



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

101 ARCH STREET - 5TH FLOOR, BOSTON, MA 02110  
(617) 439-9030 FAX 439-6055

January 2, 1991

**CIRCULAR LETTER NO. 1556**

To All Members and Subscribers of the Bureau:

**MASSACHUSETTS CONSTRUCTION CLASSIFICATION PREMIUM ADJUSTMENT PROGRAM**

The Division of Insurance has approved the attached Massachusetts Construction Classification Premium Adjustment Program, to become effective 12:01 A.M., January 1, 1991 on new and renewal business only.

The program applies to employer's eligible for experience rating having exposure in any of the Massachusetts construction classifications enumerated in the attached schedule.

The program is designed to vary an employer's workers' compensation premium by way of a premium credit based upon the employer's average wage level. The program will provide a premium credit to those eligible construction employers paying in excess of \$18.00 per hour on average per construction employee. The Average Hourly Wage schedule contained in this circular letter will be reviewed on a regular basis and adjusted as appropriate for the increase in the State Average Weekly Wage.

The program provides for premium credits only with no surcharges. Therefore, in order to introduce this program on a revenue neutral basis, changes in the manual rates are required for all the applicable classifications in order to offset the premium credits. The rates for these construction classifications, contained in Bureau Circular Letter No. 1555 dated January 2, 1991, include the effect of the offsets resulting from these credits.

The procedure to be followed when applying for a credit and the method used by the Bureau for calculating the credit are shown in Item 1., 2., and 3. of the Filing Memorandum attached.

Item 4. indicates that in those cases where the carrier receives the policy credit factor after the insured's policy has been issued, the policy shall be endorsed by use of Massachusetts Construction Classification Premium Adjustment Endorsement WC 20 04 03.

Item 5. states that total expected losses used in the calculation of the insured's experience modification will be decreased by the policy credit factor.

January 2, 1991

Insert 1317 Experience Rating and Construction Classification Premium Adjustment Program explains why this is necessary to maintain the balance of the experience rating plan.

Item 6. indicates how the policy credit factor is to be applied to the premium determination process.

Item 7. describes the audit, verification and revision process relating to the policy credit factor.

Item 8. contains unit statistical reporting information. A corresponding change in the Massachusetts Unit Statistical Plan is being filed under separate cover.

The National Council on Compensation Insurance will distribute manual pages reflecting the changes required in the Basic Manual and in the Experience Rating Plan Manual.

NORMAN R. FONTAINE  
Vice President

NRF/jd

Attachment

## MASSACHUSETTS CONSTRUCTION CLASSIFICATION PREMIUM ADJUSTMENT PROGRAM

The above program is effective 12:01 A.M., January 1, 1991 and thereafter. The program applies to employers eligible for experience rating having exposure in any of the enumerated construction classifications in Massachusetts.

The Massachusetts Construction Classification Premium Adjustment Program is designed to vary an employer's workers' compensation premium by way of a premium credit based upon the employer's average wage level. While the initial determination of any applicable credit is computed on a class-by-class basis, the credit (if any) will be applied to the employer's entire Massachusetts standard premium in order to facilitate the carrier's application of the credit. The program will provide a premium credit to those eligible construction employers paying in excess of \$18.00 per hour on average per construction employee.

The program does not provide for any premium debits. Therefore, rate changes are required for all the applicable classifications in order to offset the premium credits.

The program (see Massachusetts Basic Manual - Special Rule, EXHIBIT 1) shall be administered as follows:

1. Each carrier shall issue a letter, with Application on reverse side, having standardized text (EXHIBIT 2), to any insured having a policy containing one or more of the applicable classifications. One letter must be issued for each qualifying policy. This letter (which must be printed by each individual carrier) should be sent to the insured prior to policy issuance or within sixty (60) days after effective date. The carrier must maintain proof of mailing in its files and make such proof available to the Massachusetts Division of Insurance on request.
2. The insured shall complete the required information and mail the completed form to:

The Workers' Compensation Rating and Inspection  
Bureau of Massachusetts  
P.O. Box 9005  
Boston, MA 02205  
Attention: Underwriting Department

3. The Workers' Compensation Rating and Inspection Bureau of Massachusetts will compute the insured's average hourly wage for each classification, the applicable classification premium credit, and the overall policy credit factor. These calculations will be displayed on a Policy Credit Work Sheet (EXHIBIT 3). A copy of this Work Sheet will then be mailed to the carrier.

4. The carrier shall use this policy credit factor in the calculation of the insured's estimated premium at policy issuance. In those cases where the carrier receives the policy credit factor after the insured's policy has been issued, the policy shall be so endorsed by use of Massachusetts Construction Classification Premium Adjustment Endorsement WC 20 04 03 (EXHIBIT 4).
5. Total expected losses used in the calculation of the insured's experience modification will be decreased by the policy credit factor.
6. The policy credit factor is to be applied to the premium determination process directly after the application of experience modification and prior to any deviation and premium discount. This policy credit factor, if available upon policy issuance, must be displayed on the Information Page of the policy (EXHIBIT 5). If the factor is not available upon policy issuance, the required endorsement must be attached to the policy.
7. Upon audit, the carrier shall use the same policy credit factor in the calculation of the insured's final earned premium. Additionally, the carrier shall verify the data originally provided by the insured for the computation of the policy credit factor by reviewing those records upon which the insured's data was originally based. If this process uncovers any errors, revised payroll and/or hours worked, data must be submitted to The Workers' Compensation Rating and Inspection Bureau of Massachusetts. The revised data will be used to calculate a revised policy credit factor.
8. The earned premium dollar modification amount due to the application of the policy credit factor must be reported on unit statistical reports under Classification Code 9046. This amount must be reported on lines D, E, F or G since it is not subject to experience modification (EXHIBIT 6).

Please carefully review the above, including attached EXHIBITS, with your underwriting, auditing and statistical personnel.

**MASSACHUSETTS BASIC MANUAL - SPECIAL RULE**  
**MASSACHUSETTS CONSTRUCTION CLASSIFICATION PREMIUM ADJUSTMENT PROGRAM**

The Massachusetts Construction Classification Premium Adjustment Program provides for a premium credit for a qualifying policy which contains one or more construction classifications. Only policies subject to experience rating are eligible for the program.

The basis for determining the credit is the total payroll (excluding overtime premium pay) and hours worked for each construction classification for the third calendar quarter of the year preceding the policy inception date as reported to taxing authorities. If the insured did not engage in operations for the complete quarter, then the last complete quarter prior to the policy year inception shall be used, or if there was no complete quarter of operations prior to the policy inception then the first complete quarter after the policy inception shall be used. A credit may be determined for each construction classification by dividing the total payroll, excluding overtime premium pay, by the number of hours worked to arrive at the average hourly wage for the classification. In the absence of specific records for salaried employees, it will be assumed each such individual worked forty (40) hours per week. The credit for average hourly wage is listed below:

<u>Average Hourly Wage</u>	<u>Credit From Manual Premium</u>
\$17.99 or less	0%
\$18.00 - \$18.50	5%
\$18.51 - \$19.00	6%
\$19.01 - \$19.50	7%
\$19.51 - \$20.00	8%
\$20.01 - \$20.50	9%
\$20.51 - \$21.00	10%
\$21.01 - \$21.50	11%
\$21.51 - \$22.00	12%
\$22.01 - \$22.50	13%
\$22.51 - \$23.00	14%
\$23.01 - \$23.50	15%

<u>Average Hourly Wage</u>	<u>Credit From Manual Premium</u>
\$23.51 - \$24.00	16%
\$24.01 - \$24.50	17%
\$24.51 - \$25.00	18%
\$25.01 - \$25.50	19%
\$25.51 - \$26.00	20%
\$26.01 - \$26.50	21%
\$26.51 - \$27.00	22%
\$27.01 - \$27.50	23%
\$27.51 - \$28.00	24%
\$28.01 and over	25%

The total construction classification credit amount, in dollars, must be calculated and then divided by the total policy premium at manual rates - including construction and non-construction classifications. The result would be the percentage credit which is to be applied to the qualifying policy. When calculating the total policy credit, the percentage shall be rounded to two decimal places. (As an example, .1547 rounded to .15 and .1551 rounded to .16.)

The insured shall submit the required payroll and hours worked information to The Workers' Compensation Rating and Inspection Bureau of Massachusetts for calculation of any applicable credit. The carrier shall, upon audit, verify the information that was submitted by the insured and used in the calculation of the credit. If the carrier discovers an error in the original request for policy credit, the revised information must be submitted to The Workers' Compensation Rating and Inspection Bureau of Massachusetts for recalculation. If the insured does not furnish records to verify the payrolls and hours worked originally submitted and used in the calculation of the credit there shall be no credit applied to the policy.

The credit authorized by The Workers' Compensation Rating and Inspection Bureau of Massachusetts, shall appear on Item 4. of the Information Page of the policy. If the credit is not available at the time of policy issuance, the carrier shall endorse the policy to provide this credit information.

Carriers are required to use the approval form to notify all of their insureds, who have one or more construction classifications on their policy, that they may be eligible for a premium modification credit.

"Construction classifications" are those classifications subject to the following code numbers:

3365	5102	5223	5480	5645	6233	8227
3724	5146	5348	5506	5651	6251	9014
3726	5160	5402	5507	5701	6252	9529
5020	5183	5403	5508	5703	6306	9534
5022	5188	5437	5509	5705	6319	
5037	5190	5443	5538	6003	6325	
5040	5213	5445	5545	6005	6400	
5057	5215	5462	5547	6204	7538	
5059	5221	5474	5606	6217	7601	
5069	5222	5479	5610	6229	7855	

(Name of Insured)  
 (Address)  
 (Town/City, State, Zip Code)

**MASSACHUSETTS CONSTRUCTION CLASSIFICATION PREMIUM ADJUSTMENT PROGRAM**  
**WORKERS' COMPENSATION PREMIUM CREDIT APPLICATION FOR 1991**

The Massachusetts Construction Classification Premium Adjustment Program has been proposed for employers engaged in construction operations and is applicable to policies eligible for experience rating with effective dates on or after January 1, 1991.

A special premium calculation, which may result in a premium credit for you, will be based on average hourly pay rates for each classification of construction operations. In order that your premium may be correctly established, please return the completed premium credit application, as shown on the reverse side of this letter to:

The Workers' Compensation Rating and Inspection  
 Bureau of Massachusetts  
 P.O. Box 9005  
 Boston, MA 02205  
 Attention: Underwriting Department

They will advise us of any premium credit applicable.

If they do not receive this application, your 1991 premium calculation will not reflect any possible premium credit.

For each applicable classification (both construction and non-construction) covering your company's operations in the state of Massachusetts, report the total Massachusetts payroll (excluding overtime premium pay) and the corresponding total number of hours worked for the third calendar quarter (July, August, September) of 1990 as reported to taxing authorities.

Note #1: If you did not engage in construction operations during the third quarter of 1990, the requested information to be provided should then be for the last complete calendar quarter prior to the effective date of your workers' compensation policy.

Note #2: If you are a new business (no prior operations), submit the requested information for the first complete calendar quarter following the effective date of your workers' compensation policy when available.

Note #3: In the absence of specific records for salaried employers, you should assume that each individual worked forty (40) hours per week.

Please preserve your payroll records which formed the basis for this declaration as we will be required to verify the reported information in order for any premium credit to be applied.

Thank you for your cooperation.

Sincerely,

Turn Page Over For Premium Credit Application



WORKERS' COMPENSATION  
MASSACHUSETTS CONSTRUCTION CLASSIFICATION PREMIUM ADJUSTMENT PROGRAM  
APPLICATION

INSURED Sample Construction Co., Inc.

FEDERAL EMPLOYERS ID NO. \_\_\_\_\_

ADDRESS \_\_\_\_\_

CITY \_\_\_\_\_ STATE \_\_\_\_\_ ZIP \_\_\_\_\_

POLICY NO. WC12345 EFFECTIVE DATE 2/1/91 ISSUING OFFICE Boston

NOTICE: Unless Code(s), total wages paid, total hours worked, calendar quarter reported are indicated and application is signed, it cannot be processed. Contact your agent if assistance is desired.

CLASSIFICATION(S)	CODE	TOTAL MASSACHUSETTS WAGES PAID*	TOTAL HOURS WORKED
Concrete Construction	5213	\$46,176	2080
Carpentry	5403	32,339	1560
Excavation	6217	23,639	1040
Contractors Yard	8227	16,640	1040
Executive Supervisor	5606	13,000	520
Salesmen	8742	45,000	1560
Clerical	8810	19,500	2600

\* EXCLUDING OVERTIME PREMIUM PAY.

The foregoing is based on actual wages and hours worked, as reflected in our payroll records, for the complete calendar quarter ending 9/30/90.

SIGNATURE \_\_\_\_\_ POSITION \_\_\_\_\_ DATE \_\_\_\_\_

MASSACHUSETTS CONSTRUCTION CLASSIFICATION PREMIUM ADJUSTMENT PROGRAM  
POLICY CREDIT WORKSHEET

CARRIER: \_\_\_\_\_

INSURED: Sample Construction Co., Inc.

POLICY NUMBER: WC 12345 PERIOD: FROM 2/1/91 TO 2/1/92

NON-CONSTRUCTION CLASSIFICATIONS:

(1)	(2)	(3)	(4)	(5)	(6)	(7)
CLASS CODE	PAYROLL	MANUAL RATE	MANUAL PREMIUM [(2) + 100] X 3	AVERAGE HOURLY WAGE	CREDIT PERCENTAGE	CREDIT DOLLAR AMOUNT (4) X (6)
8742	45000	.75	338	XXX	XXX	XXX
8810	19500	.37	72	XXX	XXX	XXX
				XXX	XXX	XXX
				XXX	XXX	XXX
				XXX	XXX	XXX

CONSTRUCTION CLASSIFICATIONS:

5213	46176	38.80	17,916	22.20	13	2,329
5403	32339	38.79	12,544	20.73	10	1,254
6217	23639	11.21	2,650	22.73	14	371
8227	16640	8.46	1,408	16.00	-	-
5606	13000	7.17	932	25.00	18	168
TOTAL MANUAL PREMIUM (All Classifications)			35,860	TOTAL CREDIT		4,122

(4,122 + 35,860) TOTAL CREDIT + TOTAL MANUAL PREMIUM = POLICY CREDIT

0.11

Prepared By: \_\_\_\_\_

(1.00 - .11) 1.00 - POLICY CREDIT = POLICY CREDIT FACTOR

0.89

WORKERS COMPENSATION AND EMPLOYERS LIABILITY INSURANCE POLICY

WC 20 04 03

Original Printing

Effective January 1, 1991

Standard

---

**MASSACHUSETTS CONSTRUCTION CLASSIFICATION PREMIUM ADJUSTMENT ENDORSEMENT**

The premium for the policy may be adjusted by a Massachusetts Construction Classification Premium Adjustment factor. The factor was not available when the policy was issued. If you qualify, we will issue an endorsement to show the premium adjustment factor after it is calculated.

**Notes:**

1. Attach this endorsement to a policy showing Massachusetts in Item 3.A. of the Information Page when an insured's credit adjustment factor is not available when the policy is issued.
2. An appropriate typewritten entry may be made in Item 4. of the Information Page instead of using this endorsement.

**SAMPLE PREMIUM CALCULATION**

**MASSACHUSETTS CONSTRUCTION CLASSIFICATION PREMIUM ADJUSTMENT PROGRAM**

LOCATIONS, CLASSIFICATION AND PAYROLL IN MASSACHUSETTS  
 Calculation of Estimated Annual Premium:

Describe by location the duties of employees	Class Code	Number of Employees	Total Payroll	Rate	Premium
Concrete Construction	5213	4	150,072	38.80	58,228
Carpentry NOC	5403	3	105,102	38.79	40,769
Excavation	6217	2	76,827	11.21	8,612
Contractors Yard	8227	2	54,080	8.46	4,575
Executive Supervisor	5606	1	52,000	7.17	3,728
Clerical Office Employees NOC	8810	5	78,000	0.37	289
Salesperson, Collectors or Messengers - Outside Drivers, NOC	8742	3	180,000	0.75	1,350
Employers Liability / /	7380				
Total Premium					117,551
Experience Modification (1.11)					12,931
[1] <u>MASSACHUSETTS CONSTRUCTION CLASSIFICATION PREMIUM ADJUSTMENT POLICY CREDIT (11%)</u>					-14,353
Standard Premium					116,129
ARAP Adjustment (1.14)					16,258
(116,129 X .107) [2] Less Premium Discount (if applicable)					12,426
Expense Constant					160
(116,129 + 16,258 - 12,426 + 160) Total Estimated Annual Premium					120,121
(116,129 X 1.9%) Mass. D.I.A. Assessment (1.9%) of Standard Premium					2,206
(120,121 + 2,206) Total of Estimated Annual Premium and Mass. D.I.A. Assessment					122,327

- As issued by this Bureau.
- In this example, the Stock Discount (Table 7) was used. Those carriers using the Non-Stock System of Expenses would use Table 8.
- The Mass. D.I.A. Assessment is based on Standard Premium.

**STATISTICAL REPORTING**

1. The earned premium dollar adjustment amount due to the application of the policy credit factor must be reported on unit statistical reports under Classification Code 9046. This amount must be reported on lines D, E, F or G since it is not subject to experience modification.

Experience Rating and Construction Classification  
Premium Adjustment Program

Those classifications to which this program applies will have the manual rate raised above the otherwise indicated average rate so as to provide money with which to pay the discounts. Some insureds in these classes will pay the manual rate with no discount while others will get discounts. Thus the starting points prior to experience rating differ for these risks.

In order to maintain the balance of the experience rating plan the expected losses which enter into the calculation of experience modifications have to reflect these different starting points. The Expected Loss Rate (ELR)<sup>1</sup> in the manual would correspond to the manual rate. Thus expected losses derived from this ELR are the losses we expect for a risk getting no discount from the manual rate. These risks have higher than average expected losses for the class. For risks getting a discount, the expected losses are lower by the amount of the discount. These risks have lower than average expected losses for the class. The ELR times payroll would produce expected losses too high for these risks.

Therefore, the expected losses derived by summing the product of ELR's and payrolls for individual classes will be multiplied by the discount applied to the policy. This will provide an appropriate starting place for comparison with actual losses in the calculation of the experience modification.

The effect will be that large risks who receive discounts will find that their experience modification will be somewhat higher. This makes sense since, to the extent a risk's own losses enter into setting its rate via experience rating, discount is redundant. A risk will always be better off in total getting the discount; the change in experience modification will only partially offset the effect of the discount. Similarly, a risk getting no discount will find its higher manual rate only partially offset by a decrease in its experience modification.

---

<sup>1</sup>Expected Losses = ELR x Payroll