# PAID LOSS RATIO INCENTIVE PROGRAM
# "PLRIP"

The following incentive program for Servicing Carriers has been developed based on paid loss ratio relativities. For each Servicing Carrier, paid loss ratio relativities will be calculated by policy year for Massachusetts assigned risks by dividing the Servicing Carriers' paid loss ratio (to written minus uncollectible premium) by the average paid loss ratio for all Servicing Carriers in the Pool. This program will be applied on a Company Group basis.

## 1. Program Applicability

A Servicing Carrier with premium less than $2.5 million in the Pool is not subject to any incentive or disincentive.

## 2. Calculation of Incentives and Disincentives

Definition of Variables

| | | |
|---|---|---|
| MR | = | Maximum Relativity Factor |
| mR | = | Minimum Relativity Factor |
| P | = | Carrier Written Premium minus Uncollectible Premium |
| SLR | = | State Average Paid plus Case Loss Ratio |
| Carrier Rel | = | Carrier Paid Loss Relativity |
| | = | Carrier Paid Loss Ratio / State Average Paid Loss Ratio |

| | | | |
|---|---|---|---|
| Disincentive: | If MR < Carrier Rel, | = | P x SLR x (Carrier Rel - MR) |
| Incentive: | If mR > Carrier Rel, | = | P x SLR x (mR - Carrier Rel) |

There is an aggregate limit on Incentives/Disincentives of 9% of premium subject to the program.

Note that Disincentives are assumed to be negative.

## 3. Annual Evaluation of Paid Loss Ratios

Each policy year will have five annual evaluations. The first evaluation will be after the completion of the policy year (policy year 2020 at 12/31/2021, etc.). The final evaluation for policy year 2020 will be based on experience reported as of 12/31/2025.

Incentives/Disincentives will be calculated on an annual basis in accordance with the following.

| Premium Size Group | Minimum Relativity Factor | Maximum Relativity Factor |
|---|---|---|
| <= $2.5 mill | None | None |
| > $2.5 mill & <= $10 mill | .900 | 1.100 |
| > $10 mill & <= $30 mill | .925 | 1.075 |
| > $30 mill & <= $50 mill | .950 | 1.050 |
| > $50 mill | .975 | 1.025 |

To avoid the back and forth transfer of funds and to consider the fact that more immature data is less reliable, not all of the calculated Incentive/Disincentive will be dispensed/billed for preliminary adjustments. The portion of the Incentive/Disincentive dispensed will depend upon the evaluation number. See the chart below as an example for policy year 2020.

| Evaluation Number | Date | Portion of Incentive/Disincentive Dispensed |
|---|---|---|
| 1 | December 31, 2021 | 20% |
| 2 | December 31, 2022 | 40% |
| 3 | December 31, 2023 | 60% |
| 4 | December 31, 2024 | 80% |
| 5 (Final) | December 31, 2025 | 100% |

Each evaluation for a policy year considers losses paid since the beginning of the policy year. Because of this, the Incentive/Disincentive calculated on a subsequent evaluation will be offset by any payments made or received from earlier evaluations.

**4. Experience Used**

The experience data referred to is the assigned risk portion of business for Servicing Carriers. The data used for calculating Incentives/Disincentives will be Servicing Carrier Paid Losses, Paid Allocated Loss Adjustment Expenses ("ALAE"), Written Premium, and Uncollectible Premium as reported by the Servicing Carriers to NCCI quarterly.

Loss Ratios will be calculated by dividing Paid Losses plus Paid ALAE by Written Premium less Uncollectible Premium.

**5. Allocated Loss Adjustment Expense**

Reimbursed ALAE will be added to Paid Losses to calculate the relativities. Since such expenses should serve to lower losses, the addition of any such reimbursed expenses should not adversely impact a

Servicing Carrier. The Average Pool Paid Loss Ratio would also be adjusted to include any such reimbursed expenses. The purpose of including reimbursed expenses would be to discourage Servicing Carriers from requesting reimbursement of costs which are not effective in reducing losses.

**6. Capping of Losses**

In order to limit the impact of large losses, paid losses will be capped at $250,000 per claim and/or $500,000 per occurrence. Losses will be capped at $100,000 per claim and/or $200,000 per occurrence for preliminary adjustments at the first and second evaluations. If a multiple occurrence claim does not qualify for capping because the sum of the component claims is too small, then each individual claim within the multiple occurrence will be evaluated for capping.

Since cumulative paid loss amounts are not reported by claim the large losses contemplated by the Paid Loss Ratio Incentive Program are those losses reported on a quarterly basis by the Servicing Carriers to NCCI in their Residual Market Large Loss (LGL) Data. Since paid ALAE is not included in NCCI's Large Loss Data Call, the WCRIBMA directly obtains the paid ALAE for each large loss reported by each Servicing Carrier.