

## **DETERMINING THE SERVICING CARRIER FEE**

1. For all policies written on or after July 1, 2004, the servicing carrier fee will be 18.8%. An off-balance factor must be applied to obtain an overall premium weighted servicing carrier fee equal to 18.8%, excluding the ratio of reimbursements received by all Servicing Carriers for expenses to the total Pool premium. This off-balance procedure will be implemented at each adjustment to the servicing carrier fee. These reimbursements will not include allocated loss adjustment expenses, which will be reported with losses and reimbursed as losses are. Carriers will continue to retain that portion of the premium which reflects the expense constant most recently approved by the Commissioner. In addition, effective 7/1/04, the Insolvency Fund Assessment will be excluded from the calculation of the servicing carrier fee. Servicing carriers will be reimbursed for payments they made to the Insolvency Fund, as they are for other statutory assessments.
2. 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 WCRIBMA and approved by the Commissioner shall be undertaken the following year to measure each Servicing Carrier's 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 WCRIBMA 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 the results of any self-audits. Each audit by a firm designated by the WCRIBMA and approved 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 audit shall be adjusted to reflect the score or scores given each carrier on such audit in accordance with this Plan.
3. For any given policy year, when the auditing process is completed for all Servicing Carriers, servicing carrier fees will be adjusted based on the results of the on-site audit. Subsequent adjustments will be made based on the results of the Paid Loss Incentive Program. 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 Performance Standards, Loss Control & Miscellaneous Performance Standards, Claim Performance Standards, and Financial & Data Reporting Performance Standards. The total swing from performance standards would be +2% to -14%.
4. For the purpose of determining the service carrier fees under this program, percentages are of Standard Premium, i.e., not including ARAP surcharges. Standard Premium is defined and described in Appendix F – Massachusetts Residual Market Premium Algorithm of the Massachusetts Workers' Compensation and Employers Liability Insurance Manual.