



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

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February 3, 1993

CIRCULAR LETTER NO. 1624

To All Members and Subscribers of the Bureau:

**MASSACHUSETTS BENEFITS DEDUCTIBLE PROGRAM
EFFECTIVE JANUARY 1, 1993**

The Commissioner of Insurance has approved Massachusetts Benefits Deductible Program in compliance with Chapter 398 Of the Acts of 1991, amending Section 25A of Chapter 152 Massachusetts Workers' Compensation Law, which became effective December 23, 1991, and contained in Regulation 211.00.

The following Rule of Application will apply. This Program is applicable to new and renewal policies effective on and after 12:01 A.M., January 1, 1993, provided the insured has exercised the option to elect a medical and indemnity deductible prior to such date, otherwise at the next renewal of such policy. Upon agreement of the insurer and insured, policies effective 12:01 A.M., January 1, 1993 through 12:01 A.M., May 1, 1993, already issued, and policies with effective dates prior to 12:01 A.M., January 1, 1993, and outstanding on that date, may be renegotiated so as to include a deductible provision on a prorata basis.

This Program is intended for insureds who, while not qualified as self-insurers, nevertheless have the financial ability to handle some losses they incur. This Program will allow these insureds to establish an amount of loss they can absorb and purchase insurance only for losses above that predetermined deductible amount.

This Program will be made available to applicants to the Massachusetts Workers' Compensation Assigned Risk Pool, and by insurers to insureds with workers' compensation policies which provide coverage in Massachusetts, and will apply to medical and indemnity benefits payable under law. The Program is not available for insureds with retrospectively rated policies.

Insurers should send LETTER TO POLICYHOLDER, EXHIBIT A, to policyholders with policies effective on and after January 1, 1993 in conjunction with renewal

documents, and also to policyholders with policies effective January 1, 1993 through May 1, 1993, already issued, and to policyholders with policies with effective dates prior to January 1, 1993 and outstanding on that date.

Medical and indemnity deductibles of \$500, \$1,000, \$2,000, and \$2,500 shall be offered to every employer. In addition, an insurer, or the Pool, at its option, may offer to any employer providing collateral deemed adequate by such insurer, a medical and indemnity benefits deductible of \$5,000. The deductible shall apply separately to each claim for bodily injury by accident or disease. The insurer shall pay all benefits required under the provisions of M.G.L.c.152 directly to the appropriate party. Subsequent to insurer payment of any amount which falls within the deductible limit on any claim, the insurer may seek reimbursement from the policyholder. Failure to make complete reimbursement for deductibles within thirty days of receipt of a bill from the insurer shall constitute non-payment of premium and be grounds for termination of the policy.

Coverage under this Program is to be effected by the attachment of the MASSACHUSETTS BENEFITS DEDUCTIBLE ENDORSEMENT WC 20 06 02, EXHIBIT B, to the Standard Workers Compensation and Employers Liability Insurance Policy.

The entire cost of all claims relative to a particular insured shall be included in the experience data used to determine the experience modification of that insured regardless of the requirement that reimbursement must be made for the deductible amount of any claim. In order to maintain integrity in Experience and Ratemaking data bases, losses for which the deductible applies shall be reported on a gross basis prior to application of the deductible amount. This methodology applies for the reporting of data via the Workers Compensation Statistical Plan, Detailed Claim Information, and the Aggregate Financial Call reporting.

The premium credit amount under this Program shall be reported under the appropriate statistical codes according to the deductible amount selected by the insured. We will advise you of these codes shortly. The credit amount is not subject to Experience Rating and shall be reported on lines D-G on the Unit Statistical Report.

EXHIBIT C contains MASSACHUSETTS SPECIAL RULES which apply to this Program.

EXHIBIT D lists the Medical and Indemnity Deductible Amounts and corresponding Premium Reduction Percentages which will be shown on the MISCELLANEOUS VALUES page of the Basic Manual.

EXHIBIT E is a SAMPLE PREMIUM CALCULATION reflecting a \$2,500 Medical and Indemnity Deductible Amount and 7.1% Deductible Credit.

The attached manual pages will be distributed by the National Council in due course.

NORMAN R. FONTAINE

Vice President of Industry Affairs

LETTER TO POLICYHOLDER

MASSACHUSETTS BENEFITS DEDUCTIBLE PROGRAM

Dear Policyholder:

Chapter 398 of the Acts of 1991, amending Section 25A of Chapter 152 Massachusetts Workers Compensation Law, which became law on December 23, 1991, and which was implemented by Regulation 211 CMR 113.00, requires the Massachusetts Workers' Compensation Assigned Risk Pool and insurers to offer to insureds with workers' compensation policies, which provide coverage in Massachusetts, medical and indemnity benefits deductibles. In accordance with this statute, the Division of Insurance has approved the Massachusetts Benefits Deductible Program.

This Program is intended for insureds who have the financial ability to handle some losses they incur. This Program will allow these insureds to establish an amount of loss they can absorb and purchase insurance only for losses above that predetermined deductible amount. The Program is not available for insureds with retrospectively rated policies.

Medical and indemnity deductibles of \$500, \$1000, \$2000 and \$2500 shall be offered to every employer. In addition, an insurer or the Pool, at its option, may offer to any employer providing collateral deemed adequate by such insurer, a medical and indemnity benefits deductible of \$5000.

The deductible shall apply separately to each claim for bodily injury by accident or disease. The insurer shall pay all benefits required under the provisions of M.G.L. c.152 directly to the appropriate party. Subsequent to insurer payment of any amount which falls within the deductible limit on any claim, the insurer may seek reimbursement from the policyholder. Failure to make complete reimbursement for deductibles within thirty days of receipt of bill from the insurer shall constitute non-payment of premium and be grounds for termination of the policy.

If you wish to elect a medical and indemnity deductible, and

- 1) your policy is being renewed effective on or after January 1, 1993, you must make your election before the effective date of your policy, otherwise at the next renewal of your policy, or
- 2) your policy is effective January 1, 1993 through May 1, 1993, and has already been issued; or your policy is effective prior to January 1, 1993, and is in effect on that date, upon agreement of your insurance company and you, your policy may be renegotiated so as to include a deductible provision on a pro rata basis.

Please contact your agent or insurance company representative promptly for additional information.

MASSACHUSETTS BENEFITS DEDUCTIBLE ENDORSEMENT

This endorsement applies only to the insurance provided by Part One [Workers' Compensation Insurance] because Massachusetts is listed in Item 3.A. of the Information Page.

1. Part One [Workers' Compensation Insurance] applies only to benefits in excess of the deductible amount shown in the Schedule below.
2. This deductible applies separately to each claim for bodily injury by accident or disease.
3. We will pay the deductible amount for you, but you must reimburse us within 30 days after we send you notice that payment is due. If you fail to fully reimburse us, we may cancel the policy as provided in Part Six-Conditions Section D. Cancellation of the policy. We may keep the amount of unearned premium that will reimburse us for the payments we made. These rights are in addition to other rights we have to be reimbursed.
4. You agree that any claim and its cost shall be included in experience data used to determine experience modifications for your policy; regardless of the requirement that such claim be fully reimbursed by you to us under the deductible provisions of this policy.

SCHEDULE

Medical and Indemnity
Deductible Amount
Each Claim

Premium Reduction Percentage

SPECIAL RULES

RULE IX-SPECIAL CONDITIONS OR OPERATIONS AFFECTING COVERAGE AND PREMIUM

Add:

MASSACHUSETTS BENEFITS DEDUCTIBLE PROGRAM

This Program is intended for insureds who, while not qualified as self-insureds, nevertheless have the financial ability to handle some losses they incur. This Program will allow these insureds to establish an amount of loss they can absorb and purchase insurance only for losses above that predetermined deductible amount. This Program is not available for insureds with retrospectively rated policies.

Medical and indemnity deductibles of \$500, \$1000, \$2000, and \$2500 shall be made available by the Massachusetts Workers Compensation Assigned Risk Pool and insurers to every insured with a workers compensation policy which provides coverage in Massachusetts. In addition, an insurer or the Pool may offer to any employer providing collateral deemed adequate by such insurer, a medical and indemnity benefits deductible of \$5000. The deductible shall apply separately to each claim for bodily injury by accident or disease. The insurer shall pay all benefits required under the provisions of M.G.L.152 directly to the appropriate party. Subsequent to insurer payment of any amount which falls within the deductible limit on any claim, the insurer may seek reimbursement from the policyholder. Failure of the insured to make complete reimbursement for deductibles within thirty days of receipt of bill from the insurer shall constitute non-payment of premium and be grounds for termination of the policy.

The Medical and Indemnity Deductible Amounts and corresponding Premium Reduction Percentages are shown in the Miscellaneous Values section of the Massachusetts rate pages.

The premium reduction for deductible coverage is obtained by applying the appropriate premium reduction percentage to the premium determined before application of any experience or merit rating modification, and premium discount.

The premium credit amount under the Massachusetts Benefits Deductible Program shall be reported under the appropriate statistical codes according to the deductible amount selected by the insured. The credit amount is not subject to experience rating and shall be reported on lines D-G on the Unit Statistical Report.

In order to maintain integrity in Experience Rating and Ratemaking data bases, losses for which the deductible applies shall be reported on a gross basis prior to the application of the deductible amount. This methodology applies for the reporting of data via the Workers' Compensation Statistical Plan, Detailed Claim Information, and the Aggregate Financial Call reporting.

Coverage under this Program is to be effected by the attachment of the Massachusetts Benefits Deductible Endorsement WC 20 06 02 to the Standard Workers' Compensation and Employers Policy.

Effective January 1, 1993

MISCELLANEOUS VALUES

Add:

MASSACHUSETTS BENEFITS DEDUCTIBLE COVERAGE PROGRAM

<u>Medical and Indemnity Deductible Amount</u>	<u>Premium Reduction Percentage</u>
\$ 500	3.0%
\$1,000	4.2%
\$2,000	6.2%
\$2,500	7.1%
\$5,000	10.6%

SAMPLE PREMIUM CALCULATION
MASSACHUSETTS BENEFITS DEDUCTIBLE COVERAGE 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	141,255	41.22	58,225
Carpentry NOC	5403	3	98,925	41.21	40,767
Excavation	6217	2	72,310	11.91	8,612
Contractors Yard	8227	2	50,900	8.99	4,576
Executive Supervisor	5606	1	48,945	7.62	3,730
Clerical Office Employees NOC	8810	5	73,415	0.39	286
Salesperson, Collectors or Messengers - Outside	8742	3	169,420	0.80	1,355
Drivers, NOC	7380				
Employers Liability / /					
Total Premium					117,551
Experience Modification (1.11)					12,931
Standard Premium					130,482
[1] DEDUCTIBLE CREDIT (7.1%)					- 9,264
(130,482 - 9,264) x 0.14 ARAP Adjustment (1.14)					16,971
(130,482 X .107) [2] Less Premium Discount (if applicable)					-13,962
Expense Constant					160
(130,482 + 16,971 - 13,962 - 9264 + 160) Total Estimated Annual Premium					124,387
(130,482 X 2.6%) [3] Mass. D.I.A. Assessment (2.6%) of Standard Premium					3,393
(124,386 + 3,393) Total of Estimated Annual Premium and Mass. D.I.A. Assessment					127,780

1. Premium Reduction Percentage (7.1%) as shown on Miscellaneous Values Page for \$2,500 Medical and Indemnity Deductible Amount.
2. In this example, the Stock Discount (Table 7) was used. Those carriers using the Non-Stock System of Expenses would use Table 8.
3. The Mass. D.I.A. Assessment is based on Standard Premium.