



**THE WORKERS' COMPENSATION
RATING AND INSPECTION BUREAU OF MASSACHUSETTS**
101 ARCH STREET - 5TH FLOOR, BOSTON, MA 02110
(617) 439-9030 FAX 439-6055

September 10, 1993

CIRCULAR LETTER NO. 1652

To All Members and Subscribers of the Bureau:

**MASSACHUSETTS TAKE-OUT CREDIT PROGRAM
CALENDAR QUARTER CREDIT REPORT**

Since the inception of this Program on March 1, 1991, carriers taking risks out of the MA WC Assigned Risk Pool and writing them voluntarily have been required to report such risks, with Financial Call #1, to the National Council on Compensation Insurance [NCCI] by March 1 of the year following the take-out.

In order to make a determination relative to the rate stipulation effective January 1, 1993, on whether the Mandatory Direct Assignment of Assigned Risks provided for if Target One is not met on October 1, 1993, will go into effect, carriers should begin to report cumulated Take-Out Credit data to this Bureau quarterly. It is *very important* that data for the first two quarters of 1993, for the first three quarters of 1993, and for all four quarters of 1993 be sent to us *on time* according to the schedule shown below in order for companies to be credited properly and for the Target One requirements to be met. We will provide the NCCI with these reports on your behalf. Carriers will no longer be required to submit these Massachusetts Take-Out Credit Reporting forms to NCCI.

Reports should be sent to: **Sheila Scully, Statistical Dept.**

WCRIB of MA
101 Arch Street-5th Floor
Boston, MA 02110

The calendar quarterly data should be valued as of the end of that quarter.

Due to time constraints, carriers should report data as follows:

The first two quarters data for Calendar Year 1993 should be valued as of 6/30/93. **Due 10/15/93.**

The first three quarters data for Calendar Year 1993 should be valued as of 9/30/93. **Due 11/15/93.**

The annual data [four quarters data] for Calendar Year 1993 should be valued as of 12/31/93. **Due 3/1/94.**

All subsequent reportings should be submitted **no later than 60 days** following the end of the respective quarter.

Carriers should note that "all policy premiums reported in the Take-Out Program Report should be the premiums reported in the Annual Statement, Page 14."

Estimated Premium is equivalent to the net written premiums on the Page 14 of the carrier's Annual Statement; these should include the effect, if any, of Experience Rating, All Risk Adjustment Program (ARAP), premium discount, retrospective rating, Qualified Loss Management Credit, Construction Credit, etc.

REVISED REPORTING FORMS AND "ILLUSTRATIONS"

The STATE SUMMARY report form has been revised to show a breakdown of data by Policy Year and Year of Credit Program. The DETAILED REPORT form has also been revised to enable carriers to report data by policy year. This will allow the Bureau staff to identify the Take-Out Credit premium amounts by policy, and will clearly reflect any premium adjustments which occur from one year to the next.

The revised forms are used in illustrating "Take-Out Credit Reporting." CASE I attached demonstrates how Carrier A who does not use "deferred booking" for purposes of reporting written premiums on Page 14 would complete the State Summary Report (Exhibit 1, Page 1) and the Detailed Report (Exhibit 1, Page 2) for three risks taken out of the Pool under this Program. CASE II attached shows how Carrier B who does use "deferred booking" for purposes of reporting written premiums on Page 14 would complete these forms (Exhibit 2, Pages 1 and 2) for one risk taken out of the Pool.

Exhibit 3, Page 1 is a blank sample State Summary report; Exhibit 3, Page 2 is a blank sample detail report, for your use when submitting reports for Take-Out Credits.

**MASSACHUSETTS TAKE-OUT PROGRAM
QUESTIONS AND ANSWERS**

The following are Questions and Answers regarding the Program and responds to inquiries raised by carriers and other interested parties. Certain terms used in the revised take-out reporting forms are clarified.

- Q.1. What are the current take-out credits by premium level which became effective January 1, 1993, and what is the take-out credit status of risks taken out of the pool prior to January 1, 1993?
- A.1. For eligible policies with premium less than the experience rating threshold (currently \$5500), the take-out credit is 1.5 for each of three consecutive years. For policies with premium equal to or over the experience rating threshold, but less than \$150,000, the take-out credit is 1.0 for each of three consecutive years. For policies with premium over \$150,000, which were taken out on or after January 1, 1993, the take-out credit is as follows: First Year - .75; Second Year - .62 and Third Year - .50. For risks taken out of the Pool prior to January 1, 1993, the credits remain unchanged; the take-out credit is 1.0 for each of three consecutive years for policies with premium equal to or over the experience rating threshold.
- Q.2. What premiums are used to determine the credit tier, i.e., whether a 1 for 1 or less than 1 for 1 credit percentage applies?
- A.2. For each policy eligible for the Take-Out Program, estimated premium for that policy will be used to determine the preliminary tier for the credit when the audited and/or retro adjusted premiums are not available. When audited premiums for that policy become available they will be used; this may result in a change in credit tier. For retrospectively rated policies, as adjustments are made the retro-adjusted premiums will be used. This may result in a change in credit tier. How take-out credits should be reported when premiums for an individual policy fluctuate over and under \$150,000 from year to year will be the subject of a separate Circular letter to be released shortly.
- Q.3. What premiums are used to determine the credit amounts?
- A.3. The credit amount for a policy is the calendar year written premium for that policy reported on Page 14 multiplied by the credit percentage. Policy premiums may be reported in several calendar years due to audit, retro adjustments, or deferred booking.
- Q.4. How long will the credits be applied?

- A.4. Up to 36 months from the policy effective date of when the risk was taken out of the Pool. If the final policy subject to take out credit program would extend beyond the 36 months period, the credit amount shall be determined on a pro-rata basis. For example, if an insured is taken out of the Pool and written on a 4 month policy, followed by three annual policies, the fourth policy would extend from month 28 to month 40. Thus only 8 months out of 12 are in the 36 months take-out credit period. Therefore, this fourth policy would get $8/12 = 2/3$ of the take-out credit for which it would otherwise be eligible.
- Q.5. What makes a policy eligible for a take-out credit ?
- A.5. For full details see Circular Letters 1562 and 1564. Generally, any Carrier group other than the last voluntary Carrier for the policy being removed from the Pool, may be eligible for a credit for removing the policy from the Pool. The last Voluntary Carrier has to wait for this policy to stay in the Pool at least 12 months to be eligible for the credit for removing that policy from the Pool. Any carrier will not receive a credit for any take-out policy returned to the Pool within one policy year.
- Q.6. If a policy is taken out of the Pool but returns to the Pool in less than one year, then it is not eligible for a Take-Out Credit. How should this situation be reported?
- A.6. If this takes place within the same calendar year, and this Take-Out policy has been reported on a previous calendar quarter reporting form, the carrier should not show this policy in the current calendar quarter reporting form. (Attaching a note mentioning this would be helpful.) Otherwise, this policy should be reported with a minus (-) sign, since this policy is not eligible for the credit received last year. For example, a Take-Out policy effective 4/1/93, is reported on the form for the first two quarters of 1993. It then is cancelled on 10/15/93 and returned to the Pool. On the form for the four quarters of 1993, the carrier should not show this policy. If this same policy (effective 4/1/93) is cancelled on 2/1/94, the carrier should report 1993's entry with a minus (-) sign in premium for this policy on the reporting form for 1994's first quarter.
- Q.7. On the Take-Out Credit Reporting Form, what is meant by the Policy Effective Date for 1st year Take-Out ?
- A.7. It is the policy effective date for the policy for that employer that was newly removed from the Pool.
- Q.8. On the Take-Out Credit Reporting Form, what is meant by the Year of Credit Program?
- A.8. The Year of Credit Program should be determined as follows from the Policy Effective Date for 1st Year Take-Out and the Policy Expiration date:

Difference Between Policy Effective Date for the 1st Year Take-Out and Policy Expiration date	Year of Credit Program
12 months or less	1
Greater than 12 months, but not more than 24 months	2
Greater than 24 months, but not more than 36 months	3
More than 36 months	4

Note that a Year of Credit Program equal to 4 should only occur for a policy partially within the three year Take-Out Credit Program, as in the example in A.4.

Any other questions concerning this Program should be directed to me or to Howard Mahler, Vice President and Actuary.

NORMAN R. FONTAINE
Vice President of Industry Affairs

NF/404
Enclosures

MASSACHUSETTS TAKE-OUT CREDIT REPORTING

CASE I - Carrier A does not use "deferred booking" for purposes of reporting written premiums on page 14.¹

For illustrative purposes, assume Carrier A has written policies eligible for Take-Out credits for three insureds; X Painting Co., Y Health Care, and Z Tool, Inc.:-

1. X Painting Co. was taken out of the Pool effective 1/1/92 with an estimated premium of \$4,000. As of the first quarter of 1993, the audited premium on this policy is \$3,500, \$500 less than the original estimate. On 1/1/93 this policy is renewed with an estimated renewal premium of \$3,800.
2. Y Health Care was taken out of the Pool effective 3/1/92 with an estimated premium of \$140,000. As of the second quarter of 1993, the audited premium for this policy is \$150,000, \$10,000 more than the original estimate. On 3/1/93 this policy is renewed with an estimated renewal premium of \$160,000.
3. Z Tool, Inc. was newly taken out of the Pool effective 2/1/93 with an estimated premium of \$300,000.

The following is reported on the illustrated form for Carrier A for the first two quarters of Calendar Year 1993: (See Exhibit 1, Page 2.) For reporting premium adjustments on previous reported take-out policy, carriers should report the previous premium entry with a minus (-) sign in conjunction with a current new (audited) premium entry for that policy on this year's form. Also, estimated, audited, and renewal premiums shall be shown as policy year written premium in Page 2 of the Exhibit.

- X Painting Co.'s 1/1/92 policy had an estimated premium of \$4,000 and a corresponding credit of $1.5 \times \$4,000 = \$6,000$, which should have been reported on last year's Take-Out credit form. On this year's form, this previous year's entry is reported with a minus (-) sign, since we are reporting a new (audited) premium for this policy.
- X Painting Co.'s 1/1/92 policy had an audited premium of \$3,500 and a corresponding credit of $1.5 \times \$3,500 = \$5,250$. This is reported.
- X Painting Co.'s 1/1/93 policy had an estimated premium of \$3,800 and a corresponding credit of $1.5 \times \$3,800 = \$5,700$. This is reported.
- Y Health Care's 3/1/92 policy had an estimated premium of \$140,000, and a

¹Carrier A reports the full premium amount for policies with effective dates in that Calendar Year on Page 14.

corresponding credit of \$140,000, which should have been reported on last year's Take-Out credit form. On this year's form, this previous year's entry is reported with a minus (-) sign, since we are reporting a new (audited) premium for this policy.

- Y Health Care's 3/1/92 policy had an audited premium of \$150,000 and a corresponding credit of \$150,000. This is reported.
- Y Health Care's 3/1/93 policy had an estimated premium of \$160,000 and a corresponding credit of \$160,000. (Note: Since Y Health Care was taken out of the Pool by Carrier A prior to 1/1/93, Carrier A continues to get a 1 for 1 credit rather than the smaller credits applicable to large policies first taken out on or after 1/1/93.) This is reported.
- Z Tool Inc. 2/1/93 had an estimated premium of \$300,000 and a corresponding credit of $0.75 \times \$300,000 = \$225,000$. This is reported.

Exhibit 1, Page 2 summarizes Page 2 ny Policy Year and Year of Credit Program.

CASE II - Carrier B uses "deferred booking" for the purpose of reporting written premium on Page 14.²

Assume Carrier B has written a policy eligible for Take-Out credits for one insured, W Grocery:

W Grocery was taken out of the Pool effective 4/1/92 with an estimated premium of \$140,000. \$90,000 in written premium was reported at the end of 1992 on page 14. As of the second quarter of 1993, the audited premium on this policy effective 4/1/92 is \$120,000, \$20,000 less than its original estimate. On 4/1/93, this policy is renewed with an estimated renewal premium of \$200,000. \$50,000 in premium is booked as of the second quarter of 1993.

The following is reported on the illustrated form for the Carrier B for the first two quarters of 1993: (See Exhibit 2, Page 2.) For reporting premium adjustments on previous reported take-out policy, carriers should report previous premium entry with a minus (-) sign in conjunction with a current new (audited) premium entry for that policy on this year's form. Also, estimated, audited, and renewal premiums shall be shown as policy year written premium in Page 2 of the Exhibit.

- W Grocery's 4/1/92 policy had an estimated policy premium of \$140,000. This policy was reported with a written premium of \$90,000 and a corresponding credit of \$90,000 on last year's Take-Out report form. As of the second quarter of this year's form, this previous year's entry is reported with a minus (-) sign since we are reporting a new (audited) premium for this policy.

²Carrier B reports only a portion of the policy premium amount (for large policies) on Page 14 in that year in which the policy is written, and reports the rest of the premiums on Page 14 of the following year.

- W Grocery's 4/1/92 policy had an audited policy premium of \$120,000 and a corresponding credit of \$120,000. (The first two entries combined would be the net result shown for this policy on Carrier B's calendar year 1993 booking for page 14.) This is reported.
- W Grocery's 4/1/93 policy had an estimated premiums of \$200,000. \$50,000 in premium is booked as of the second quarter of 1993, with a corresponding credit of \$50,000. (Credit is still 1 for 1 since W Grocery was taken out of the Pool by Carrier B prior to 1/1/93.) This is reported.

Exhibit 2, Page 1 summarizes Page 2 by Policy Year and Year Credit Program.

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EXAMPLE
MASSACHUSETTS TAKE-OUT PROGRAM
STATE SUMMARY

CALENDAR YEAR 1993

First Quarter / / First Two Quarters / / First Three Quarters / / Four Quarters / /

CARRIER NAME: _____ A _____

CARRIER CODE: _____ 99999 _____

Policy Year	Total Policy Count	Year of Credit Program	Total Policy Year Written Premium Amount	Total Calendar Year Written Premium Amount	Total Credit Amount
1992	2	1	9,500	9,500	9,250
1992	2	2	163,800	163,800	165,700
1993	1	1	300,000	300,000	225,000
Total	5		473,300	473,300	399,950

Submitted By: _____

Title: _____

Date: _____

EXAMPLE
MASSACHUSETTS TAKE-OUT PROGRAM
CALENDAR YEAR 1993

First Quarter First Two Quarters First Three Quarters Four Quarters

CARRIER NAME: _____ A _____

CARRIER CODE: _____ 99999 _____

Insured's Name	Policy Number	Policy Eff Date for 1st Yr Take-Out	Policy Eff Date	Policy Expiration Date	Yr of Credit Program	Policy Year Written Premium	(1) Calendar Year Written Premium	(2) Credit Per \$ of Premium	(3)=(1)x(2) Credit
X Painting Co.	11111	1/1/92	1/1/92	12/31/92	1	-4,000	-4,000	1.50	-6,000
X Painting Co.	11111	1/1/92	1/1/92	12/31/92	1	3,500	3,500	1.50	5,250
X Painting Co	11111	1/1/92	1/1/93	12/31/92	2	3,800	3,800	1.50	5,700
Y Health Care	22222	3/1/92	3/1/92	2/28/93	1	-140,000	-140,000	1.00	-140,000
Y Health Care	11111	3/1/92	3/1/92	2/28/93	1	150,000	150,000	1.00	150,000
Y Health Care	22222	3/1/92	3/1/93	12/28/93	2	160,000	160,000	1.00	160,000
Z Tool Inc.	33333	2/1/93	2/1/93	1/31/94	1	300,000	300,000	0.75	225,000

EXAMPLE
MASSACHUSETTS TAKE-OUT PROGRAM
STATE SUMMARY

CALENDAR YEAR 1993

First Quarter First Two Quarters First Three Quarters Four Quarters

CARRIER NAME: _____ B _____

CARRIER CODE: _____ 00001 _____

Policy Year	Total Policy Count	Year of Credit Program	Total Policy Year Written Premium Amount	Total Calendar Year Written Premium Amount	Total Credit Amount
1992	1	1	-20,000	30,000	30,000
1993	1	2	200,000	50,000	50,000
Total	2		180,000	80,000	80,000

Submitted By: _____

Title: _____

Date: _____

EXAMPLE
MASSACHUSETTS TAKE-OUT PROGRAM
CALENDAR YEAR 1993

First Quarter First Two Quarters First Three Quarters Four Quarters

CARRIER NAME: B

CARRIER CODE: 00001

Insured's Name	Policy Number	Policy Eff Date for 1st Yr Take-Out	Policy Eff Date	Policy Expiration Date	Yr of Credit Program	Policy Year Written Premium	(1) Calendar Year Written Premium	(2) Credit Per \$ of Premium	(3)=(1)x(2) Credit
W Grocery	0001	4/1/92	4/1/92	3/31/93	1	-140,000	-90,000	1.00	-90,000
W Grocery	0001	4/1/92	4/1/92	3/31/93	1	120,000	120,000	1.00	120,000
W Grocery	0001	4/1/92	4/1/93	3/31/94	2	200,000	50,000	1.00	50,000

**MASSACHUSETTS TAKE-OUT PROGRAM
STATE SUMMARY**

CALENDAR YEAR _____

First Quarter / / *First Two Quarters* / *First Three Quarters* / *Four Quarters* / /

CARRIER NAME: _____

CARRIER CODE: _____

Policy Year	Total Policy Count	Year of Credit Program	Total Policy Year Written Premium Amount	Total Calendar Year Written Premium Amount	Total Credit Amount
Total					

Submitted By: _____

Title: _____

Date: _____

