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December 4, 2001

Circular 2001-16

TO: All Members

ADVISORY RATE FILING EFFECTIVE JANUARY 1, 2002

The ICRB submitted an advisory rate filing with the Indiana Department of Insurance (IDOI) on September 28, 2001. Thirty days have passed since submitted, therefore per Indiana law, the filing is deemed approved.

Indiana Code § 27-7-2-20.2 (a) reads in part "A filing shall be deemed approved unless disapproved by the commissioner within thirty (30) days after the filing is made."

The filing shows an overall pure premium level decrease of -7.4% for the voluntary and assigned risk market for industrial classes and an overall pure premium level decrease of -9.7% for federal (F) classes.

The IDOI has asked for an independent actuarial review of the filing. At present, questions from that review have been minor in nature, focusing on federal coal mine disease loadings.

Given the relatively minor inquiries in progress for the actuarial review and that January is fast approaching, we wanted the ICRB members to know that the advisory rates and rating values are deemed approved as noted above. Also, the rates and this circular are available on our website at http://www.icrb.net/.

The ICRB will request that NCCI run the January 2002 experience rating worksheets with the new rating values.

Finally, attached are three exhibits for your information and convenience:

- Exhibit A - Summary of January 1, 2002 Advisory Rate Filing
- Exhibit B – Discussion of Rate Filings in General (filing process; distinctions among advisory, assigned risk, and loss cost rates; and carrier choices)
- Exhibit C – Premium Level Changes (from 1990 to 2002)

Sincerely,

Ronald W. Cooper

Ronald W. Cooper, CWCP
General Manager

Summary of January 1, 2002 Advisory Rate Filing

The ICRB submits annual rate filings to the Indiana Department of Insurance each January first. In addition, because of benefit level increases effective July first as passed by the legislature, the ICRB may submit a "law only" rate filing to reflect the impact of the benefit increase on advisory rates. Listed below is a summary of the January 1, 2002 advisory filing.

Full filing of advisory loss costs, advisory rates and rating values for both voluntary and assigned risk business effective January 1, 2001 for new and renewal policies.

The overall premium level change and rate level change was -7.4%.

Percent Formula: (1-0.049)*(1-0.024)*(1+0.004)*(1-0.014)*(1+0.007)-1

Components of Premium Level Change	
Experience	-4.9%
Trend	-2.4%
Benefits	0.4%
Loss Adjustment Expense	-1.4%
General Expense	0.7%

Average Change by Industry Group		Range of Swing Limits from Previous Rates
Manufacturing	**-6.1%**	**+19 to -31%**
Contracting	**-6.4%**	**+19 to -31%**
Office	**-8.3%**	**+17 to -33%**
Goods & Services	**-8.2%**	**+17 to -33%**
Miscellaneous	**-9.3%**	**+16 to -34%**

Other Changes:

- Loss Cost Multiplier (LCM): 1.347
- Executive officer weekly payroll:
  - Minimum increased from $282 to $294 ($15,288 annually)
  - Maximum increased from $2,300 to $2,400 ($124,800 annually)
- Sole proprietor, partner, LLC member who elect coverage:
  - fixed annual payroll increased from $38,500 to $40,100
- Expense Constant remains at $240
- Medical/Indemnity split: 62%/38%

Discussion of Rate Filings in General

Rate Development

The ICRB produces advisory and loss cost rates annually based on historical premium and loss data. Under Indiana's competitive rating law that became effective January 1, 1990, the ICRB files three types of rates: loss cost, advisory, and assigned risk. Here's an overview of each type of rate...

Loss cost rates only include the costs to pay losses. Loss costs rates do not include expenses common to all business (salaries, rent, utilities, etc.). By definition, the expense provisions excluded are: production, general expense, taxes, and profit and contingency allowance. These expense provisions are added together and called "Total Overhead Provisions" in the filing document.

Advisory rates include costs to pay losses as well as the costs of insurance company operations (all of the expense provisions). Advisory rates are developed on a standard premium basis. This means the ***advisory rates do not contemplate the competitive pricing*** of carriers such as premium discounts, deductibles, schedule rating, rate deviations, and dividends.

Assigned risk rates are the same as advisory rates, only mandatory (not advisory) for assigned risk business.

Why the three types of rates? Indiana has a competitive rating law for workers compensation. This means the Bureau can only file "advisory" rates for voluntary business with the Department of Insurance. "Advisory" means that a carrier has a choice: it can use the advisory rates, or file its own rates with the Department. If a carrier files its own rates it can use the "loss cost" rates and add in a factor for its own expenses, usually called the "loss cost multiplier." The theory is, if a carrier is efficient and keeps its expenses down, it can use lower rates than its competitors and attract more customers (employers who buy insurance).

Administered pricing rates must be used by the carriers once filed and approved by the state. Administered pricing rates are calculated like advisory rates, in that they include costs to pay losses as well as the costs of insurance company operations (expenses). Indiana's law no longer permits administered pricing rates (mandatory use by carriers). The nine states that use administered pricing rates as of January 2000 are Arizona, Florida, Idaho, Iowa, Massachusetts, Nevada, New Jersey, New York, and Wisconsin.

How to calculate the difference between an advisory rate and a loss cost rate

The difference between an advisory rate and a loss cost rate for a code is the loading for expenses. You start with the loss cost rate and add in the expenses. Simply divide the advisory rate by the loss cost rate. This number is usually called the "loss cost multiplier."

For example, multiplying a loss cost rate of $.60 by a loss cost multiplier of 1.33 results in the advisory rate of $.80. So, a carrier can now apply this knowledge in developing its own rates. It knows that the advisory rates are calculated with a 1.33 loss cost multiplier. The carrier can chose a multiplier of say 1.20, which results in its rates being lower than the advisory rates.

Exhibit B
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Recent history of loss cost multiplier (LCM)

Advisory rate filing effective date	LCM
01/01/2002	1.347
01/01/2001	1.338
07/01/2000	1.336
01/01/2000	1.336

Carrier Must Choose
With each **advisory** rate filing that the ICRB makes on behalf of all its members with the Indiana Department of Insurance (IDOI), a carrier must always make a **choice** at that time. The choice is to either use the advisory rates or not.

If a carrier chooses to use the advisory rates, it simply uses them and does not make a filing with the IDOI. If a carrier decides to use rates other than what the ICRB filed, then it must make its own filing with the IDOI. Filings must be actuarially justified.

<u>Summary</u>
Carrier decides to use ICRB advisory rates - no carrier filing needed
Carrier decides to use its own rates - carrier must file its rates with DOI

Exhibit C
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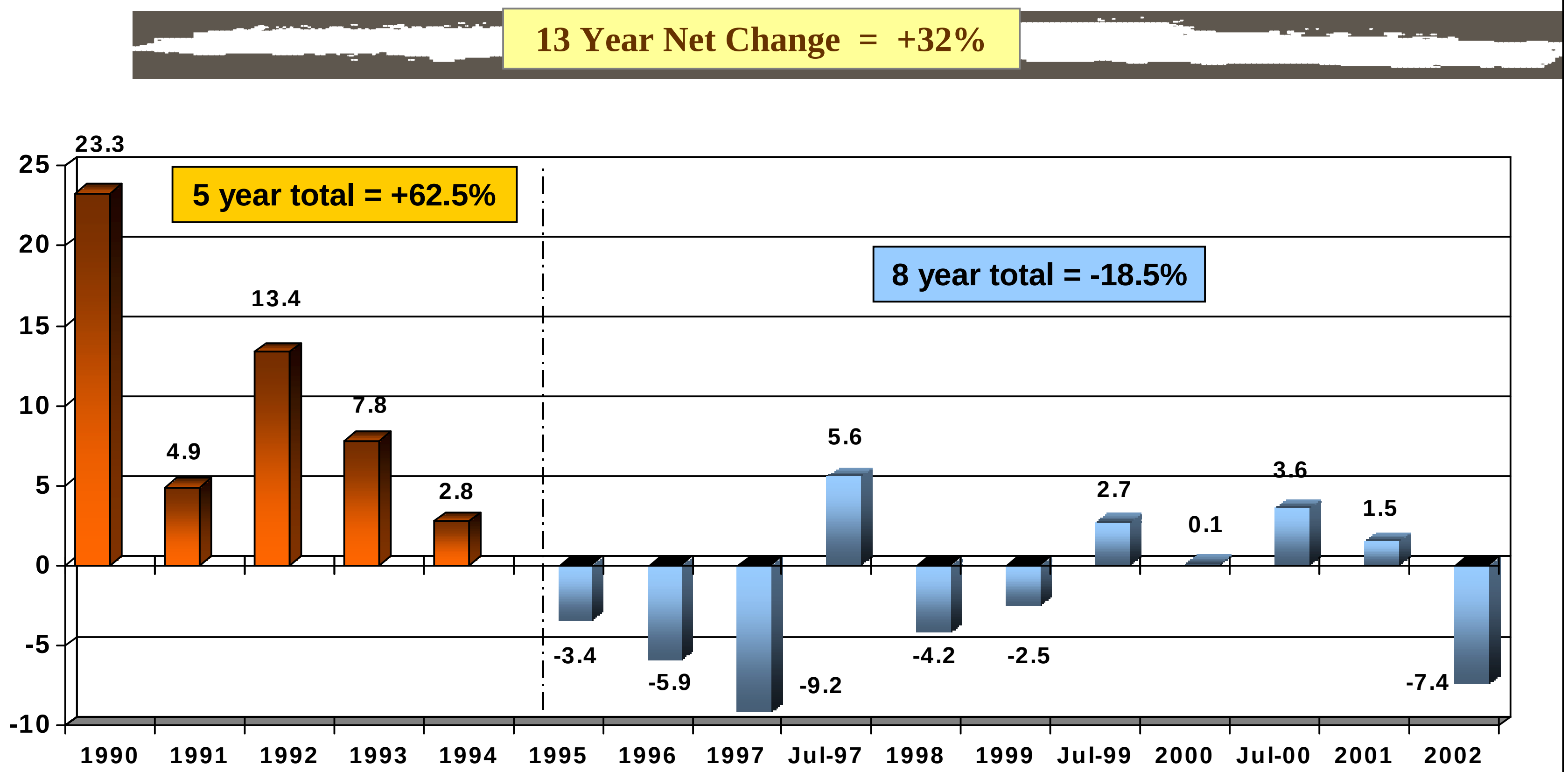
Premium Level Changes



Note: totals calculated in multiplicative manner
First 5 years total: 1.233 x 1.049 x 1.134 x 1.078 x 1.028 = 1.625
Next 8 years total: 0.966 x 0.941 x 0.908 x 1.056 x 0.958 x 0.975 x 1.027 x 1.001 x 1.036 x 1.015 x 0.926= .815