



October 10, 2016

VIA SERFF

The Honorable Karen Weldin-Stewart, CIR-ML
Insurance Commissioner
Department of Insurance
State of Delaware
841 Silver Lake Boulevard
Dover, DE 19904-2465

Attention: W. Harding (Hardy) Drane

**RE: DCRB Filing No. 1607 – Proposed Effective December 1, 2016
Proposed Revisions to Designated Auditable Payrolls and Concurrent
Sections 1 Manual Amendments**

Dear Commissioner Weldin-Stewart:

On behalf of the members of the Delaware Compensation Rating Bureau, Inc. (DCRB), we hereby submit the proposed filing for revisions to the DCRB Workers' Compensation Manual of Rules, Classifications and Rating Values for Workers Compensation and Employers Liability Insurance (Basic Manual). These revisions are proposed to be effective for policies issued on or after 12:01 a.m., December 1, 2016. This proposed effective date is intended to make implementation of these changes concurrent with DCRB's normal annual loss cost revision filing, which was submitted to the Department on August 2, 2016 (DCRB Filing No. 1603). This coordination will consolidate necessary changes that our members and other constituents must make to policies, forms and systems so that they occur once annually.

The Basic Manual designates various auditable weekly or annual payrolls including the weekly minimum and maximum corporate officer payrolls and the weekly maximum musicians' or entertainers' payrolls. The corporate officer weekly minimum and maximum payrolls are also used as a sole proprietor's or a partner's auditable payroll when the sole proprietor's or partner's payroll cannot be determined. DCRB reviews these designated payrolls annually. The proposed revisions to each of these designated payrolls are a function of the Statewide Average Weekly Wage (SAWW), with the calculated values rounded to the nearest \$50.00.

At their September 18, 2013 joint meeting the DCRB's Actuarial and Classification and Rating Committees reviewed a National Council on Compensation Insurance, Inc. (NCCI) proposal to revise the formula for calculating the minimum auditable payroll for corporate officers. Under the prior NCCI formula, corporate officers' minimum auditable payroll was set at fifty percent of the Statewide Average Weekly Wage (SAWW) rounded to the nearest \$50. The new NCCI formula proposed incremental increases in the corporate officer minimum auditable payroll until the value reached one hundred percent of the SAWW. After discussion, the Committees agreed to adopt a proposal which would apply incremental increases of ten percent per year to the minimum auditable payroll for corporate officers, rounded to the nearest \$50, until such reaches 100% of SAWW. Accordingly, for December 1, 2013, December 1, 2014 and

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December 1, 2015 the minimum auditable payrolls for corporate officers were filed (and approved by the Commissioner) at sixty, seventy and eighty percent, respectively, of SAWW rounded to the nearest \$50.

Effective July 1, 2016 Delaware's SAWW is \$1,034.18, an increase of 1.45% from the July 1, 2015 SAWW of \$1,019.44. Consistent with the previously approved procedure and the new SAWW value, DCRB has calculated the proposed December 1, 2016 minimum auditable corporate officer payroll at ninety percent of SAWW rounded to the nearest \$50.

DCRB continues to use the formula reviewed and approved by the Committee in the early 1980s for calculating the maximum auditable corporate officer payroll. That formula remains at 2.5 times SAWW.

DCRB's current approved maximum payroll to be audited for musicians or entertainers who are not independent contractors is \$250. Pursuant to conversations with senior test audit staff which advised that it is rarely used, DCRB has not proposed any revision to this designated payroll since at least December 1, 2002. DCRB has reconsidered this approach and opines that, while rare, issues pertaining to this designated payroll may arise and therefore it should be revised along with the other designated auditable payrolls discussed above. The current maximum payroll of \$250 per week is 24.17% of the July 1, 2016 SAWW of \$1,034.18. DCRB proposes that the current maximum payroll be revised from \$250 per week to \$500 per week effective December 1, 2016. This will bring this designated payroll to 48.35% of the current SAWW. Concurrent with subsequent comprehensive loss cost filings, DCRB plans to propose increases until the maximum payroll to be audited for musicians or entertainers reaches 100% of SAWW.

This review results in the following December 1, 2016 proposals:

- That the corporate officer minimum be revised from \$800 per week to \$950 per week.
- That the corporate officer maximum be revised from \$2,550 per week to \$2,600 per week.
- That the maximum auditable payroll for musicians or entertainers who are not independent contractors be revised from \$250 per week to \$500 per week.

In light of the intended coordination of this filing with the DCRB's pending annual comprehensive rating values revision noted above, the DCRB respectfully requests a prompt review and approval of this filing toward the objective of its implementation, as proposed, for policies issued on or after 12:01 a.m., December 1, 2016. Toward that objective, the DCRB will be pleased to answer any questions that you or the Department of Insurance staff may have.

Sincerely,



William V. Taylor
President

Enclosure: Revisions to Section 1

DELAWARE WORKERS COMPENSATION MANUAL OF RULES, CLASSIFICATIONS AND RATING VALUES FOR WORKERS COMPENSATION AND FOR EMPLOYERS LIABILITY INSURANCE

Proposed Effective December 1, 2016

INFORMATION PAGE remains unchanged.

PREFACE remains unchanged.

MEMBERSHIP remains unchanged.

SECTION 1 – Underwriting Rules

RULE V – PREMIUM BASIS

B. REMUNERATION

No Change for Item 1

2. INCLUSIONS

Remuneration includes:

No Changes for Items a. through m.

- n. Musicians or entertainers who are not independent contractors shall be included in computation of premiums of hotels or restaurants (maximum of \$500~~250~~ per week for each musician or entertainer);

No Changes for Items o through t.

No Changes for Items 3 through 5

RULE IX - SPECIAL CONDITIONS OR OPERATIONS AFFECTING COVERAGE

A. EXECUTIVE OFFICERS

No Changes for Items 1 through 4

5. Premium Determination

Premium for executivesubject to the following:

- a. No change.
- b. The minimum individual payroll for an executive office is \$950~~800~~ per week.
- c. The maximum individual payroll for an executive officer is \$2,600~~2,550~~ per week.
- d. No change.
- e. No change.

No Changes for Items 6 through 8

SECTION 1 – Appeals Procedure through **SECTION 6 – Merit Rating Plan** remain unchanged

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VALUES FOR WORKERS COMPENSATION AND FOR EMPLOYERS LIABILITY INSURANCE**

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Remuneration includes:

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RULE IX - SPECIAL CONDITIONS OR OPERATIONS AFFECTING COVERAGE

A. EXECUTIVE OFFICERS

No Changes for Items 1 through 4

5. Premium Determination

Premium for executivesubject to the following:

- a. The requirements of Rule V-E.
- b. The minimum individual payroll for an executive office is **\$950** per week.
- c. The maximum individual payroll for an executive officer is **\$2,600** per week.
- d. No change.
- e. No change.

No Changes for Items 6 through 8

SECTION 1 – Appeals Procedure through **SECTION 6 – Merit Rating Plan** remain unchanged