



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

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

May 1, 1996

CIRCULAR LETTER NO. 1748

To All Members and Subscribers of the Bureau:

GENERAL REVISION OF RATES

**EFFECTIVE MAY 1, 1996
APPLICABLE TO NEW AND RENEWAL BUSINESS**

The Commissioner of Insurance has approved a general revision of workers' compensation rates, effective 12:01 A.M., May 1, 1996, applicable to new and renewal policies. The approval includes:

1. RATE LEVEL DECREASE OF 12.2%

An overall average decrease of 12.2% in the existing workers' compensation average rates. New rates will follow in a separate Circular Letter.

**2. OPTIONS FOR TREATMENT OF CURRENTLY APPROVED RATE
DEVIATIONS**

Insurers with currently approved rate deviations have important choices to make on a very tight schedule. As stated in paragraph 6 of the attached Stipulation:

"To permit the orderly implementation of the rates described in this stipulation and to avoid disruption in the market, insurers which have deviation filings approved to be effective on or before April 30, 1996, may, at their option, elect either, but not both, of the following options:

a) notify the SRB by letter, on or before May 15, 1996, that they will continue any such deviation through, but not beyond, June 30, 1996, or

b) make a new deviation filing, on or before June 30, 1996, which, if approved, shall be effective retroactive to May 1, 1996, or any other date after May 1, that the insurer selects.

The election of option (a) or (b) shall apply to all companies in a group of insurers. All deviation filings approved to be effective on or before April 30, 1996, shall not continue beyond April 30, 1996, unless the SRB has received notification on or before May 15, 1996, of an insurer's intent to continue its prior deviation, in which case such deviation shall continue through and only through June 30, 1996.

Any insurer which elects option (a) may also submit a filing, on or before June 30, 1996, for approval of a deviation to be effective on July 1, 1996.

Any insurer without a deviation filing approved to be effective on or before April 30, 1996, may make a deviation filing, on or before June 30, 1996, which, if approved, shall be effective retroactive to May 1, 1996, or any other date after May 1, that the insurer selects.

For new and renewal policies effective on and after May 1, 1996, insurers shall use the rates calculated in accordance with paragraphs (1) through (5) of this stipulation in applying any deviations approved in accordance with this paragraph 6."

3. EXPERIENCE RATING PLAN CHANGES

The Experience Rating Plan Expected Loss Rates and D-Ratios have been revised. The other Experience Rating Plan values remain the same. The State Per Claim Accident Limitation and the State Multiple Claim Accident Limitation remain unchanged.

4. EXPENSE CONSTANTS

The Expense Constants have been revised as shown in Exhibit D. The Expense Constant for most risks will increase from \$160 to \$190.

5. REVISED PREMIUM DISCOUNT PROGRAM

The Premium Discount Program has been revised effective May 1, 1996 with this filing as shown in Exhibit C. The revised Premium Discount Tables are the same ones

that the NCCI has proposed to be effective in its states with the first manual rate change effective after July 1, 1995. Insurers will have to elect either the new "Type A" or "Type B" Discount table and should inform the Bureau of this election by replying to another Circular Letter which we will issue soon.

6. **NO CHANGES IN THE FOLLOWING:**

- A. Retrospective Rating Plan Parameters
- B. Loss Constants
- C. Table of Specific Disease Elements
- D. Manual rates for the "F" Class, Admiralty Law and Federal Employers' Liability Act classifications
- E. All Risk Adjustment Program (ARAP)
- F. Take-Out Credit Program
- G. Qualified Loss Management Program (QLMP)

Attached is the Stipulation with respect to Rates, Classifications and Rating Plans for 1996.

Experience ratings, and ARAP factors, issued to be effective during May and June 1996 will be reissued using the new Expected Loss Rates and D-Ratios.

The new rates will be made available shortly. When the new rates, experience ratings, and ARAP factors are received, carriers should no longer attach Massachusetts Pending Premium Change Endorsement WC 20 04 01 to policies.

NORMAN R. FONTAINE
Vice President of Industry Affairs

HCM/dc 2847
Attachments



PRISCILLA H. DOUGLAS
SECRETARY, CONSUMER AFFAIRS

THE COMMONWEALTH OF MASSACHUSETTS
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LINDA RUTHARDT
COMMISSIONER, INSURANCE

**DECISION, FINDINGS AND ORDER CONCERNING THE FILING OF THE
WORKERS' COMPENSATION RATING AND INSPECTION BUREAU FOR
PROPOSED WORKERS' COMPENSATION INSURANCE RATES**

April 30, 1996

Docket No. R96-30

APPEARANCES

For the Workers' Compensation and Inspection Bureau of Massachusetts

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State Rating Bureau

Division of Insurance

470 Atlantic Avenue

Boston, Massachusetts 02210

On March 19, 1996, the Workers' Compensation Rating and Inspection Bureau of Massachusetts ("WCRB") filed with the Division of Insurance ("Division") a request for an average statewide decrease of seven percent in workers' compensation insurance premiums, to be effective July 1, 1996 ("WCRB filing" or "filing") (Exhibit 2). The WCRB is a rating organization licensed pursuant to General Laws c. 152, §52C. Its membership consists of approximately one hundred private insurance companies which provide workers' compensation insurance in Massachusetts. The last decision on general rates for workers' compensation insurance was effective January 1, 1995 and approved a stipulated statewide average rate decrease of 16.5 percent.

Pursuant to G. L. c. 152, §53A, the Commissioner of Insurance ("Commissioner") is required to conduct a hearing to determine whether the classifications and rates proposed are "not excessive, inadequate, unfairly discriminatory to the risks to which they respectively apply and that they fall within a range of reasonableness." By notice issued March 20, 1996, hearing on this rate filing was set for April 18, 1996 (Exhibit 1). On March 27, and April 18, 1996, the WCRB submitted revised pages to its filing (collectively, Exhibit 3).

A public hearing was held at the offices of the Division on April 18, 1996 to afford interested persons an opportunity to be heard on the WCRB's filing and to present testimony on workers' compensation rates. Commissioner Ruthardt, Susan G. Anderson, Esq. and Jean F. Farrington, Esq. presided. The SRB was represented by Stephen J. D'Amato, Esq., Craig T. Spratt, Esq. and John Lawlor, Esq. The WCRB was represented by Acheson H. Callaghan, Jr., Esq. and Scott P. Lewis, Esq. of the firm of Palmer and Dodge. James J. Campbell, Commissioner of the Department of Industrial Accidents, John Gould, President of the Associated Industries of Massachusetts, Matthew Chafe, Executive Director of the Massachusetts Workers Compensation Advisory Council, and Mr. D'Amato made statements at the public hearing. Mr. Gould filed a supplementary statement on April 19.

A prehearing conference took place on April 22, primarily for the purpose of scheduling future proceedings. Cross-examination of the WCRB's witnesses was scheduled to begin on May 8, 1996.

On April 30, 1996 the SRB and the WCRB advised the Commissioner that they had reached an agreement on the issues presented in this case and submitted a Stipulation with Respect to Rates, Classifications and Rating Plans for 1996 (the "Stipulation") for her approval. The Presiding Officers and the Commissioner held two teleconferences with the parties on that date, during which they reviewed the provisions of the Stipulation and marked as exhibits the documents submitted in this matter. Mr. Chafe participated in the second teleconference.

The Stipulation and exhibits A through D thereto, marked as Exhibit 4, are attached to, and incorporated into this decision. The Stipulation provides, first, that neither the WCRB nor the SRB will object to or appeal from the Commissioner's approval of the WCRB's filing, subject to the condition that the overall average decrease in the existing workers' compensation average rates, to be effective on and after May 1, 1996, shall be 12.2 percent, and subject to the other conditions set forth in the Stipulation. Further, it provides that the Commissioner's approval of the filing and the Stipulation shall itself effect no changes in the existing rates, classifications rating programs, rating plans, rating factors or rating values except as specifically set forth in this Stipulation.

The Stipulation further provides that in calculating the average rates, the WCRB shall "cap" the rate level change for each rating classification as shown in the revision of Section X-G, Exhibit 2 of the filing, a copy of which is attached to this Stipulation as Exhibit A. Otherwise, rate level changes for each rating calculation will be calculated in the manner shown in Section X-G of the filing. In addition, the Stipulation provides that the WCRB shall not make the proposed changes in grouping status for classifications in the Miscellaneous Industry Group described in Section X-A (pp. 1018-1025) of its filing.

The Stipulation also addressed offsets to be used in calculating the final manual rates. The WCRB shall use offsets for Merit Rating, the All Risk Adjustment Program, the increase in the Executive Officer's Payroll Cap and the Insolvency Fund, as shown in the WCRB Filing, and an offset, for eligible classes, of 0.98 for the Construction Classification Premium Adjustment, all in the manner shown in Section X-R of the filing. A revision of Exhibit 1 to Section X-R, reflecting this stipulation, is attached to the Stipulation as Exhibit B.

The parties agree, in the Stipulation, not to oppose or appeal from the Commissioner's approval of a filing, made by the WCRB on March 30, 1995, for a

Revised Premium Discount Program (Exhibit 5).¹ The proposed discount tables of that filing are attached to the Stipulation as Exhibit C. In addition, the WCRB's proposed Expense Constants shall be as shown in the table attached to the Stipulation as Exhibit D. Those revisions shall apply to new and renewal policies effective on and after May 1, 1996.

In addition, the Stipulation provides that the D-Ratios to be used in the Experience Rating Plan for new and renewal policies effective on and after May 1, 1996 shall be as shown on pages 1341 through 1350 of the WCRB filing. The Expected Loss Rates to be used in the Experience Rating Plan for new and renewal policies effective on and after May 1, 1996 shall be calculated by applying the reciprocals shown on page 1356 of the WCRB filing, multiplied by 1.033, to the average rates by class produced by the Stipulation.

The WCRB and the SRB also agree that, before the next general rate revision made after the revision effective May 1, 1996, there shall be: a) no change in any loss constant; b) for F-classes, no change in any rates, rating programs, classifications, rating factors, or rating values; c) for insureds in the Massachusetts Assigned Risk Pool, no new surcharge, or the equivalent thereof; and d) no approval of any filing which relates to those issues.

The Stipulation provides that these revised manual rates, classifications, rating program, rating factors or rating values shall apply to new and renewal policies effective on and after May 1, 1996. The Stipulation also establishes optional procedures for continuing for a limited time period those individual insurers' deviation filings which were approved to be effective on or before April 30, 1996, and for the filing of deviations requested to be effective on and after May 1, 1996.

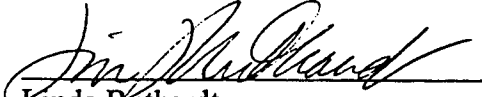
ORDER


In conclusion, based on the record in this proceeding, we find that the stipulated rates, classifications and rating plans fall within a range of reasonableness, and are not excessive, inadequate, or unfairly discriminatory for the risks to which they respectively apply. Specifically, after reviewing the parties' Stipulation and the record of this proceeding, we find that the filing provides adequate support for the stipulated

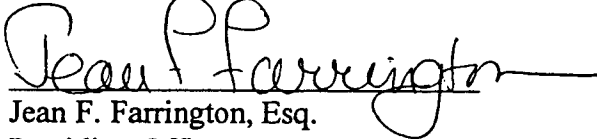
¹ The March 30, 1995 filing consisted of a Revised Premium Discount Program and a recommended revision to the Expense Constant Base. The WCRB proposed that the filing become effective with the next general rate revision, and that it apply to new and renewal policies only.

rate decrease to be effective May 1, 1996, and that, subject to the conditions of the Stipulation, the WCRB's filing complies with the requirements of G.L. c. 152, §53A. We therefore approve the Stipulation in its entirety, the WCRB's March 30, 1995 filing and the WCRB's March 19, 1996 filing, both subject to the terms and conditions of the Stipulation, to be effective on and after May 1, 1996.

April 30, 1996


Linda Ruthardt
Commissioner of Insurance


Susan G. Anderson, Esq.
Chief Hearing Officer
Presiding Officer


Jean F. Farrington, Esq.
Presiding Officer

COMMONWEALTH OF MASSACHUSETTS

DIVISION OF INSURANCE

Docket No. R96-30

In re:

**APPLICATION OF THE WORKERS'
COMPENSATION RATING AND INSPECTION
BUREAU OF MASSACHUSETTS FOR APPROVAL
OF A GENERAL RATE REVISION TO BE
EFFECTIVE ON AND AFTER JULY 1, 1996.**

**STIPULATION WITH RESPECT TO RATES,
CLASSIFICATIONS AND RATING PLANS FOR 1996**

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 May 1, 1996, but without in any way admitting or agreeing to any substantive position taken by the other party, the Workers' Compensation Rating and Inspection Bureau of Massachusetts ("WCRB") and the State Rating Bureau ("SRB") stipulate as follows:

1. Neither the WCRB nor the SRB will object to or appeal from approval by the Commissioner of Insurance ("Commissioner") of the WCRB's general rate filing dated March 19, 1996 (the "WCRB Filing"), subject to the condition that the overall average decrease in the existing workers' compensation average rates, to be effective on and after May 1, 1996, shall be 12.2%, 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-G, Exhibit 2 attached to this Stipulation as Exhibit A, but otherwise in the manner shown in Section X-G of the WCRB Filing.

b. In calculating classification rates for classifications in the Miscellaneous Industry Group, the WCRB shall not make the proposed changes in grouping status described in Section X-A, pages 1018 to 1025, of the WCRB Filing.

c. In calculating the final manual rates, the WCRB shall use the offsets for Merit Rating and ARAP and for the increase in the Executive Officer's Payroll Cap shown in the WCRB filing, an offset (for eligible classes) of .98 for the Construction Classification Premium Adjustment, and the offset for the Insolvency Fund shown in the WCRB Filing, all in the manner shown in Section X-R of the WCRB Filing. A revision of Section X-R, Exhibit 1, reflecting this Stipulation, is attached as Exhibit B.

d. The D-Ratios to be used in the Experience Rating Plan for new and renewal policies effective on and after May 1, 1996 shall be as shown on pages 1341 to 1350 of the WCRB Filing. The Expected Loss Rates to be used in the Experience Rating Plan for new and renewal policies effective on and after May 1, 1996 shall be calculated by applying the reciprocals shown on page 1356 of the WCRB Filing, multiplied by 1.033, to the average rates by class produced by this Stipulation.

e. Neither the WCRB nor the SRB shall oppose or appeal from approval by the Commissioner of the WCRB's March 30, 1995 Filing for a Revised Premium Discount Program, the proposed discount tables of which are attached as Exhibit C, except that the proposed Expense Constants shall be as shown in the table attached to this Stipulation as Exhibit D. These revisions shall apply to new and renewal policies effective on and after May 1, 1996.

Approval of this Stipulation and of the WCRB Filing by the Commissioner shall itself effect no changes in the existing rates, classifications, rating programs, rating plans, rating factors or rating values except as specifically set forth in this Stipulation.

These revised rates, classifications, rating programs, rating plans, rating factors or rating values shall apply to new and renewal policies effective on and after May 1, 1996.

2. The WCRB and the 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 and the 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 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 April 30, 1996. If the Commissioner does not approve this Stipulation in its entirety on or before April 30, 1996, 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, the WCRB may immediately make a filing of revised rates, classifications or rating plans, and if it does, this Stipulation shall be null and void and shall not be relied upon by any party, or by the Commissioner, for any purpose.

5. The WCRB and SRB further agree as follows:

a. There shall be no change in any loss constants before the next general rate revision after the rate revision to be effective May 1, 1996.

b. With respect to F-classes, there shall be no change in any rates, rating programs, classifications, rating factors, or rating values before the next general rate revision after the rate revision to be effective May 1, 1996.

c. There shall be no new surcharge, or the equivalent thereof, on insureds in the Massachusetts Assigned Risk Pool before the next general rate revision after the rate revision to be effective May 1, 1996.

d. No filing that is inconsistent with the provisions of this paragraph 5 may be approved by the Commissioner.

6. To permit the orderly implementation of the rates described in this stipulation and to avoid disruption in the market, insurers which have deviation filings approved to be effective on or before April 30, 1996, may, at their option, elect either, but not both, of the following options:

a) notify the SRB by letter, on or before May 15, 1996, that they will continue any such deviation through, but not beyond, June 30, 1996, or

b) make a new deviation filing, on or before June 30, 1996, which, if approved, shall be effective retroactive to May 1, 1996, or any other date after May 1 that the insurer selects.

The election of option (a) or (b) shall apply to all companies in a group of insurers. All deviation filings approved to be effective on or before April 30, 1996, shall not continue beyond April 30, 1996, unless the SRB has received notification on or before May 15, 1996,

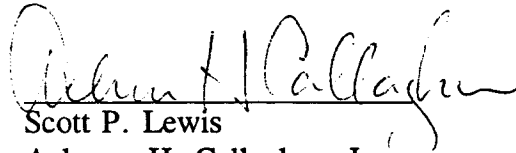
of an insurer's intent to continue its prior deviation, in which case such deviation shall continue through and only through June 30, 1996.

Any insurer which elects option (a) may also submit a filing, on or before June 30, 1996, for approval of a deviation to be effective on July 1, 1996.

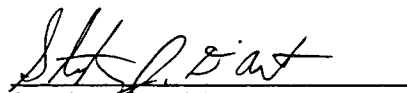
Any insurer without a deviation filing approved to be effective on or before April 30, 1996, may make a deviation filing, on or before June 30, 1996, which, if approved, shall be effective retroactive to May 1, 1996, or any other date after May 1 that the insurer selects.

For new and renewal policies effective on and after May 1, 1996, insurers shall use the rates calculated in accordance with paragraphs (1) through (5) of this stipulation in applying any deviations approved in accordance with this paragraph 6.

WORKERS' COMPENSATION
RATING AND INSPECTION
BUREAU OF MASSACHUSETTS
By its attorneys,



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Dated: April 30, 1996

APPROVED:


Linda Ruthardt
Commissioner of Insurance
Division of Insurance

Dated: April 30, 1996

EXHIBIT A

MASSACHUSETTS WORKERS' COMPENSATION CLASSIFICATION PRICING

Calculation of Industry Group Rate Change and Limits Effective: 5/1/96

	Industry Group				
	Manufacturing	Construction	Office and Clerical	Goods and Services	Miscellaneous
(1) Industry Group Differentials	0.9598	1.0212	1.0167	0.9964	1.0368
(2) Experience and Law Change	-12.2%	-12.2%	-12.2%	-12.2%	-12.2%
(3) Required Rate Change {(1) x 1.00 + (2)} - 1.00	-15.7%	-10.3%	-10.7%	-12.5%	-9.0%
(4) Law Effect	0.7%	0.7%	0.7%	0.7%	0.7%
(5) Experience Change {(1.00 + (2)) + (1.00 + (4))} - 1.00	-12.8%	-12.8%	-12.8%	-12.8%	-12.8%
(6) Experience Change by Group {(1) x 1.00 + (5)} - 1.00	-16.3%	-11.0%	-11.3%	-13.1%	-9.6%
(7) 1/2 Experience Change (6) + 2.00	-8.2%	-5.5%	-5.7%	-6.6%	-4.8%
(8) Maximum Rate Change (4) + (6) + 10.0%	-5.6%	-0.3%	-0.6%	-2.4%	1.1%
(9) Minimum Rate Change (4) + (7) - 20.0%	-27.5%	-24.8%	-25.0%	-25.9%	-24.1%

In addition the Bureau is limiting the increase in average rates for any class to \$15.00 and no average rate shall exceed \$90.00 per \$100.00 of payroll.

EXHIBIT B

Section X - Classification Pricing
Subsection R - Adjustments to Derive Final Manual Rates

Revised
Section X-R
Exhibit 1
Page 1

MASSACHUSETTS WORKERS' COMPENSATION CLASSIFICATION PRICING

CALCULATION OF PROPOSED MANUAL RATES

The proposed manual rates in Section X-S are derived from the proposed average capped rates in Section X-Q as follows:

$$\text{Proposed Manual Rate} = \left[\frac{\text{Proposed Average Rate}}{\text{Factor 1} \times \text{Factor 2} \times \text{Factor 3}} \right] + (\text{Current Average Rate} \times \text{Factor 4})$$

Where for each classification:

Factor 1 = 1.066 = The offset for Merit Rating and ARAP.

Factor 2 = The offset for the increase in the Executive Officer's Payroll Cap (See Exhibit 3 of Section X-R, WCRB filing for 7/1/96 Rates).

Factor 3 = .98 for eligible classes the offset for the Construction Classification Premium Adjustment Program (For classifications not eligible for this program, Factor 3 = 1.000).

Factor 4 = -.001 = the -.1% loading from the filing for recoupment of amounts paid to the Insolvency Fund.

EXHIBIT C

MASSACHUSETTS WORKERS COMPENSATION

REVISION OF PREMIUM DISCOUNT PROGRAM

Prior		
Gradation of Premium	Stock Discount	Non-Stock Discount
1st 5,000	0.0%	0.0%
Next 95,000	10.9%	3.5%
Next 400,000	12.6%	5.0%
Over 500,000	14.4%	7.0%

Effective 5/1/96		
Gradation of Premium	Type A Discount	Type B Discount
1st 10,000	0.0%	0.0%
Next 190,000	9.1%	5.1%
Next 1,550,000	11.3%	6.5%
Over 1,750,000	12.3%	7.5%

EXHIBIT D

MASSACHUSETTS WORKERS' COMPENSATION

EXPENSE CONSTANTS

PRIOR

For Risks developing at least \$150 in Standard Premium	\$160
For Risks developing less than \$150 in Standard Premium	\$ 80
Per capita risks (per capita exposure with a maximum of four)	\$ 35

EFFECTIVE 5/1/96

For Risks developing at least \$200 in Standard Premium	\$190
For Risks developing less than \$200 in Standard Premium	\$ 95
Per capita risks (per capita exposure with a maximum of four)	\$ 40