



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

July 28, 2005

CIRCULAR LETTER NO. 1997

To All Members and Subscribers of the Bureau:

**COMMUNICATION FROM THE DEPARTMENT OF INDUSTRIAL ACCIDENTS (DIA)
UPDATING INSURANCE COMPANIES ON THEIR ASSESSMENT PROCESS**

Attached is a copy of the communication that the DIA sent out on July 6, 2005 to all insurance companies that are licensed to write workers' compensation in Massachusetts. The DIA has informed the Bureau that this communication is the first of several that the Department intends to issue over the next several months, as the DIA begins to review and change the current assessment process.

The DIA is in the process of establishing a working group with several individual insurance companies of varying sizes to work with them as they undertake their review. At the DIA's request, the Bureau has agreed to participate in this working group.

We will keep you informed of any future developments with regards to the DIA assessment process. If you have any questions regarding this matter, please contact me at dcrowley@wcribma.org or 617-646-7594.

DANIEL M. CROWLEY
Vice President – Customer Services

Attachment



This is intended to be the first of several communications that the Department of Industrial Accidents (DIA) will be issuing over the next several months, as the DIA begins to review and change the current assessment process.

Background

In March 2005 the DIA sent letters to those insurance companies licensed to write Workers Compensation insurance in the Commonwealth of Massachusetts. The purpose of the letter was to advise all licensed insurance companies that the DIA was beginning a course of action to review and redesign the current Commonwealth of Massachusetts workers' compensation insurance assessment process. As part of this process, we seek to improve communication between the insurance companies and the DIA. Each insurance company was asked to provide a senior level management contact person. Your name was provided as a contact to the DIA.

The Workers' Compensation Special Fund (hereinafter, "the Special Fund") and the Workers' Compensation Trust Fund (hereinafter, "the Trust Fund") were

established to fund the operating expenses for the Massachusetts Department of Industrial Accidents and to pay or reimburse certain compensation to employees and insurance companies specifically outlined in Section 65. Both the Special Fund and the Trust Fund are funded by revenues generated from assessments levied on all insured employers subject to M.G.L. c.152.

According to the statute, insurance companies shall bill and collect assessments on insured employers. Such assessments shall be separately stated amounts on premium notices, and shall not be reported as premiums for any tax or regulatory purposes under Chapter sixty-three, one hundred and seventy-five, or any other law. Assessment rates for insured employers shall apply to standard premiums for policy years beginning on or after July first following the determination of such rates.

As noted above, on an annual basis, assessment rates are determined using the procedures outlined in M.G.L. c.152 §65(4). This process occurs in the April to June timeframe and the assessment rate change, if applicable, is communicated to the insurance companies. The DIA uses the Workers Compensation Rating and Inspection Bureau of Massachusetts to communicate the assessment rate changes, via Circular Letter, which is issued in July. The assessment rate changes are to be applied to policies effective July 1 of that year and thereafter or until notification of

new rates are issued the following year.

All insurance companies in the Commonwealth of Massachusetts that are licensed to write workers' compensation insurance must report and remit all collected assessments to the DIA on a quarterly basis. Currently, to assist companies in complying with this regulation, the DIA mails a blank assessment form. The blank forms are mailed the first week in January, April, July and October. Insurance companies are requested to complete the forms and remit the assessment to the Commonwealth within thirty (30) days, otherwise a 5% penalty is assessable.

All insurance companies are expected to be familiar with the insurance laws of each state, in which they operate; and the DIA anticipates that this communication (as well as its web-site at <http://www.mass.gov/dia/>) will provide an informational tool to help insurance companies understand their obligations.

Standard Workers' Compensation Premium

In the past, there has been confusion in the industry regarding the definition of standard premium.

The DIA acknowledges there was confusion, but the confusion was eliminated in 1997 when Circular Letter 1778 was issued by the Workers' Compensation Rating and Inspection Bureau of Massachusetts

(WCRIBMA). In that letter, it was clearly stated that the assessment should be applied to premiums **prior** to the effect of any company deviations. As stated in WCRIBMA Circular Letter No. 1756, the assessment rates should be applied to the standard premiums (at Bureau Manual Rates), prior to the effects of any ARAP surcharge or deductible credit.

As used in M.G.L. c. 152, Sec. 65 and 452 CMR 7.00, standard premium shall mean the direct written premium equal to the product of payroll by class code and the currently applicable manual rates multiplied by any applicable experience modification factor.



This definition is found in the above DIA web-site within the Department of Industrial Accidents Insurers' Page in the section labeled [452 CMR 1.00 - 8.00 Rules and Regs of the DIA](#).

This definition should not be confused with the definition found on the WCRIBMA web-site. The definition found there is used for WCRIBMA purposes.

Changes to the July assessment

There has been an increased focus on the assessment process within the DIA, which will be continuous with the redesign. In addition to the redesign, the DIA has and will continue to contract with independent CPA firms to review the accuracy and completeness of assessments reported and remitted to the DIA.

With the mailing of the July assessment, a number of changes are anticipated. These changes are explained in the following paragraphs

DIA connecting to Department of Insurance (DOI) database

The DIA database is now linked with the Massachusetts Department of Insurance (DOI) database. The DOI database provides the DIA the opportunity to capture the correct legal name of all insurance companies writing Workers Compensation Insurance in the Commonwealth of Massachusetts, as well as current mailing addresses, the NAIC number and data that the DIA did not previously have in its database.



Aggregate reporting

Due to the changes (mergers and acquisitions) in the insurance industry over the past few years, the DIA's database was outdated. As noted above, some companies were not included in the database, incorrect or abbreviated company names were used and industry relationships were not known. Because of the above, a single assessment form was mailed, and most companies would aggregate the premiums and assessments for all related companies on the single forms, with no supporting details. Although the assessment form has historically requested the names of companies if the report totals were aggregated, this request was not followed.

With the July assessment, insurance companies that use this method will be required to provide the details on all companies, including proper company name, total standard premium and assessment details for each company. Companies that fail to provide this information will be considered to be in default and may subject to a 5% penalty.

5% penalty

As noted above, historically on the DIA quarterly assessment form, it has been required that insurance companies remit the assessment within thirty (30) days of receipt of the DIA assessment request.

With the July assessment, the DIA intends to begin reviewing compliance with this regulation.



On-going audit of books and records

The DIA under the authority of the Massachusetts General Law, Chapter 152, will be conducting reviews of the books and records of all insurance companies in order to determine compliance with this statute. This review will be conducted to verify the accuracy of those assessments collected from employers and forwarded to the DIA.

In order to carry out this authority, the Commonwealth has entered into an agreement with the public accounting firms of Parent, McLaughlin & Nangle and Moody, Famiglietti & Andronico, LLP to act as its agents in this capacity. You may be contacted by one of the firms to arrange a mutually convenient date for the review. The Commonwealth expects full cooperation with these agents during their review of the insurance company records.

DIA Contact information

Assessment Manager James Boyle has been designated as the point of contact for insurance companies at the DIA. All questions or comments regarding the assessment process should be directed to him.

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