



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

November 20, 2006

CIRCULAR LETTER NO. 2037

To All Members and Subscribers of the Bureau:

**REVISION TO
MASSACHUSETTS WORKERS' COMPENSATION VOLUNTARY MARKET
AND RESIDUAL MARKET PREMIUM ALGORITHMS**

The Division of Insurance has approved effective January 1, 2008 one minor correction to the Voluntary Market Premium Algorithm and two minor corrections to the Residual Market Premium Algorithm as announced on September 29, 2006 in Circular Letter 2033. The Division of Insurance has also approved a revision to page C-4 of the Massachusetts Workers Compensation and Employers Liability Insurance Manual to resolve a conflict with the algorithms.

Attached is the November 2, 2006 Filing Memorandum, including copies of the revised pages, and the November 14, 2006 approval letter from the Division of Insurance.

The revised Massachusetts Premium Algorithms are accessible at www.wcribma.org.

DANIEL M. CROWLEY, CPCU
Vice President – Customer Services



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

November 2, 2006

Walter Horn, PhD
State Rating Bureau
Massachusetts Division of Insurance
One South Station
Boston, Massachusetts 02110-2208

Re: Massachusetts Premium Algorithm & Massachusetts Workers Compensation & Employers Liability Insurance Manual – Corrections

Dear Walter:

Per our discussion, attached is a copy of the revised pages of the Massachusetts Workers Compensation & Employers Liability Insurance Manual and the Massachusetts Premium Algorithms.

The Massachusetts Residual Market Premium Algorithm contained the following editorial errors:

- Part I (6) - The USL&HW Act Factor rating element box under the class category Admiralty/FELA should have been blacked out to indicate that this rating element is not applicable to Admiralty/FELA classifications.
- Part III (21) – The calculation should be $[(19) / (10)] \times [(20) - (10)]$, not $[(19) / (12)] \times [(20) - (10)]$

The Massachusetts Voluntary Market Premium Algorithm contained the following editorial errors:

- Page AE-8 -Endnote 25 – Large Deductible Credits are reported under code 9663, not 9859 through 9869. Codes 9859 – 9869 were withdrawn in Massachusetts effective January 1, 1996.

Page C4 of the Massachusetts Workers Compensation & Employers Liability Insurance Manual (MA Manual) requires the following change:

- The following sentence, which can be found in the second paragraph under *Transportation Of Personnel In Conduct Of Employers Business: Flying Crew – Code 7421*, should have been deleted: “These surcharges shall not be subject to pro rata or short rate adjustment except in the event of cancellation of the policy.” Under the approved algorithms, the passenger seat surcharge is subject to a short term policy pro rata factor based on the policy term in accordance with Rule VI-J of the MA Manual.

The Bureau proposes an effective date of January 1, 2008 for page C4 of the Massachusetts Workers’ Compensation & Employers Liability Insurance Manual and the changes to both the Massachusetts Voluntary Market and Residual Market Premium Algorithms.

If you have any questions, please feel free to contact me. Thank you for your attention to this matter.

Sincerely



Daniel M. Crowley, CPCU
Vice President Customer Services

cc:
Robert McCarthy, Vice President, Actuary

Part I

MASSACHUSETTS WORKERS' COMPENSATION RESIDUAL MARKET MANUAL PREMIUM CALCULATION							
■ - Indicates that the given Rating Element applies to the column.							
Rating Element	Class Categories						
	Subject to Experience Rating					Not Subject to Experience Rating	
	Admiralty /FELA	Non-Admiralty /FELA Payroll Classes	Per Capita Classes	Supplemental Rate - Disease Classes ¹	Aircraft Seat Surcharge Class ²	Supplemental Non-Ratable Classes	Supplemental Rate - Atomic Energy Exposure ³
	(A)	(B)	(C)	(D)	(E)	(F)	(G)
(1) Class or Statistical Code	XXXX Too Many to List	XXXX Too Many to List	0908 0909 0912 0913	0059 0065 0066 0067	0088	0770 0773 0774 0775 0776 0779 0799 7445 7453	9985
(2) Exposure ⁴ - Not Subject to Waiver of Subrogation	Payroll in \$100's	Payroll in \$100's	Number of Persons	Payroll in \$100's	Number of Air Seats	Payroll in \$100's	Payroll in \$100's
(3) Exposure – Subject to Waiver of Subrogation ⁵	Payroll in \$100's	Payroll in \$100's	Number of Persons	Payroll in \$100's	Number of Air Seats	Payroll in \$100's	Payroll in \$100's
(4) Total Exposure (2) + (3)	■	■	■	■	■	■	■
(5) Rate ⁶	■	■	■	■	■	■	■
(6) USL&HW Act Factor ⁷		■		■		■	■
(7) Manual Premium (4) x (5) x (6)	■	■	■	■	■	■	■
(8) Manual Premium Subject to Waiver of Subrogation (3) x (5) x (6)	■	■	■	■	■	■	■

Experience rating, merit rating, and ARAP surcharges do not apply to all class codes. Consequently, separate manual premium totals need to be maintained for those classes subject to either merit or experience rating and those not subject to either merit or experience rating. Additionally, the minimum premium applicable to Admiralty and FELA requires maintaining a separate premium total for Admiralty and FELA until the Admiralty/FELA minimum has been applied.

Part III

MASSACHUSETTS WORKERS' COMPENSATION RESIDUAL MARKET TOTAL PREMIUM CALCULATION ■ - Indicates that the given Rating Element applies to the column.				
Rating Element	Statistical Code	Class Categories		Calculation
		Admiralty/ FELA (A) ¹⁹	Non – Admiralty/ FELA (B) ²⁰	
(1) Standard Premium		■	■	Part II, (20)
(2) ARAP Surcharge		■	■	Part II, (22)
(3) Short Term Policy Pro Rata Factor ²¹			■	If not applicable, use a factor of 1.000.
(4) Premium Subject to QLMP		■	■	(1) + (2)
(5) QLMP Credit Factor ²²	9880		■	If not applicable, use a factor of zero.
(6) QLMP Premium Adjustment ²³	9880	■	■	-1.000 x (4) x (5)
(7) Admiralty/FELA Minimum Premium ²⁴	9849	■		If not applicable, use a value of zero.
(8) Balance to Admiralty/FELA Minimum Premium	9849	■		If [(3) x (7)] > [(4) + (6)] then [(3) x (7)] – [(4) + (6)], else zero

Part III (Continued)

MASSACHUSETTS WORKERS' COMPENSATION RESIDUAL MARKET TOTAL PREMIUM CALCULATION ■ - Indicates that the given Rating Element applies to the column.			
Rating Element	Statistical Code	All Classes	Calculation
(9) Premium Subject to Loss Constant		■	(4A) + (4B) + (6A) + (6B) + (8A)
(10) Ratio of Actual to Original Policy Term ²⁵		■	
(11) Loss Constant ²⁶		■	
(12) Loss Constant Premium	0032	■	If (9) < \$500, then the lesser of [(3) x (10) x (11)] or [\$500 – (9)], else 0
(13) Expense Constant ²⁷		■	
(14) Expense Constant Premium	0900	■	(3) x (10) x (13)
(15) Balance to Minimum Expense Constant	0900	■	If (14) < \$15 then [\$15 – (14)], else 0
(16) Payroll in \$100s ²⁸		■	Do not include payroll for supplemental rates or the non-ratable classes. Do not include per capita or aircraft seat exposures.
(17) TRIA Premium Factor	9740	■	TRIA Value
(18) TRIA Premium	9740	■	(16) x (17)
(19) Premium Subject to Short Rate Penalty		■	(9) + (12) + (14) + (15) + (18)
(20) Short Rate Penalty Factor	0931	■	Table look up based on (10) x 365
(21) Short Rate Penalty Premium	0931	■	[(19) / (70)] x [(20) – (10)]
(22) Premium Subject to Total Policy Minimum Premium		■	(19) + (21)

Part III (Continued)

MASSACHUSETTS WORKERS' COMPENSATION VOLUNTARY MARKET TOTAL PREMIUM CALCULATION			
■ - Indicates that the given Rating Element applies to the column.			
Rating Element	Statistical Code	All Classes	Calculation
(23) Premium Subject to Short Rate Penalty		■	(13) + (16) + (18) + (19) + (22)
(24) Short Rate Penalty Factor	0931	■	Table look up based on (14) x 365 days
(25) Short Rate Penalty Premium	0931	■	[(23) / (14)] x [(24) - (14)]
(26) Premium Subject to Total Policy Minimum Premium		■	(23) + (25)
(27) Employers Liability Increased Limits Minimum Premium	9848	■	Part II, (8)
(28) Admiralty/FELA Minimum Premium	9849	■	(11)
(29) Class Minimum Premium ³⁵	0990	■	
(30) Total Policy Minimum Premium		■	(5) x [(27) + (28) + (29)]
(31) Balance to Total Policy Minimum Premium	0990	■	If (26) < (30) then [(30) - (26)], else 0
(32) Total Premium		■	(26) + (31)

²³ Part II, Column A

²⁴ Part II, Columns B + C

²⁵ Traditionally, Large Deductibles apply to losses under both Part One (Workers' Compensation) and Part Two (Employers' Liability) of the policy, therefore, the premium adjustment for these types of deductibles enter the algorithm here. Large Deductible Credits are reported under code ~~9859~~ through ~~9869~~ **9663**.

²⁶ See endnote 16.

²⁷ If the policy is written on a multi-state basis, the discount factor will be based on the sum of the applicable premiums across all states.

For Large Construction Projects the discount factor will be based on the sum of the premiums for the combined project-related policies.

For the purpose of calculating premium discount for two or more policies that are issued to the same insured by one or more carriers that are under the same management, the total standard premium for those policies must be combined unless the insured instructs the carrier otherwise.

Premium Discount is not applicable to policies written with Large Deductibles.

²⁸ The QLMP Program relates to residual market risks and is available for a period of four years for a given insured. However, if a carrier voluntarily insures a risk previously written in the residual market that was paying a reduced premium because of the application of a QLMP credit factor, the carrier must continue to apply the QLMP factor for the balance of the four year eligibility period for those policies written on a guaranteed cost basis.

QLMP is not applicable to policies written with Large Deductibles.

²⁹ The QLMP premium adjustment is a negative value in the algorithm. For purposes of Unit Statistical Reporting, the value is assumed to be negative.

³⁰ When increased limits are purchased for Admiralty/FELA, adjust the Admiralty/FELA minimum by multiplying the basic limits Admiralty/FELA minimum by the applicable increased limits factor.

ALL OTHER EMPLOYEES & DRIVERS	7403
AIRPORT OR HELIPORT OPERATOR - ALL EMPLOYEES & DRIVERS	7423
Ticket sellers or information clerks away from airport locations to be separately rated as Code 8810 clerical. Members of flying crew to be separately rated under the appropriate aircraft or helicopter operation classification.	
FLIGHT TESTING BY MFR - AIRCRAFT MANUFACTURED UNDER AN APPROVED TYPECERTIFICATE - FLYING CREW	7430z
FLIGHT TESTING BY MFR - PROTOTYPE OR EXPERIMENTAL AIRCRAFT – FLYING CREW:	
<i>Refer to the MA Bureau for the applicable classification.</i>	
NOC - HELICOPTERS:	
FLYING CREW	7425
ALL OTHER EMPLOYEES & DRIVERS	7423
As respects aerial photography, mapping or survey work, the payroll of the ground laboratory employees shall be assigned to Code 4361 photographer. Ticket sellers and information clerks away from airport locations to be separately rated as Code 8810 clerical.	
NOC - OTHER THAN HELICOPTERS:	
FLYING CREW	7422
ALL OTHER EMPLOYEES & DRIVERS	7423
As respects aerial photography, mapping or survey work, the payroll of the ground laboratory employees shall be assigned to Code 4361 photographer. Ticket sellers and information clerks away from airport locations to be separately rated as Code 8810 clerical.	
PATROL, PHOTOGRAPHY OTHER THAN MAPPING OR SURVEY WORK:	
FLYING CREW	7418
ALL OTHER EMPLOYEES & DRIVERS	7423
As respects aerial photography, other than mapping or survey work, the payroll of the ground laboratory employees shall be assigned to Code 4361 photographer.	
PUBLIC EXHIBITION INVOLVING STUNT FLYING, RACING OR PARACHUTE JUMPING:	
FLYING CREW	7420
ALL OTHER EMPLOYEES & DRIVERS	7423
SALES OR SERVICE AGENCY: TAXI OR SIGHTSEEING; STUDENT INSTRUCTION:	
FLYING CREW	7422
ALL OTHER EMPLOYEES & DRIVERS	7423
TRANSPORTATION OF PERSONNEL IN CONDUCT OF EMPLOYER’S BUSINESS:	
FLYING CREW	7421
Applies to the payroll of pilots and all members of the flying crew. Also applies to the payroll of executive officers or other employees who engage in the operation of aircraft in the conduct of the employer’s business. If the records of the employer clearly indicate the weeks in which flying is	

performed by such employees, (1) only the payroll for each week during any part of which the employee has engaged in flight duties shall be assigned to this classification unless the classification applicable to the employee's non-flying operations carries a higher rate in which event such classification shall apply and (2) the payroll for each week in which no flying has been done shall be assigned to those classifications which would otherwise apply. If the records of the employer do not clearly indicate the weeks in which flying is performed by such employees, the entire payroll for such employees shall be assigned to this classification unless the classification applicable to the employee's non-flying operations carries a higher rate in which event such classification shall apply.

A per passenger seat surcharge, subject to a maximum surcharge per aircraft, shall be charged in addition to the premium otherwise determined under this classification. These surcharges shall not be cumulative in the event of substitution of aircraft during the policy period; but these surcharges shall be cumulative in the event more than one aircraft is owned or operated during the same policy period. The premium for these surcharges shall be subject to any experience rating modification. ~~These surcharges shall not be subject to pro rata or short rate adjustment except in the event of cancellation of the policy.~~ These surcharges and losses to employees, other than members of flying crew, arising out of the operation of an aircraft, are to be reported under Code 0088. The per passenger seat surcharge and the maximum surcharge per aircraft are shown under Miscellaneous Values on the rate pages. Attach Aircraft Premium Endorsement (WC 00 04 01).

Commercial aircraft operation to be separately rated.

GROUND CREW & DRIVERS	7423
AIRPLANE MFG	3830
AIRPLANE PROPELLER MFG - WOOD	2790
AIRPLANE SUBASSEMBLIES MFG - METAL - COWLING, WING, TABS, AILERON, ETC.	3076
AIRPLANE SUBASSEMBLIES MFG - WOOD	2883
AIRPLANE WHEEL MFG	3803z
AIRPORT CONSTRUCTION - & DRIVERS:	
GRADING	6217
PAVING	5506
ALCOHOL DEALERS - BULK - & DRIVERS	8350
ALCOHOL MFG - GRAIN - ALL OPERATIONS	2130
ALCOHOL MFG - WOOD - & DRIVERS	4021
ALE OR BEER DEALER - WHOLESALE	8018
Codes 8018 and 2121 brewery shall not be assigned to the same risk unless the operations described by these classifications are conducted as separate and distinct businesses.	



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November 14, 2006

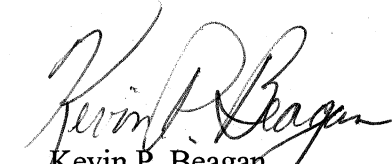
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**Re: Massachusetts Premium Algorithm & Massachusetts Workers Compensation &
Employers Liability Insurance Manual – Corrections**

Dear Mr. Crowley:

I am writing to advise you of the Division's Approval of the editorial corrections to the Voluntary Market and Residual Market Premium Algorithms that the WCRIB submitted via email to Walter Horn on November 2, 2006. The requested change to Page C4 of the Workers' Compensation and Employers' Liability Manual is also hereby approved. Both sets of corrections shall, as requested, be effective on January 1, 2008.

Sincerely,


Kevin P. Beagan
Deputy Commissioner and
Director, State Rating Bureau