

DETERMINING THE SERVICING CARRIER FEE

1. For policy year 1993, the starting servicing carrier fee will be 30%. An off-balance factor must be applied to obtain an overall premium weighted servicing carrier fee equal to 27% minus the ratio of reimbursements received by all servicing carriers for expenses (e.g. medical cost containment, allocated loss adjustment expenses, etc.) to the total pool premium. This off-balance procedure will be implemented at each adjustment to the servicing carrier fee.
2. For policy year 2000, the initial servicing carrier fee will be 22%. An off-balance factor must be applied to obtain an overall premium weighted servicing carrier fee equal to 22% minus the ratio of reimbursements received by all servicing carriers for expenses to the total pool premium. This off-balance procedure will be implemented at each adjustment to the servicing carrier fee. These reimbursements will not include allocated loss adjustment expenses, which will be reported with losses and reimbursed as losses are. In addition, carriers will retain that portion of the premium which reflects the expense constant most recently approved by the Commissioner.
3. For all policies written on or after October 1, 2002, the servicing carrier fee will be 22.2%. An off-balance factor must be applied to obtain an overall premium weighted servicing carrier fee equal to 22.2% minus the ratio of reimbursements received by all servicing carriers for expenses to the total pool premium. This off-balance procedure will be implemented at each adjustment to the servicing carrier fee. These reimbursements will not include allocated loss adjustment expenses, which will be reported with losses and reimbursed as losses are. In addition, carriers will retain that portion of the premium which reflects the expense constant most recently approved by the Commissioner.
4. For all policies written on or after July 1, 2004, the servicing carrier fee will be 18.8%. An off-balance factor must be applied to obtain an overall premium weighted servicing carrier fee equal to 18.8% minus the ratio of reimbursements received by all servicing carriers for expenses to the total pool premium. This off-balance procedure will be implemented at each adjustment to the servicing carrier fee. These reimbursements will not include allocated loss adjustment expenses, which will be reported with losses and reimbursed as losses are. Carriers will continue to retain that portion of the premium which reflects the expense constant most recently approved by the Commissioner. In addition, effective 7/1/04, the Insolvency Fund Assessment will be excluded from the calculation of the servicing carrier fee. Servicing carriers will be reimbursed for payments they made to the Insolvency Fund, as they are for other statutory assessments.
5. The paid loss ratio incentive program will provide a $\pm 9\%$ swing. Servicing carriers' minimum and maximum relativity factors under the paid loss ratio incentive program are as follows:

Premium Size Group	Minimum Relativity Factor	Maximum Relativity Factor
Less than \$2.5 mil.	None	None
\$2.5 mil. - \$10 mil.	.900	1.100
>\$10 mil. - \$30 mil.	.925	1.075
>\$30 mil. - \$50 mil.	.950	1.050
Over \$50 mil.	.975	1.025

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6. For policy years 1993 and 1994, the servicing carrier fee is subject to an overall minimum of 15% and an overall maximum of 35%.
7. The performance standards program has been devised to provide a swing on each of the four on-site audit aggregate rating categories: underwriting and audit, loss control performance standards, claim performance standards, and financial reporting. The total swing from performance standards would be +2% to -14%.
8. On or before December 31 of each year, the Commissioner shall indicate whether an on-site audit of all servicing carriers by a firm designated by the Bureau and approved by the Commissioner shall be undertaken the following year to measure each servicing carrier's performance during one or more completed calendar years. In making a determination on this matter, the Commissioner shall consider whether use of an outside firm for an annual audit would be economically feasible because of the size of the Pool or the segment of the Pool serviced by servicing carriers. The Bureau may order that carriers perform self-audits during any years that outside audits are not ordered by the Commissioner; provided, however, that no servicing carrier fee shall be affected by any self-audit or result or evaluation relating thereto. Each audit by a firm designated by the Bureau and approved by the Commissioner shall encompass the preceding three years, or all the years since the last such audit was conducted, whichever is the shorter period. However, in no event shall any audit encompass any year prior to calendar year 2001. All the servicing carrier fees for the entire period that is the subject of a one-year or multi-year outside evaluation shall be adjusted to reflect the score or scores given each carrier on such evaluations in accordance with this Plan.
9. The performance based servicing carrier fee in its entirety is effective as of 1/1/94. In calendar year 1994 the auditing process will be implemented. When the auditing process is completed for all servicing carriers, servicing carrier fees will be adjusted based on the results of the performance evaluations subject to items 1 and 2 above. Subsequent adjustments will be made based on the results of the Paid Loss Incentive Program. For policy year 1993 the servicing carrier fee is subject only to the Paid Loss Incentive Program and the overall balancing and capping constraints discussed above.
10. For the purpose of determining the service carrier fees under this program, percentages are of standard premium, i.e., not including ARAP surcharges or MARRP adjustments. Standard premium is defined and described in Appendix F – Massachusetts Residual Market Premium Algorithm of the Massachusetts Workers' Compensation and Employers Liability Insurance Manual.

EFFECT OF PERFORMANCE STANDARDS ON SERVICING CARRIER FEE

*Effect on Servicing Carrier Fee	Score on Audit of Underwriting and Audit Performance Standards	*Effect on Servicing Carrier Fee	Score on Audit of Financial Reporting Performance Standards
0.0%	90-120	0.0%	96-105
-0.5%	85-89	-0.5%	93-95
-1.0%	80-84	-1.0%	82-92
-1.5%	75-79	-1.5%	70-81
-2.0%	70-74	-2.0%	35-69
-2.5%	65-69		
-3.0%	60-64		
-3.5%	45-59		
-4.0%	30-44		

Total weight of subcategories is 30.

Total weight of subcategories is 35.

*Effect on Servicing Carrier Fee	Score on Audit of Claims Performance Standards	*Effect on Servicing Carrier Fee	Score on Audit of Loss Control Performance Standards
1.0%	102-108	1.0%	65-68
0.5%	95-101	0.5%	60-64
0.0%	81-94	0.0%	51-59
-0.5%	77-80	-0.5%	48-50
-1.0%	73-76	-1.0%	44-47
-1.5%	69-72	-1.5%	41-43
-2.0%	66-68	-2.0%	37-40
-2.5%	62-65	-2.5%	34-36
-3.0%	58-61	-3.0%	17-33
-3.5%	54-57		
-4.0%	45-53		
-4.5%	36-44		
-5.0%	27-35		

Total weight of subcategories is 27.

Total weight of subcategories is 17.

*Effects are as percentage of premium.