IL, IN, KS, KY, MD, ME, MS, MT, NM, NV, OK, OR, SD, TN, TX, UT, and VA 	

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FILING MEMORANDUM

**ITEM B-1433—REVISIONS TO BASIC MANUAL RULE 1—CLASSIFICATION ASSIGNMENT
 AND RULE 2—PREMIUM BASIS AND PAYROLL ALLOCATION**

Exhibit	Exhibit Comments	Implementation Summary
	<ul style="list-style-type: none">• All state exceptions will continue to apply unless otherwise noted in the state-specific exhibits	
8	<ul style="list-style-type: none">• Details the revisions to Rules 2-E-1-b and 2-E-1-c• The revision to Rule 2-E-1-b(3) does not apply in IA and MO• The revisions to Rule 2-E-1-b(4) do not apply in IA• The revisions to Rule 2-E-1-c do not apply in TX• The revision to Rule 2-E-1-c(2) does not apply in MO• Refer to state exhibits for FL, IA, MO, RI, and TX• All state exceptions will continue to apply unless otherwise noted in the state-specific exhibits	
State Exhibits		
9	Details the revisions to Alaska’s exception to Rule 2-B-1.	
10	Details the elimination of Alaska’s exception to Rule 2-B-2.	
9	Details the revisions to Arkansas’ exception to Rule 2-B-1-e.	
9	Details the revisions to Arizona’s exception to Rule 2-B-1.	
9	Details the revisions to Colorado’s exception to Rule 1-D-9.	
10	Details the revision to Colorado’s exception to Rule 2-B-1-n.	
9	Details the elimination of Florida’s exception to Rule 1-B-3.	
10	Details the elimination of Florida’s exception to Rule 1-C-2-j.	
11	Details the revisions to Florida’s exception to Rule 1-F.	
12	Details the revisions to Florida’s exception to Rule 2-A.	
13	Details the revisions to Florida’s exception to Rule 2-E-1-b.	
9	Details the revision to Iowa’s exception to Rule 2-E-1-b.	
9	Details the elimination of Illinois’ exception to Rule 2-A and the revisions to Illinois’ exception to Rule 2-B.	
9	Details the revisions to Indiana’s exceptions to Rule 2-B.	
9	Details the revisions to Kansas’s exception to Rule 2-B-1-e.	
9	Details the revisions to Kentucky’s exception to Rule 2-B.	
9	Details the revisions to Maryland’s exceptions to Rule 2-B.	

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FILING MEMORANDUM

**ITEM B-1433—REVISIONS TO BASIC MANUAL RULE 1—CLASSIFICATION ASSIGNMENT
 AND RULE 2—PREMIUM BASIS AND PAYROLL ALLOCATION**

Exhibit	Exhibit Comments	Implementation Summary
9	Details the revision to Maine's exception to Rule 2-B-1-r.	
9	Details the revisions to Missouri's exception to Rule 1-F.	
10	Details the revisions to Missouri's exceptions to Rules 2-E-1-b and 2-E-1-c(2).	
9	Details the revision to Mississippi's exception to Rules 2-B-1-p and the elimination of Mississippi's exception to Rule 2-B-2-h.	
9	Details the revision to Montana's exception to Rule 1-D-9.	
10	Details the revisions to Montana's exceptions to Rules 2-B-1 and 2-B-2.	
9	Details the revisions to New Mexico's exceptions to Rule 2-B.	
9	Details the revisions to Nevada's exception to Rule 2-A.	
10	Details the revisions to Nevada's exception to Rule 2-B-1.	
11	Details the revisions to Nevada's exception to Rule 2-B-2.	
12	Details the revisions to Nevada's exceptions to Rule 2-D.	
9	Details the revisions to Oklahoma's exceptions to Rule 2-B.	
9	Details the elimination of Oregon's exception to Rule 1-B-4.	
10	Details the revisions to Oregon's exception to Rule 2-B-1.	
11	Details the revisions to Oregon's exception to Rule 2-B-2.	
9	Details the revisions to Rhode Island's exception to Rule 2-E-1-b.	
9	Details the revision to South Dakota's exception to Rule 2-B-2.	
9	Details the revisions to Tennessee's exception to Rule 1-D-3-f.	
10	Details the revisions to Tennessee's exception to Rule 2-A.	
11	Details the revisions to Tennessee's exceptions to Rule 2-B.	
9	Details the revisions to Texas's exception to Rule 1-B-2-c.	
10	Details the revisions to Texas's exceptions to Rules 1-B-3, 1-B-4, and 1-B-5.	
11	Details the elimination of Texas's exception to Rule 1-C-2-j.	
12	Details the revision to Texas's exception to Rules 1-D-5 and the elimination of Texas's exception to Rule 1-D-9.	

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FILING MEMORANDUM

**ITEM B-1433—REVISIONS TO BASIC MANUAL RULE 1—CLASSIFICATION ASSIGNMENT
AND RULE 2—PREMIUM BASIS AND PAYROLL ALLOCATION**

Exhibit	Exhibit Comments	Implementation Summary
13	Details the revisions to Texas's exception to Rule 1-F-3-b.	
14	Details the elimination of Texas's exception to Rule 2-A.	
15	Details the revision to Texas's exception to Rule 2-B-1 and the elimination of Texas's exception to Rule 2-B-2-h.	
16	Details the revisions to Texas's exception to Rule 2-D.	
17	Details the revisions to Texas's exception to Rule 2-E-1-c.	
9	Details the revisions to Utah's exception to Rule 2-B.	
9	Details the elimination of Virginia's exception to Rule 1-C-2-j.	
10	Details the revisions to Virginia's exception to Rule 1-F.	
11	Details the revisions to Virginia's exception to Rule 2-A.	
12	Details the revisions to Virginia's exception to Rule 2-B.	

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**ITEM B-1433—REVISIONS TO BASIC MANUAL RULE 1—CLASSIFICATION ASSIGNMENT
AND RULE 2—PREMIUM BASIS AND PAYROLL ALLOCATION**

EXHIBIT 1

BASIC MANUAL—2001 EDITION

RULE 1—CLASSIFICATION ASSIGNMENT

B. EXPLANATION OF CLASSIFICATIONS

2. Standard Exception Classifications

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

(Exhibit comment: All current state exceptions will continue to apply unless otherwise noted in the state-specific exhibits)

c. Salespersons or Collectors—Outside (Code 8742)

(1) This classification is assigned to employees who perform these duties away from the employer's premises.

(2) This ~~code excludes~~ classification is not assigned to employees who:

(a) - Deliver merchandise.

(b) - Use vehicles to deliver or pick up goods, even if they collect or sell. These employees must be assigned to the classification applicable to the business for drivers.

(c) - Use public transportation or walk to deliver goods even if they collect or sell. These employees must be assigned to the governing classification applicable to the business.

(d) Travel between locations of the employer as district or regional managers to perform various duties not involving outside sales or collection. Refer to Rule 2-G—Interchange of Labor.

(3) Code 8742 does not apply when the basic classification wording includes outside salespersons and/or collectors.

**ITEM B-1433—REVISIONS TO BASIC MANUAL RULE 1—CLASSIFICATION ASSIGNMENT
AND RULE 2—PREMIUM BASIS AND PAYROLL ALLOCATION**

EXHIBIT 2
BASIC MANUAL—2001 EDITION
RULE 1—CLASSIFICATION ASSIGNMENT
B. EXPLANATION OF CLASSIFICATIONS

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

3. General Inclusions

a. Some operations appear to be separate businesses but are included within all basic classifications. These are called general inclusions. These operations are not separately classified. They include the following:

- (1) - Restaurants or cafeterias, stores, or day care services operated by the ~~insured~~ employer for employee use

Exception:

If these operations are conducted in connection with construction, erection, lumbering or mining operations, they must be separately classified.

- (2) - Manufacture of containers by the ~~insured employer~~, such as bags, barrels, bottles, boxes, cans, cartons or packing cases for sole use in the operations insured by the policy

- (3) - Hospitals or medical facilities operated by the ~~insured employer~~ for its employees

- (4) - Maintenance or repair of the ~~insured's employer's~~ buildings or equipment by the ~~insured's employer's~~ employees

- (5) - Printing or lithographing by the ~~insured employer~~ on its own products, packaging, brochures, or promotional materials

b. Some employees may perform general inclusion duties for more than one basic classification. In such cases, *refer to Rule 2-G for classification treatment.*

Exceptions:

c. A general inclusion operation must be separately classified if any of the following conditions apply:

- (1) - The operation is conducted as a separate and distinct business of the ~~insured employer~~
(*refer to Rule 1-D-3*)-

- (2) - The operation is specifically excluded in the wording of the basic classification-

- (3) - The principal business is described by a standard exception classification-

Refer to NCCI's User's Guide for an example.

4. General Exclusions

Some operations in a business are so unusual for the type of business described by the applicable basic classification, that they are separately classified even though the operations are not conducted as a secondary business. These are called general exclusions. They are:

- a. - Aviation—all operations of the flying and ground crews
- b. - New construction or alterations
- c. - Stevedoring
- d. - Sawmill operations
- Employer-operated day care service

Refer to NCCI's User's Guide for an example.

**ITEM B-1433—REVISIONS TO BASIC MANUAL RULE 1—CLASSIFICATION ASSIGNMENT
AND RULE 2—PREMIUM BASIS AND PAYROLL ALLOCATION**

**EXHIBIT 2 (CONT'D)
BASIC MANUAL—2001 EDITION
RULE 1—CLASSIFICATION ASSIGNMENT
B. EXPLANATION OF CLASSIFICATIONS**

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

5. Governing Classification

- a. The governing classification at a specific job or location is the basic classification, other than a standard exception classification, that produces the greatest amount of payroll.

The governing classification is determined in accordance with the Governing Classification Determination Table.

Governing Classification Determination Table

If . . .	Then the governing classification is the. . .
A basic classification produces the greatest amount of payroll	Basic classification
A basic classification is applicable but no payroll is assigned	
Multiple basic classifications apply	Basic classification that is assigned the greatest amount of payroll
Multiple basic classifications apply but no payroll is assigned to any of the basic classifications	Basic classification that is the highest rated classification
A basic classification is not applicable	Standard exception classification that is assigned the greatest amount of payroll

~~If a basic classification is not applicable, the governing classification is the standard exception classification that produces the greatest amount of payroll.~~

- b. The governing classification is used to determine the classification treatment of:
- Miscellaneous employees
 - Local managers
 - Executive officers who regularly engage in duties that are ordinarily performed by a superintendent, foreperson or worker

ITEM B-1433—REVISIONS TO BASIC MANUAL RULE 1—CLASSIFICATION ASSIGNMENT
AND RULE 2—PREMIUM BASIS AND PAYROLL ALLOCATION

EXHIBIT 3
BASIC MANUAL—2001 EDITION
RULE 1—CLASSIFICATION ASSIGNMENT
C. CLASSIFICATION WORDING

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

1. Classification Captions and Notes

The *caption* is the heading or title of that precedes the classification itself and is part of the classification wording.

The *note* is the phrase that follows the caption ~~classification and is part of the classification wording.~~

The classification wording as a whole, including the captions and notes, controls, restricts, or explains the classification usage. This wording is also referred to as the "phraseology."

Refer to NCCI's ***User's Guide*** for an example.

**ITEM B-1433—REVISIONS TO BASIC MANUAL RULE 1—CLASSIFICATION ASSIGNMENT
AND RULE 2—PREMIUM BASIS AND PAYROLL ALLOCATION**

**EXHIBIT 4
BASIC MANUAL—2001 EDITION
RULE 1—CLASSIFICATION ASSIGNMENT
C. CLASSIFICATION WORDING**

2. Words and Phrases

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

b. Clerical

Clerical means ~~clerical~~ office employees and telecommuters and ~~drafting employees~~ as defined in Rule 1-B-2-a.

~~Clerical includes clerical telecommuters as defined in Rule 1-B-2-a.~~

j. Stories in Height

Certain classification wording refers to “stories in height.” A story is defined as ~~fifteen~~ (15) feet in height. It is measured from the lowest point above ground level to the highest point above ground level. ~~Some of these classifications are:~~

- ~~Code 5037—Painting: Metal Structures—Over Two Stories~~
- ~~Code 5059—Iron or Steel—Erection—Frame Structures Not Over Two Stories~~
- ~~Code 5645—Carpentry—Construction of Residential Dwellings Not Exceeding Three Stories in Height~~
- ~~Code 5403—Carpentry—Construction of Residential Dwellings Exceeding Three Stories in Height or Commercial Buildings and Structures~~

I. Separate and Distinct Business

Separate and distinct business means an additional operation of the employer that is not included in the basic classification on the policy. Refer to the following:

- Rule 1-D-3 for the assignment of more than one basic classification
- Rule 3-A-5 for the combination of legal entities, locations, and operations on a single policy

**ITEM B-1433—REVISIONS TO BASIC MANUAL RULE 1—CLASSIFICATION ASSIGNMENT
AND RULE 2—PREMIUM BASIS AND PAYROLL ALLOCATION**

**EXHIBIT 5
BASIC MANUAL—2001 EDITION
RULE 1—CLASSIFICATION ASSIGNMENT
D. CLASSIFICATION PROCEDURES**

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

3. Assignment of More Than One Basic Classification

More than one basic classification may be assigned to an ~~insured who~~ employer that meets conditions a, b, or c below. Operation means activities, enterprises, processes, secondary businesses or undertakings.

f. Employee Leasing Firms, Labor Contractors, Professional Employer Organizations, and Temporary Labor Services

(1) Workers assigned to clients must be classified the same as direct employees of the client performing the same or similar duties.

(2) If the client has no direct employees performing the same or similar duties, leased employees are classified as if they were direct employees of the client entity.

Refer to NCCI's User's Guide for an example.

5. Businesses Described by a Standard Exception Classification

If the principal business is described by a ~~S~~standard ~~E~~exception ~~C~~classification, the operations of all employees not included in the definition of ~~S~~standard ~~E~~exception ~~C~~classification must be assigned to the separate basic classification that most closely describes their operation.

This rule applies to both an employer's business within a state and to individual jobs or locations where the governing classification is described by a standard exception classification.

Refer to NCCI's User's Guide for an example.

6. Classifications Limited to Separate and Distinct Businesses

The assignment of certain classifications is limited by their classification notes to separate and distinct businesses. ~~because~~ ~~†~~The notes may describe an operation that frequently is an integral part of a business described by another classification.

Refer to NCCI's User's Guide for an example.

**ITEM B-1433—REVISIONS TO BASIC MANUAL RULE 1—CLASSIFICATION ASSIGNMENT
AND RULE 2—PREMIUM BASIS AND PAYROLL ALLOCATION**

EXHIBIT 6
BASIC MANUAL—2001 EDITION
RULE 1—CLASSIFICATION ASSIGNMENT
 (Applies in: AK, AL, AR, AZ, CO, CT, DC, FL, GA, HI, IA, ID, IN, KS, KY, LA, MD, ME, MS, MT, NE, NH, NV, OK, OR, RI, SC, SD, TN, TX, UT, VA, VT, WV)
 (Exhibit comment: All current state exceptions will continue to apply unless otherwise noted in the state-specific exhibits)

F. CHANGES OR CORRECTIONS IN CLASSIFICATIONS

1. Changes in classification due to changes in an ~~insured's~~ employer's operations will be applied as of the date the change in operations occurred.
2. Corrections in classifications that result in a *decrease* in premium, whether determined during the policy period or at audit, must be applied retroactively to the inception of the policy.
3. Corrections in classifications that result in an *increase* in premium, must be applied as follows:

If the correction in classification is effective . . .	Then the correction is applied . . .
During the first 120 days of the policy term . . .	Retroactively to the inception of the policy.
After the first 120 days of the policy term, but before the final 90 days . . .	As of the date the company discovers the cause for that correction.
During the last 90 days of the policy term . . .	Only to a renewal policy, if any.

The effective date of change, for purposes of the time periods noted in the table above, is the date a carrier applies a classification change.

Exceptions to the table above:

- a. If the correction in classification is the result of a misrepresentation or omission by the ~~insured employer~~, its agents, employees, officers, or directors, then the correction must be applied from the date on which the change would have applied if such misrepresentation omission had not been made.
- b. The above rules do not apply to the following types of operations; therefore, classifications are assigned and applied at any time during the term of the policy or at audit:
 - Construction or erection ~~risks~~
 - Employee leasing ~~firms~~
 - Labor ~~contractors~~ contracting
 - Temporary labor services
 - Professional employer organizations (PEOs)
 - Operations assigned to standard exception classifications
 - General exclusions
4. For purposes of Rule 1-F the reallocation of payroll among classifications on the policy is not considered a change or correction in classification(s).

Refer to NCCI's User's Guide for an example.

**ITEM B-1433—REVISIONS TO BASIC MANUAL RULE 1—CLASSIFICATION ASSIGNMENT
AND RULE 2—PREMIUM BASIS AND PAYROLL ALLOCATION**

EXHIBIT 7**BASIC MANUAL—2001 EDITION****RULE 2—PREMIUM BASIS AND PAYROLL ALLOCATION**

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

(Exhibit comment: All current state exceptions will continue to apply unless otherwise noted in the state-specific exhibits)

A. PREMIUM BASIS

Premium is calculated on the basis of the total payroll paid or payable by the ~~insured~~ employer for services of ~~individuals~~ employees who could receive workers compensation benefits for work-related injuries as provided by the policy. Some classifications may have a different premium basis; refer to NCCI's User's Guide for examples.

Exceptions:

~~Premium for domestic worker classifications is calculated on a per capita basis instead of payroll. Domestic workers are employees who perform household duties. Refer to Rule 3-C.~~

~~A per capita classification uses the number of workers rather than payroll to measure exposure.~~

B. PAYROLL

For purposes of this manual, the terms "payroll" and "remuneration" means money or substitutes for money.

1. Includes:

- a. Wages or salaries (including retroactive wages or salaries). Refer to NCCI's User's Guide for examples.
- b. Total ~~cash~~ pay received by an employee for commissions and draws against commissions.
- c. Bonuses including stock bonus plans. ~~(Refer to Rule 2-D for payroll limitation rules.)~~
- d. Extra pay for overtime work except as provided in Rule 2-C-2.
- e. Pay for holidays, vacations, or periods of sickness. ~~(Refer to Rule 2-G-3 for allocation of payroll for employees subject to more than one classification code.)~~
- f. Payment by an employer of amounts that would have been withheld from employees to meet statutory obligations for insurance or pension plans such as the Federal Social Security Act or Medicare.
- g. Payment to employees on any basis other than time worked, such as piecework, profit sharing or incentive plans.
- h. ~~Payment or allowances for hand tools or hand-held power tools used by employees in their work or operations for the insured. These tools may be supplied directly by the employee or to the employee through a third party. (RESERVED FOR FUTURE USE.)~~
- i. The rental value of an apartment or house provided to an employee based on comparable accommodations.
- j. The value of lodging, other than an apartment or house received by an employee as part of their pay to the extent shown in the ~~insured's~~ employer's records.
- k. The value of meals received by employees as part of their pay to the extent shown in the ~~insured's~~ employer's records.
- l. The value of store certificates, merchandise, credits or any other substitute for money received by employees as part of their pay.

**ITEM B-1433—REVISIONS TO BASIC MANUAL RULE 1—CLASSIFICATION ASSIGNMENT
AND RULE 2—PREMIUM BASIS AND PAYROLL ALLOCATION**

EXHIBIT 7 (CONT'D)

BASIC MANUAL—2001 EDITION

RULE 2—PREMIUM BASIS AND PAYROLL ALLOCATION

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

(Exhibit comment: All current state exceptions will continue to apply unless otherwise noted in the state-specific exhibits)

- m. Payments for salary reduction, employee savings plans, retirement or cafeteria plans (IRC 125), health savings accounts, and flexible spending accounts that are made through employee-authorized salary reductions from the employee's gross pay. Refer to NCCI's *User's Guide* for an example.
- n. Davis-Bacon wages or wages from a similar prevailing wage law. Refer to NCCI's *User's Guide* for an example.
- o. Annuity plans.
- p. Expense reimbursements to employees ~~to the extent that an~~ if the employer's records do not confirm that the expense was incurred as a valid business expense. Refer to Rule 2-B-2-h for contractual allowable travel expenses.

Exception:

When it can be verified that the employee was away from home overnight on the business of the employer, but the employer did not maintain verifiable receipts for incurred expenses, a reasonable expense allowance is permitted to be excluded. The allowance is limited to a maximum of ~~\$30~~ \$75 per day, ~~is permitted~~. The remaining non-verifiable expenses are included as payroll.

Refer to Rule 2-B-2-h for additional information about exclusion of expense reimbursements.

- q. Payment for filming of commercials excluding subsequent residuals that are earned by the commercial's participant(s) each time the commercial appears in ~~print or is broadcast~~ any type of media.
- r. Adjustments made by the employer to raise employees' wages to federal, state, or local minimum wage, whichever is applicable.

2. Excludes:

- a. Tips or other gratuities received by employees.
- b. Payments by an employer to group insurance or group pension plans for employees, other than those covered by Rule 2-B-1-f and Rule 2-B-1-m.
- c. Payments by an employer into third-party trusts for the Davis-Bacon Act or a similar prevailing wage law provided the pension trust is qualified under IRC Sections 401(a) and 501(a).
- d. The value of special rewards for individual invention or discovery.
- e. Dismissal or severance payments except for time worked or vacation accrued.
- f. Payments for active military duty.
- g. Employee discounts on goods purchased from the employer's employer.
- h. Expense reimbursements to employees ~~to the extent that an~~ if the employer's records confirm that the expense was incurred as a valid business expense.

Reimbursed expenses and flat expense allowances ~~(except for hand or hand-held power tools)~~ paid to employees may be excluded from the audit only if all three of the following conditions are met:

- (1) The expenses or allowances are incurred for the business of the employer

**ITEM B-1433—REVISIONS TO BASIC MANUAL RULE 1—CLASSIFICATION ASSIGNMENT
AND RULE 2—PREMIUM BASIS AND PAYROLL ALLOCATION**

**EXHIBIT 7 (CONT'D)
BASIC MANUAL—2001 EDITION****RULE 2—PREMIUM BASIS AND PAYROLL ALLOCATION**

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

(Exhibit comment: All current state exceptions will continue to apply unless otherwise noted in the state-specific exhibits)

(2) The amount of each employee's expense ~~payments~~ or allowances are is shown separately in the records of the employer

(3) The amount of ~~each employee's~~ the expense reimbursement or allowance approximates ~~is~~ a fair estimate of the actual expenses incurred by the employee in the conduct of ~~his/her~~ their work

Refer to NCCI's User's Guide for an example.

Note: When it can be verified that the employee was away from home overnight on the business of the employer, but the employer did not maintain verifiable receipts for incurred expenses, a reasonable expense allowance, limited to a maximum of \$30 per day, is permitted. If an employer did not maintain verifiable receipts for incurred expenses for an employee that was away from home overnight on the business of an employer a maximum expense allowance is permitted to be excluded. Refer to Rule 2-B-1-p Exception for the maximum employee expense allowance.

Allowable travel expenses permitted by any contract with a federal, state, or local government entity, including, but not limited to, a city, borough, or village, are excluded from payroll. In lieu of verifiable receipts for incurred expenses, the employer must produce a copy of the contract provision permitting the travel expenses at audit. The allowable travel expenses must be in addition to the current wage of the employee.

- i. ~~Supper~~ Meal money for late work.
- j. Work uniform allowances.
- k. Sick pay paid to an employee by a third party such as an ~~insured's~~ employer's group insurance carrier that is paying disability income benefits to a disabled employee.
- l. Employer-provided perks such as:
 - Use of company-provided automobiles
 - Airplane flights
 - Incentive vacations (e.g., contest winners)
 - Discounts on property or services
 - Club memberships
 - Tickets to entertainment events
 - Educational assistance
 - Relocation and moving expenses
- m. Employer contributions to employee benefit plans such as:
 - Employee savings plans
 - Retirement plans
 - Cafeteria plans (IRC 125)
 - Health savings accounts
 - Flexible spending accounts

These include contributions made by the employer, at the employer's expense, which are determined by the amount contributed by the employee.

**ITEM B-1433—REVISIONS TO BASIC MANUAL RULE 1—CLASSIFICATION ASSIGNMENT
AND RULE 2—PREMIUM BASIS AND PAYROLL ALLOCATION**

EXHIBIT 7 (CONT'D)

BASIC MANUAL—2001 EDITION

RULE 2—PREMIUM BASIS AND PAYROLL ALLOCATION

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

(Exhibit comment: All current state exceptions will continue to apply unless otherwise noted in the state-specific exhibits)

D. PAYROLL LIMITATIONS

1. Payroll limitation applies after any deductions of extra pay for overtime. Partial weeks are considered full weeks when determining average weekly pay. Total time of any worker employed during the policy period is the sum of the portions of all verbal or written agreements with that employee that fall within the policy period.
1. 2. Specific limitations may apply to:
 - a. ~~P~~ayroll for ~~E~~xecutive ~~O~~fficers, members of limited liability companies, partners, and sole proprietors ~~and to~~
 - b. ~~C~~lassifications with notes that indicate payroll limitations

Refer to:

 - National and state special Classifications sections for details
 - ~~Refer to State pages for specific limitations~~
 - Rule 2-E-1-b for additional information regarding executive officer payroll limitations
2. Payroll limitations apply after any exclusions of extra pay for overtime; refer to Rule 2-C-2-a.
3. Payroll used to calculate premium must exclude that part of the employee's average weekly pay that exceeds the applicable weekly limitation, provided:
 - a. ~~B~~ooks and records are maintained to show separately that the total payroll earned by each employee is in excess of the weekly payroll limitation for the total time employed during the policy period, and
 - b. ~~S~~eparate records are maintained, in summary, by classification for such employees

For more information on payroll, refer to Rule 2-B.
4. Partial weeks are considered full weeks when determining average weekly pay. Total time of any worker employed during the policy period is the sum of the portions of all verbal or written agreements with that employee that fall within the policy period.
5. ~~Bonuses~~—For purposes of applying the payroll limitation rule, bonuses paid during the policy term must be earned during the policy term. ~~and They are prorated for the period of employment during the policy term to determine the average weekly bonus to be added to the average weekly pay.~~
For additional information on bonuses, refer to Rule 2-B-1-c regarding Executive Officer payroll limitations, refer to Rule 2-E-1-b.
Refer to NCCI's User's Guide for an example.

**ITEM B-1433—REVISIONS TO BASIC MANUAL RULE 1—CLASSIFICATION ASSIGNMENT
AND RULE 2—PREMIUM BASIS AND PAYROLL ALLOCATION**

EXHIBIT 8

BASIC MANUAL—2001 EDITION

RULE 2—PREMIUM BASIS AND PAYROLL ALLOCATION

**E. EXECUTIVE OFFICERS, MEMBERS OF LIMITED LIABILITY COMPANIES, PARTNERS,
AND SOLE PROPRIETORS**

1. Executive Officers

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

(Exhibit comment: All current state exceptions will continue to apply unless otherwise noted in the state-specific exhibits)

b. Premium Determination

Premium for executive officers is based on their total payroll, subject to the following limitations and the requirements of Rule 2-D:

- (1) The minimum individual payroll for an executive officer is shown on the individual state pages in the **Basic Manual**.
- (2) The maximum individual payroll for an executive officer is shown on the individual state pages in the **Basic Manual**.
- (3) The payroll limitations in b(1) and b(2) apply to the average weekly payroll of each executive officer for the number of weeks the officer was employed during the policy period.
When an individual is not an executive officer for the entire policy period, the payroll limitation is prorated based on the number of weeks that the individual was an executive officer.
- (4) Payroll is subject to minimum and maximum limitations and *included* when one of the following apply: --
 - (a) -The executive officer does not perform any duties but frequently visits the premises.
 - (b) -The executive officer frequently visits the premises of the ~~risk~~ employer for business conferences, directors' meetings, or similar duties, even if the officer is an employee or officer of another ~~risk~~ employer in the operations of which he/she takes an active interest.
 - (c) -The officer receives no salary; however, a regular salary is credited to him or her on the books. In this instance the amount credited must be included in payroll.
 - (d) -The officer receives no salary, either drawn or credited, or the audit records fail to disclose the salary. In this instance the amount to be included in the payroll is the applicable minimum per Rule 2-D.
- (5) Payroll is *excluded* when: --
 - (a) -The executive officer is elected for the value of his/her name or because of stock holdings, has no duties, and does not visit the premises, except perhaps to attend directors' meetings, or --
 - (b) -The executive officer ceases to perform any duties and does not visit the premises, except perhaps to attend directors' meetings.

For the applicable state weekly minimum and maximum individual payroll limitation formula, *refer to Appendix F*.

c. Executive Officers Performing Flight Duties

Payroll of an executive officer who is a pilot or member of the flying crew of an aircraft used in the ~~insured's~~ employer's business must be assigned as follows:

- (1) For each week that the executive officer did not perform flight duties, assign the executive officer's payroll to the classification that applies to the principal operations in which the executive officer is engaged.

**ITEM B-1433—REVISIONS TO BASIC MANUAL RULE 1—CLASSIFICATION ASSIGNMENT
AND RULE 2—PREMIUM BASIS AND PAYROLL ALLOCATION**

EXHIBIT 8 (CONT'D)

BASIC MANUAL—2001 EDITION

RULE 2—PREMIUM BASIS AND PAYROLL ALLOCATION

**E. EXECUTIVE OFFICERS, MEMBERS OF LIMITED LIABILITY COMPANIES, PARTNERS,
AND SOLE PROPRIETORS**

1. Executive Officers

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

**(Exhibit comment: All current state exceptions will continue to apply unless otherwise
noted in the state-specific exhibits)**

- (2) For each week that the executive officer performed flight duties, assign the officer's payroll for that week to ~~Code 7421~~— the appropriate Aviation—Flying Crew classification. However, if the executive officer's nonflying duties in that week are subject to a higher rated classification, assign that higher rated classification for that week.

Note: The above rules apply on the basis of the pilot's logbook, which is required under federal regulations, or on the basis of verifiable records.

- (3) If an Code 7421—Aviation—Flying Crew classification applies and verifiable records are not kept to indicate those weeks during which flying is performed by the executive officer, assign the executive officer's payroll to the highest rated classification that applies to any of their duties.