

**NAIC LOSS COST MEMORANDUM**

## **Section I. Rates/Loss Costs**

### **A. Advisory Organization Action**

Advisory organizations no longer develop or file advisory final rates that contain provisions for expenses (other than loss adjustment expenses) and profit. Instead, for workers' compensation, advisory organizations develop and file for approval with the insurance commissioner in accordance with relevant statutory provisions, a Reference Filing containing advisory prospective loss costs and supporting actuarial

documentation will be required for any modifications (upwards or downwards) of the prospective loss costs in the approved Reference Filing.

Examples:

Below are two examples of how to apply a company's loss cost modification factor to the advisory organization's prospective loss costs.

- Example 1: Loss cost modification factor: If your company's loss cost modification is -10%, a factor of .90 ( $1.000 - .100$ ) should be used.
- Example 2: Loss cost modification factor: If your company's loss cost modification is +15%, a factor of 1.15 ( $1.000 + .150$ ) should be used.

If an insurer wishes to use minimum premium formulas, it must file, for approval, the minimum premium rules, formulas or amounts it proposes to use.

The insurer may request to have its loss cost adjustments remain on file and reference all subsequent prospective loss costs Reference Filings. Upon receipt of subsequent approved advisory organization's Reference Filings, the insurer's rates are the combination of the prospective loss costs and the loss cost adjustments contained in the Loss Cost Filing Document on file with the insurance department, and will be effective on or after the effective date of the prospective loss costs. The insurer need not file anything further with the insurance department.

If an insurer that has filed to have its loss cost adjustments remain on file with the insurance department intends to delay, modify, or not adopt a particular advisory organization's Reference Filing, the insurer must make an appropriate filing with the insurance department.

The insurer's filed loss cost adjustments will remain in effect until the insurer withdraws them or files and receives approval of a revised Loss Cost Filing Document.

Insurers may file such other information that the company deems relevant and shall provide such other information as may be requested by the insurance department.

To the extent that an insurer's final rates are determined solely by applying its loss cost adjustments, as presented in the Loss Cost Filing Document, to the prospective loss costs contained in an advisory organization's Reference Filing and printed in the advisory organization's rating manual, the insurer need not develop or file its final rate pages with the insurance commissioner. If an

If the insurer HAS filed to have its loss cost adjustments remain on file, applicable to subsequent Reference Filings, and a new Reference Filing is filed and approved and

If—	Then—
1. The insurer decides to use the revision of the prospective loss costs and effective date as filed.	1. The insurer does NOT file anything with the insurance department. Rates are the combination of the prospective loss costs and the on-file loss cost adjustments and become effective on the effective date of the loss costs.
2. The insurer decides to use the prospective loss costs as filed BUT with a different effective date.	2. The insurer must notify the insurance department of its effective date before the effective date of the loss costs.
3. The insurer decides to use the revision of the prospective loss costs, but wishes to change its loss cost adjustments.	3. The insurer must file for approval a revised Loss Cost Filing Document (formally the Reference Filing Adoption Form) before the effective date of the Reference Filing.
4. The insurer decides NOT to revise its rates using the prospective loss costs.	4. The insurer must notify the insurance department before the effective date of the loss costs.



4. The insurer decides to use the revision with modifications.	4. The insurer must file the modification with the insurance department, for approval, specifying the basis for the modification and the insurer's proposed effective date if different than the effective date filed by the advisory organization.
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### Section III. Loss Cost Data Entry Document

The "NAIC Loss Cost Data Entry Document" and its accompanying "NAIC Loss Cost Data Entry Document Instructions" are available through this website should states wish to adopt use of these documents for loss cost data collection purposes.

### Section IV. Inquiries

All inquiries concerning this memorandum pertaining to actuarial analysis or calculation should be directed to Kris DeFrain, Chief Property & Casualty Actuary, National Association of Insurance Commissioners, Financial Regulatory Services, 2301 McGee Street, Suite 800, Kansas City, MO 64108-2662 ([kdefrain@naic.org](mailto:kdefrain@naic.org)).

All inquiries concerning this memorandum pertaining to *other than* actuarial analysis or calculation should be directed to Bob Card, Senior Regulatory Analyst, National Association of Insurance Commissioners, Research Division, 2301 McGee Street, Suite 800, Kansas City, MO 64108-2662 ([bcard@naic.org](mailto:bcard@naic.org)).

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