

Bulletin 04-03

TO: All Workers Compensation Insurers

FROM: Gary Steuck, Director

RE: Prospective Loss Cost Filing Procedures

DATE: May 3, 2004

THIS BULLETIN REPLACES BULLETIN 94-3. This bulletin only applies to the voluntary market. NCCI will continue to file final rates for the residual market for approval from the Division of Insurance.

This bulletin lays out the operational framework for advisory/rating organizations and the insurers participating in these organizations under a loss cost system. Under this system, advisory/rating organizations develop and file advisory prospective loss costs and the related actuarial and statistical data supporting the filing. Advisory/rating organizations will also continue to develop and file rules, relativities, and supplementary rating information on behalf of their participating insurers. Insurers must adopt prospective loss costs on the effective date approved by the Director.

Definitions

- A) "Expense," that portion of a rate attributable to acquisition, field supervision, collection expenses, general expenses, taxes, licenses, fees and claims adjusting expenses.
- B) "Rate," the cost of insurance per exposure unit, whether expressed as a single number or as a prospective loss cost, with an adjustment to account for the treatment of expenses and profits prior to any application of individual risk variations based on loss or expense considerations, excluding minimum premiums.
- C) "Prospective loss costs," that portion of a rate based on historical aggregate losses adjusted through development to their ultimate value and projected through trending to a future point in time, excluding expenses or profit.
- D) "Supplementary rating information," any manual or plan of rates, classification, rating schedule, minimum premium, policy fee, rating rule, rate-related underwriting rule, experience rating plan, statistical plan and any other similar information needed to determine the applicable rate in effect or to be in effect.
- E) "Director," the Director of the South Dakota Division of Insurance.

Section I. Rates/Loss Costs

A) Advisory/Rating Organization Action

- Advisory/rating organizations do not develop or file advisory final rates that contain provisions for expenses and profits. Instead, advisory/rating organizations develop and file with the Director a reference filing containing advisory prospective loss costs and supporting actuarial and statistical data.
- Reference filings will contain the advisory prospective loss costs, the underlying loss data and other supporting actuarial information for any calculations or assumptions underlying those loss costs.
- After a reference filing has been filed with and approved by the Director, advisory/rating organizations will provide their participating insurers with an updated circular.
- Advisory/rating organizations may print and distribute manuals of prospective loss costs, rules and other supplementary rating information.
- Advisory/rating organizations will not develop or file any minimum premiums, minimum premium formulas or expense constants.

B) Insurer Action

- Each insurer must individually determine the final rates it will file for approval based on its own loss cost multiplier(s).
- The insurer must file the reference filing adoption form when making a change to their previous filing. An insurer's rates are the combination of the prospective loss costs and the loss costs multiplier(s) contained in the calculation of company loss cost multiplier form. Both forms are included in this bulletin and may be duplicated.
- Insurers may vary expense loads by individual classification or industry grouping. Insurers may use variable or fixed expense loads or a combination of these to establish their expense multipliers.
- Insurers filing a loss cost multiplier(s) must provide five (5) years of loss experience/expense history to support the filing.
- Insurers must continue to offer the Merit Rating Plan for non-experience rated risks.
- Insurers may continue to offer the Scheduled Rating Plan for experience rated risks.
- An insurer must file its initial and subsequent changes to its minimum premium rules or formulas and amounts it proposes to use regardless of whether the changes were based upon the annual NCCI loss cost filing or otherwise.

- An insurer's filed and approved loss cost multiplier(s) will remain in effect until changed. Multipliers may not be amended without the approval of the Director.
- Insurers may file other information as they deem relevant and they shall provide any information requested by the Director.
- If an insurer chooses to print and distribute its final approved rates for its own use, the insurer need not file those pages with the Director.
- Insurers can file a change to their loss cost multiplier(s) at anytime. However, insurers must adopt NCCI loss costs on the date approved by the Director.

All inquiries concerning this bulletin should be addressed to:

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**SOUTH DAKOTA
WORKERS COMPENSATION
REFERENCE FILING ADOPTION FORM**

1. INSURER NAME _____
ADDRESS _____

CONTACT PERSON _____
TITLE _____ PHONE # _____

2. INSURER NAIC # _____

3. ADVISORY/RATING ORGANIZATION REFERENCE FILING # _____

4. CHECK ONE OF THE FOLLOWING:

- The Insurer hereby files to have one loss cost multiplier applicable to all loss costs filed by the advisory/rating organization.

- The insurer hereby files to have various loss cost multipliers applicable to specific classifications or groupings which are referenced below. A separate Calculation of Company Loss Cost Multiplier Form for each classification or grouping is attached.
Note: Please duplicate forms as needed.

**SOUTH DAKOTA
CALCULATION OF COMPANY LOSS COST MULTIPLIER
SUMMARY OF SUPPORTING INFORMATION FORM**

NAME OF INSURER _____

NAIC # _____

1. Does this filing apply to all classes contained in item 4 of the Reference Filing Adoption Form? YES ___ NO ___
If no, please identify the applicable classes or groups affected: _____

2. Development of Expected Loss and Loss Adjustment Expense Ratio.
(Attach exhibits detailing insurer expense data, impact of premium discount plans, and other supporting information.)

NOTE: All expenses should be shown as a percentage of standard premium at company rates.

PROJECTED EXPENSES:

A. Total Production Expense.....	_____	%
B. General Expense	_____	%
C. Claims Adjusting Expense	_____	%
D. Taxes, Licenses & Fees	_____	%
E. Profit & Contingencies	_____	%
F. Offset for Investment Income	_____	%
G. Other (Explain)	_____	%
H. TOTAL	_____	%

3. Expected Loss Ratio:
 ELR = 100% - #2H (Expressed in decimal form) _____

4. Overall impact of expense constant & minimum premiums
 (Express 2.3% as 1.023) _____

5. Overall impact of size-of-risk discounts:
 (An 8.6% impact would be expressed as 0.914) _____

6. Company Formula Loss Cost Multiplier = 1.000/[(#5 - #2H) x #4] _____

7. Are you amending your minimum premium formula? YES ___ NO ___
 (If yes, attach documentation including rate level impact as well as changes in multipliers, expense constants, etc.)

8. Are you amending your expense constant or premium discount table? YES ___ NO ___
 (If yes, provide documentation.)

