



October 19, 2017

VIA SERFF

The Honorable Trinidad Navarro
Insurance Commissioner
Department of Insurance
State of Delaware
841 Silver Lake Boulevard
Dover, DE 19904-2465

Attention: Mitch Crane, Deputy Insurance Commissioner

RE: DCRB Filing No. 1706
Revisions to Designated Auditable Payrolls and Section 1 Manual Amendments
Proposed Effective December 1, 2017

Dear Commissioner Navarro:

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, 2017. This proposed effective date is intended to make implementation of these changes concurrent with DCRB's normal annual loss cost and residual market rate revision filing, which was submitted to the Department on August 4, 2017 (DCRB Filing No. 1701). This coordination will consolidate necessary changes that our members and other constituents must make to policies, forms and systems. This approach traditionally allows changes of this nature to occur once annually.

The Basic Manual designates the following auditable weekly payrolls: 1) the corporate officer weekly minimum and maximum payrolls, and 2) 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. The DCRB reviews these designated auditable payrolls annually. The proposed revisions to each of these designated payrolls are a function of Delaware's Statewide Average Weekly Wage (SAWW) effective July 1, 2017 (\$1,030.49 – a decrease of 0.36% in relation to the July 1, 2016 SAWW of \$1,034.18) with results rounded to the nearest \$50.00 for the maximum corporate officer payrolls.

At their September 18, 2013 joint meeting, the Delaware Compensation Rating Bureau's Actuarial and Classification and Rating Committees reviewed a National Council on Compensation Insurance, Inc. (NCCI) proposal to revise the formula for calculating the weekly minimum auditable payroll for a corporate officer. The prior formula had the corporate officer weekly minimum auditable payroll set at 50% of SAWW rounded to the nearest \$50.00. The

new formula proposed an incremental increase in the corporate officer weekly minimum auditable payroll until the value reached 100% of SAWW. After discussion, the Committees agreed that the appropriate incremental increase was 10% a year rounded to the nearest \$50.00. Accordingly, for December 1, 2013, December 1, 2014, December 1, 2015 and December 1, 2016 the minimum auditable payrolls for corporate officers were filed (and approved by the Commissioner) at 60%, 70%, 80% and 90%, respectively, of SAWW rounded to the \$50.00. Effective December 1, 2017, DCRB proposes that the corporate officer weekly auditable payroll amount is equal to 100% of SAWW and that concurrently the practice of rounding the proposed corporate office weekly minimum auditable payroll to the nearest \$50 be discontinued..

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 approved maximum weekly payroll to be audited for musicians or entertainers who are not independent contractors was set at \$250.00 per week since at least December 1, 2002. This maximum weekly payroll was not revised for December 1, 2002 through December 1, 2016 pursuant to conversations with senior test audit staff which advised that it is rarely used. DCRB reconsidered this approach, and concluded 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. For December 2016, DCRB proposed that this designated payroll be set at 48.35% of the SAWW rounded to the nearest \$50 in effect at that time. For December 1, 2017, the DCRB proposes to increase this designated payroll to 72.8% of the current SAWW rounded to the nearest \$50 in effect at that time concurrent with DCRB's December 1, 2018 comprehensive loss cost and residual market rate filing, DCRB plans to propose that the designated payroll be brought to 100% of SAWW.

This review results in the following December 1, 2017 proposals:

- The corporate officer minimum be revised from \$950.00 weekly to \$1,030.00 per week.
- The corporate officer maximum be revised from \$2,600.00 weekly to \$2,575.00 per week.
- The maximum auditable payroll for musicians or entertainers be revised from \$500.00 per week to \$750.00 per week.

Thank you in advance for your prompt review and attention to this filing. The DCRB will be pleased to answer any questions that you or the Department of Insurance staff may have regarding these proposals.

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, 2017

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 \$500750 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~~1030 per week.
- c. The maximum individual payroll for an executive officer is ~~\$2600~~2575 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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- b. The minimum individual payroll for an executive office is \$1030 per week.
- c. The maximum individual payroll for an executive officer is \$2575 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