

FILING MEMORANDUM

ITEM 02-MT-2015—REVISIONS TO THE MONTANA EXPERIENCE RATING SUBJECT
PREMIUM ELIGIBILITY AMOUNTS

PURPOSE

This item revises the Montana experience rating subject premium eligibility amounts in NCCI's *Experience Rating Plan Manual for Workers Compensation and Employers Liability Insurance (Experience Rating Plan Manual)*.

BACKGROUND

NCCI's Experience Rating Plan (Plan) is a component of the final cost of workers compensation. It provides a method for recognizing the differences among individual risks with respect to safety and loss prevention by comparing the experience of individual risks with the average risk in the same classification. The Plan uses a risk's past experience to project future losses and provides added incentives for loss reduction.

NCCI's *Experience Rating Plan Manual* Rule 2-A-2 states that a risk qualifies for experience rating when its subject premium, developed in its experience period, meets or exceeds the minimum eligibility amount required by a state as displayed in the State Table of Subject Premium Eligibility Amounts. Currently, a Montana risk qualifies for experience rating if its data within the most recent 24 months of its experience period develops a subject premium amount of at least \$5,000. If the risk does not qualify according to the \$5,000 amount and has more than 24 months of experience within its experience period, it must develop an average annual subject premium amount of at least \$2,500 to qualify for experience rating.

The current average experience rating subject premium eligibility amounts for all NCCI states are \$8,000/\$4,000. The Montana subject premium eligibility amounts of \$5,000/\$2,500 are among the lowest of all the states and have not changed since 1981.

The Office of the Montana State Auditor, Commissioner of Securities and Insurance (CSI), has directed that NCCI revise the experience rating subject premium eligibility amounts to \$10,000/\$5,000. As a result, Rule 2-A-2 of NCCI's *Experience Rating Plan Manual* must be revised for Montana to reflect the increased experience rating subject premium eligibility amounts.

PROPOSAL

This item proposes to revise the Montana experience rating subject premium eligibility amounts to \$10,000/\$5,000 for risks with rating effective dates on and after July 1, 2016.

IMPACT

It is estimated that by increasing the premium eligibility amounts to \$10,000/\$5,000 for risks with rating effective dates on and after July 1, 2016, approximately 650 to 700 Montana risks will no longer qualify for intrastate experience rating.

The premium impact for individual risks will vary based solely on whether the risk would have received a credit or debit experience rating modification under the lower eligibility amounts. However, no statewide premium impact is expected as a result of the changes proposed in this item.

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EXHIBIT COMMENTS AND IMPLEMENTATION SUMMARY

Exhibit	Exhibit Comments	Implementation Summary
1	Details the revision to the Montana experience rating subject premium eligibility amounts as shown in the State Table of Subject Premium Eligibility Amounts in national Rule 2-A-2 of NCCI's <i>Experience Rating Plan Manual</i> .	To become effective for risks with rating effective dates on and after July 1, 2016.

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EXHIBIT 1
EXPERIENCE RATING PLAN MANUAL—2003 EDITION
RULE 2—EXPERIENCE RATING ELEMENTS AND FORMULA
A. PREMIUM ELIGIBILITY

2. State Subject Premium Eligibility Amounts

A risk qualifies for experience rating when its subject premium, developed in its experience period, meets or exceeds the minimum eligibility amount. *Refer to Rule 2-E-1 to determine a risk's experience period.*

- a. A risk qualifies for experience rating if its data within the most recent 24 months of the experience period develops a subject premium of at least the amount shown in Column A.
- b. A risk may not qualify according to Rule 2-A-2-a. If it has more than the amount of experience referenced in Rule 2-A-2-a, then to qualify for experience rating the risk must develop an average annual subject premium of at least the amount shown in Column B. *Refer to Rule 2-A-3 to determine average annual subject premium.*

State Table of Subject Premium Eligibility Amounts

	Column A	Column B
MT	5,000 10,000	2,500 5,000

NOTE: This exhibit revises the Montana experience rating subject premium eligibility amounts shown in the State Table of Subject Premium Eligibility Amounts in NCCI's *Experience Rating Plan Manual* national Rule 2-A-2. The content shown in this table is not a complete replacement of the existing State Table of Subject Premium Eligibility Amounts.