



**THE WORKERS' COMPENSATION
RATING AND INSPECTION BUREAU OF MASSACHUSETTS**
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CIRCULAR LETTER NO. 1640

To All Members and Subscribers of the Bureau:

**RELATIONSHIP BETWEEN RECALCULATION OF
EXPERIENCE RATING MODIFICATIONS AND
LUMP SUM SETTLEMENTS**

The purpose of this Circular Letter is to point out the relationship between a recent change in the Experience Rating Plan and lump sum settlements. Circular Letter No. 1621 dated January 14, 1993 (copy attached) contains the rule change developed to implement the statutory requirement to recalculate experience modifications due to large changes in claim values beyond third report. This may have an effect on the procedures of insurers for settling cases with lump sums. Also attached is a copy of Circular Letter No. 1586 dated January 9, 1993 which describes the statutory requirement that an insurer obtain the approval of the insured employer prior to settling a lump sum case.

The rule change outlined in Circular Letter No. 1621 provides for the adjustment of an insured's experience rating modification when there has been a substantial change in the valuation of open claims that close between third and fifth reports (30 months and 66 months from the policy effective date.) The Bureau shall compare the value of each open claim over \$5000 at third report, except fatal and permanent total disability claims, to the final closed value at fourth report. If the aggregate change in all such claims exceeds 20%, the experience rating modification will be recalculated. A similar comparison will be done at fifth report.

Therefore, a lump sum settlement for a claim satisfying the above conditions can effect an insured's experience rating modification up to the evaluation at 66 months from the effective date (fifth report), rather than only up to 42 months.

Such an insured's permission would be required before settling a lump sum claim up to fifth report. Therefore, it would be advisable to obtain an experience rated insured's permission before settling any lump sum claim up to fifth report.

Please circulate this information to your claims personnel and other interested parties within your company.

NORMAN R. FONTAINE
Vice President of Industry Affairs

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Enclosure