



**THE WORKERS' COMPENSATION
RATING AND INSPECTION BUREAU OF MASSACHUSETTS**
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**MASSACHUSETTS WORKERS' COMPENSATION
ASSIGNED RISK POOL**

SPECIAL BULLETIN NO. 3-94

**REVISIONS TO THE MASSACHUSETTS WORKERS' COMPENSATION
ASSIGNED RISK POOL PLAN OF OPERATION**

EFFECTIVE JANUARY 1, 1994

The Commissioner of Insurance has ordered revisions to the Massachusetts Workers' Compensation Assigned Risk Pool Plan of Operation (Plan), pursuant to the authority granted to the Commissioner under M.G.L. c.152, Sections 65A and 65C. The changes, effective January 1, 1994, are reflected in the revised version of the Plan, which now includes an Appendix.

This revision includes the following principle changes:

Provisions for the equitable assignment of risks entitled to coverage under G.L. c. 152, Section 65A to voluntary direct assignment carriers, in addition to servicing carriers - Subsection 1. ARTICLE III;

Revisions in the Insolvency provisions - Subsection 2. ARTICLE IV;

Provision for the Residual Market Committee to designate a subcommittee to act as an Appeals Committee - Subsection 7. ARTICLE VI;

Revisions in the Criteria for Selection of servicing carriers - Subsection 2. ARTICLE VII;

Provisions for the Designation of Voluntary Direct Assignment Carriers by the Commissioner, and application of the performance standards to them - Subsections 1. and 2., respectively - ARTICLE VIII;

Revisions in Assignment of Risks, Expenses and Payments, and Assessments and Refunds - Subsections 2., 4., and 7., respectively - ARTICLE XIII;

Revision in Subsection 1., and addition of Subsection 3., DEFINITIONS - ARTICLE XV.

The APPENDIX beginning on Page 19 contains the new PAID LOSS RATIO INCENTIVE PROGRAM for servicing carriers.

The revised PERFORMANCE STANDARDS FOR SERVICING CARRIERS begin on Page 23 and continue to Page 40. ON - SITE AGGREGATE RATING TABLES are shown on Pages 41 - 44.

The methodology for Determining the Servicing Carrier Fee policy years 1993 and 1994 is explained on attached Page 45.

Effect of Performance Standards on Servicing Carrier Fee is shown on attached Page 46.

Please refer any questions you may have with regard to these changes to Vice President and Actuary, Howard Mahler, or to me.

NORMAN R. FONTAINE
Vice President of Industry Affairs

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:

<u>Premium Size Group</u>	<u>Minimum Relativity Factor</u>	<u>Maximum Relativity Factor</u>
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%.

6. There will be annual on-site audits of all servicing entities by a firm designated by the Division of Insurance.

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.

Massachusetts Assigned Risk Pool Plan of Operation

Effect of Performance Standards on Servicing Carrier Fee

<u>Effect on Servicing Carrier Fee</u>	<u>Score on Audit of Underwriting and Audit Performance Standards</u>	<u>Effect on Servicing Carrier Fee</u>	<u>Score on Audit of Financial Reporting Performance Standards</u>
0.0%	90 - 120	0.0%	96 - 105
-0.5%	85 - 89	-0.5%	93 - 95
-1.0%	80 - 84	-1.0%	82 - 92
-1.5%	75 - 79	-1.5%	70 - 81
-2.0%	70 - 74	-2.0%	35 - 69
-2.5%	65 - 69		
-3.0%	60 - 64		
-3.5%	45 - 59		
-4.0%	30 - 44		

Total weight of subcategories is 30.

Total weight of subcategories is 35.

<u>Effect on Servicing Carrier Fee</u>	<u>Score on Audit of Claims Performance Standards</u>	<u>Effect on Servicing Carrier Fee</u>	<u>Score on Audit of Loss Control Performance Standards</u>
1.0%	102 - 108	1.0%	65 - 68
0.5%	95 - 101	0.5%	60 - 64
0.0%	81 - 94	0.0%	51 - 59
-0.5%	77 - 80	-0.5%	48 - 50
-1.0%	73 - 76	-1.0%	44 - 47
-1.5%	69 - 72	-1.5%	41 - 43
-2.0%	66 - 68	-2.0%	37 - 40
-2.5%	62 - 65	-2.5%	34 - 36
-3.0%	58 - 61	-3.0%	17 - 33
-3.5%	54 - 57		
-4.0%	45 - 53		
-4.5%	36 - 44		
-5.0%	27 - 35		

Total weight of subcategories is 27.

Total weight of subcategories is 17.