



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

May 20, 2005

**CIRCULAR LETTER NO. 1986**

To All Members and Subscribers of the Bureau:

**GENERAL REVISION OF RATES**

**EFFECTIVE SEPTEMBER 1, 2005  
APPLICABLE TO NEW AND RENEWAL BUSINESS**

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The Commissioner of Insurance has approved a Stipulation for the general revision of workers' compensation rates, effective 12:01 A.M., September 1, 2005, applicable to new and renewal policies. This includes:

**1. RATE LEVEL DECREASE OF -3.0%**

The overall average decrease of -3.0% in the existing workers' compensation average rates will vary by class. The Bureau expects to distribute new rates, expense constants, and minimum premiums in the next 10-14 days.

**2. EXPERIENCE RATING PLAN CHANGES**

The Experience Rating Plan Expected Loss Rates and D-Ratios will be revised and distributed by the Bureau. The State Per Claim Accident Limitation and the State Multiple Claim Accident Limitation remain unchanged.

**The Workers' Compensation Rating & Inspection Bureau Of Massachusetts**

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### 3. RETROSPECTIVE RATE PLAN CHANGES

There will be a new Table of Expected Loss Ranges and new State and Hazard Group Relativities. The Table of Expected Loss Ranges is updated in accordance with NCCI Item Filing R – 1388 which is contained in Section IX of the filing and available on our website under the Actuarial heading.

### 4. NO CHANGES IN THE FOLLOWING:

- A. Loss Constants
- B. Table of Specific Disease Elements
- C. Manual rates for the "F" Class, Admiralty Law and Federal Employers' Liability Act classifications and the USL&H percentage applicable in connection with RuleXII-D-3
- D. All Risk Adjustment Program [ARAP] or Merit Rating Program
- E. Premium Discount Tables A and B
- F. Take-Out Credit
- G. Qualified Loss Management Program [QLMP]

Experience ratings and ARAP factors (including replacement of preliminary experience ratings and ARAP factors) effective September 1, 2005 and subsequent will be issued in due course using the new Expected Loss Rates. When the new rates, experience ratings, and ARAP factors are received and incorporated into policy issuance, carriers should no longer attach Massachusetts Pending Premium Change Endorsement WC 20 04 01 to policies.

Revised Massachusetts manual rate pages will be distributed and will be available on our website at [www.wcribma.org](http://www.wcribma.org). The new rates and rating values will also be available in electronic form (Microsoft Excel and text files) on our website.

Attached is a copy of the Commissioner's Decision and Order and the Stipulation.

PAUL F. MEAGHER  
President

PFM/cms  
Attachment

**The Workers' Compensation Rating & Inspection Bureau Of Massachusetts**

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JULIANNE M. BOWLER  
COMMISSIONER OF INSURANCE

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**Rate Filing of the Worker's Compensation Rating and Inspection Bureau**  
**Docket No. R2005-06**

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**Decision and Order**

**I. Introduction and Procedural History**

On March 1, 2005, the Worker's Compensation Rating and Inspection Bureau of Massachusetts ("WCRIB"), on behalf of its members, submitted a filing for worker's compensation rates to be effective September 1, 2005. The Commissioner of Insurance ("Commissioner") designated Jean F. Farrington, Esq. and Stephen M. Sumner, Esq. as hearing officers on this matter. A notice of hearing issued on March 4, 2005, scheduling a public comment hearing and a prehearing conference for March 30. On March 14, the Attorney General ("AG") filed a notice of intent to participate. Counsel representing the parties throughout this proceeding are: for the WCRIB, Scott P. Lewis, Esq. and Michael S. Rabeih, Esq.; for the State Rating Bureau ("SRB") Thomas McCall, Esq. and T. Jane Gabriel, Esq.; and for the AG, Peter Leight, Esq. and Monica Brookman, Esq.

Representatives of each party, including the chair of the WCRIB Governing Committee, spoke at the public comment hearing on March 30. Other individuals made statements on behalf of the Massachusetts Workers' Compensation Advisory Council ("MWAC"), the Associated Industries of Massachusetts, the Massachusetts Association of Insurance Agents, American Risk Management, representing three trade associations related to the construction industry, and an insurance agency that writes a substantial

amount of workers' compensation insurance.<sup>1</sup> At the prehearing conference that followed public comment, dates were set for cross-examination, submission of advisory filings, and post-hearing briefs.

Cross-examination of the WCRIB witnesses took place on April 15, 25, and 26. Thereafter, the parties requested suspension of the hearing schedule because of on-going settlement negotiations. On May 13, the parties submitted a stipulation (the "Stipulation") that addressed several specific aspects of the WCRIB filing. On that same day, the Commissioner and the presiding officers approved the Stipulation. During a telephone conference, it was marked and entered into the record of this proceeding as Exhibit 19.

## **II. Statutory Framework**

G.L. c. 152, §53A ("§53A") sets out the statutory requirements for obtaining approval of rates for Massachusetts workers' compensation insurance. Subsection (1) requires any insurance company writing workers' compensation insurance in the Commonwealth to file its risk classifications and premiums with the Commissioner, either directly or through a rating organization authorized to act for it. The Commissioner thereafter conducts a hearing to determine whether the classifications and rates are not excessive, inadequate or unfairly discriminatory for the risks to which they effectively apply, and fall within a range of reasonableness. In addition to these general requirements, §53A(12) specifically states that the Commissioner shall not approve classifications or rates that provide for any of the following: 1) dividends, unabsorbed premium deposits, savings or other payments allowed or returned by the insurer to policyholders, members, subscribers or stockholders; 2) expenses that exceed the filing insurer's expense needs; and 3) commission allowances that are not demonstrated to be reasonable and to reflect the actual cost to the agent or broker of services they provide. The Commissioner, pursuant to §53A(13), must also make a finding, on the basis of information in the rate filing, that insurers employ acceptable cost control programs and techniques which have had or are expected to have a substantial impact on fraudulent claim costs, unnecessary health care costs, any other unreasonable costs and expenses, and on the collection of appropriate premium charges owed to the insurer. If the

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<sup>1</sup> The three organizations are the Building Trades Employers Association of Eastern Massachusetts, their affiliated trade groups, and the Associated General Contractors of Massachusetts.

Commissioner finds that the rates are excessive, and that the excess is the result of a failure to employ adequate cost control programs, she may disapprove or limit any proposed increase in rates.

### **III. The Recommendations**

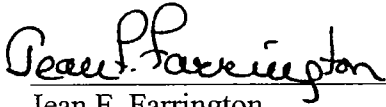
The WCRIB, in its initial filing, sought an overall rate increase of 1.0 percent. The Stipulation, in summary, provides the following:

1. The overall average change in the existing workers' compensation average rates, to be effective on and after September 1, 2005, shall be a reduction of three percent (3.0 percent.)
2. In calculating the average rates, the WCRIB shall cap the rate level change for each rating classification on a revenue neutral basis and as shown in the document attached to the Stipulation as Exhibit A, but otherwise in the manner shown in Section X of the WCRIB filing.
3. The expected loss rates to be used in the experience rating plan for new and renewal policies effective on and after September 1, 2005 shall be calculated by applying the ratios of experience rating ELR to the average rate shown in the document attached to the Stipulation as Exhibit B, multiplied by the average rates by class produced by the stipulation.
4. In calculating the D-Ratios to be used in the experience rating plan for new and renewal policies effective on and after September 1, 2005, the WCRIB shall use the Partial D-Ratios shown in the document attached to the Stipulation as Exhibit C, and the loss elimination ratios shown in the document attached to the Stipulation as Exhibit D, but otherwise in the manner shown in Section X of the WCRIB filing.
5. The tables of expense ratios for retrospective rating shown in Section IX-D of the WCRIB filing shall be revised as shown in the document attached to the Stipulation as Exhibit E. The tax multiplier, expected loss ratios and loss conversion factors used for retrospective rating also shall be as shown in Exhibit E.
6. Exhibits A through E to the Stipulation revise, respectively, five exhibits in the WCRIB filing: 1) Exhibit A revises Section X, subsection I, Exhibit 1; 2) Exhibit B revises Section XI, subsection B Exhibit 1; 3) Exhibit C revises Section XI, subsection C, Exhibit 1, page 1; 4) Exhibit D revises Section XI, subsection B, Exhibit 2; and 5) Exhibit E (four pages) revises Section IX, subsection D, pages 1 through 4.
7. The revised rates, classifications, rating programs, rating plans, rating factors and rating values shall apply to new and renewal policies effective on and after September 1, 2005, including all policies in the Massachusetts Workers' Compensation Assigned Risk Pool.
8. Entry into this Stipulation is undertaken for the sole purpose of resolving this proceeding, and implies no approval by any party of any particular ratemaking methodology or projection; each party reserves the right to contest in future

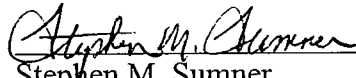
hearings all aspects of rate-setting, including those addressed in the Stipulation.

#### IV. Conclusion

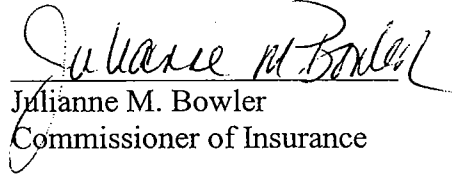
We find that the stipulation submitted by the parties will provide for classifications or premiums that can be approved as "not excessive, inadequate, or unfairly discriminatory for the risks to which they respectively apply, and fall within a range of reasonableness." We have therefore approved the stipulation this 19th day of May 2005.



Jean F. Farrington  
Presiding Officer



Stephen M. Sumner  
Presiding Officer



Julianne M. Bowler  
Commissioner of Insurance

**COMMONWEALTH OF MASSACHUSETTS**

**DIVISION OF INSURANCE**

**Docket No. R2005-06**

*In re:*

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	)
<b>APPLICATION OF THE WORKERS'</b>	)
<b>COMPENSATION RATING AND INSPECTION</b>	)
<b>BUREAU OF MASSACHUSETTS FOR APPROVAL</b>	)
<b>OF A GENERAL RATE REVISION TO BE</b>	)
<b>EFFECTIVE ON AND AFTER SEPTEMBER 1, 2005</b>	)
	)

**STIPULATION WITH RESPECT TO RATES,  
CLASSIFICATIONS AND RATING PLANS FOR 2005**

In order to avoid further hearings, delay, and uncertainty for insureds and insurers, and to permit orderly implementation of new workers' compensation insurance rates effective on and after September 1, 2005, but without in any way admitting or agreeing to any substantive position taken by any other party, the Workers' Compensation Rating and Inspection Bureau of Massachusetts ("WCRB"), the Office of the Attorney General ("AG") and the State Rating Bureau ("SRB") stipulate as follows, with respect only to the pending filing by the WCRB for a general revision of rates:

1. No party will object to or appeal from approval by the Commissioner of Insurance ("Commissioner") of the WCRB's general rate filing dated March 1, 2005 (the "WCRB Filing"), subject to the condition that the overall average change in the existing workers' compensation average rates, to be effective on and after September 1, 2005, shall be a reduction of 3.0% (rather than an increase of 1.0%), and subject to the other conditions set forth in this Stipulation.

a. In calculating the average rates, the WCRB shall "cap" the rate level change for each rating classification on a revenue neutral basis and as shown in the revision of

Section X-I, Exhibit 1 attached to this Stipulation as Exhibit A, but otherwise in the manner shown in Section X of the WCRB Filing.

b. The Expected Loss Rates to be used in the Experience Rating Plan for new and renewal policies effective on and after September 1, 2005 shall be calculated by applying the Ratios of Experience Rating ELR to Average Rate shown in the revision of Section XI-B, Exhibit 1 attached to this Stipulation as Exhibit B, multiplied by the average rates by class produced by this Stipulation.

c. In calculating the D-Ratios to be used in the Experience Rating Plan for new and renewal policies effective on and after September 1, 2005, the WCRB shall use the Partial D-Ratios shown in the revision of Section XI-C, Exhibit 1, page 1 attached to this Stipulation as Exhibit C and the Loss Elimination Ratios shown in the revision of Section XI-B, Exhibit 2 attached to this Stipulation as Exhibit D, but otherwise in the manner shown in Section X of the WCRB Filing.

d. The Tables of Expense Ratios for Retrospective Rating shown in Section IX-D of the WCRB Filing shall be revised as shown on Exhibit E attached to this Stipulation. The Tax Multiplier, Expected Loss Ratios and Loss Conversion Factors used for Retrospective Rating shall be as shown on Exhibit E attached to this Stipulation.

These revised rates, classifications, rating programs, rating plans, rating factors and rating values shall apply to new and renewal policies effective on and after September 1, 2005, including all such policies in the Massachusetts Workers' Compensation Assigned Risk Pool.


2. The WCRB, AG and SRB agree that this Stipulation will have no precedential value and will not be relevant in future hearings on any line of insurance and that they will not attempt to introduce it (or the decision adopting it) as evidence or to rely on it (or the decision

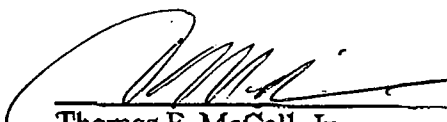



adopting it) for any purpose in future hearings, provided that the Stipulation may be considered in any future hearing with respect to the implementation of this Stipulation, but only on the issue of the implementation of this Stipulation. The WCRB, AG and SRB each acknowledge that this Stipulation does not imply approval or disapproval by either party of any particular ratemaking methodology or projection. Each party reserves the right to contest in future hearings all aspects of rate-setting resolved for present purposes only by this Stipulation.

3. Each party enters into this Stipulation upon the condition that it is approved by the Commissioner, in its entirety, on the record of this hearing no later than June 3, 2005. If the Commissioner does not approve this Stipulation in its entirety on or before June 3, 2005, this Stipulation shall be null and void and shall not be relied upon by any party, or by the Commissioner, for any purpose whatsoever.

4. If any person not a party to this Stipulation successfully challenges the Commissioner's approval of this Stipulation and the Commissioner's approval is suspended, set aside or otherwise rendered ineffective, this Stipulation shall be null and void and shall not be relied upon by any party, or by the Commissioner, for any purpose.

  
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For the WCRB

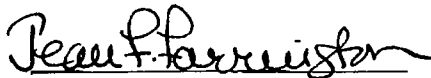
  
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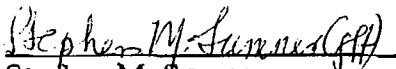
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Dated: May 18, 2005

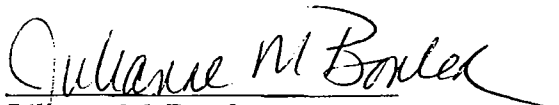
APPROVED:



Jean F. Farrington  
Hearing Officer



Stephen M. Sumner  
Hearing Officer



Julianne M. Bowler  
Commissioner of Insurance  
Division of Insurance

Dated: