



**THE WORKERS' COMPENSATION  
RATING AND INSPECTION BUREAU OF MASSACHUSETTS**  
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March 7, 1995

**CIRCULAR LETTER NO. 1714**

To All Members and Subscribers of the Bureau:

**ITEM R-1293 RETROSPECTIVE RATING PLAN FLEXIBILITIES  
ONE YEAR PLAN AND THREE YEAR PLAN**

**EFFECTIVE APRIL 1, 1995**

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The Commissioner of Insurance has approved the above filing to become effective 12:01 A.M., April 1, 1995 applicable to new and renewal policies only.

As explained in the attached Filing Memorandum, identified as Exhibit 1, this filing, which has been tailored specifically for Massachusetts, adds greater flexibility to the Retrospective Rating One Year Plan and Three Year Plan, while retaining the principles of actuarial balance. The major change is the Allocated Loss Adjustment Expense Option [ALAE Option] which requires inclusion of actual ALAE with loss, rather than loading ALAE via the loss conversion factor, when this option has been chosen.

The Filing Memorandum explains the Purpose, Background, Proposal, Impact and Implementation of these changes, and describes Exhibits 2 through 6, which are attached. Exhibit 2 contains the changes required in the Retrospective Rating Manual. Exhibits 3A [Stock Carriers] and 3B [Non-Stock Carriers] contain retrospective rating expense ratios corresponding to the ALAE Option. Exhibit 4 consists of Retrospective Premium Endorsement Flexibility Options WC 00 05 15. Exhibit 5 contains the Massachusetts ALAE Option Excess Loss and Allocated Expense Factors. The Massachusetts Expense Provisions Underlying the ALAE Option Retrospective Rating Plan are shown on Exhibit 6.

The filing has no aggregate premium impact. It will enhance the competitive market by increasing the number of available rating options.

The new manual rules, and endorsement, will be distributed in due course.

**NORMAN R. FONTAINE**  
Vice President of Industry Affairs

## R-1293 RETROSPECTIVE RATING PLAN FLEXIBILITIES

(To Become Effective 12:01 A.M., April 1, 1995, Applicable to New and Renewal Business Only)

### Purpose

This filing adds greater flexibility to Retrospective Rating One Year Plan and Three Year Plan, while retaining the principles of actuarial balance. The major change is the Allocated Loss Adjustment Expense Option (ALAE Option) which requires inclusion of actual ALAE with loss, rather than loading ALAE via the loss conversion factor, when this option has been chosen.

### Background

A part of the dynamic changes in the Workers' Compensation line of business has been a need for greater flexibility in rating the larger employers, such as those large enough to select retrospective rating. These are knowledgeable consumers of the insurance product. Increased flexibility should increase the availability of coverage and coverage options. At the same time, maintenance of the actuarial principle of balance (that when rates are proper, average retrospective premium will equal guaranteed cost) will help ensure equitable treatment of all insureds, and minimal impact on total premium.

A first step is completed in that ALAE has been defined in Section V of the Massachusetts Workers' Compensation Unit Statistical Plan.

### Proposal

The proposal is outlined in *Exhibit 1*, and revisions to the manual rules are shown in *Exhibit 2*.

A change establishes the ALAE Option for inclusion of Allocated Loss Adjustment Expense with losses subject to the plan. This is in keeping with the increases in significance of this type of expense on an individual policyholder basis.

ALAE is defined in Part V of the Massachusetts Workers' Compensation Unit Statistical Plan.

*Exhibits 3A (Stock Carriers) and 3B (Non-Stock Carriers)* contain retrospective rating expense ratios corresponding to the ALAE Option.

*Exhibit 4* consists of RETROSPECTIVE PREMIUM ENDORSEMENT FLEXIBILITY OPTIONS WC 00 05 15 which will be included in Part Five of the Retrospective Rating Plan Manual.

*Exhibit 5* contains the Massachusetts ALAE Option Excess Loss and Allocated Expense Factors which will be subsequently listed on the Massachusetts State Special Pages of the Retrospective Rating Plan Manual.

The Massachusetts Expense Provisions Underlying the ALAE Option Retrospective Rating Plan are shown on *Exhibit 6* and will also be subsequently listed on the Massachusetts State Special Pages of the Retrospective Rating Plan.

### Impact

This filing has no expected aggregate premium impact. It will enhance the competitive market, increasing the number of available rating options.

### Implementation

The new manual rules are proposed to become effective 12:01 A.M., April 1, 1995, applicable to new and renewal business only.

**Proposed Changes to the Retrospective Rating Plan Manual**

**Current Phraseology**

RETROSPECTIVE RATING PLAN MANUAL

PART ONE

1. INTRODUCTION

A. GENERAL EXPLANATION

10. Increased Limits for Employers Liability

If the policy provides increased limits for Employers Liability, such premium and incurred losses may be subject to the Plan.

II. DEFINITIONS

F. Incurred Losses

Incurred losses used in the rating formula for determining premium under this Plan are those reported under the rules of the Unit Statistical Plan Manual adopted by the rating organization. Generally, incurred losses are the actual losses paid and outstanding, interest on judgments, expenses incurred in obtaining third-party recoveries, and allocated loss adjustment expenses for employers liability losses.

**Proposed Phraseology**

RETROSPECTIVE RATING PLAN MANUAL

1. INTRODUCTION

PART ONE

A. GENERAL EXPLANATION

10. Increased Limits for Employers Liability

If the policy provides increased limits for Employers Liability, and both the carrier and insured agree, premium and incurred losses may be subject to the Plan up to the individual loss limit selected in the Plan, if any.

II. DEFINITIONS

F. Incurred Losses

Incurred losses used in the rating formula for determining premium under this Plan are those reported under the rules of the Massachusetts Workers' Compensation Unit Statistical Plan Manual. Generally, incurred losses are the actual losses paid and outstanding, interest on judgments, expenses incurred in obtaining third-party recoveries, and allocated loss adjustment expenses for employers liability losses.

L. Allocated Loss Adjustment Expense

Allocated loss adjustment expense is defined in Section V of the Massachusetts Workers' Compensation Unit Statistical Plan Manual. Allocated loss adjustment expense for workers' compensation insurance shall also be included as part of incurred losses in the Plan if agreed upon by insured and carrier. This will be called the Allocated Loss Adjustment Expense Option (ALAE Option). A second set of expense ratios are contained in Part Four of this Plan. These are reduced to offset the exclusion of ALAE. Expected Loss Ratio (E) would be replaced by a Expected Loss and Allocated Expense Ratio (ELA) for use in the ALAE Option.

**Proposed Changes to the Retrospective Rating Plan Manual**

**Current Phraseology**

RETROSPECTIVE RATING MANUAL

PART TWO

OPERATION OF THE PLAN

**1. A. THE RETROSPECTIVE PREMIUM FORMULA**

The premium for a risk subject to this Plan is determined by the following retrospective premium formula:

Retrospective Premium =

1. Basic Premium  
plus
2. Converted Losses
3. The sum of 1 + 2 is multiplied by the Tax Multiplier.

**B. DEFINITION OF TERMS USED FOR THE FORMULA**

**3. Converted Losses**

Converted losses are based on the incurred losses of the risk during the period of the policy or policies to which this plan is applied. A Loss Conversion Factor is applied to such losses to produce the Converted Losses. Refer to No. 4 below. Incurred Losses are defined in Part One II-F.

**4. Loss Conversion Factor**

The Loss Conversion Factor usually covers claim adjustment expenses and the cost of the insurance carrier's claim services such as investigation of claims and filing claim reports.

**D. THE RETROSPECTIVE PREMIUM FORMULA WHEN ADDITIONAL ELECTIVE PREMIUM ELEMENTS ARE INCLUDED**

The premium for a risk subjected to this plan is determined by the following retrospective premium formula:

Retrospective Premium =

1. Basic Premium  
plus
2. Converted Losses  
plus
3. Excess Loss Premium  
plus
4. Retrospective Development Premium
5. Multiply the sum 1 + 2 + 3 + 4 by the Tax Multiplier

**Proposed Phraseology**

RETROSPECTIVE RATING MANUAL

PART TWO

OPERATION OF THE PLAN

**1. A. THE RETROSPECTIVE PREMIUM FORMULA**

The premium for a risk subject to this Plan is determined by the following retrospective premium formula:

Retrospective Premium =

1. Basic Premium  
plus
2. Converted Losses  
or **Converted Loss plus Allocated Loss Adjustment Expense**
3. The sum of 1 + 2 is multiplied by the Tax Multiplier.

**B. DEFINITION OF TERMS USED FOR THE FORMULA**

**3. Converted Losses**

Converted losses are based on the incurred losses of the risk during the period of the policy or policies to which this plan is applied. **For the ALAE Option, ALAE is added to Losses.**

**A Loss Conversion Factor is applied to such losses (or losses plus ALAE) to produce the Converted Losses (or Converted Loss plus ALAE). Refer to Part One - II F. ALAE is defined in the Massachusetts Workers' Compensation Unit Statistical Plan Manual.**

**4. Loss Conversion Factor**

The Loss Conversion Factor usually covers claim adjustment expenses and the cost of the insurance carrier's claim services such as investigation of claims and filing claim reports. **For the ALAE Option, the Loss Conversion Factor does not include allocated claim adjustment expense.**

**D. THE RETROSPECTIVE PREMIUM FORMULA WHEN ADDITIONAL ELECTIVE PREMIUM ELEMENTS ARE INCLUDED**

The premium for a risk subjected to this plan is determined by the following retrospective premium formula:

Retrospective Premium =

1. Basic Premium  
plus
2. **Converted Losses or Converted Loss plus Allocated Loss Adjustment Expense**  
plus
3. Excess Loss Premium  
plus
4. Retrospective Development Premium
5. Multiply the sum 1 + 2 + 3 + 4 by the Tax Multiplier

**Proposed Changes to the Retrospective Rating Plan Manual**

**Current Phraseology**

RETROSPECTIVE RATING MANUAL

PART THREE

ADMINISTRATION OF THE PLAN

II. REPORTS OF PREMIUMS AND LOSSES UNDER THE PLAN

2. Incurred Losses

The incurred losses used for determining the Retrospective Premium are those reported under the Unit Statistical Plan Manual.

*Note: For complete details on instructions which shall be followed for Nos. 1 and 2 above, refer to the Unit Statistical Plan Manual.*

APPENDIX. EXPLANATIONS AND ILLUSTRATIONS OF RETROSPECTIVE RATING OPTION V AND HOW TO USE THE TABLE OF INSURANCE CHARGES, GENERAL EXPLANATION. How to Determine Factors for Retrospective Rating.

F. Expense Allowance-- Excluding Taxes

The Expense Allowance varies on the basis of the annual Standard Premium. Use the Table of Expense Ratios in Part Four--Premium Computation Tables as follows:

**Proposed Phraseology**

RETROSPECTIVE RATING MANUAL

PART THREE

ADMINISTRATION OF THE PLAN

II. REPORTS OF PREMIUMS AND LOSSES UNDER THE PLAN

2. Incurred Losses

The incurred losses used for determining the Retrospective Premium are reported in accordance with the Massachusetts Workers' Compensation Unit Statistical Plan Manual rules, but allowing interim evaluations.

*Note: For complete details on instructions which shall be followed for Nos. 1 and 2 above, refer to the Massachusetts Workers' Compensation Unit Statistical Plan Manual.*

APPENDIX. EXPLANATIONS AND ILLUSTRATIONS OF RETROSPECTIVE RATING AND HOW TO USE THE TABLE OF INSURANCE CHARGES, GENERAL EXPLANATION. How to Determine Factors for Retrospective Rating.

F. Expense Allowance-- Excluding Taxes

The Expense Allowance varies on the basis of the annual Standard Premium. **There are two tables of expense ratios. One table includes all loss adjustment expense and corresponds to a pure loss Expected Loss Ratio (E). A second table excludes allocated loss adjustment expense. The Expected Loss Ratio is replaced by the Expected Loss and Allocated Expense Ratio (ELA). Losses plus allocated expense are treated the same as pure losses were in the traditional plan. If allocated expense is included with losses, selected loss limits apply to loss plus allocated and Excess Loss and Allocated Expense Factors (ELAFs) are used in place of ELFs.**

Use the Tables of Expense Ratios in Part Four - Premium Computation Tables as follows:

TABLE OF COMPENSATION EXPENSE RATIOS  
STOCK CARRIERS  
EXCLUDING ALLOCATED LAE AND TAXES AND INCLUDING PROFIT AND CONTINGENCIES

STANDARD PREMIUM	EXPENSE RATIO	STANDARD PREMIUM	EXPENSE RATIO	STANDARD PREMIUM	EXPENSE RATIO	STANDARD PREMIUM	EXPENSE RATIO
0 -	.146	8,143 -	8,274	.106	23,399 -	23,423	.066
5,025 -	.145	8,275 -	8,410	.105	23,424 -	24,546	.065
5,075 -	.144	8,411 -	8,550	.104	24,547 -	25,783	.064
5,126 -	.143	8,551 -	8,695	.103	25,784 -	27,151	.063
5,178 -	.142	8,696 -	8,846	.102	27,152 -	28,672	.062
5,230 -	.141	8,847 -	9,001	.101	28,673 -	30,374	.061
5,284 -	.140	9,002 -	9,163	.100	30,375 -	32,291	.060
5,340 -	.139	9,164 -	9,330	.099	32,292 -	34,466	.059
5,396 -	.138	9,331 -	9,503	.098	34,467 -	36,955	.058
5,453 -	.137	9,504 -	9,683	.097	36,956 -	39,831	.057
5,512 -	.136	9,684 -	9,870	.096	39,832 -	43,193	.056
5,572 -	.135	9,871 -	10,064	.095	43,194 -	47,175	.055
5,633 -	.134	10,065 -	10,266	.094	47,176 -	51,966	.054
5,696 -	.133	10,267 -	10,476	.093	51,967 -	57,840	.053
5,760 -	.132	10,477 -	10,695	.092	57,841 -	65,210	.052
5,826 -	.131	10,696 -	10,923	.091	65,211 -	74,734	.051
5,893 -	.130	10,924 -	11,161	.090	74,735 -	87,515	.050
5,962 -	.129	11,162 -	11,410	.089	87,516 -	101,297	.049
6,032 -	.128	11,411 -	11,670	.088	101,298 -	106,410	.048
6,104 -	.127	11,671 -	11,943	.087	106,411 -	112,067	.047
6,177 -	.126	11,944 -	12,228	.086	112,068 -	118,360	.046
6,253 -	.125	12,229 -	12,528	.085	118,361 -	125,401	.045
6,330 -	.124	12,529 -	12,842	.084	125,402 -	133,333	.044
6,409 -	.123	12,843 -	13,173	.083	133,334 -	142,336	.043
6,491 -	.122	13,174 -	13,521	.082	142,337 -	152,643	.042
6,574 -	.121	13,522 -	13,888	.081	152,644 -	164,559	.041
6,660 -	.120	13,889 -	14,275	.080	164,560 -	178,493	.040
6,747 -	.119	14,276 -	14,685	.079	178,494 -	195,005	.039
6,838 -	.118	14,686 -	15,118	.078	195,006 -	214,883	.038
6,930 -	.117	15,119 -	15,579	.077	214,884 -	239,275	.037
7,025 -	.116	15,580 -	16,068	.076	239,276 -	269,912	.036
7,123 -	.115	16,069 -	16,589	.075	269,913 -	309,548	.035
7,224 -	.114	16,590 -	17,145	.074	309,549 -	362,828	.034
7,327 -	.113	17,146 -	17,739	.073	362,829 -	438,262	.033
7,433 -	.112	17,740 -	18,376	.072	438,263 -	509,803	.032
7,543 -	.111	18,377 -	19,060	.071	509,804 -	535,667	.031
7,656 -	.110	19,061 -	19,798	.070	535,668 -	564,295	.030
7,772 -	.109	19,799 -	20,595	.069	564,296 -	596,156	.029
7,892 -	.108	20,596 -	21,458	.068	596,157 -	631,830	.028
8,016 -	.107	21,459 -	22,398	.067	631,831 -	672,045	.027

TABLE OF COMPENSATION EXPENSE RATIOS  
STOCK CARRIERS  
EXCLUDING ALLOCATED LAE AND TAXES AND INCLUDING PROFIT AND CONTINGENCIES

STANDARD PREMIUM	EXPENSE RATIO	STANDARD PREMIUM	EXPENSE RATIO	STANDARD PREMIUM	EXPENSE RATIO
672,046 -	717,727	0.026	1,848,747 -	2,241,155	0.16
717,728 -	770,073	0.025	2,241,156 -	2,845,034	0.15
770,074 -	830,655	0.024	2,845,035 -	3,894,372	0.14
830,656 -	901,583	0.023	3,894,373 -	6,170,096	0.13
901,584 -	985,754	0.022	6,170,097 -	14,844,884	0.12
985,755 -	1,087,261	0.021	14,844,885	AND OVER	0.11
1,087,262 -	1,212,072	0.020			
1,212,073 -	1,369,254	0.019			
1,369,255 -	1,573,277	0.018			
1,573,278 -	1,848,746	0.017			

ABOVE TABLE BASED ON THE  
FOLLOWING DISCOUNTS

FIRST	5,000	.0
NEXT	95,000	10.9
NEXT	400,000	12.6
OVER	500,000	14.4



TABLE OF COMPENSATION EXPENSE RATIOS  
NON-STOCK CARRIERS  
EXCLUDING ALLOCATED LAE AND TAXES AND INCLUDING PROFIT AND CONTINGENCIES

STANDARD PREMIUM	EXPENSE RATIO	STANDARD PREMIUM	EXPENSE RATIO	STANDARD PREMIUM	EXPENSE RATIO
0 -	5,077	19,647	22,314	675,539	719,901
5,078 -	5,239	22,315	25,820	719,902	770,499
5,240 -	5,411	25,821	30,634	770,500	828,748
5,412 -	5,595	30,635	37,654	828,749	896,525
5,596 -	5,793	37,655	48,848	896,526	976,374
5,794 -	6,004	48,849	69,513	976,375	1,071,838
6,005 -	6,232	69,514	101,808	1,071,839	1,187,992
6,233 -	6,478	101,809	108,854	1,187,993	1,332,382
6,479 -	6,744	108,855	116,948	1,332,383	1,516,726
6,745 -	7,033	116,949	126,343	1,516,727	1,760,271
7,034 -	7,347	126,344	137,379	1,760,272	2,096,991
7,348 -	7,691	137,380	150,527	2,096,992	2,593,003
7,692 -	8,069	150,528	166,459	2,593,004	3,396,363
8,070 -	8,485	166,460	186,162	3,396,364	4,920,969
8,486 -	8,947	186,163	211,156	4,920,970	8,929,254
8,948 -	9,463	211,157	243,902	8,929,255	48,144,329
9,464 -	10,041	243,903	288,668	48,144,330	AND OVER
10,042 -	10,695	288,669	353,562		
10,696 -	11,439	353,563	456,092		
11,440 -	12,295	456,093	516,421		
12,296 -	13,290	516,422	541,951		
13,291 -	14,459	541,952	570,137		
14,460 -	15,855	570,138	601,416		
15,856 -	17,548	601,417	636,326		
17,549 -	19,646	636,327	675,538		

ABOVE TABLE BASED ON THE  
FOLLOWING DISCOUNTS

FIRST	5,000	.0
NEXT	95,000	3.5
NEXT	400,000	5.0
OVER	500,000	7.0

**RETROSPECTIVE PREMIUM ENDORSEMENT**

**FLEXIBILITY OPTIONS**

The Retrospective Premium Endorsement attached to the policy is changed by the information shown in the Schedule.

**SCHEDULE**

1. Incurred losses are changed to include allocated loss adjustment expense in these states:
2. Each calculation of retrospective premium will use all loss information we have as of a date agreed to by you and us.

MASSACHUSETTS WORKERS' COMPENSATION  
 ALAE OPTION EXCESS LOSS AND ALLOCATED EXPENSE FACTORS  
 Effective April 1, 1995

<u>Accident Limit (\$000)</u>	<u>Hazard Group I</u>	<u>Hazard Group II</u>	<u>Hazard Group III</u>	<u>Hazard Group IV</u>
25	0.542	0.555	0.600	0.620
30	0.510	0.522	0.573	0.596
35	0.480	0.496	0.550	0.576
40	0.454	0.469	0.526	0.557
50	0.403	0.422	0.483	0.522
75	0.307	0.328	0.395	0.449
100	0.229	0.255	0.323	0.386
125	0.170	0.200	0.263	0.335
150	0.124	0.155	0.216	0.291
175	0.088	0.123	0.180	0.253
200	0.061	0.099	0.149	0.225
250	0.037	0.066	0.110	0.183
300	0.026	0.049	0.084	0.152
500	0.011	0.024	0.046	0.099
1000	0.005	0.013	0.022	0.050
2000	0.003	0.006	0.011	0.023
3000	0.002	0.005	0.007	0.016
4000	0.002	0.004	0.006	0.013
5000	0.001	0.003	0.005	0.009

MASSACHUSETTS WORKERS' COMPENSATION

ALAE OPTION EXCESS LOSS AND ALLOCATED EXPENSE FACTORS \*

Effective April 1, 1995

<u>Accident Limit (\$000)</u>	<u>Hazard Group I</u>	<u>Hazard Group II</u>	<u>Hazard Group III</u>	<u>Hazard Group IV</u>
25	0.542	0.555	0.600	0.620
30	0.510	0.522	0.573	0.596
35	0.480	0.496	0.550	0.576
40	0.454	0.469	0.526	0.557
50	0.403	0.422	0.483	0.522
75	0.307	0.328	0.395	0.449
100	0.229	0.255	0.323	0.386
125	0.170	0.200	0.263	0.335
150	0.124	0.155	0.216	0.291
175	0.088	0.123	0.180	0.253
200	0.061	0.099	0.149	0.225
250	0.037	0.066	0.110	0.183
300	0.026	0.049	0.084	0.152
500	0.011	0.024	0.046	0.099
1000	0.005	0.013	0.022	0.050
2000	0.003	0.006	0.011	0.023
3000	0.002	0.005	0.007	0.016
4000	0.002	0.004	0.006	0.013
5000	0.001	0.003	0.005	0.009

\* Excess Loss & Allocated Factors (ELAF's) are obtained from ordinary Excess Loss Factors (ELF's) via the equation:  

$$\text{ELAF for limit [L]} = (1 + \text{provision for ALAE}) \times \text{ELF for limit [L/(1 + \text{provision for ALAE})].}$$
 As shown in Exhibit 6, provision for ALAE is 5%. The ELF's at the limits L/1.05 are estimated by interpolation between the regular ELF's shown on Page 2 of this Exhibit.

MASSACHUSETTS WORKERS' COMPENSATION

EXCESS LOSS FACTORS

Effective May 1, 1992

<u>Accident Limit (\$000)</u>	<u>Hazard Group I</u>	<u>Hazard Group II</u>	<u>Hazard Group III</u>	<u>Hazard Group IV</u>
25	0.508	0.519	0.565	0.584
30	0.477	0.489	0.539	0.562
35	0.448	0.462	0.515	0.542
40	0.422	0.436	0.493	0.523
50	0.373	0.391	0.451	0.489
75	0.278	0.300	0.364	0.416
100	0.206	0.231	0.295	0.356
125	0.150	0.178	0.239	0.306
150	0.106	0.138	0.195	0.265
175	0.075	0.109	0.160	0.232
200	0.052	0.086	0.133	0.204
250	0.031	0.058	0.097	0.166
300	0.024	0.044	0.075	0.139
500	0.009	0.022	0.041	0.089
1000	0.005	0.011	0.020	0.046
2000	0.003	0.006	0.010	0.020
3000	0.002	0.005	0.007	0.014
4000	0.002	0.004	0.006	0.011
5000	0.001	0.003	0.005	0.008

**Massachusetts Workers' Compensation**

Expense Provisions Underlying the ALAE Option Retrospective Rating Plan

(1)	Expected Loss without Loss Adjustment Expense *	75.5%
(2)	Provision for Allocated LAE (as percentage of losses) **	5.0%
	<b>Expected Loss plus Allocated LAE Ratio</b> (1) x [1 + (2)]	<b>79.3%</b>
(3)	Loss Adjustment Expense *	10.0%
	<b>Loss Conversion Factor</b> [1 + (3)] / [1 + (2)]	<b>1.048</b>
	<b>Tax Multiplier *</b>	<b>1.065</b>
(4)	Expenses including all LAE but excluding Premium Taxes *	18.4%
	<b>Expenses including Unallocated LAE but excluding Allocated LAE and Premium Taxes</b> (4) - (2) x (1)	<b>14.6%</b>

\* From Page 2

\*\* Selected provision for Allocated LAE is 50% of approved provision for LAE (line (3)). It is based on Massachusetts Expense Calls (database reference code 04) for 1989, 1990, and 1991 and on NCCI Expense Data for Accident Years 1988, 1989, and 1990.

**Massachusetts Workers' Compensation**

Expense Provisions Underlying the Retrospective Rating Plans \*

(1)	Expected Loss and LAE Ratio (adjusted for Residual Market Subsidy) 1 - [(4) + (5) + (7)]	83.0%
(2)	Loss Adjustment Expense (as percentage of losses)	10.0%
(3)	<b>Expected Loss without LAE</b> (1)/[1 + (2)]	<b>75.5%</b>
	<b>Tax Multiplier</b> 1 / ( 1 - [(5) + (6) + (7)] )	<b>1.065</b>
	<b>Expenses excluding Premium Taxes but including LAE</b> 1 - [(3) + (5) + (6) + (7)]	<b>18.4%</b>
	Acquisition and Field Supervision (Net of Premium discount)	7.2%
	Fixed Expenses (Net of Premium discount)	3.0%
	Premium Discount	10.5%
	Premium Taxes (Net of Premium discount and Dividends)	2.0%
	Profit and Contingencies	-9.5%
(4)	<u>Total Expenses</u>	<u>13.2%</u>
(5)	Residual Market Subsidy	3.3%
(6)	Premium Tax Rate	2.3%
(7)	Insolvency Fund Assessment	0.5%

Premium Discount Schedule

<u>Layer of Premium</u>	<u>Premium Discounts</u>	
	<u>Stock Companies</u>	<u>Non-Stock Companies</u>
First \$ 5,000	0.0 %	0.0 %
Next 95,000	10.9	3.5
Next 400,000	12.6	5.0
Over 500,000	14.4	7.0

\* All expense provisions underlying the Retrospective Rating Plans remain in effect from the stipulation and Commissioner's Decision approving rates to be effective 1/1/91.