



May 11, 2017

DCRB CIRCULAR NO. 932

To All Members of the DCRB:

**Re: ANNIVERSARY RATING DATE (ARD) ELIMINATION
Frequently Asked Questions**

Bureau Circular No. 928 previously announced the elimination of the Anniversary Rating Date rule effective May 1, 2017. The Bureau is publishing the following Frequently Asked Questions in response to questions that have surfaced since the release of that circular announcing this change. The questions and answers in this FAQ are intended to clarify or provide instruction on dealing with the elimination of ARD.

General Questions

1. What is Anniversary Rating Date (ARD)?

The ARD is the effective month and day of a workers compensation policy in effect and each anniversary thereafter unless a different date has been established. ARD is usually the policy effective date and each renewal date unless the policy has been issued for a different term. The ARD is especially important in cases where a policy has been cancelled or rewritten on a different effective date.

2. What was the original purpose of ARD? And does ARD exist in other lines of business?

The ARD rule originated during the early development of the workers compensation system. ARD provided a structure for the application of rules, classifications, and rates to workers compensation insurance policies. The original intent of applying an ARD was to ensure that no policy was cancelled, rewritten or extended to avoid, or take advantage of changes in rules, classifications or rates. Under the ARD provision, if a policy cancelled mid-term the rewritten policy would use the rating values approved for the insurer on the ARD, and not the new policy effective date. The ARD concept is unique to workers compensation.

3. Why is ARD being eliminated?

For many in the insurance industry, particularly employers, the ARD rules were a source of confusion. While the concept may be relatively simple, in practice, the determination of the ARD could be difficult.

4. When is the elimination of ARD effective?

The elimination of the ARD is effective for new and renewal policies effective on or after May 1, 2017. The elimination of the ARD is a country-wide initiative and many states have adopted the change. The Delaware implementation date is consistent with most other states.

5. What does the elimination of ARD mean?

The elimination of the ARD means that all rules, classifications and rates are applied on the effective date of the policy instead of on the ARD.

6. How is the policy effective date defined?

The policy effective date is the effective month, day, and year of the start of the workers compensation policy.

7. In the absence of the ARD rule, what prevents employers or carriers from cancelling policies to take advantage of lower rates?

Without the ARD rule, nothing prohibits an employer from cancelling a policy to take advantage of a recent loss cost/rate filing decrease. Carriers may impose a short-rate penalty for early cancellation of the policy which may negate any potential savings for the policyholder.

8. What is a short rate penalty?

The short rate penalty is a fee incurred when the insured cancels a policy during the coverage period. Depending on the length of time the policy being cancelled was in force, the short rate penalty may negate the premium savings anticipated when switching to a different insurer with lower class rate(s). Employers should be made aware of the "short rate penalty" before making a decision to switch insurers before the expiration date of the in force policy.

9. When and how will employers be notified that they no longer have an ARD?

For employers that continue to renew their policies on a consistent annual basis, the elimination of the ARD will not impact them in any way and notification will not be necessary. For others, when a cancellation occurs, the new policy from the rewriting carrier will serve as notification to the employer of the applicable rates, rules, classifications, experience rating modifications, etc., that are in effect.

[Application of Pricing Programs after the Elimination of ARD](#)

10. In absence of the ARD, what date determines the effective date of the experience or merit rating?

The Rating Effective Date (RED) determines the effective date of the experience modification or merit rating. The RED is the earliest date that a specific experience modification or merit rating adjustment is applied to a policy. The Rating Effective Date does not dictate the application of rules, classifications or carrier rates; that is the function of the Policy Effective Date. The rating effective date is equal to the experience modification effective date.

In most cases, the RED date will be the same as the Policy Effective Date, but in some cases they will not be the same date. Unlike the Policy Effective Date, the RED determines a risk's experience period to be used in the calculation of an experience rating modification.

The RED may differ from a risk's policy effective date for reasons including, but not limited to:

- Short-term policies
- Cancellations
- Gaps in Coverage
- Changes in ownership or combinability status
- Multiple policy effective dates
- A policy that is longer than one year and 16 days
- Late receipt of current policy information by the DCRB

Note that references to the ARD will be eliminated throughout the Experience Rating Plan and Merit Rating sections of the Delaware Workers Compensation Manual of Rules, Classifications and Rating Values for Workers Compensation and for Employers Liability Insurance.

11. Does the elimination of ARD impact experience rating calculation?

There is no impact to the calculation of experience rating modification factors. There is also no impact to the process of determining the experience period used in the experience rating calculation. The DCRB will determine the rating effective date based on the individual employer's policy history.

12. Does the elimination of the ARD impact the application of the Workplace Safety Program (DWSP)?

No, it does not. The DWSP is applied to the next policy effective following certification by the Delaware Insurance Department. The DCRB will continue to update an experience rated employer's rating worksheet with statistical Code 9880 and provide written notification to both the employer and insurer of the approved credit. Employers eligible for participation in the DWSP will continue to be notified seven months in advance of their current policy effective date.

13. How will the Delaware Construction Classification Premium Adjustment Program (DCCPAP) apply when the policy effective date differs from the rating effective date?

Employers eligible for participation in the DCCPAP will continue to be notified seven months in advance of their current policy effective date. Employer's submitting an application and meeting the required average hourly wage will be notified of their credit which will apply to the next policy effective date following eligibility.

14. How is the rating effective date determined when the risk is involved in a Wrap-Up or OCIP?

The standard policy (i.e. non wrap-up) of the risk will determine the rating effective date. If the risk is an out-of-state contractor with only wrap up policies, the rating effective date will be determined by the wrap-up policy. If there are multiple wrap-up policies, the policy with the highest standard premium will determine the rating effective date.

Application of Classification Changes after the Elimination of ARD

15. If the employer's classification has been changed to a higher rated class, when does the new classification apply?

A change in classification which results in a premium increase shall be applied to the employer's first policy effective at least six months subsequent to the date of the DCRB's notification date.

Example	Notification Date	Policy Effective Date	Policy Expiration Date	New Class Applied	Comment
1	6/6/17	5/12/17	5/12/18	5/12/18	Full term policy, apply at next renewal.
2	6/6/17	5/12/17	12/15/17	12/15/17	Short term policy; apply at next policy effective date.
3	6/6/17	5/12/17	1/1/18	1/1/18	Previous policy cancelled and rewritten.

16. If the employer's classification has been changed to a lower rated class, when does the new classification apply?

A change in classification which results in a premium decrease shall be applied to the employer's current policy and any prior policy terminating within 12 months of the current policy.

Notification Date	Policy Effective Date	Policy Expiration Date	New Class Applied	Comment
6/6/17	5/12/17	5/12/18	5/12/17	Full term policy, apply to current policy.
6/6/17	5/12/16	5/12/17	5/12/16	Apply to any policy terminating within 12 months of current policy
6/6/17	5/12/15	5/12/16	N/A	

17. If the classification of a risk is revised or modified, the DCRB shall similarly reassign the classification of the experience period, provided that the change is not due to a change in operations? How will this apply when the rating effective date and the policy effective date are different?

A change in classification will not impact the rating effective date. The experience of the risk will be reassigned to the new classification to be used in the next rating effective date following approval of the new classification regardless of whether the policy effective date changes.

Notification Date	Policy Effective Date	Policy Expiration Date	New Class Applied	RED	Comment
6/6/17	5/12/17	5/12/18	5/12/18	5/12/18	Full term policy, apply at next renewal.
6/6/17	5/12/17	12/15/17	12/15/17	5/12/18	Short term policy; apply at next policy effective date.
				12/15/18	

Policy Issuance Questions

18. Does the ARD still apply if the policy is effective prior to May 1, 2017 and has an ARD of October 12, 2017?

Yes. ARD elimination is effective on new and renewal policies effective May 1, 2017 or after. Policies effective prior to May 1, 2017 that have been issued with an ARD will be subject to anniversary rating rules and procedures until the expiration date of the policy.

Policy	ARD	Rules, Classes and Rates Effective as of	Applies From	Applies Until	RED/ Experience Mod Effective Date
10/12/16 - 4/1/17	10/12/16	10/12/16	10/12/16	10/12/17	10/12/16
4/1/17 - 4/1/18	10/12/16	10/12/16	4/1/17	10/12/17	10/12/17
	10/12/17		10/12/17	4/1/18	

19. What is the procedure when Delaware is added mid-term to an out of state policy with a different policy effective date?

All rules, classifications and rates in effect on the effective date of the policy to which the state has been added will apply to the Delaware portion of the policy.

Out of State Policy Effective Date	DE Added	Apply Rules/Classes and Rates, Effective as of
3/19/17	7/30/17	3/19/17

Data Reporting Guidelines

1. How will the Rating Effective Date be reported on the WCPOLS record?

The Rating Effective Date (RED) determines the effective date of the experience modification or merit rating. The RED is the earliest date that a specific experience modification or merit rating adjustment is applied to a policy. The WCIO WCPOLS record does not contain a field for the Rating Effective Date. For Delaware, the Rating Effective Date will be equal to the Experience Modification Effective Date. Data reporters should report the Rating Effective Date in the Experience Modification Effective Date field.

2. If a policy is effective prior to May 1, 2017, has an ARD of October 1, 2017 and no experience modification, how is the ARD reported?

See below:

Policy Effective Date 04/01/17

WCPOLS

Record Type	State Premium State Code	Experience Modification Factor/Merit Rating Factor	Experience Modification Effective Date/Rating Effective Date	Anniversary Rating Date
04	37	0000	000000	000000
04	37	0000	000000	171001

WCSTAT

Record Type	Policy Effective Date	Exposure State Code	Experience Modification Factor	Experience Modification Effective Date/Rating Effective Date	Rate Effective Date
04	170401	37	0000	161001	161001
04	170401	37	0000	171001	171001

3. If a policy is effective prior to May 1, 2017, has an ARD of October 1, 2017 and an experience modification, how are the ARD and Experience Modification Effective Date (Rating Effective Date) reported?

See below:

Policy Effective Date 04/01/17

WCPOLS

Record Type	State Premium State Code	Experience Modification Factor/Merit Rating Factor	Experience Modification Effective Date/Rating Effective Date	Anniversary Rating Date
04	37	1240	000000	000000
04	37	1540	171001	171001

WCSTAT

Record Type	Policy Effective Date	Exposure State Code	Experience Modification Factor	Experience Modification Effective Date/Rating Effective Date	Rate Effective Date
04	170401	37	1240	161001	161001
04	170401	37	1540	171001	171001

4. How should a change in experience modification be reported for a policy effective after May 1, 2017?

See below:

WCPOLS

Record Type	State Premium State Code	Experience Modification Factor/Merit Rating Factor	Experience Modification Effective Date/Rating Effective Date	Anniversary Rating Date
04	37	1240	000000	000000
04	37	1540	170525	000000

WCSTAT

Record Type	Policy Effective Date	Exposure State Code	Experience Modification Factor	Experience Modification Effective Date/Rating Effective Date	Rate Effective Date
04	170901	37	1240	160525	170901
04	170901	37	1540	170525	170901

Questions or comments pertaining to the subject matter of this circular may be directed to Delisa Fairley-Vice President-Underwriting at Extension 4411 or dfairley@dcrb.com, Bonnie Piacentino-Senior Vice President at Extension 4456 or bpiacentino@dcrb.com.

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