

FILING MEMORANDUM

ITEM B-1398—MISCELLANEOUS VALUES FOR FOREIGN TERRORISM

PURPOSE

The purpose of this item is to continue and relabel catastrophe provisions, by state, to address the risk of foreign terrorism on workers compensation policies, effective January 1, 2006.

BACKGROUND

In response to the passage of the Terrorism Risk Insurance Act of 2002 (TRIA), NCCI filed Item B-1383 on December 27, 2002 in order to propose catastrophe provisions for foreign terrorism. These catastrophe provisions were approved in all NCCI jurisdictions. The values and rate pages underlying this filing B-1398, does not contemplate rate level need post TRIA.

PROPOSAL

It is proposed that effective 12:01 a.m. on January 1, 2006, all references to TRIA in NCCI's manuals, rules, and rate pages be relabeled "Foreign Terrorism".

IMPACT

There will be no premium impact associated with the implementation of this filing. This filing proposes no change from currently approved Miscellaneous Values.

IMPLEMENTATION

The attached exhibits include the proposed endorsement changes necessary to implement this item.

In all states **except** Hawaii and Virginia, this item will be implemented effective 12:01 a.m. on January 1, 2006, applicable to new and renewal business only.

In Hawaii, the effective date is determined upon regulatory approval of the individual carrier's election to adopt this change.

In Virginia, this item will be implemented for policies effective on or after 12:01 a.m. on January 1, 2006.

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TN, UT, VA, VT)

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EXHIBIT 1-A

Basic Manual

Applicable to Voluntary and Assigned Risk Policies

Miscellaneous Values for Foreign Terrorism

~~Terrorism Risk Insurance Act—Certified Losses~~ Foreign Terrorism.....X.XX

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EXHIBIT 2
BASIC MANUAL—2001 EDITION
PART ONE- RULES
RULE 3- RATING DEFINITIONS AND APPLICATIONS OF PREMIUM ELEMENTS

24. Catastrophe Provisions

- a. **Terrorism Risk Insurance Act (TRIA) of 2002** This provision expires effective December 31, 2005. Premium for the Terrorism Risk Insurance Act of 2002 is calculated on the basis of total payroll according to Rule 2. A risk's total payroll in each state is divided by units of \$100 and multiplied by the appropriate value found in the state pages. The calculation is expressed as $(\text{Payroll}/100 \times \text{TRIA Value} = \text{Premium})$. This premium is applied after standard premium and is not subject to any other modifications including, but not limited to, premium discount, experience rating, schedule rating, or retrospective rating. Unless an "If Any" policy develops premium during the policy term or at audit, policies issued on an "If Any" basis will not be charged this premium. Per capita charges are not subject to premium under this Act.
- c. **Foreign Terrorism**
Premium for Foreign Terrorism is calculated on the basis of total payroll according to Rule 2. A risk's total payroll in each state is divided by units of \$100 and multiplied by the appropriate value found in the state pages. The calculation is expressed as $(\text{Payroll}/100 \times \text{Foreign Terrorism Value} = \text{Premium})$. This premium is applied after standard premium and is not subject to any other modifications including, but not limited to, premium discount, experience rating, schedule rating, or retrospective rating. Unless an "If Any" policy develops premium during the policy term or at audit, policies issued on an "If Any" basis will not be charged this premium. Per capita charges are not subject to premium under this Act.

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**EXHIBIT 3
RETROSPECTIVE RATING PLAN MANUAL
PART ONE- DESCRIPTION OF THE PLAN
II. DEFINITIONS**

E. Standard Premium

For the purpose of this Plan, standard premium means the premium for the risk determined on the basis of authorized rates, any experience rating modification, loss constants where applicable, and minimum premiums. Determination of standard premium shall exclude:

1. Premium Discount.
2. The Expense Constant.
3. Premium resulting from the Non-Ratable Element Codes listed in the Experience Rating Plan Manual.
4. Premium developed by the passenger seat surcharge under Code 7421—Aircraft Operation—flying crew.
5. Premium developed by the occupational disease rates for risks subject to the Federal Coal Mine Health and Safety Act.
6. ~~Premium developed by the Terrorism Risk Insurance Act of 2002.~~ Premium developed by catastrophe provisions as outlined in Rule 3-A-24 of the *Basic Manual*.
7. ~~Premium developed by the Domestic Terrorism, Earthquakes, and Catastrophic Industrial Accidents-catastrophe provision located in the *Basic Manual*.~~

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**EXHIBIT 4
FORMS MANUAL OF WORKERS COMPENSATION AND EMPLOYERS LIABILITY INSURANCE
FOREIGN TERRORISM PREMIUM ENDORSEMENT WC 00 04 22**

This endorsement is notification that your insurance carrier is charging premium for losses that may occur in the event of an act of foreign terrorism.

Your policy provides coverage for workers compensation losses caused by acts of foreign terrorism, including workers compensation benefit obligations dictated by state law. Coverage for such losses is still subject to all terms, definitions, exclusions, and conditions in your policy, and any applicable federal and/or state laws, rules, or regulations.

For purposes of this endorsement, an "act of foreign terrorism" is defined as:

- a. Any act that is violent or dangerous to human life, property or infrastructure; and
- b. The act has been committed by an individual or individuals acting on behalf of any foreign person or foreign interest, as part of an effort to coerce the civilian population of the United States or to influence the policy or affect the conduct of the United States Government by coercion.

The premium charge for the coverage your policy provides for workers compensation losses caused by an act of foreign terrorism is shown in Item 4 of the Information Page or in the Schedule below.

Schedule

State

Rate per \$100 of payroll

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EXHIBIT 5
FORMS MANUAL OF WORKERS COMPENSATION AND EMPLOYERS LIABILITY INSURANCE
ASSIGNED RISK ONLY
APPLIES IN: AL, CT, DC, GA, ID, IL, IN, KS, MS, NV, NH, NC, SC, SD, VT

ASSIGNED RISK MANDATORY LOSS SENSITIVE RATING PLAN ENDORSEMENT WC 00 04 18B

This endorsement is added to Part Five (Premium) to explain the rating plan and how the Assigned Risk Loss Sensitive Rating Plan premium will be determined.

This endorsement applies where the LSRP has been approved. It determines the Assigned Risk Loss Sensitive Rating Plan premium for the insurance provided during the rating plan period of this policy. The rating plan period is the one-year period beginning with the effective date of the policy.

A. Assigned Risk Loss Sensitive Rating Plan Premium Elements

The amount of Assigned Risk Loss Sensitive Rating Plan premium depends on the six standard elements which are explained below:

1. Standard premium is the premium we would charge during the rating plan period if the insurance was not subject to this endorsement. We determine your standard premium based upon authorized rates, any experience rating modification and minimum premiums, including the effect of any other residual market rating plan or program.

Standard premium does not include the expense constant charge, the premium discount credit and premium developed by the:

- a. Passenger seat surcharge under Code 7421—Aircraft Operation—Flying Crew
- b. Occupational disease rates for risks subject to the Federal Coal Mine Health and Safety Act
- c. ~~Terrorism Risk Insurance Act of 2002~~ Premium developed by catastrophe provisions as outlined in Rule 3-A-24 of the *Basic Manual*.
- d. ~~Domestic Terrorism, Earthquakes, and Catastrophic Industrial Accidents~~ catastrophe provision
2. Basic premium is calculated by multiplying the standard premium by a basic premium factor. The basic premium factor is shown in the Schedule.
3. Incurred losses are all amounts we will pay or estimate we will pay for losses, interest on judgments, expenses to recover against third parties and employers liability loss adjustment expenses.
4. A converted loss is an incurred loss multiplied by a percentage called the loss conversion factor. The Assigned Risk Loss Sensitive Rating Plan loss conversion factor is shown in the Schedule.
5. Taxes are a part of the premium we collect. Taxes are determined as a percentage of expense and development premium and converted losses. The percentage is called the tax multiplier. The tax multiplier covers assessments, fees, licenses, and taxes that we must pay on the premium we collect. It varies by Federal and non-Federal classifications. The tax multiplier(s) for each state is shown in the Schedule.
6. Development premium is calculated by multiplying the standard premium by the product of the appropriate premium development factor, the loss conversion factor and the tax multiplier. The premium development factors are shown in the Schedule.

B. Assigned Risk Loss Sensitive Rating Plan Formula

1. Assigned Risk Loss Sensitive Rating Plan premium is the sum of the basic premium, development premium and converted losses, multiplied by the tax multiplier. The payment, if any, attributable to the ~~six~~ items excluded from standard premium in A.1. above, is a separate obligation of yours in addition to the Assigned Risk Loss Sensitive Rating Plan premium.
2. The Assigned Risk Loss Sensitive Rating Plan premium is subject to a minimum premium and a maximum premium. The minimum premium is determined by multiplying the total audited standard

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EXHIBIT 5 (CONT'D)
FORMS MANUAL OF WORKERS COMPENSATION AND EMPLOYERS LIABILITY INSURANCE
ASSIGNED RISK ONLY
APPLIES IN: AL, CT, DC, GA, ID, IL, IN, KS, MS, NV, NH, NC, SC, SD, VT

premium by the minimum premium factor. The maximum premium is determined by multiplying the total audited standard premium for the qualifying states by the applicable maximum premium factor. The minimum premium factor and maximum premium factor for each state are shown in the Schedule.

C. Premium Calculation and Payments

1. You will pay a premium which amounts to 120% of the estimated annual premium. If you obtain an acceptable clean, unconditional, Irrevocable Letter of Credit (ILOC), containing an automatic renewal clause, to secure the 20% additional deposit premium, the premium will be 100% of the estimated annual premium.
2. Your rating plan premium will be determined after the rating plan period ends. We will issue an endorsement to show any change in the premium for your insurance if your annual audited standard premium equals or exceeds the premium eligibility level in one or more states where this plan has been approved.
3. The first calculation of Assigned Risk Loss Sensitive Rating Plan premium shall be determined using all loss information valued as of 18 months after the month in which the rating plan period became effective. Three additional annual premium adjustment calculations shall be made based on loss information valued as of 30, 42, and 54 months after the month in which the rating plan period became effective.

We may make a special valuation of the Assigned Risk Loss Sensitive Rating Plan premium as of any date that you become bankrupt or insolvent, make an assignment for the benefit of creditors, are involved in reorganization, receivership or liquidation, or dispose of all your interest in work covered by the insurance. You will pay the amount due us if the Assigned Risk Loss Sensitive Rating Plan premium is more than the total standard premium as of the special valuation date.

4. After each valuation, you shall promptly pay to us the amount due, or we will refund the amount to you. If you fail to pay any premium due under this plan, your current policy will be canceled and you will be disqualified from future assignments through the assigned risk plan.

D. Cancellation

1. If the policy is canceled by you or by us, a determination shall be made as to whether this program shall apply. The Assigned Risk Loss Sensitive Rating Plan shall apply only to those policies where the payroll extended to an annual basis and multiplied by the manual rates and experience modification, equals or exceeds the premium eligibility level in any of the states where this program has been approved.
2. The Assigned Risk Loss Sensitive Rating Plan will not apply if you obtain coverage outside the residual market within 120 days after the effective date of the policy.
3. If you cancel, the standard premium for the rating plan period will be based on our short rate table and procedure. This short rate premium will be used to determine the Assigned Risk Loss Sensitive Rating Plan premium.
4. Section D.3. will not apply if you cancel because:
 - a. all work covered by the insurance is completed;
 - b. all interest in the business covered by the insurance is sold;
 - c. you retire from all business covered by the insurance, or
 - d. you obtain coverage in the voluntary market.

Schedule

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**EXHIBIT 5 (CONT'D)
FORMS MANUAL OF WORKERS COMPENSATION AND EMPLOYERS LIABILITY INSURANCE
ASSIGNED RISK ONLY**

APPLIES IN: AL, CT, DC, GA, ID, IL, IN, KS, MS, NV, NH, NC, SC, SD, VT

1. Basic Premium Factor	_____
2. Loss Conversion Factor	_____
3. Tax Multiplier	_____
4. Minimum Premium Factor	_____
5. Maximum Premium Factor	_____
6. LSRP Development Factors:	_____
1st Adjustment	_____
2nd Adjustment	_____
3rd Adjustment	_____
Subsequent Adjustments	_____ 0.00

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**EXHIBIT 6
URE WORKERS COMPENSATION STATISTICAL PLAN****14. STATISTICAL CODES—PREMIUM AMOUNT NOT SUBJECT TO EXPERIENCE
MODIFICATION FACTOR**

Report the premium credit or debit amount not subject to experience modification. These premiums should be reported separately from class code exposures and premiums under the designated class code or statistical code. These premiums are generated from the following premium programs or coverages:

- Aircraft Operation—Passenger Seat Surcharge (refer to Item 6.b. in this section for further instructions)
- Alternate Preferred Plan
- Assigned Risk Adjustment Program (ARAP)
- Assigned Risk Flat Charge
- Assigned Risk Surcharge
- Assigned Risk Tabular Surcharge
- Atomic Energy
- Catastrophe Provisions for Domestic Terrorism, Earthquakes, and Industrial Accidents
- Catastrophe Provisions for Foreign Terrorism
- Claims Deductible Coverage
- Contracting/Construction Class Code Program—Premium Debit Offset to Experience Rating
- Contracting/Construction Premium Adjustment Program
- Deductible Reporting
- Disease Experience—Coal Mining Risks
- Disease Experience—Supplemental
- Drug-Free Workplace
- Employee Leasing Rating Adjustment
- Expense Constant
- Group Supplemental Rating Plan
- Increased Limits for Admiralty and/or FELA Coverage—Balance to Minimum Premium
- Independent Carrier Filing
- Injury Management Program
- Large Deductible Coverage
- Loss Constant
- Managed Care
- Merit Rating Debits
- Merit Rating Program
- Minimum Premium (Balance to)
- Nonratable Portion of Class Code Rate
- Non-Rated Premium Credit
- Premium Discount: Stock Company/Nonstock
- Premium Transition Program
- Pulpwood Transition Program—Credit/Debit
- Rate Deviation Premium Adjustment

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**EXHIBIT 6 (CONT'D)
URE WORKERS COMPENSATION STATISTICAL PLAN**

- Rehiring Employees With Permanent Partial Disabilities
- Risk Management Premium Credit Program
- Safety Certification Premium Credit
- Schedule Rating Program
- Small Employer Loss Free Credit Program
- Small New Employer Credit
- Supplemental Disease Experience—in Connection with Asbestos Exposure
- Supplemental Experience Rating Plan Credit Premium Adjustments
- ~~Terrorism Risk Insurance Act of 2002—Certified Losses~~
- Transition Program
- Waiver of Subrogation
- Workplace Safety Credit/Debit

The statistical codes (including effective dates) used to report the specific premium programs listed above are shown in Part 7 of this Plan.

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EXHIBIT 7-A

URE WORKERS COMPENSATION STATISTICAL PLAN

9. STATISTICAL CODES – PREMIUM AMOUNT NOT SUBJECT TO EXPERIENCE MODIFICATION FACTOR

Description	Stat Code	Premium Credit (-) or Debit (+)	Applicable States (1)	Effective Date	Discontinuation Date
Terrorism Risk Insurance Act of 2002—Certified Losses	9740	+	All States	11/02	12/31/05
Catastrophe Provisions for Foreign Terrorism—Not Subject to Experience Rating	9740	+	All States	1/1/06	

EXHIBIT 7-B

VIRGINIA WORKERS COMPENSATION STATISTICAL PLAN

ADDENDUM

AVAILABLE PREMIUM CREDIT/SURCHARGE PROGRAMS NOT SUBJECT TO EXPERIENCE MODIFICATION

Description	Stat Code	Premium Credit (-) or Debit (+)	Applicable States	Effective Date	Discontinuation Date
Terrorism Risk Insurance Act of 2002—Certified Losses	9740	+	VA	Voluntary 12/20/02 Assigned Risk 1/1/03	12/31/05
Catastrophe Provisions for Foreign Terrorism—Not Subject to Experience Rating	9740	+	VA	1/1/06	