



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

101 ARCH STREET - 5TH FLOOR, BOSTON, MA 02110
VOICE: (617) 439-9030 FAX: (617) 439-6055

*Administrator
Massachusetts Assigned Risk Pool*

January 7, 1998

**MASSACHUSETTS WORKERS' COMPENSATION
ASSIGNED RISK POOL**

HOME OFFICE ONLY

SPECIAL BULLETIN NO. 1-98

**CHANGES TO THE APPENDIX TO THE WORKERS' COMPENSATION
ASSIGNED RISK POOL PLAN OF OPERATION-
PERFORMANCE STANDARDS FOR SERVICING CARRIERS**

EFFECTIVE DECEMBER 31, 1997

The Commissioner of Insurance has ordered the following changes in the Appendix to the Pool Plan of Operation:

Under the Plan **APPENDIX** section captioned "**DETERMINING THE SERVICING CARRIER FEE,**" delete the current paragraph 6. and substitute the following:

6. 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 Division shall be undertaken the following year to measure its 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 of result or evaluation relating thereto. Each audit by a firm designated 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. 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.

We are attaching revised Pages 44 and 45 to the Pool Plan of Operation, which reflect these changes, replacing current pages in your copy of the Plan.

In Notice to Pool Carriers No. 98-1 dated January 5, 1998, we advised that we have received notification from the Commissioner that she is suspending performance evaluations of servicing carriers during calendar year 1998.

NORMAN R. FONTAINE
Vice President of Industry Affairs

NRF/sf
Attachments

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 1994, the initial servicing carrier fee will be 24%. An off-balance factor must be applied to obtain an overall premium weighted servicing carrier fee equal to 24% 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.
3. 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

4. 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%.
5. For policy years 1993 and 1994, the servicing carrier fee is subject to an overall minimum of 15% and an overall maximum of 35%.

Massachusetts Assigned Risk Pool Plan of Operation

6. 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 Division shall be undertaken the following year to measure its 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 of result or evaluation relating thereto. Each audit by a firm designated 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. 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.
7. 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.
8. 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.