

PENNSYLVANIA COMPENSATION RATING BUREAU  
NCCI Filing Memorandum

Attached are selected portions of an NCCI Filing Memorandum ( ITEM B-1403-Revision to Basic Manual and Retrospective Rating Plan Manual/2006 Update to Hazard Group and Retrospective Rating Plan Parameters). Pages pertaining to a particular state and pages showing NCCI class codes by hazard group have been excluded from this attachment.

The PCRБ is filing the Table of Expected Loss Ranges as shown on page 24 of ITEM B-1403. Excess loss pure premium for USL&H coverages shown on page 29 of Item B-1403 are included for informational purposes. It is the Bureau's intention to include the USL&H factors as a separate filing at a later date

## FILING MEMORANDUM

### ITEM B-1403—REVISION TO BASIC MANUAL AND RETROSPECTIVE RATING PLAN MANUAL/2006 UPDATE TO HAZARD GROUPS AND RETROSPECTIVE RATING PLAN PARAMETERS

(To be effective on new and renewal voluntary and assigned risk business.)

#### PURPOSE

The purpose of this item is to revise the Hazard Groups and update the Expected Loss Ranges and State Hazard Group Relativities in NCCI's *Basic Manual for Workers Compensation and Employers Liability Insurance* and *Retrospective Rating Plan Manual for Workers Compensation and Employers Liability Insurance*. In addition, updated Excess Loss Factors are included for United States Longshore and Harbor Workers' Act (USL&HW) and for loss cost states with loss cost filings that are effective between January 1, 2007 and July 1, 2007. As a result of this filing, the following changes will occur:

- The number of hazard groups will be increased from four to seven. Since some carriers may not be able to update their systems with the seven-hazard-group system in the time required, this filing also provides a revised four-hazard-group system.
- All assigned risk carriers in the states of AL, AR, CT, GA, KS, NV, NH, NM, NC, SC, SD will apply the seven-hazard-group system uniformly to residual market accounts that select deductible options.
- One Table of Classifications by Hazard Group will be created as Appendix E of the *Basic Manual*; both hazard group systems (seven and four) will be included.
- Part Four F—Table of Classifications by Hazard Group will be removed from the *Retrospective Rating Plan Manual*.
- Individual state Tables of Classifications by Hazard Group will be removed from each individual state's Miscellaneous Rules section of the *Basic Manual*.

#### BACKGROUND

Retrospective rating is a plan for adjusting the risk premium of a policy according to the loss experience during the effective period of the policy. At the simplest level, an insured's retrospective premium is determined by the formula  $R = (b + cL)T$ , where

R	=	Retrospective premium, subject to minimum and maximum amounts
b	=	Basic premium
c	=	Loss conversion factor, generally reflecting loss adjustment expense
L	=	Actual incurred loss during the effective policy period
T	=	Tax multiplier

The retrospective premium, R, is not known until after the policy has expired and the actual losses are fully developed.

The basic premium contains provisions for the expenses of the carriers. It also includes a net insurance charge, which results from the maximum and minimum limitations on the retrospective premium. The net insurance charge reflects the charge to compensate for the possibility that R will exceed the maximum

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## **FILING MEMORANDUM**

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premium amount. It also reflects the savings resulting from the possibility that R will be less than the minimum premium amount. The net insurance charge is the difference between the charge for the maximum and the savings from the minimum.

The Retrospective Rating Plan contains an optional provision—an individual loss limitation—which limits the amount of loss arising out of any one accident that will be used in the calculation of retrospective premium adjustments. The charge for limiting losses is determined by application of an Excess Loss Factor (ELF) to the standard premium multiplied by the appropriate Loss Conversion Factor.

#### **Hazard Groups**

Hazard group assignments are used to establish the proper ELF for risks electing a loss limitation under a retrospective rating plan. Class codes are assigned to hazard groups based on their ELFs. This effectively categorizes the relative extent to which workers are exposed to serious occupational injuries.

NCCI completed a statistical analysis that was supplemented from an underwriting perspective. The statistical analysis was based on classification data in those states where NCCI collects workers compensation statistical plan data. Cluster analysis was used to optimally group classifications with similar ELFs.

Hazard groups are also used in deductible programs, which are offered in several states on an optional basis. In these states, the premium reduction percentages vary by hazard group. Revised deductible values that incorporate the new hazard group assignments will be included in the next rate or loss cost filing that is effective on or after January 1, 2007. The hazard group assignments are based on the classification, subject to any deductible amount, that produces the largest amount of estimated workers compensation standard premium for that state.

#### **Expected Loss Ranges**

The Table of Insurance Charges contains the excess ratios needed to quantify the insurance charge and savings described above. The ratio of actual losses to expected losses—the entry ratio—is used to look up the values in the Table of Insurance Charges. The charges depend on the maximum and minimum subject losses, and on the size of the insured. The variation in the loss ratios, hence the charges, of the larger employers for which greater losses are expected should be much lower than the variation for smaller employers.

As inflation increases claim size, there is an apparent growth in the size of the insured, measured in expected losses, but no real growth in the size of the insured, measured in the expected number of claims. To correct for the impact of loss size inflation, NCCI is proposing that the Table of Expected Loss Ranges be updated for the trend in average size of loss. The last time such an update was made was in 2005 (Item R-1395—2005 Update to Retrospective Rating Plan Parameters). The current Table of Expected Loss Ranges was based on a projected annual increase in severity of 9% from March 5, 2002 to August 15, 2006. NCCI has since observed an actual annualized growth in severity of 10.1% from March 5, 2002 to February 15, 2003. NCCI projects an annual growth in severity of 9% from February 15, 2003 to January 1, 2008. The new table incorporates both these observed and projected changes in severity.

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#### State Hazard Group Relativities

The variation in the loss ratios of employers in the lower hazard groups generally should be smaller than the variation for employers in the higher hazard groups. The State Hazard Group Relativity Factors adjust for this difference by placing lower hazard group employers in a higher Expected Loss Size Range and higher hazard group employers in a lower Expected Loss Size Range than would otherwise be the case. This adjustment affects the column selection in the Table of Insurance Charges, which then impacts the basic premium portion of the retrospective policy premium.

NCCI will review the State Hazard Group Relativities and recommend appropriate item filings regularly due to changes in the circumstances (changes in state statutory benefit levels, inflation, etc.) underlying each state's severity.

#### Excess Loss Factors

The ELF's vary by loss limitation and hazard group; ELF's are produced for each state and for USL&HW. This variation in ELF's across hazard groups reflects the varying degrees of severity exposure to occupational hazards inherent to operations associated with each classification. ELF's must be updated for three reasons:

1. ELF's vary by hazard group and so they must be updated when the hazard groups change.
2. ELF's are computed from excess ratios giving the percentage of losses expected to be above a given limit. For any fixed limit, inflation will increase the percentage of losses above that limit and so excess ratios and ELF's must be updated regularly to reflect this.
3. Overall excess ratios are computed as a weighted average of injury type excess ratios; therefore, excess ratios, and consequently ELF's, must be updated regularly for changes in the mix of injury types.

The proposed state ELF's are based on the data underlying the currently approved ELF's in each state. This data was trended forward to the effective date of the next filing, and the proposed state ELF's were then computed in the same way as the currently approved ELF's.

## PROPOSAL

It is proposed that NCCI's *Basic Manual* and *Retrospective Rating Plan Manual* be amended as contained in the attached exhibits.

#### Hazard Groups

It is proposed that the number of hazard groups be increased from the current four to seven. The seven new hazard groups will be labeled A, B, C, D, E, F, and G, with A being the lowest hazard group with the least likelihood of serious claims and G being the hazard group with the highest likelihood of serious claims.

**Exhibit 1** details the changes to NCCI's *Basic Manual* for inclusion of the hazard group table located in a new Appendix E. Appendix E will provide the applicable state(s) and the appropriate hazard group for each classification. The term "National" means that the classification code applies in all jurisdictions that follow the NCCI classification system (excluding West Virginia). In the future, NCCI will provide notification of changes to those states where the change is applicable. These changes will be added to the chart and supplied to all subscribers in all states.

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**Exhibit 2** details the removal of the Table of Classifications by Hazard Group from NCCI's *Retrospective Rating Plan Manual*. The new Appendix E of NCCI's *Basic Manual* will be the location for the Table of Classifications by Hazard Group.

NCCI is filing the revised seven hazard group assignments and associated information on behalf of all carriers licensed to write in NCCI states.

Some carriers may wish to maintain four hazard groups, due to lead time needed for computer programming or other considerations. This filing also incorporates the appropriate tables for these carriers to reference if they need to separately file for four hazard groups. The new four-hazard-group option will be labeled 1 to 4. The new groups 1 to 4 will not be the same as the current groups I to IV (for example, some classifications in the current hazard group II will be in the new hazard group 2, while others will be in the new 1 or 3).

The four- and seven-hazard-group options are related. The new hazard group 1 is the result of combining hazard groups A and B, the new hazard group 2 is the result of combining hazard groups C and D, the new hazard group 3 is the result of combining hazard groups E and F, and the new hazard group 4 is the same as hazard group G. The proposed hazard group assignments are shown in Exhibit 1.

**Carriers that elect to use NCCI's four hazard groups must make a filing in each state to adopt the filed four-hazard-groups referenced in this item. If a carrier does not file to elect the four-hazard-groups, they are considered to have accepted the seven- hazard-groups..**

#### **Expected Loss Ranges**

This filing updates the Table of Expected Loss Ranges for entry into the Table of Insurance Charges. The proposed ranges are found in **Exhibit 3**.

#### **State Hazard Group Relativities**

This filing also updates the State Hazard Group Relativities of the Retrospective Rating Plan for each state. **Exhibit 4** provides a description of the development of the relativities for the seven-hazard-groups and **Exhibit 5** provides a description of the development of the relativities for the four-hazard-groups. As explained in these exhibits, individual state severities, as well as countrywide severities, are used in the calculation of the relativities.

The proposed State Hazard Group Relativities are found in **Exhibit 6** and **Exhibit 7** for the seven-hazard-groups and four-hazard-groups, respectively.

#### **Excess Loss Factors**

For USL&HW and states that publish loss costs rather than final rates and that have loss cost filing effective dates between January 1, 2007 and July 1, 2007, this filing updates the ELFs for the new hazard groups. The proposed USL&HW ELFs are shown in **Exhibit 8**.

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#### State Specific Exhibits – Hazard Group Relativities and Basic Manual Revisions

The proposed state ELF's are shown in **Exhibit 9**. **Exhibit 10** provides the four-hazard-group state ELF's for those carriers that prefer to adopt the new four-hazard-groups. In states that publish final rates, and in loss cost states with filings effective after July 1, 2007, revised ELF's will be included in the state's next rate filing.

**Exhibit 11** shows the revisions required to state miscellaneous rules, where applicable, in order to implement this item. Many of the state's Deductible Insurance Rules cite that the applicable hazard group is determined from the Table of Classifications by Hazard Group "shown below." The Table of Classifications by Hazard Group will move to Appendix E of the *Basic Manual*, so there must be a revision to the Deductible Insurance Rules to provide the proper location of the Table of Classifications by Hazard Group. In reviewing the Deductible Insurance Rules, there were some states that specified the appropriate endorsement number in the rules. To make the information consistent, the appropriate endorsement number was added to those states that did not have this information. Since there will be one Table of Classifications by Hazard Group, the elimination of individual state Tables of Classifications by Hazard Group is also included in this filing as **Exhibits 12**. For states that currently have Loss Elimination Ratios included in their Miscellaneous Rules, updated values will be included with the next loss cost/rate filing.

#### IMPACT

##### Hazard Groups and Excess Loss Factors

The proposed changes are expected to have minimal impact on overall premium levels. However, individual policies will be impacted if they are written under deductible programs or if they have a loss limit under the Retrospective Rating Plan. Individual risks may experience increases or decreases, but individual risk equity would be improved as the deductibles and ELF's would more precisely identify high risks from low risks. For deductibles of \$5,000 or less, the impact of the revised credit on the loss cost premium of most risks will be less than 5%. The deductible programs being discussed are optional; they can be chosen by the insured in place of a standard full coverage guaranteed cost policy.

##### Expected Loss Ranges

The proposed Expected Loss Ranges are necessary to maintain the aggregate expected balance between the retrospectively rated premium and the guaranteed cost premium. If these ranges were not updated, there would be a natural slippage caused by inflation over time because risks would have an apparent growth in size as seen by increasing expected losses, but no real growth in size as seen by their expected number of claims.

##### State Hazard Group Relativities

Retrospective rating should produce premium that is equitably distributed to all insured employers, but on average close to the guaranteed cost in the approved rate. The objective of this change is to maintain the aggregate expected balance, but the impact will vary slightly for individual insured employers. Thus, insurance charges and premiums will be higher for some insureds and lower for others. The impact on final premium from these changes probably will be small for most of the insured employers electing retrospective rating.

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The improved equitability from this change will result in slightly lower average insurance charges for some states, and slightly higher average insurance charges for others; the state-wide impact will be negligible. The program is designed to be revenue-neutral countrywide.

#### **IMPLEMENTATION**

It is proposed that this item filing and the attached exhibits be implemented:

- In each respective state except Hawaii and Virginia, effective at 12:01 a.m. with the next loss cost/rate filing that is effective on or after January 1, 2007, applicable to new and renewal voluntary and assigned risk business
- 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 with the next loss cost filing that is effective on or after 12:01 a.m., January 1, 2007, applicable to new and renewal voluntary and assigned risk business

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**ITEM B-1403—REVISION TO BASIC MANUAL AND RETROSPECTIVE RATING PLAN MANUAL/2006  
UPDATE TO HAZARD GROUPS AND RETROSPECTIVE RATING PLAN PARAMETERS**

**EXHIBIT 3**

**RETROSPECTIVE RATING PLAN MANUAL  
2007 EXPECTED LOSS RANGES  
EFFECTIVE DATE TO COINCIDE WITH THE  
FIRST LOSS COST/RATE FILING ON OR AFTER JANUARY 1, 2007**

Expected Loss Group	Range Rounded Values	Expected Loss Group	Range Rounded Values	Expected Loss Group	Range Rounded Values
95	950 — 1,482	65	79,631 — 86,005	35	993,169 — 1,115,100
94	1,483 — 2,195	64	86,006 — 92,890	34	1,115,101 — 1,252,005
93	2,196 — 2,899	63	92,891 — 100,326	33	1,252,006 — 1,427,664
92	2,900 — 3,832	62	100,327 — 108,357	32	1,427,665 — 1,641,009
91	3,833 — 4,985	61	108,358 — 117,031	31	1,641,010 — 1,886,237
90	4,986 — 6,020	60	117,032 — 126,424	30	1,886,238 — 2,168,113
89	6,021 — 7,266	59	126,425 — 136,696	29	2,168,114 — 2,577,266
88	7,267 — 8,435	58	136,697 — 147,592	28	2,577,267 — 3,081,849
87	8,436 — 9,791	57	147,593 — 159,021	27	3,081,850 — 3,685,227
86	9,792 — 11,357	56	159,022 — 171,339	26	3,685,228 — 4,543,120
85	11,358 — 12,844	55	171,340 — 184,612	25	4,543,121 — 5,781,252
84	12,845 — 14,520	54	184,613 — 199,613	24	5,781,253 — 7,356,812
83	14,521 — 16,398	53	199,614 — 215,895	23	7,356,813 — 9,400,713
82	16,399 — 18,246	52	215,896 — 233,510	22	9,400,714 — 12,029,102
81	18,247 — 20,301	51	233,511 — 252,554	21	12,029,103 — 15,392,375
80	20,302 — 22,583	50	252,555 — 272,532	20	15,392,376 — 19,696,001
79	22,584 — 25,126	49	272,533 — 294,043	19	19,696,002 — 25,202,895
78	25,127 — 27,726	48	294,044 — 317,406	18	25,202,896 — 34,570,976
77	27,727 — 30,525	47	317,407 — 345,321	17	34,570,977 — 51,130,195
76	30,526 — 33,609	46	345,322 — 375,689	16	51,130,196 — 75,621,156
75	33,610 — 36,933	45	375,690 — 408,729	15	75,621,157 — 111,843,086
74	36,934 — 40,435	44	408,730 — 446,652	14	111,843,087 — 165,415,034
73	40,436 — 44,268	43	446,653 — 488,733	13	165,415,035 — 244,647,514
72	44,269 — 48,471	42	488,734 — 534,783	12	244,647,515 — 382,966,802
71	48,472 — 52,908	41	534,784 — 589,532	11	382,966,803 — 606,006,859
70	52,909 — 57,713	40	589,533 — 651,490	10	606,006,860 — 958,945,559
69	57,714 — 62,948	39	651,491 — 719,961	9	958,945,560 — & over
68	62,949 — 68,250	38	719,962 — 795,628		
67	68,251 — 73,720	37	795,629 — 884,563		
66	73,721 — 79,630	36	884,564 — 993,168		



**ITEM B-1403—REVISION TO BASIC MANUAL AND RETROSPECTIVE RATING PLAN MANUAL/2006  
UPDATE TO HAZARD GROUPS AND RETROSPECTIVE RATING PLAN PARAMETERS**

**EXHIBIT 4**

**DEVELOPMENT OF STATE HAZARD GROUP RELATIVITIES  
FOR HAZARD GROUPS A TO G**

Step 1. Individual state severities are calculated for each hazard group.

Step 2. The state severities are weighted with the countrywide severities by hazard group using a credibility that varies by state. For this purpose, 155,000 claims are regarded as fully credible, and use the square root rule to compute partial credibilities.

Step 3. Credibility weighted severities for each state hazard group are produced. A new countrywide average severity is calculated by taking the weighted average of the formula for state severities using claim counts as weights.

Step 4. The relativities are calculated by dividing the countrywide severity by the individual state hazard group severities.

Example: State X

<u>Step 1</u> Severities	<u>Hazard Group</u>	<u>State X</u>	<u>Countrywide</u>
	A	32,814	30,576
	B	44,535	40,483
	C	49,334	45,595
	D	54,695	50,307
	E	63,090	58,228
	F	76,376	71,941
	G	97,855	94,564

<u>Step 2</u>	Claim Count	52,631
	Credibility =	$(52,631 / 155,000)^{0.5} = 0.583$

<u>Step 3</u> Cred. Wtd. Severities	<u>Hazard Group</u>	<u>State X</u>	
	A	31,881	= 0.583 x 32,814 + 0.417 x 30,576
	B	42,845	
	C	47,775	
	D	52,865	
	E	61,063	
	F	74,527	
	G	96,483	
	Countrywide Overall: 51,533		

<u>Step 4</u> Relativities	<u>Hazard Group</u>	<u>State X</u>	
	A	1.62	= 51,533 / 31,881
	B	1.20	
	C	1.08	
	D	0.97	
	E	0.84	
	F	0.69	
	G	0.53	

Note: The underlying data source for the above calculations is NCCI's **URE Workers Compensation Statistical Plan** (WCSP), excluding medical-only claims. The WCSP data for each state is adjusted accordingly, as reflected in the data underlying the Excess Loss Factor (ELF) calculation.

**ITEM B-1403—REVISION TO BASIC MANUAL AND RETROSPECTIVE RATING PLAN MANUAL/2006  
UPDATE TO HAZARD GROUPS AND RETROSPECTIVE RATING PLAN PARAMETERS**

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**EXHIBIT 5**

**DEVELOPMENT OF STATE HAZARD GROUP RELATIVITIES  
FOR HAZARD GROUPS 1 TO 4\***

**Step 1.** Individual state severities are calculated for each hazard group.

**Step 2.** The state severities are weighted with the countrywide severities by hazard group using a credibility that varies by state. For this purpose, 155,000 claims are regarded as fully credible, and use the square root rule to compute partial credibilities.

**Step 3.** Credibility weighted severities for each state hazard group are produced. A new countrywide average severity is calculated by taking the weighted average of the formula for state severities using claim counts as weights.

**Step 4.** The relativities are calculated by dividing the countrywide severity by the individual state hazard group severities.

**Example: State X**

<u>Step 1</u>	<u>Hazard Group</u>	<u>State X</u>	<u>Countrywide</u>
Severities	1	41,597	37,928
	2	50,849	47,067
	3	68,963	64,356
	4	97,855	94,564
 <u>Step 2</u>	<b>Claim Count</b>	<b>52,631</b>	
	<b>Credibility =</b>	$(52,631 / 155,000)^{0.5} = 0.583$	
 <u>Step 3</u>	<u>Hazard Group</u>	<u>State X</u>	
Cred. Wtd.	1	40,067	= 0.583 x 41,597 + 0.417 x 37,928
Severities	2	49,272	
	3	67,042	
	4	96,483	
	<b>Countrywide Overall: 51,533</b>		
 <u>Step 4</u>	<u>Hazard Group</u>	<u>State X</u>	
Relativities	1	1.29	= 51,533 / 40,067
	2	1.05	
	3	0.77	
	4	0.53	

Note: The underlying data source for the above calculations is NCCI's **URE Workers Compensation Statistical Plan (WCSP)**, excluding medical-only claims. The WCSP data for each state is adjusted accordingly, as reflected in the data underlying the Excess Loss Factor (ELF) calculation.

\* Carriers that elect to use NCCI's four hazard groups must make a filing in each state to adopt the filed four hazard groups referenced in this item. If a carrier does not file to elect the four hazard groups, they are considered to have accepted the seven hazard groups.

**ITEM B-1403—REVISION TO BASIC MANUAL AND RETROSPECTIVE RATING PLAN MANUAL/2006  
UPDATE TO HAZARD GROUPS AND RETROSPECTIVE RATING PLAN PARAMETERS**

**EXHIBIT 6**

**RETROSPECTIVE RATING PLAN MANUAL  
STATE HAZARD GROUP RELATIVITIES  
EFFECTIVE DATE TO COINCIDE WITH THE  
FIRST LOSS COST/RATE FILING ON OR AFTER JANUARY 1, 2007**

State	Hazard Group						
	A	B	C	D	E	F	G
AK	1.55	1.16	1.04	0.94	0.82	0.67	0.52
AL	1.39	1.04	0.92	0.83	0.72	0.58	0.43
AR	1.86	1.40	1.24	1.13	0.97	0.78	0.59
AZ	1.46	1.09	0.97	0.88	0.76	0.62	0.48
CO	1.77	1.34	1.19	1.08	0.93	0.75	0.56
CT	1.67	1.24	1.12	1.01	0.87	0.71	0.56
DC	1.62	1.21	1.08	0.98	0.84	0.68	0.52
FL	1.67	1.27	1.14	1.04	0.91	0.74	0.56
GA	1.51	1.13	1.01	0.91	0.79	0.64	0.49
HI	2.08	1.56	1.40	1.27	1.10	0.90	0.69
IA	1.94	1.46	1.31	1.19	1.03	0.84	0.66
ID	1.84	1.40	1.25	1.14	1.00	0.82	0.63
IL	1.43	1.10	1.00	0.90	0.79	0.65	0.52
IN	2.11	1.61	1.46	1.33	1.17	0.97	0.77
KS	1.81	1.38	1.24	1.12	0.97	0.79	0.61
KY	1.24	0.92	0.81	0.73	0.63	0.50	0.37
LA	1.45	1.08	0.97	0.87	0.76	0.62	0.47
MD	1.70	1.27	1.14	1.02	0.88	0.72	0.55
ME	1.60	1.20	1.07	0.97	0.84	0.69	0.53
MO	2.03	1.56	1.40	1.27	1.10	0.89	0.70
MS	1.70	1.28	1.15	1.04	0.90	0.74	0.57
MT	1.58	1.19	1.06	0.96	0.82	0.67	0.51
NC	1.13	0.85	0.76	0.68	0.59	0.48	0.36
NE	1.66	1.25	1.12	1.01	0.88	0.71	0.55
NH	1.69	1.26	1.13	1.02	0.88	0.72	0.55
NM	1.83	1.38	1.23	1.12	0.97	0.79	0.60
NV	1.87	1.41	1.25	1.13	0.97	0.79	0.59
OK	1.76	1.33	1.20	1.08	0.94	0.77	0.60
OR	2.10	1.58	1.38	1.25	1.06	0.85	0.61
RI	2.18	1.64	1.47	1.33	1.15	0.94	0.72
SC	1.33	1.01	0.90	0.82	0.71	0.57	0.43
SD	1.86	1.40	1.25	1.13	0.97	0.79	0.60
TN	1.55	1.18	1.06	0.95	0.83	0.68	0.52
UT	1.98	1.49	1.33	1.21	1.05	0.86	0.65
VA	1.43	1.06	0.95	0.86	0.74	0.61	0.46
VT	1.72	1.30	1.16	1.05	0.91	0.75	0.58

**ITEM B-1403—REVISION TO BASIC MANUAL AND RETROSPECTIVE RATING PLAN MANUAL/2006  
UPDATE TO HAZARD GROUPS AND RETROSPECTIVE RATING PLAN PARAMETERS**

**EXHIBIT 7**

**RETROSPECTIVE RATING PLAN MANUAL  
STATE HAZARD GROUP RELATIVITIES  
EFFECTIVE DATE TO COINCIDE WITH THE  
FIRST LOSS COST/RATE FILING ON OR AFTER JANUARY 1, 2007**

State	Hazard Group			
	1*	2*	3*	4*
AK	1.25	1.01	0.74	0.52
AL	1.12	0.89	0.65	0.43
AR	1.50	1.21	0.88	0.59
AZ	1.17	0.94	0.69	0.48
CO	1.44	1.15	0.84	0.56
CT	1.32	1.08	0.80	0.56
DC	1.31	1.05	0.76	0.52
FL	1.38	1.11	0.83	0.56
GA	1.21	0.98	0.72	0.49
HI	1.68	1.36	1.00	0.69
IA	1.55	1.27	0.94	0.66
ID	1.48	1.22	0.91	0.63
IL	1.16	0.96	0.73	0.52
IN	1.71	1.42	1.07	0.77
KS	1.46	1.20	0.88	0.61
KY	0.98	0.78	0.56	0.37
LA	1.17	0.93	0.69	0.47
MD	1.36	1.10	0.80	0.55
ME	1.28	1.04	0.76	0.53
MO	1.65	1.36	1.00	0.70
MS	1.37	1.11	0.82	0.57
MT	1.28	1.02	0.74	0.51
NC	0.91	0.73	0.52	0.36
NE	1.33	1.09	0.80	0.55
NH	1.34	1.09	0.80	0.55
NM	1.49	1.20	0.88	0.60
NV	1.51	1.21	0.88	0.59
OK	1.42	1.16	0.86	0.60
OR	1.70	1.33	0.95	0.61
RI	1.76	1.42	1.04	0.72
SC	1.08	0.87	0.64	0.43
SD	1.50	1.21	0.88	0.60
TN	1.24	1.02	0.75	0.52
UT	1.59	1.29	0.95	0.65
VA	1.14	0.92	0.67	0.46
VT	1.38	1.13	0.83	0.58

\* Carriers that elect to use NCCI's four hazard groups must make a filing in each state to adopt the filed four hazard groups referenced in this item. If a carrier does not file to elect the four hazard groups, they are considered to have accepted the seven hazard groups.

ITEM B-1403—REVISION TO BASIC MANUAL AND RETROSPECTIVE RATING PLAN MANUAL/2006  
UPDATE TO HAZARD GROUPS AND RETROSPECTIVE RATING PLAN PARAMETERS

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**EXHIBIT 8**  
**RETROSPECTIVE RATING PLAN MANUAL**  
**EXCESS LOSS PURE PREMIUM FACTORS FOR**  
**UNITED STATES LONGSHORE AND HARBOR WORKERS' ACT\***  
**EFFECTIVE DATE TO COINCIDE WITH THE FIRST LOSS COST/RATE FILING ON OR AFTER JANUARY 1, 2007**

Excess Loss Pure Premium Factors Per Accident Limitation	Hazard Groups**		
	C & D	E & F	G
	2†	3†	4†
\$25,000	0.628	0.743	0.797
\$30,000	0.598	0.716	0.778
\$35,000	0.572	0.691	0.755
\$40,000	0.550	0.669	0.735
\$50,000	0.513	0.631	0.703
\$75,000	0.439	0.559	0.627
\$100,000	0.390	0.499	0.572
\$125,000	0.350	0.454	0.522
\$150,000	0.320	0.419	0.486
\$175,000	0.294	0.386	0.451
\$200,000	0.274	0.361	0.424
\$250,000	0.242	0.320	0.378
\$300,000	0.218	0.288	0.344
\$500,000	0.161	0.214	0.257
\$1,000,000	0.106	0.139	0.165

\* Applicable to new and renewal policies. Factors do not include a margin for any expenses or state assessments.

\*\* No factors are provided for Hazard Groups A and B since this group does not contain any F-classifications.

For use as appropriate, the Excess Loss Pure Premium Factors must be converted to Excess Loss Factors using the expense provisions applicable in each state. The following formula would be used:

$$\text{Excess Loss Factor} = \frac{\text{Excess Loss Pure Premium Factor}}{\text{Target Cost Ratio} / (1 + \text{LAE} + \text{Assessment})}$$

† Carriers that elect to use NCCI's four hazard groups must make a filing in each state to adopt the filed four hazard groups referenced in this item. If a carrier does not file to elect the four hazard groups, they are considered to have accepted the seven hazard groups.