



**THE WORKERS' COMPENSATION  
RATING AND INSPECTION BUREAU OF MASSACHUSETTS**

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January 7, 1993

CIRCULAR LETTER NO. 1617

To All Members and Subscribers of the Bureau:

LARGE RISK ALTERNATIVE RATING OPTION  
RETROSPECTIVE RATING PLAN MANUAL  
EFFECTIVE JANUARY 1, 1993

The Commissioner of Insurance has approved the Large Risk Alternative Rating Option, a provision that risks with an annual estimated Standard Premium in excess of \$500,000 may be retrospectively rated as mutually agreed upon by the insured and the insurer.

The Large Risk Alternative Rating Option does not apply with respect to assigned risks.

A Filing Memorandum and Retrospective Rating Plan Manual Massachusetts State Special Rules are attached.

This option is applicable to new and renewal business effective on and after 12:01 A.M., January 1, 1993.

Reprint manual pages will be distributed in due course by the National Council.

NORMAN R. FONTAINE  
Vice President of Industry Affairs

NRF/dc 3078  
Enclosures

## FILING MEMORANDUM

### Large Risk Alternative Rating Option

#### Purpose:

This filing introduces a new retrospective rating option for large risks. The new option provides an opportunity for the specific, unique servicing requirements and risk associated with a large insured to be recognized and adjusted for in the calculation of its retrospective premium.

#### Background:

The optional use of retrospective rating refines the premium an insured would have paid based on manual rating and experience rating. The ability to negotiate a tailor made plan is an attractive feature for such large insureds who desire to pay a workers compensation premium more reflective of their own loss experience. The changes proposed in this filing will provide for a Large Risk Alternative Rating Option. This option will be available for risks with an annual estimated workers' compensation standard premium in excess of \$500,000. These large risks represent less than 3% of the workers compensation policyholders.

As sophisticated insurance buyers, these consumers have been demanding that their retrospective premium calculation provide some recognition of their unique exposure, experience and characteristics. To that end, an allowable departure from the filed retrospective rating values is warranted. The inability of the current retrospective rating plan to provide this additional flexibility for risks of this size has prompted many to seek other alternatives such as self-insurance. The Large Risk Alternative Rating Option will make the retrospective rating plan a more viable pricing mechanism and prompt many of these risks to remain in the conventional insurance market.

#### Proposal:

The purpose of this filing is to provide a means for insurers to adjust for the unique characteristics of risks in excess of \$500,000 in annual estimated workers' compensation premium. This proposal recognizes that these large risks present an extraordinary set of circumstances with respect to insurer expenses, expected loss patterns and the overall cost of insurance. Such risks along with carriers writing insurance for them, have become quite sophisticated in tracking, defining and forecasting their insurance overhead. This filing provides for a specialized rating treatment based on these unique characteristics.

Under the proposed Large Risk Alternative Rating Option, such risks would be rated as mutually agreed by the insured and insurer. The current plan's requirement of rigid adherence to the filed tables and values does not provide the flexibility required by large risks. As a result, many have left the insurance market and sought other alternatives such as self insurance, offshore captives, etc. to fulfill their statutory requirements. The Large Risk Alternative Rating Option responds to the growing consumer demand for increased flexibility in the pricing of retrospective rating premium.

Impact:

The Large Risk Alternative Rating Option, available only for risks at the \$500,000 and greater premium size will have a negligible impact due to the extremely limited population of risks which will qualify. It has been estimated that less than 3% of all risks will qualify for this specialized rating treatment.

There will be no changes to existing carrier data reporting requirements as provided in the Statistical Plan Manual for risks written under the Large Risk Alternative Rating Option.

Effective January 1, 1993

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PART ONE

DESCRIPTION OF THE PLAN

II. DEFINITIONS

Amend as follows:

K. Large Risk Alternative Rating  
Option

The Large Risk Alternative Rating Option provides that a risk may be retrospectively rated as mutually agreed upon by carrier and insured. It is an available option for risks with an estimated annual workers compensation standard premium in excess of \$500,000.

III. ELIGIBILITY FOR THE PLAN

Amend as follows:

E. Large Risk Alternative Rating  
Option

A risk is eligible for the Large Risk Alternative Rating Option if the estimated workers' compensation standard premium exceeds an average of \$500,000 annually for the term of the plan.

PART TWO

OPERATION OF THE PLAN

Amend As follows:

A. The Retrospective Premium  
Formula

Risk with an estimated annual workers compensation standard premium in excess of \$500,000 may be rated under the Large Risk Alternative Rating Option. This option provides that such risks may be retrospectively rated as mutually agreed upon by carrier and insured.