March 7, 1990

CIRCULAR LETTER NO. 1531

To All Members and Subscribers of the Bureau:

Questions and Answers

All Risk Adjustment Program (ARAP) - Retrospective Rating

Supplementing Circular Letter Nos. 1518 dated January 3, 1990 and 1526 dated February 14, 1990, attached are Questions and Answers relative to how the All Risk Adjustment Program (ARAP), which became effective in Massachusetts on January 1, 1990, interacts with Retrospective Rating.

NORMAN R. FONTAINE
Vice President

NRF/jd

Attachment
Interaction of All Risk Adjustment Program with Retrospective Rating Questions and Answers

1. How is the Retrospective Rating Formula changed to recognize the All Risk Adjustment Program (ARAP)?

The Retrospective Rating Formula is changed as follows:

\[
\text{Retrospective Premium} = (\text{Basic Premium} + (\text{Standard Premium} \times \text{ARAP Adjustment Factor} \times \text{Excess Loss Premium Factor} \times \text{Loss Conversion Factor}) + \text{Losses} \times \text{Loss Conversion Factor}) \times \text{Tax Multiplier} + (\text{Standard Premium} \times \text{ARAP Adjustment Factor} \times \text{Retrospective Development Factor} \times \text{Loss Conversion Factor} \times \text{Tax Multiplier}), \text{subject to Minimum and Maximum Premiums.}
\]

In effect, when calculating a Retrospective Rating, the Standard Premium is modified by the ARAP Adjustment Factor at each step in the process, i.e. Multiply the Standard Premium x the ARAP Adjustment Factor when:

a. entering the Table of Expense Ratios
b. determining the Basic Premium
c. applying the Expense Ratio
d. entering the Table of Insurance Charges
e. determining the Minimum and Maximum Premiums
f. determining a Loss Limitation, etc.

2. Will the Retrospective Rating Manual rules be amended to reflect the All Risk Adjustment Program?

Yes.

The National Council on Compensation Insurance will issue appropriate Massachusetts State Pages shortly.

3. Will an endorsement(s) be developed amending present Retrospective Rating Endorsements to reflect the All Risk Adjustment Program?

Yes.

Another Circular Letter will be issued shortly containing such an endorsement(s).

All of the other information concerning the application of the All Risk Adjustment Program, contained in Circular Letter Nos. 1518 and 1526, applies when calculating a Retrospective Rating.