



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

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

September 18, 1996

CIRCULAR LETTER NO. 1761

**THIS CIRCULAR LETTER REPLACES
CIRCULAR LETTER NO. 1760 DATED SEPTEMBER 13, 1996**

To All Members and Subscribers of the Bureau:

**MASSACHUSETTS BENEFITS CLAIM AND AGGREGATE
DEDUCTIBLE PROGRAM**

EFFECTIVE JANUARY 1, 1997

The Commissioner of Insurance has approved a Massachusetts Benefits Claim and Aggregate Deductible Program in accordance with amended Section 25A of Chapter 152, The Workers Compensation Act, which requires the Massachusetts Workers' Compensation Assigned Risk Pool and voluntary market insurers to offer medical and indemnity claim and aggregate deductibles to insureds with workers' compensation coverage in Massachusetts. The present Massachusetts Benefits Deductible Program, without aggregate limits, continues unaltered.

Basic elements of the new program consist of an Aggregate Limit of \$10,000 (or 5% of Estimated Annual Standard Premium if over \$200,000) in combination with a \$2500 per claim deductible and corresponding Premium Reduction Credits which are determined according to the level of the insured's Estimated Annual Standard Premium, prior to any All Risk Adjustment Program (ARAP) Factor or Premium Discount, and which do not change according to the level of final premium calculated at time of audit.

Attached are a self-explanatory up-dated Filing Memorandum, Sample Letter To Policyholder (Exhibit A, Pages 1 and 2) and Massachusetts Benefits Claim and Aggregate Deductible Endorsement WC 20 06 03 (Exhibit B).

It should be noted that the approach taken in this Sample Letter To Policyholder is consistent with the fact that the required offer of small deductibles with aggregate limits is an amendment to the existing law which requires the offer of optional small deductibles (without aggregate limits), rather than an entirely new issue. This approach enables carriers to offer a choice of either type of small deductible program to employers at time of new policy issuance or upon renewal.

Also attached are Massachusetts Special Rules (Exhibit C) and an entry in the Miscellaneous Values section of the Massachusetts rate pages (Exhibit D) showing Estimated Annual Standard Premium size of risk levels, Medical and Indemnity Claim Deductible and Aggregate Deductible amounts, and corresponding Premium Reduction Percentages, which will be introduced into the Basic Manual.

Exhibit E attached consists of a Sample Premium Calculation utilizing this Program.

Exhibit F attached displays an entry from the Miscellaneous Values section of the Massachusetts rate pages showing the present Massachusetts Benefits Deductible Program without aggregate limits (see Circular Letter No. 1624). The Medical and Indemnity Deductible Amounts and corresponding Premium Reduction Percentages are unchanged and will remain in the Basic Manual.

Statistical Reporting Codes will be forwarded in a separate mailing.

This Program is subject to the following Rule of Application: Applicable to new and renewal policies effective on and after 12:01 A.M., January 1, 1997, provided that the insured has exercised the option to elect the Massachusetts Benefits Claim and Aggregate Deductible Program prior to the effective date of the policy, otherwise at the next renewal of such policy.

Manual pages will be distributed in due course.

NORMAN R. FONTAINE
Vice President of Industry Affairs

NRF/dc
Enclosures

FILING MEMORANDUM

MASSACHUSETTS BENEFITS CLAIM AND AGGREGATE DEDUCTIBLE PROGRAM

Rule of Application

Applicable to new and renewal policies effective on and after 12:01 A.M., January 1, 1997, provided that the insured has exercised the option to elect the Massachusetts Benefits Claim and Aggregate Deductible Program prior to the effective date of the policy, otherwise at the next renewal of such policy.

Purpose

The purpose of this filing is to introduce the Claim and Aggregate Deductible Program in Massachusetts. The current Massachusetts Benefits Deductible Program, without aggregate limits, will continue unaltered.

Proposal

This program is intended for insureds who, while not qualified as self-insurers, nevertheless have the financial ability to handle some losses they incur, subject to an aggregate amount. This program will allow these insureds to elect an amount of loss per claim and an overall aggregate amount of all losses they can absorb and purchase insurance only for losses above those predetermined amounts. The amount of premium credit will vary by size of risk.

The program will be made available by the Massachusetts Workers' Compensation Assigned Risk Pool and voluntary market 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.

A medical and indemnity claim deductible of \$2,500 and aggregate deductible amount of \$10,000 shall be offered to every employer with estimated annual standard premium, not in excess of \$200,000. Every employer with estimated annual standard

premium in excess of \$200,000 shall be offered a medical and indemnity claim deductible of \$2,500 and an aggregate deductible amount of 5% of estimated annual standard premium. The Aggregate Deductible amount and corresponding Premium Reduction Credit do not change according to the level of final premium calculated at time of audit. The \$2,500 claim deductible amount shall apply separately to each claim for bodily injury by accident or disease, subject to the aggregate deductible amount. The insurer shall pay all benefits required under the provisions of law directly to the appropriate party. Subsequent to insurer payment of any amount which falls within the \$2,500 deductible limit on any claim, the insurer may seek reimbursement from the policyholder. The aggregate deductible amount is the most that the policyholder must reimburse the insurer for the sum of all medical and indemnity benefits compensable under law for each policy period. 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.

The premium reduction for claim/aggregate deductible coverage is obtained by applying the appropriate premium reduction percentage to the insured's estimated annual standard premium, i.e., after application of any experience rating or merit rating modification. If an ARAP surcharge applies, the ARAP adjustment factor shall be applied to the Standard Premium less the Claim and Aggregate Deductible credit amount. These calculations are made prior to the application of any Premium Discount which is calculated using the Standard Premium.

The Estimated Annual Standard Premium size of risk levels, Medical and Indemnity Claim Deductible and Aggregate Deductible amounts, and corresponding Premium Reduction Percentages are shown in the Miscellaneous Values section of the Massachusetts rate pages.

The premium credit amount under this program shall be reported under the appropriate statistical code. The credit amount is not subject to experience rating and shall be reported on lines D-G on the Unit Statistical Report.

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 on 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 the application of the deductible amount. This methodology applies for the reporting of data via the Workers' Compensation Unit 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 Claim and Aggregate Deductible Endorsement WC 20 06 03 to the Standard Workers Compensation and Employers Liability Insurance Policy.

SAMPLE LETTER TO POLICYHOLDER

MASSACHUSETTS BENEFITS DEDUCTIBLE PROGRAM
MASSACHUSETTS BENEFITS CLAIM AND AGGREGATE
DEDUCTIBLE PROGRAM

Dear Policyholder:

Section 25A of Chapter 152 Massachusetts Workers' Compensation Law requires the Massachusetts Workers' Compensation Assigned Risk Pool and voluntary market insurers to offer to insureds with workers' compensation policies, which provide coverage in Massachusetts, a choice of medical and indemnity benefits deductibles.

In accordance with the statute, as amended, the Division of Insurance has approved two separate and distinct deductible programs, one without an aggregate limit, and one with an aggregate limit. An insured may select either program, or neither of them. These programs are not available for insureds with retrospectively rated policies.

The first program, Massachusetts Benefits Deductible Program, without an aggregate limit, which has been in effect since January 1, 1993, is intended for insureds who have the financial ability to handle some losses they incur. This program allows these insureds to establish an amount of loss they can absorb and purchase insurance only for losses above that predetermined deductible amount.

Under this program, 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 disease or accident. 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.

The entire cost of all claims shall be included in the experience data used to determine the experience modification of the insured regardless of the requirement that reimbursement must be made for the deductible amount on any claim.

If you wish to elect the Massachusetts Benefits Deductible Program, you must make your election before the effective date of your next policy.

The second program, Massachusetts Benefits Claim and Aggregate Deductible Program, is intended for insureds who have the financial ability to handle some losses they incur, subject to an aggregate amount. This program will allow these insureds to elect an amount of loss per claim and an overall aggregate amount of all losses they can absorb and purchase insurance only for losses above those predetermined amounts. The amount of premium credit will vary by size of risk.

A medical and indemnity claim deductible of \$2,500 and aggregate deductible amount of \$10,000 shall be offered to every employer with estimated annual standard premium, not in excess of \$200,000. Every employer with estimated annual standard premium in excess of \$200,000 shall be offered a medical and indemnity claim deductible of \$2,500 and an aggregate deductible amount of 5% of estimated annual standard premium. The Aggregate Deductible amount and corresponding Premium Reduction Credit do not change according to the level of final premium calculated at time of audit. The \$2,500 claim deductible amount shall apply separately to each claim for bodily injury by accident or disease, subject to the aggregate deductible amount. The insurer shall pay all benefits required under the provisions of law directly to the appropriate party. Subsequent to insurer payment of any amount which falls within the \$2,500 deductible limit on any claim, the insurer shall seek reimbursement from the policyholder. The aggregate deductible amount is the most that the policyholder must reimburse the insurer for the sum of all medical and indemnity benefits compensable under law for each policy period. 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.

The entire cost of all claims shall be included in the experience data used to determine the experience modification of the insured regardless of the requirement that reimbursement must be made for the deductible amount on any claim.

If you wish to elect the Massachusetts Benefits Claim and Aggregate Deductible Program, and the effective date of your next policy is on or after January 1, 1997, you must make your election before the effective date of your policy.

Please contact your agent or insurance company representative promptly for additional information, including the premium credit amounts which apply under these programs.

MASSACHUSETTS BENEFITS CLAIM AND AGGREGATE 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 amounts shown in the Schedule below. These deductibles apply to claims compensable under the law.
2. The claim deductible shown in the Schedule below applies separately to each claim for bodily injury by accident or disease.
3. The aggregate deductible amount shown in the Schedule below is the most you must reimburse us for the sum of all medical and indemnity benefits compensable under the law for each policy period.
4. 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 when due, we may cancel the policy for nonpayment of premium. 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 to be reimbursed.
5. 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 reimbursed by you to us under the deductible provisions of this policy.

SCHEDULE			
Estimated Annual Standard Premium	Claim Deductible Amount	Aggregate Deductible Amount	Premium Reduction Percentage
	\$2,500		

Notes:

1. Use this endorsement if the insured elects both a per claim and aggregate deductible amount. The election must be made prior to the effective date of the policy.
2. Under Aggregate Deductible Amount, insert \$10,000 if Estimated Annual Premium does not exceed \$200,000; insert 5% of Estimated Annual Premium if Estimated Annual Premium exceeds \$200,000.

MASSACHUSETTS WORKERS' COMPENSATION AND EMPLOYERS LIABILITY
Effective January 1, 1997

SPECIAL RULES

**RULE IX - SPECIAL CONDITIONS OR OPERATIONS
AFFECTING COVERAGE AND PREMIUM**

Add:

**MASSACHUSETTS BENEFITS CLAIM AND AGGREGATE
DEDUCTIBLE PROGRAM**

This program is intended for insureds who, while not qualified as self-insurers, nevertheless have the financial ability to handle some losses they incur, subject to an aggregate amount. This program will allow these insureds to elect an amount of loss per claim and an overall aggregate amount of all losses they can absorb and purchase insurance only for losses above those predetermined amounts. The amount of premium credit will vary by size of risk. The election must be made prior to the effective date of the policy. The program is not available for insureds with retrospectively rated policies.

A medical and indemnity claim deductible of \$2,500 and aggregate deductible amount of \$10,000 shall be offered to every employer with estimated annual standard premium, not in excess of \$200,000. Every employer with estimated annual standard premium in excess of \$200,000 shall be offered a medical and indemnity claim deductible of \$2,500 and an aggregate deductible amount of 5% of estimated annual standard premium. The Aggregate Deductible amount and corresponding Premium Reduction Credit do not change according to the level of final premium calculated at time of audit. The \$2,500 claim deductible amount shall apply separately to each claim for bodily injury by accident or disease, subject to the aggregate deductible amount. The insurer shall pay all benefits required under the provisions of law directly to the appropriate party. Subsequent to insurer payment of any amount which falls within the \$2,500 deductible limit on any claim, the insurer may seek reimbursement from the policyholder. The aggregate deductible amount is the most that the policyholder must reimburse the insurer for the sum of all medical and indemnity benefits compensable under law for each policy period. 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.

The premium reduction for claim/aggregate deductible coverage is obtained by applying the appropriate premium reduction percentage to the insured's estimated annual standard

premium, i.e., after application of any experience rating or merit rating modification. If an ARAP surcharge applies, the ARAP adjustment factor shall be applied to the Standard Premium less the Accident and Aggregate Deductible credit amount. These calculations are made prior to the application of any Premium Discount which is calculated using the Standard Premium.

The Estimated Annual Standard Premium size of risk levels, Medical and Indemnity Claim Deductible and Aggregate Deductible amounts, and corresponding Premium Reduction Percentages are shown in the Miscellaneous Values section of the Massachusetts rate pages.

The premium credit amount under this program shall be reported under the appropriate statistical code. The credit amount is not subject to experience rating and shall be reported on lines D-G on the Unit Statistical Report.

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 on 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 the application of the deductible amount. This methodology applies for the reporting of data via the Workers' Compensation Unit 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 Claim and Aggregate Deductible Endorsement WC 20 06 03 to the Standard Workers Compensation and Employers Liability Insurance Policy.

MISCELLANEOUS VALUES

Add:

MASSACHUSETTS BENEFITS CLAIM AND AGGREGATE DEDUCTIBLE PROGRAM			
Estimated Annual Standard Premium	Claim Deductible Amount	Aggregate Deductible Amount	Premium Reduction Percentage
0 to \$75,000	\$2,500	\$10,000	7.0%
\$75,001 to \$100,000	\$2,500	\$10,000	6.5%
\$100,001 to \$125,000	\$2,500	\$10,000	5.9%
\$125,001 to \$150,000	\$2,500	\$10,000	5.4%
\$150,001 to \$200,000	\$2,500	\$10,000	4.5%
over \$200,000	\$2,500	5% of Estimated Annual Standard Premium	4.3%

SAMPLE PREMIUM CALCULATION

MASSACHUSETTS BENEFITS CLAIM AND AGGREGATE DEDUCTIBLE PROGRAM

LOCATIONS, CLASSIFICATIONS 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	181,255	39.38	71,378
Carpentry NOC	5403	3	148,925	22.82	33,985
Excavation	6217	2	72,310	10.72	7,752
Contractors Yard	8227	2	50,900	5.91	3,008
Executive Supervisor	5606	1	48,945	4.43	2,168
Clerical Office Employees NOC	8810	4	73,415	0.28	206
Salesperson, Collectors or Messengers - Outside Drivers, NOC	8742	3	169,420	0.53	898
Employers Liability / /	7380				
Total Premium					119,395
Experience Modification (1.11)					13,133
Standard Premium					132,528
[1] Claim and Aggregate Deductible Credit (5.4%)					- 7,157
(132,528 - 7,157) x 0.14 ARAP Adjustment (1.14)					17,552
(10,000 x 0.0) + (122,528 x .091) [2] Less Premium Discount (if applicable)					-11,150
Expense Constant					190
(132,528 + 17,552 - 7,157 - 11,150 + 190) Total Estimated Annual Premium					131,963
(131,963 x 4.2%) [3] Mass. D.I.A. Assessment (4.2%) of Standard Premium					5,566
(131,963 + 5,566) Total of Estimated Annual Premium and Mass. D.I.A. Assessment					137,529

1. The Premium Reduction Percentage is 5.4% as shown on the Miscellaneous Values Page for a \$2,500 Deductible Per Accident with an Aggregate Deductible limit of \$10,000, for this size insured.
2. In this example, the Type A Discount was used.
3. The Mass. D.I.A. Assessment is based on Standard Premium.

**MASSACHUSETTS BENEFITS DEDUCTIBLE
COVERAGE PROGRAM**

Effective January 1, 1993

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