COMPENSATION RATING AND INSPECTION BUREAU

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MANUAL AMENDMENT BULLETIN #491

To: All Bureau Members and Subscribers

Re: Aggregate Loss Factors

BACKGROUND

The Commissioner of Banking and Insurance has approved an amendment to the New Jersey Workers Compensation and Employers Liability Insurance Manual ("Manual") in response to the changes implemented by the National Council on Compensation Insurance ("NCCI") to their Retrospective Rating Plan. The changes are effective January 1, 2021 on a new and renewal basis.

In July 2017, the NCCI filed Item R-1414 to introduce a new methodology that improves the accuracy of the insurance charge component of the basic premium factor when there is an individual loss limitation as well as an aggregate loss limitation (i.e., a maximum and/or minimum limitation). In June 2018, the NCCI filed Item R-1414A revising the tables used in the new methodology. In addition to the table changes, the NCCI introduced an external-facing application named Aggregate Loss Factors on Demand ("ALFs on Demand") which calculates insurance charges in real time using the new methodology.

Carriers have the option to exclusively use either the Table of Aggregate Loss Factors or the ALFs on Demand application to calculate the net aggregate loss factors for the applicable retrospectively rated policies in their book of business. Prior to implementation, carriers must notify the Bureau in writing to ALFs@njcrib.com which option they intend to use.

MANUAL RULE CHANGES

The Manual revisions to implement these methodology and table changes are identified below:

- Remove the Hazard Group Differentials (commonly referred to as Relativities) from Part 2: Section 6.
- Replace the Table of Expected Loss Ranges in Part 2: Section 6 with new lookup tables—Table of Policy Excess Ratio Ranges and Table of Expected Claim Count Groups. The new lookup tables show the user which sub-table and column to choose when determining the appropriate value from the Table of Aggregate Loss Factors.

EXHIBIT I

- Replace Table of Insurance Charges in Part 2: Section 6 with new values, an updated layout, and changes to calculations and lookups. Additionally, change the name of the new table to Table of Aggregate Loss Factors.

- Update Part 3: Section 12 to reflect the revised language and updated basic premium factor calculation example.

The Manual changes are attached as Exhibit I.

FORM CHANGES

The following endorsements were revised to replace the term "insurance charge" with "net aggregate loss factor":

- WC 00 05 03 D: Retrospective Rating Plan Premium Endorsement One Year Plan
- WC 00 05 04 D: Retrospective Rating Plan Premium Endorsement Three Year Plan
- WC 00 05 05 D: Retrospective Rating Plan Premium Endorsement Wrap-Up Construction Project

The Form changes are attached as Exhibit II.

The "Index – Policy Forms and Endorsements" is amended to reflect the above changes. The amended Index is attached as Exhibit III.

With respect to policy forms, please note Section 3:2-1 of the Manual wherein the rules for the filing of forms are explained.

Paul G. Wilo

PGW:njl
Att

EXHIBIT I (Cont'd)

RETROSPECTIVE RATING VALUES

Amend 2:6-2, -9 and -10 as follows:

2. ***Average Cost Per Case***
(NOTE: Average Cost Per Case is calculated with the rate filing and therefore is not available at this time).

9. Retrospective Rating—
Table of Policy Excess Ratio Ranges
Table of Expected Claim Count Groups
Table of Aggregate Loss Factors

The following Tables are to be used in determining the net ***aggregate loss factor*** that is included in the basic premium factor for Retrospective Rating. Such net ***aggregate loss factor*** is made up of two elements, a charge for losses in excess of the maximum premium and a credit for savings resulting from the minimum premium.

***Table of Policy Excess Ratio* Ranges**

Sub-Table	***Excess Ratio Range (Rounded Values)***
1	***0.000 – 0.008***
2	***0.009 – 0.026***
3	***0.027 – 0.051***
4	***0.052 – 0.077***
5	***0.078 – 0.109***
6	***0.110 – 0.143***
7	***0.144 – 0.178***
8	***0.179 – 0.217***
9	***0.218 – 0.264***
10	***0.265 – 0.309***
11	***0.310 – 0.351***
12	***0.352 – 0.412***
13	***0.413 – 0.475***
14	***0.476 – 0.541***
15	***0.542 – 0.639***
16	***0.640 – 0.758***
17	***0.759 – 0.847***
18	***0.848 – 1.000***

EXHIBIT I (Cont'd)

Table of Expected Claim Count Groups

Expected Claim Count Group	*Expected Number of Claims (Rounded Values)*	*Expected Claim Count Group*	*Expected Number of Claims (Rounded Values)*	*Expected Claim Count Group*	*Expected Number of Claims (Rounded Values)*
94	*0.00 – 0.12*	*67*	*3.27 – 3.56*	*40*	*45.8 – 51.6*
93	*0.13 – 0.15*	*66*	*3.57 – 3.89*	*39*	*51.7 – 58.4*
92	*0.16 – 0.19*	*65*	*3.90 – 4.26*	*38*	*58.5 – 66.3*
91	*0.20 – 0.23*	*64*	*4.27 – 4.66*	*37*	*66.4 – 75.5*
90	*0.24 – 0.27*	*63*	*4.67 – 5.09*	*36*	*75.6 – 86.4*
89	*0.28 – 0.32*	*62*	*5.10 – 5.57*	*35*	*86.5 – 99.2*
88	*0.33 – 0.38*	*61*	*5.58 – 6.09*	*34*	*99.3 – 114*
87	*0.39 – 0.44*	*60*	*6.10 – 6.67*	*33*	*115 – 133*
86	*0.45 – 0.51*	*59*	*6.68 – 7.30*	*32*	*134 – 154*
85	*0.52 – 0.59*	*58*	*7.31 – 8.00*	*31*	*155 – 181*
84	*0.60 – 0.66*	*57*	*8.01 – 8.77*	*30*	*182 – 213*
83	*0.67 – 0.75*	*56*	*8.78 – 9.62*	*29*	*214 – 253*
82	*0.76 – 0.84*	*55*	*9.63 – 10.6*	*28*	*254 – 302*
81	*0.85 – 0.94*	*54*	*10.7 – 11.6*	*27*	*303 – 364*
80	*0.95 – 1.05*	*53*	*11.7 – 12.8*	*26*	*365 – 442*
79	*1.06 – 1.17*	*52*	*12.9 – 14.1*	*25*	*443 – 543*
78	*1.18 – 1.29*	*51*	*14.2 – 15.5*	*24*	*544 – 673*
77	*1.30 – 1.42*	*50*	*15.6 – 17.2*	*23*	*674 – 845*
76	*1.43 – 1.57*	*49*	*17.3 – 19.0*	*22*	*846 – 1,080*
75	*1.58 – 1.73*	*48*	*19.1 – 21.0*	*21*	*1,081 – 1,400*
74	*1.74 – 1.89*	*47*	*21.1 – 23.4*	*20*	*1,401 – 1,840*
73	*1.90 – 2.08*	*46*	*23.5 – 26.0*	*19*	*1,841 – 2,490*
72	*2.09 – 2.27*	*45*	*26.1 – 28.9*	*18*	*2,491 – 3,450*
71	*2.28 – 2.49*	*44*	*29.0 – 32.3*	*17*	*3,451 – 4,930*
70	*2.50 – 2.72*	*43*	*32.4 – 36.2*	*16*	*4,931 – 7,330*
69	*2.73 – 2.98*	*42*	*36.3 – 40.6*	*15*	*7,331 – and above*
68	*2.99 – 3.26*	*41*	*40.7 – 45.7*		

Table of Aggregate Loss Factors

The Table of Aggregate Loss Factors is available in a downloadable format.

https://www.njcrib.com/SharedDocs/CCPAP/ALFTable.xlsx

ALFs on Demand is an alternative option that provides real-time calculations for retrospectively rated policies. Carriers must choose whether to exclusively use either the Table of Aggregate Loss Factors or ALFs on Demand to calculate the net aggregate loss factors for the retrospectively rated policies in their book of business. Carriers must notify the Bureau in writing which option they intend to use.

EXHIBIT I (Cont'd)

10. Retrospective Rating – Table of Classification by Hazard Group

TABLE OF CLASSIFICATION BY HAZARD GROUP

The following Table is to be used in determining the individual classification Hazard Group assignment. Hazard Group assignments are necessary for use in Retrospective Rating calculations, specifically in the selection of Excess Loss Premium Factors, when applicable. Hazard Group assignments are included for all classifications in this Manual.

EXHIBIT I (Cont'd)

RETROSPECTIVE RATING PLAN

Amend 3:12-12, -20e, -21 and -33 as follows:

PRESENT	AMENDED
12. Basic Premium. The basic premium is a percentage of the standard premium. It is determined by multiplying the standard premium by the applicable basic premium factor. An example of the calculation process for the basic premium factor is described in paragraph 21.	**NO CHANGE**
The basic premium provides the insurance carrier with expense monies for: acquiring and servicing the insured's account; loss control services, premium audit and general administration of the insurance; and an allowance for possible profit or contingencies. The basic premium takes into account the different classification hazard groups, the effect of the limitation of losses and also provides the carrier with an insurance charge for limiting the premium between the maximum and minimum retrospective premium.	The basic premium provides the insurance carrier with expense monies for: acquiring and servicing the insured's account; loss control services, premium audit and general administration of the insurance; and an allowance for possible profit or contingencies. The basic premium takes into account the different classification hazard groups, the effect of the limitation of losses and also provides the carrier with ***a net aggregate loss factor*** for limiting the premium between the maximum and minimum retrospective premium.
20. Completion or Amendment of Notice.	
e) Loss Limitation. The insured may elect in the Notice to limit the incurred losses resulting from a single accident which are to be used in the retrospective rating. The amount of loss limitation shall be selected from the list of limits in 2:6-3 of this Manual, with these qualifications:	**NO CHANGE**
Loss limitation is available if the estimated standard premium is at least $100,000. The selected limit shall be $25,000 per accident for a risk with total standard premium of at least $100,000; higher than $25,000 for a risk with total standard premium over $100,000 provided such higher accident loss limitation does not exceed 50% of the standard premium.	**NO CHANGE**
For the Large Risk Alternative Rating Option, loss limitation is available either from the list of limits in 2:6-3 or as agreed upon by the insured and the carrier.	**NO CHANGE**
If loss limitation is elected, the applicable excess loss premium factor can be found in 2:1-3 of this Manual. The excess loss premium factor is determined on the basis of the loss limitation selected and the hazard group for the classification that has the highest estimated New Jersey premium in the policy subject to retrospective rating. Hazard groups for all classifications are from Table H in 2:6-10 of this Manual. For the Large Risk Alternative Rating Option, the excess loss premium factor may be determined as agreed upon by the insured and the carrier.	If loss limitation is elected, the applicable excess loss premium factor can be found in 2:1-3 of this Manual. The excess loss premium factor is determined on the basis of the loss limitation selected and the hazard group ***shown in the table. For policies with exposure from multiple hazard groups, the excess loss premium factor can be determined by multiplying the policy excess ratio by the expected loss ratio, where the policy excess ratio is calculated as the total expected excess loss divided by total expected loss. Refer to 3:12-21 for the Basic Premium Factor Calculation Example.*** Hazard groups for all classifications are from Table H in 2:6-10 of this Manual. For the Large Risk Alternative Rating Option, the excess loss premium factor may be determined as agreed upon by the insured and the carrier.
Note: For the purpose of this rule, losses incurred as the result of disease of one employee shall be deemed to arise out of a single accident.	**NO CHANGE**

EXHIBIT I (Cont'd)

PRESENT	**AMENDED**
21. Calculation of Basic Premium Factors. The following example illustrates a generally accepted method for determining the basic premium factor. Any other calculation may be used to determine the basic premium factor provided the selected factor is not more than 0.005 different from the factor produced by this method.	**NO CHANGE**
Basic premium factors for 50%, 100% and 150% of the estimated standard premium must be determined. Basic premium factors for any lower or higher premium sizes may be selected by agreement. The reason for determining such supplementary factors is the probability that the audited standard premium will be more or less than the estimated standard premium. If the earned standard premium is between the selected premium sizes, the basic premium factor for the retrospective premium is based on straight line interpolation between the basic premium factors, calculated on the estimated standard premiums. If the earned premium is beyond the lowest or highest selected premium sizes, the basic premium factors shall be recalculated.	**NO CHANGE**
For the purposes of this example, it has been assumed that the risk is intrastate, classified under Code 2003 and is insured by a carrier using the Schedule Y system of expenses. Further the insured and carrier have agreed upon a one year rating period, a minimum premium factor of 65%, a maximum premium factor of 130%, a loss conversion factor of 1.150 and a $150,000 loss limit. The tax multiplier, expected loss ratio, hazard group differential, excess loss premium factor and tables utilized for the example are from 2:6 of the New Jersey Manual effective January 1, 2008. The hazard group differential is from hazard group for the assumed Code 2003. The loss group adjustment factor is produced by the formula (1 + 0.8 LER)/(1-LER) where LER, which represents the loss elimination ratio, equals the excess loss factor divided by the expected loss ratio.	For the purposes of this example, it has been assumed that the risk is intrastate, classified under Code 2003 and is insured by a carrier using the Schedule Y system of expenses. Further the insured and carrier have agreed upon a one year rating period, a minimum premium factor of 65%, a maximum premium factor of 130%, a loss conversion factor of 1.150 and a $150,000 loss limit. The tax multiplier, expected loss ratio, excess loss premium factor and tables utilized for the example are from 2:6 of the New Jersey Manual effective January 1, ***2019***.

EXHIBIT I (Cont'd)

PRESENT

EXAMPLE OF BASIC PREMIUM FACTOR CALCULATION—ONE YEAR RATING PERIOD

a) Minimum Premium Factor 65
b) Maximum Premium Factor 1.30
c) Loss Conversion Factor 1.150
d) Tax Multiplier 1.072
e) Expected Loss Ratio 609
f) Hazard Group Differential 1.218
g) Excess Loss Premium Factor 222
h) Loss Group Adjustment Factor 2.035
1. Estimated Annual Standard Premium $225,000
2. Expected Losses (e) x (1) $137,025
3. Expense and Profit or Contingency Ratio 231
4. Expense and Profit or Contingency— Excluding Taxes (3) x (1) $51,975
5. Expected Loss and Expense Ratio [(2) + (4)] / (1) 840
6. Loss and Expense in Converted Losses (e) x (c) 700
7. Expense and Profit or Contingency in Basic Premium Factor (5) - (6) 140
8. Expected Limited Loss Ratio (e) - (g) 387
9. Adjusted Expected Losses (2) x (f) x (h)..$339,634
9a. Expected Loss Group if One Year Rating Period Selected …......................... 47
9b. Expected Loss Group if Three Year or Long-Term Rating Period Selected .... —
10. Minimum Retrospective Premium Factor Excluding Taxes (a) / (d) .... .606
11. Maximum Retrospective Premium Factor Excluding Taxes (b) / (d) 1.213
12. Table of Insurance Charges Value Difference [(5) - (10)] / [(c) x (8)] 526
12a. Saving [(11) - (5)] / [(c) x (8)] .... —
13. Table of Insurance Charges Entry Difference [(11) - (10)] / [(c) x (8)] 1.36
14. Ratio of Minimum Rated Losses to Expected Losses .... .13
15. Ratio of Maximum Rated Losses to Expected Losses 1.49
16. Table of Insurance Charges Premium Charge for (15) .... .361
17. Table of Insurance Charges Premium Saving for (14) .... .014
18. Net Insurance Charge [(16) - (17)] x [(c) x (8)] 154
19. Basic Premium Factor (7) + (18) .... .294

AMENDED

EXAMPLE OF BASIC PREMIUM FACTOR CALCULATION—ONE YEAR RATING PERIOD

Retrospective Rating Factors

a) Minimum Premium Factor 65*%*
b) Maximum Premium Factor ***130%***
c) Loss Conversion Factor 1.150
d) Tax Multiplier ***1.056***
e) ***Loss Limit*** ***$150,000***
f) ***Expense Not Covered in (d)*** ***0.285***

Example Calculation

To establish the Basic Premium Factors, use the Table of Aggregate Loss Factors or the methodology underlying ALFs on Demand. The following example uses the Table of Aggregate Loss Factors.

1. Estimated Annual Standard Premium $225,000
2. Expected Losses (e) x (1) $137,025
3. ***Expected Loss Ratio (Unlimited) 0.595***
4. ***Policy Excess Ratio 0.289***
5. ***Excess Loss Facto (3) x (4) 0.172***
6. ***Expected Number of Claims*** ***12.81***
7. Expense and Profit ***and*** Contingency— ***Excluding Taxes (1) x (f) $64,125***
8. Expected Loss ***and Expense*** Ratio ***[(2) + (7)] / (1) 0.880***
9***. Loss and Expense in Converted*** Losses ***(3) x (c) 0.684***
10. ***Expense and Profit and Contingency in Basic Premium Factor (8) - (9) 0.196***
11. ***Expected Limited Loss Ratio (3) - (5) 0.423***
12. Minimum Retrospective Premium Factor Excluding Taxes (a) / (d) 0.616
13. Maximum Retrospective Premium Factor Excluding Taxes (b) / (d) 1.231
14. ***Table of Aggregate Loss Factors Value Difference [(8) - (12)] / [(c) x (11)] 0.5427***
15. ***Table of Aggregate Loss Factors Entry Difference [(13) - (12)] / [(c) x (11) 1.264***
16. Ratio of Minimum Rated Losses to Expected Losses 0.15
17. Ratio of Maximum Rated Losses to Expected Losses 1.41
18. ***Table of Aggregate Loss Factors – Aggregate Excess Loss Factor for (17) 0.3368***
19. ***Table of Aggregate Loss Factors – Aggregate Minimum Loss Factor for (16)......... 0.0299***
20. Net ***Aggregate Loss Factors [(18) – (19)] x [(c) x (11)] 0.149***
21. Basic Premium Factor ***(10) + (20) 0.345***

EXHIBIT I (Cont'd)

PRESENT

Explanation of the procedure for the above example:

(1) Estimated Annual Standard Premium.

This is the estimated annual Workers Compensation standard premium for the insurance in the Retrospective Rating agreement. The calculation process in the example requires the estimated annual standard premium in item (1) whether the rating period is for one or three years or for the duration of a wrap-up construction project. If a three year or long-term rating period is elected, note that the estimated annual standard premium is used to produce item (7) and the annual estimate multiplied by 3 (years), or the number of years of the wrap-up construction project would serve as the basis for the expected loss group in 9b to determine the insurance charge in 18 for the elected minimum and maximum premium factors in items (a) and (b) in the example above.

(2) Expected Losses.

The expected losses equal the estimated annual standard premium in item (1) multiplied by the expected loss ratio in item (2). For an interstate risk the expected losses equal the sum of the products of the estimated standard premium for each state and the corresponding expected loss ratio for each state.

AMENDED

(1) Estimated Annual Standard Premium.

This is the estimated annual Workers Compensation standard premium for the insurance in the Retrospective Rating agreement. The calculation process in the example requires the estimated annual standard premium in item (1) whether the rating period is for one or three years or for the duration of a wrap-up construction project. ***If a three year rating period is elected, the annual estimate is multiplied by 3 (years).***

(2) Expected Losses.

For an instrastate risk, the expected losses equal the estimated annual standard premium in item (1) multiplied by the expected loss ratio in item (***3***). For an interstate risk the expected losses equal the sum of the products of the estimated standard premium for each state and the corresponding expected loss ratio for each state.

(3) Expected Loss Ratio.
See the discussion for Line (2).

(4) Policy Excess Ratio

This value is calculated as the total expected excess loss divided by total expected loss. The expected excess loss is calculated by multiplying the expected loss by the Excess Ratio at Loss Limit*. When multiple states and/or hazard groups are included, the expected excess loss is summed across the state-hazard group level to get the total.

Multi-state example (values are hypothetical):

State	*HG*	*Modified Expected Loss*	*Excess Ratio at Loss Limit*	*Expected Excess Loss*	*Policy Excess Ratio*
X	*C*	*106,500*	*0.5*	*53,250*	
X	*G*	*150,000*	*0.7*	*105,000*	
Y	*A*	*50,000*	*0.4*	*20,000*	
Total		*306,500*		*178,250*	*.582*

**** The Excess Ratio values corresponding to the applicable loss limit can be obtained from Exhibit 7 of NJCRIB's Excess Loss Factor Calculations. The appropriate column depends on whether the loss limit is applied on a per-claim or per-occurrence basis, and should be limited to $50M.***

EXHIBIT I (Cont'd)

PRESENT

AMENDED

(5) Excess Loss Factor

This factor is calculated by multiplying the policy excess ratio by the expected loss ratio.

(6) Expected Number of Claims

The expected number of claims is calculated by dividing the expected loss by the average cost per case. The applicable cost per case can be obtained from the annual update to the retrospective rating plan parameters. When multiple states and/or hazard groups are included, the expected number of claims is summed across the state-hazard group level to get the total.

Multi-state example (values are hypothetical):

State	*HG*	*Manual Premium*	*Exp. Mod*	*Expected Loss Ratio*	*Modified Expected Loss*	*Average Cost per Case*	*Expected No. of Claims*
X	*C*	*217,170*			*106,500*	*12,000*	*8.88*
X	*G*	*305,873*			*150,000*	*23,000*	*6.52*
Y	*A*	*101,958*			*50,000*	*9,000*	*5.56*
Total			*0.8*	*0.613*			*20.95*

PRESENT:

(3) Expense and Profit or Contingency Ratio.

This ratio is selected from the Expense Ratio Table—Schedule Y in 2:6-7 of this Manual based on the annual premium in item (1) of the example above. If the carrier uses the Schedule X system of expenses, the table in 2:6-8 would apply. Note that these and other tables and factors are subject to revision. Care should be taken to use current tables and factors when preparing a Plan calculation.

AMENDED:

DELETE

PRESENT:

(4) Expense and Profit or Contingency Excluding Taxes.

This item is calculated by multiplying the estimated annual standard premium in item (1) by the ratio in item (3) to provide the expense and profit or contingency for the one year rating period. The procedure is the same for a three year or long-term rating period, since upon final audit, the total of expense, profit or contingency is determined in the retrospective premium by adding together the actual annual amount of expense, profit or contingency for each year of the three year or long-term rating period.

AMENDED:

(7) Expense and Profit ***and*** Contingency **–** Excluding Taxes.

This item is calculated by multiplying the estimated annual standard premium in item (1) by the ratio in item (***f***) to provide the expense and profit ***and*** contingency for the one year rating period. The procedure is the same for a three year or long-term rating period, since upon final audit, the total of expense, profit ***and*** contingency is determined in the retrospective premium by adding together the actual annual amount of expense, profit ***and*** contingency for each year of the three year or long-term rating period.

PRESENT:

(5) Expected Loss and Expense Ratio.

This ratio is obtained by dividing the sum of the expected losses in item (2) and the expense, profit or contingency (excluding taxes) in item (4) by the estimated annual standard premium in item (1) of the example.

AMENDED:

(***8***) Expected Loss and Expense Ratio.

This ratio is obtained by dividing the sum of the expected losses in item (2) and the expense, profit ***and*** contingency (excluding taxes) in item (***7***) by the estimated annual standard premium in item (1).

EXHIBIT I (Cont'd)

PRESENT	**AMENDED**
(6) Loss and Expense in Converted Losses This factor is the product of the expected loss ratio in (e) multiplied by the loss conversion factor in (c) of the example and represents the expected loss ratio increased to account for loss adjustment expense.	(***9***) Loss and Expense in Converted Losses This factor is the product of the expected loss ratio in (***3***) multiplied by the loss conversion factor in (c) of the example and represents the expected loss ratio increased to account for loss adjustment expense.
(7) Expense and Profit or Contingency in Basic Premium Factor. The difference between item (5) and item (6) is the expense and profit or contingency, which is included in the basic premium factor in item (19).	(***10***) Expense and Profit ***and*** Contingency in Basic Premium Factor. The difference between item (***8***)***, representing the total net premium provision excluding taxes for the insured under the Retrospective Rating Plan,*** and item (***9***)***, representing expected losses and expense in converted losses,*** is the expense and profit ***and*** contingency ***amount***, which is included in the basic premium factor in item (***21***).
(8) Expected Limited Loss Ratio. This ratio is determined by subtracting the excess loss premium factor in (g) from the expected loss ratio in (e). The purpose is that if individual losses are limited through the election of loss limitation, then expected losses should be reduced for consistency in the equations that are used to solve for the basic premium factor. If loss limitation is not elected, (g) should be completed as zero.	(***11***) Expected Limited Loss Ratio. This ratio is determined by subtracting the excess loss premium factor in (***5***) from the expected loss ratio in (***3***). The purpose is that if individual losses are limited through the election of loss limitation, then expected losses should be reduced for consistency in the equations that are used to solve for the basic premium factor. If loss limitation is not elected, (***5***) should be as zero.
(9) Adjusted Expected Losses. The expected losses in item (2) are multiplied by the hazard group differential in (f), the product of which is multiplied by the loss group adjustment factor in (h). This process refines the selection of the expected loss group in (9a) or (9b) by taking into account the hazard group of the classification with the highest estimate of annual New Jersey premium in the policy subject to retrospective rating and also whether loss limitation was elected. If loss limitation was not elected, the factor in (h) is 1.000.	**DELETE**
(9a) Expected Loss Group—One Year Rating Period. T The adjusted expected losses in item (9) are used to select the appropriate expected loss group from the Table of Expected Loss Ranges in 2:6-9 of this Manual, to be used in applying the Table of Insurance Charges also in 2:6-9 to determine items (14) through (17) above, in establishing the net insurance charge in item (18) for the one year term of the rating period.	**DELETE**

EXHIBIT I (Cont'd)

PRESENT	**AMENDED**
(9b) Expected Loss Group—Three Year or Long-Term Rating Period. The adjusted expected losses in item (9) are multiplied by 3 (years) or the number of years of the long-term project. The appropriate expected loss group is then selected from the Table of Expected Loss Ranges in 2:6-9 of this Manual, to be used in applying the Table of Insurance Charges also in 2:6-9 to determine items (14) through (17) above, in establishing the net insurance charge in item (18).	**DELETE**
(10) Minimum Retrospective Premium Factor—Excluding Taxes. This value is determined by dividing the Minimum Premium Factor in (a) by the Tax Multiplier in (d). For an interstate risk tax multipliers are applied separately by state. An average of the state tax multipliers weighted by the state standard premiums should be used.	(***12***) Minimum Retrospective Premium Factor—Excluding Taxes. **NO CHANGE**
(11) Maximum Retrospective Premium Factor—Excluding Taxes. This value is determined by dividing the Maximum Premium Factor in (b) by the Tax Multiplier in (d). For an interstate risk tax multipliers are applied separately by state. An average of the state tax multiplier weighted by the state standard premiums should be used.	(***13***) Maximum Retrospective Premium Factor—Excluding Taxes. **NO CHANGE**
(12) Table of Insurance Charges—Value Difference. (see explanation below).	(***14***) Table of ***Aggregate Loss Factors***—Value Difference. (see explanation below). ***This value is calculated as the difference between items (8) and (12), divided by the product of items (c) and (11). This equals the difference between the aggregate excess loss factors that correspond to the entry ratios computed in item (15). An entry ratio is defined as a ratio to expected aggregate limited losses for the policy.***
(12a) Saving (see Note below).	**DELETE**
(13) Table of Insurance Charges—Entry Ratio Difference Items (12) and (13) were designed to facilitate the testing process by which the basic premium factor is established. The values for these two items are computed as shown in the above example.	(***15***) Table of ***Aggregate Loss Factors***—Entry Ratio Difference ***This value is calculated as the difference between items (13) and (12), divided by the product of items (c) and (11). This equals the difference between the entry ratios that determine the aggregate minimum loss factor for the minimum premium and the aggregate excess loss factor for the maximum premium.***

EXHIBIT I (Cont'd)

PRESENT

Item (12), Table of Insurance Charges Value Difference, equals the difference between the charge in the Table for the entry ratio from which the saving is taken and the Table charge for the entry ratio from which the charge is taken. Item (13) Table of Insurance Charges Entry Difference, equals the difference between the entry ratios in (14) and (15) which determine the saving and charge for the example.

To use the Table of Insurance Charges in selecting the entry ratios for (14) and (15), first note the expected loss group in (9a). Then choose two entry ratios from the Expected Loss Group in the Table which have a difference equal to item (13). Make this choice so that the difference in the charges for the selected entry ratios most closely approximates item (12).

To illustrate this testing procedure, six entry ratios and their corresponding values in expected loss group 39 have been reproduced from the Table. These ratios were selected because, when paired properly, their difference equals item (13) and the difference in their charges approximates item (12).

Entry Ratios	Charges—Group 39
.12	.8916
.13	.8835
.14	.8754

Entry Ratios	Charges—Group 39
1.48	.3622
1.49	.3605
1.50	.3587

The pairs of entry ratios with a difference the same as in item (13) are listed together. Note the difference in their charges:

Entry Ratios	Charges
.12—1.48 = 1.36	.8916—.3622 = .5294
.13—1.49 = 1.36	.8835—.3605 = .5230
.14—1.50 = 1.36	.8754—.3587 = .5167

The pair of ratios whose charge difference most closely approximates Item (12) is .13 and 1.49 and is recorded in items (14) and (15) of the example.

AMENDED

DELETE

To use the Table of ***Aggregate Loss Factors*** in selecting the entry ratios for (***16***) and (***17***), ***find the subtable in the Table of Policy Excess Ratio Ranges containing the policy excess ratio in item (4), as well as the Expected Claim Count Group in the Table of Expected Claim Count Ranges containing item (6), the expected number of claims for the policy. In this example, the corresponding subtable and Expected Claim Count group are Subtable 10 and Group 53.***

Then choose two entry ratios from the Expected ***Claim Count*** Group in the ***sub***table which have a difference equal to item (***15***). Make this choice so that the difference in the ***aggregate excess loss factor for the Expected Claim Count Group for*** the selected entry ratios most closely approximates item (***14***).

To illustrate this testing procedure, ***several*** entry ratios and their corresponding ***aggregate excess loss factors in Subtable 10 and Expected Claim Count Group 53*** have been reproduced from the Table. These ratios were selected because, when paired properly, their difference equals item (***15***) and the difference in their ***aggregate excess loss factors*** approximates item (***14***).

Entry Ratios	Charges—Group ***53***
.14	***.8870***
.15	***.8799***
.16	***.8728***

Entry Ratios	Charges—Group ***53***
1.40	***.3395***
1.41	***.3368***
1.42	***.3339***

The pairs of entry ratios with a difference the same as in item (***15***) are listed together. Note the difference in the ***corresponding aggregate excess loss factors***:

Entry Ratio₁	***Entry Ratio₂***	***Aggregate Excess Loss Factor₁***	***Aggregate Excess Loss Factor₂***	***Aggregate Excess Loss Factor Difference***
.14	***1.40***	***.8870***	***.3395***	***.5475***
.15	***1.41***	***.8799***	***.3368***	***.5431***
.16	***1.42***	***.8728***	***.3339***	***.5386***

The pair of ***entry*** ratios whose ***Aggregate Excess Loss Factor*** difference most closely approximates Item (***14***) is ***.15*** and ***1.41*** and is recorded in items (***16***) and (***17***) of the example.

EXHIBIT I (Cont'd)

PRESENT

(14) Ratio of Minimum Rated Losses to Expected Losses.

This is the entry ratio selected above which is the ratio of the losses underlying the minimum premium factor to the expected losses in the example above.

(15) Ratio of Maximum Rated Losses to Expected Losses.

This is the entry ratio selected above which is the ratio of the losses underlying the maximum premium factor to the expected losses in the example above.

(16) Table of Insurance Charges—Premium Charge for (15).

This is the premium charge for the probability of losses in excess of those which would produce the maximum retrospective premium.

(17) Table of Insurance Charges—Premium Saving for (14).

This is the premium saving for the probability of losses less than those which would produce the minimum retrospective premium. Each value for premium saving can be determined using the formula 1.00 - Entry Ratio = Charge - Saving.

(18) Net Insurance Charge.

This is the charge for insuring that the retrospective premium will be contained by the minimum and maximum premium factors in (a) and (b) of the example for the elected rating period. The net insurance charge is represented by the difference between the charge for item (16) and the saving for item (17) multiplied by the product of the loss conversion factor in (c) and the expected limited loss ratio in item (8).

(19) Basic Premium Factor.

The basic premium factor is the sum of the expense, profit or contingency in item (7) and the net insurance charge in item (18) and is expressed as a percentage of the estimated annual standard premium in item (1) in this example for a one year rating period. For a three year or long-term rating period, the basic premium factor also would be composed of the sum of items (7) and (18). Item (17) would be expressed as a percentage of the estimated annual

AMENDED

(***16***) Ratio of Minimum Rated Losses to Expected Losses.

NO CHANGE

(***17***) Ratio of Maximum Rated Losses to Expected Losses.

NO CHANGE

(***18***) Table of ***Aggregate Loss Factors***—***Aggregate Excess Loss Factor*** for (***17***).

This is the ***aggregate excess loss factor*** for the losses in excess of those which would produce the maximum retrospective premium.

(***19***) Table of ***Aggregate Loss Factors***—***Aggregate Minimum Loss Factor*** for (***16***)

This is the ***aggregate minimum loss factor*** for ***possible*** losses less than those which would produce the minimum retrospective premium. ***It is calculated based on the entry ratio in item (16) and the corresponding aggregate excess loss factor, using the identity:***

Aggregate Minimum Loss Factor = Aggregate Excess Loss Factor + Entry Ratio – 1

In this example the resulting Aggregate Minimum Loss Factor is equal to .0299 (.8799+.15-1)

(***20***) Net ***Aggregate Loss Factor***

The net ***aggregate loss factor*** is ***determined*** by ***calculating*** the difference between the ***aggregate excess loss factor*** for item (***18***) ***for possible losses that might produce more than the maximum retrospective premium*** and the ***aggregate minimum loss factor*** for item (***19***) ***for losses that might produce less than the minimum retrospective premium*** multiplied by the product of the loss conversion factor in (c) and the expected limited loss ratio in item (***11***). ***The net aggregate loss factor may be less than zero, as long as the basic premium factor is not negative***.

(***21***) Basic Premium Factor.

The basic premium factor is the sum of the expense ***and*** profit ***and*** contingency in item (***10***) and the net ***aggregate loss factor*** in item (***20***) and is expressed as a percentage of the estimated annual standard premium in item (1). ***The standard premium multiplied by the basic premium factor produces the basic premium used in computing the retrospective rating plan premium. For this example, the basic premium amount is 0.345 x $225,000 or $77,625.***

EXHIBIT I (Cont'd)

PRESENT	**AMENDED**
standard premium since expenses are based upon annual periods. Item (18), however, would be expressed as a percentage of the estimated three year or long-term standard premium, since the insurance charges and savings are calculated to apply to the entire term of the rating period.	**DELETE**
Note: The requirements and explanations listed below apply to the calculation of retrospective rating values.	**NO CHANGE**
The minimum premium factor shall not be less than the basic premium factor multiplied by the tax multiplier.	**NO CHANGE**
The loss conversion factor shall not be large enough to cause negative expenses in the calculation of the basic premium factors.	**NO CHANGE**
Where the minimum (BP x TM) is elected, item (12a) shall be completed. The saving entered in item (12a) is used to determine the entry ratio and charge for the maximum premium factor in items (15) and (16) from the following transposed form of the formula in 2:6-9 of this Manual: Entry Ratio + Charge = 1.00 + Saving. The entry ratio selected from the Table of Insurance Charges in 2:6 - 9 for the expected loss group in item (9a) or (9b) plus the charge for the maximum premium factor should approximate 1.00 plus the saving in item (12a) as closely as possible.	**DELETE**
The maximum premium factor in (b) when applied to the estimated annual standard premium in item (1) shall not produce premium less than that which would result from the premium in item (1) reduced by the New Jersey Premium Discount.	**NO CHANGE**
Where loss limitation is elected, multiply item (16) by item (6). Add the product to the applicable excess loss factor. The total shall not be more than the expected loss ratio.	**NO CHANGE**
The highest entry ratio in the Table of Insurance Charges is 3.00. Entry ratios higher than 3.00 may be utilized in calculations. If access to the higher ratios is not available, contact this Bureau	**DELETE**

EXHIBIT I (Cont'd)

PRESENT	**PROPOSED**
33. Retrospective Rating Procedure—Three Year Basis. Paragraph 22 shall govern the determination of the retrospective premium for the three year retrospective rating period, provided:	
(a) The basic, maximum and minimum premium factors shall be obtained from the calculated schedule of rating values.	**NO CHANGE**
(b) The schedule of rating values applicable at the beginning of the rating period shall apply for the entire rating period, but if the earned standard premium is beyond the highest or lowest premium size in the schedule, an additional premium size shall be calculated by the carrier and the Bureau shall be so notified.	**NO CHANGE**
(c) Any revision of the tax multipliers, excess loss premium factors or retrospective development factors shall be applied at the beginning of the second and, if applicable, the third year of policies written for a three year rating period, unless such revision is authorized for application to policies outstanding.	**NO CHANGE**
(d) In each schedule of rating values, the carrier's expense ratio shall be determined on the basis of the estimated annual standard premium, but the carrier's net insurance charge shall be based on the estimated standard premium for the three year rating period.	(d) In each schedule of rating values, the carrier's expense ratio shall be determined on the basis of the estimated annual standard premium, but the carrier's net ***aggregate loss factor*** shall be based on the estimated standard premium for the three year rating period.
(e) The experience for the three year rating period shall be used to calculate the retrospective premium on a cumulative basis in this manner:	**NO CHANGE**
(i) The retrospective premium for the first annual period shall be based upon the standard premium and incurred losses for the period, with the losses valued during the sixth month after the expiration of such period.	**NO CHANGE**
(ii) The retrospective premium for the first two annual periods shall be based upon the standard premium and incurred losses for such periods, with the losses valued during the sixth month after the expiration of the second annual period.	**NO CHANGE**
(iii) The retrospective premium for the first three annual periods shall be based upon the standard premium and incurred losses for such periods, with the losses valued during the sixth month after the expiration of the third annual period.	**NO CHANGE**

EXHIBIT II

WORKERS COMPENSATION AND EMPLOYERS LIABILITY INSURANCE POLICY WC 00 05 03 *D*

RETROSPECTIVE RATING PLAN PREMIUM ENDORSEMENT ONE YEAR PLAN

This endorsement is added to Part Five (Premium) because you chose to have the cost of the insurance rated retrospectively. This endorsement explains the rating plan and how the retrospective rating plan premium will be determined.

This endorsement applies in the states listed in the Schedule. It determines the retrospective rating plan premium for the insurance provided during the rating plan period by this policy and any other policy listed in the Schedule. The rating plan period is the one-year period beginning with the effective date of this endorsement.

The amount of retrospective rating plan premium depends on five standard elements and two elective elements.

A. Retrospective Rating Plan Premium Standard Elements

The five standard elements are explained here.

1) Standard premium is the premium we would charge during the rating plan period if you had not chosen a retrospective rating plan. Standard premium does not include the following elements and any other elements excluded based on our manuals:
   - Premium discount
   - Expense constant
   - Premium resulting from the non-ratable element codes
   - Premium developed by the occupational disease rates for employers subject to the Federal Coal Mine Safety and Health Act
   - Premium developed by the catastrophe provisions

2) Basic premium is less than standard premium. It is standard premium multiplied by a percentage called the basic premium factor. The basic premium factor varies depending on the total amount of standard premium. The basic premium factor includes:
   - General administration costs of the carrier
   - Cost of loss control services
   - ***Net aggregate loss factor***

The basic premium factor does not cover premium taxes or claims adjustment expenses. Those elements are usually provided for in the tax multiplier and the loss conversion factor.

The Schedule shows a range of basic premium factors for differing amounts of estimated standard premium. The actual basic premium factor will be determined after the standard premium is determined. If earned standard premium is not within the range of the estimated standard premiums shown in the Schedule, the basic premium will be recalculated.

3) Incurred losses are all amounts we pay or estimate we will pay for losses, interest on judgements, expenses to recover against third parties, and employers liability loss adjustment expenses. This includes paid and outstanding losses (including any reserves set on open claims). If the allocated loss adjustment expense (ALAE) option is elected, then incurred losses will include ALAE.

Note: The rating formula for incurred losses will not include a loss for the following elements or any other elements excluded from our manuals, as applicable:

- Resulting from the non-ratable element codes
- For the disease-related portion of losses covered under the Federal Mine Safety and Health Act
- Resulting from the application of catastrophe provisions
- Reported as fully fraudulent
- Reported as non-compensable

4) Converted incurred losses are based on the incurred losses for a policy or policies to which the retrospective rating plan applies. A loss conversion factor is applied to incurred losses to produce the converted incurred losses. The loss conversion factor is shown in the Schedule.

EXHIBIT II (Cont'd)

WORKERS COMPENSATION AND EMPLOYERS LIABILITY INSURANCE POLICY WC 00 05 03 *D*

RETROSPECTIVE RATING PLAN PREMIUM ENDORSEMENT ONE YEAR PLAN

5) Taxes are a part of the premium we collect. Taxes are determined as a percentage of basic premium, converted incurred losses, and any elective elements. The percentage is called the tax multiplier. It varies by state and by federal and non-federal classifications. The tax multipliers are shown in the Schedule.

B. Retrospective Rating Plan Premium Elective Elements

Two other elements are included in determining retrospective rating plan premium if you elected to include them. They are the excess loss premium for the loss limitation and the retrospective development premium. They are explained here.

1) The election of a loss limitation means that the amount of incurred loss to be included in the retrospective rating plan premium is limited to an amount called the loss limitation. The loss limitation applies separately to each person who sustains bodily injury by disease and separately to all bodily injury arising out of any one accident.

   The charge for this loss limitation is called the excess loss premium. Excess loss premium is a percentage of standard premium multiplied by the loss conversion factor. The percentage is called the excess loss premium factor.

   Excess loss premium factors vary by state, by classification, and by the amount of the loss limitation. If you chose this elective element, the loss conversion factor, the loss limitation, the excess loss premium factors, and the states where they apply are shown in the Schedule.

2) The retrospective development element is used to help stabilize premium adjustments. The premium for this element is charged with the first three calculations of a retrospective rating plan premium and is called the retrospective development premium. It is a percentage of standard premium multiplied by the loss conversion factor. The percentage of standard premium is called the retrospective development factor.

   Retrospective development factors vary by state, by electing a loss limitation, and by first, second, and third calculations of retrospective rating plan premium. If you chose this elective element, the retrospective development factors are shown in the Schedule.

C. Retrospective Rating Plan Premium Formula

Insurance policies listed in the Schedule will be combined with this policy to calculate the retrospective rating plan premium. If the policies provide insurance for more than one insured, the retrospective rating plan premium will be determined for all insureds combined, not separately for each insured.

1) Retrospective rating plan premium is the sum of basic premium, converted losses, plus the excess loss premium and retrospective development premium elective elements if you chose them. This sum is multiplied by the applicable tax multiplier shown in the Schedule.

2) The retrospective rating plan premium will not be less than the minimum or more than the maximum retrospective rating plan premium. The minimum and maximum retrospective rating plan premiums are determined by applying the minimum and maximum retrospective rating plan premium factors, shown in the Schedule, to the standard premium.

3) If this endorsement applies to more than one policy or state, the standard premium will be the sum of the standard premiums for each policy and state.

D. Calculation of Retrospective Rating Plan Premium

1) We will calculate the retrospective rating plan premium using all loss information we have as of a date six months after the rating ends and annually thereafter.

   We may make a special valuation of the retrospective rating plan premium as of any date that you are declared bankrupt or insolvent, make an assignment for the benefit of creditors, are involved in reorganization, receivership, or liquidation, or dispose of all your interest in work covered by the insurance. You will pay the amount due to us if the retrospective rating plan premium is more than the total standard premium as of the special valuation date.

2) After any calculation of retrospective rating plan premium, you and we may agree that it is the final calculation.

EXHIBIT II (Cont'd)

WORKERS COMPENSATION AND EMPLOYERS LIABILITY INSURANCE POLICY WC 00 05 03 *D*

RETROSPECTIVE RATING PLAN PREMIUM ENDORSEMENT ONE YEAR PLAN

3) After each calculation of the retrospective rating plan premium, you will pay promptly the amount due us, or we will refund the amount due you. Each insured is responsible for the payment of all standard premium and retrospective rating plan premium calculated under this endorsement.

E. Insureds Operating in More than One State

If any of the policies provide insurance in a state not listed in the Table of States, and if you begin work in that state during the retrospective rating plan period, this endorsement will apply to that insurance if this retrospective rating plan applies in that state on an interstate basis. The retrospective rating plan premium standard elements, and the elective elements you chose, will be determined by our manuals for that state, and added to the Schedule by endorsement.

F. Cancellation of a Policy Under a Retrospective Rating Plan

1) If the policy to which this endorsement is attached is cancelled, the effective date of the cancellation will become the end of the rating plan period of all insurance subject to this endorsement.

2) If other policies listed in the Schedule of this endorsement are cancelled, the effective date of cancellation will become the end of the rating plan period for all insurance subject to this endorsement unless we agree with you, by endorsement, to continue the rating plan period.

3) If we cancel for nonpayment of premium, the maximum retrospective rating plan premium will be based on the standard premium for the rating plan period, increased pro rata to 365 days, and will include all of the applicable retrospective rating plan factors shown in the Schedule.

4) If you cancel, the standard premium for the rating plan period will be increased by our short rate table and procedure. This short rate premium will be the minimum retrospective rating plan premium and will be used to determine the basic premium.

   The short rate premium will be used to determine the excess loss premium and retrospective development premium if you chose these elective elements.

   The maximum retrospective rating plan premium will be based on the standard premium for the rating plan period, increased pro rata to 365 days.

5) Section F.4. will not apply if you cancel because:

   a) All work covered by the insurance is completed
   b) All interest in the business covered by the insurance is sold
   c) You retire from all business covered by the insurance

SCHEDULE

1) Other policies subject to this Retrospective Rating Plan Premium Endorsement

2) Loss Limitation: $

3) Loss Conversion Factor

   Minimum Retrospective Rating Plan Premium Factor ____________

   Maximum Retrospective Rating Plan Premium Factor ____________

4) The basic premium factors shown here are based on estimates of standard premium. If the actual standard premium is within the range of estimated standard premiums shown here, the basic premium factor will be obtained by linear interpolation to the nearest one-tenth of 1%. If the actual standard premium is not within the range of estimated standard premiums, shown below, the basic premium factor will be recalculated.

EXHIBIT II (Cont'd)

WORKERS COMPENSATION AND EMPLOYERS LIABILITY INSURANCE POLICY **WC 00 05 03 *D***

RETROSPECTIVE RATING PLAN PREMIUM ENDORSEMENT ONE YEAR PLAN

	50%	100%	150%
Estimated Standard Premium:	$ ______________	$ ______________	$ ______________
Basic Premium Factor	______________	______________	______________

5) The tax multipliers, excess loss premium factors, and retrospective development factors, and the states where they apply, are shown in the Table of States.

TABLE OF STATES

State	Excess Loss Premium Factors		Tax Multiplier		Retrospective Development Factors		
	State (Other than "F" Classes)	Federal ("F" Classes Only)	State (Other than "F" Classes)	Federal ("F" Classes Only)	1st	2nd	3rd

This endorsement changes the policy to which it is attached and is effective on the date issued unless otherwise stated.

(The information below is required only when this endorsement is issued subsequent to preparation of the policy.)

Endorsement Effective Policy No. Endorsement No.

Insured Premium $

Insurance Company

Countersigned by ____________________________________

EXHIBIT II (Cont'd)

WORKERS COMPENSATION AND EMPLOYERS LIABILITY INSURANCE POLICY WC 00 05 04 *D*

RETROSPECTIVE RATING PLAN PREMIUM ENDORSEMENT THREE YEAR PLAN

This endorsement is added to Part Five (Premium) because you chose to have the cost of the insurance rated retrospectively. This endorsement explains the rating plan and how the retrospective rating plan premium will be determined.

This endorsement applies in the states listed in the Schedule. It determines the retrospective rating plan premium for the insurance provided during the rating plan period by this policy, any policy listed in the Schedule, and the renewals of each. The rating plan period is the three-year period beginning with the effective date of this endorsement.

The amount of retrospective rating plan premium depends on five standard elements and two elective elements.

A. Retrospective Rating Plan Premium Standard Elements

The five standard elements are explained here.

1) Standard premium is the premium we would charge during the rating plan period if you had not chosen a retrospective rating plan. Standard premium does not include the following elements and any other elements excluded based on our manuals:
   - Premium discount
   - Expense constant
   - Premium resulting from the non-ratable element codes
   - Premium developed by the occupational disease rates for employers subject to the Federal Mine Safety and Health Act
   - Premium developed by the catastrophe provisions

2) Basic premium is less than standard premium. It is standard premium multiplied by a percentage called the basic premium factor. The basic premium factor varies depending on the total amount of standard premium. The basic premium factor includes:
   - General administration costs of the carrier
   - Cost of loss control services
   - ***Net aggregate loss factor***

The basic premium factor does not cover premium taxes or claims adjustment expenses. Those elements are usually provided for in the tax multiplier and the loss conversion factor.

The Schedule shows a range of basic premium factors for differing amounts of estimated standard premium. The actual basic premium factor will be determined after the standard premium is determined. If earned standard premium is not within the range of the estimated standard premiums shown in the Schedule, the basic premium will be recalculated.

3) Incurred losses are all amounts we pay or estimate we will pay for losses, interest on judgements, expenses to recover against third parties, and employers liability loss adjustment expenses. This includes paid and outstanding losses (including any reserves set on open claims). If the allocated loss adjustment expense (ALAE) option is elected, then incurred losses will include ALAE.

Note: The rating formula for incurred losses will not include a loss for the following elements and any other elements excluded from our manuals, as applicable:
   - Resulting from the non-ratable element codes
   - For the disease-related portion of losses covered under the Federal Mine Safety and Health Act
   - Resulting from the application of catastrophe provisions
   - Reported as fully fraudulent
   - Reported as non-compensable

4) Converted incurred losses are based on the incurred losses for a policy or policies to which the retrospective rating plan applies. A loss conversion factor is applied to incurred losses to produce the converted incurred losses. The loss conversion factor is shown in the Schedule.

EXHIBIT II (Cont'd)

WORKERS COMPENSATION AND EMPLOYERS LIABILITY INSURANCE POLICY WC 00 05 04 *D*

RETROSPECTIVE RATING PLAN PREMIUM ENDORSEMENT THREE YEAR PLAN

5) Taxes are a part of the premium we collect. Taxes are determined as a percentage of basic premium and converted incurred losses and any elective elements. The percentage is called the tax multiplier. It varies by state and by federal and non-federal classifications. The tax multipliers or an average tax multiplier are shown in the Schedule. Tax multipliers may change during the rating plan period. Changes will be shown by endorsement.

B. Retrospective Rating Plan Premium Elective Elements

Two other elements are included in determining retrospective rating plan premium if you elected to include them. They are the excess loss premium for the loss limitation and the retrospective development premium. They are explained here.

1) The election of a loss limitation means that the amount of incurred loss to be included in the retrospective rating plan premium is limited to an amount called the loss limitation. The loss limitation applies separately to each person who sustains bodily injury by disease and separately to all bodily injury arising out of any one accident.

   The charge for this loss limitation is called the excess loss premium. Excess loss premium is a percentage of standard premium multiplied by the loss conversion factor. The percentage is called the excess loss premium factor.

   Excess loss premium factors vary by state, by classification, and by the amount of the loss limitation. If you chose this elective element, the loss conversion factor, the loss limitation, the excess loss premium factors, and the states where they apply are shown in the Schedule. Excess loss premium factors may change during the retrospective rating plan policy period. Changes will be shown by endorsement.

2) The retrospective development element is used to help stabilize premium adjustments. The premium for this element is charged with the first three calculations of a retrospective rating plan premium and is called the retrospective development premium. It is a percentage of standard premium multiplied by the loss conversion factor. The percentage of standard premium is called the retrospective development factor.

   Retrospective development factors vary by state, by electing a loss limitation, and by first, second, and third calculations of retrospective rating plan premium. If you chose this elective element, the retrospective development factors are shown in the Schedule.

C. Retrospective Rating Plan Premium Formula

Insurance policies listed in the Schedule will be combined with this policy to calculate the retrospective rating plan premium. If the policies provide insurance for more than one insured, the retrospective rating plan premium will be determined for all insureds combined, not separately for each insured.

1) Retrospective rating plan premium is the sum of basic premium, converted losses, plus the excess loss premium and retrospective development premium elective elements if you chose them. This sum is multiplied by the applicable tax multiplier shown in the Schedule.

2) The retrospective rating plan premium will not be less than the minimum or more than the maximum retrospective rating plan premium. The minimum and maximum retrospective rating plan premiums are determined by applying the minimum and maximum retrospective rating plan premium factors, shown in the Schedule, to the standard premium.

3) If this endorsement applies to more than one policy or state, the standard premium will be the sum of the standard premiums for each policy and state.

D. Calculation of Retrospective Rating Plan Premium

1) We will calculate the retrospective rating plan premium using all loss information we have as of a date six months after the rating plan period ends and annually thereafter.

   We may make a special valuation of a retrospective rating plan premium as of any date that you are declared bankrupt or insolvent, make an assignment for the benefit of creditors, are involved in reorganization, receivership, or liquidation, or dispose of all your interest in work covered by the insurance. You will pay the amount due us if the retrospective rating plan premium is more than the total standard premium as of the special valuation date.

EXHIBIT II (Cont'd)

WORKERS COMPENSATION AND EMPLOYERS LIABILITY INSURANCE POLICY WC 00 05 04 *D*

RETROSPECTIVE RATING PLAN PREMIUM ENDORSEMENT THREE YEAR PLAN

We may make interim calculations of retrospective rating plan premium for the first year and the first two years of the rating plan period. We will use all loss information we have as of a date six months after the end of each of these periods.

2) After any calculation of retrospective rating plan premium, you and we may agree that it is the final calculation.

3) After each calculation of the retrospective rating plan premium, you will pay promptly the amount due us, or we will refund the amount due you. Each insured is responsible for the payment of all standard premium and retrospective rating plan premium calculated under this endorsement.

E. Insureds Operating in More than One State

If any of the policies provide insurance in a state not listed in the Table of States, and if you begin work in that state during a retrospective rating plan period, this endorsement will apply to that insurance if this retrospective rating plan applies in that state on an interstate basis. The retrospective rating plan premium standard elements, and the elective elements you chose, will be determined by our manuals for that state, and added to the Schedule by endorsement.

F. Cancellation and Nonrenewal of a Policy Under a Retrospective Rating Plan

1) If the policy to which this endorsement is attached is cancelled or is not renewed, the effective date of the cancellation or nonrenewal will become the end of the rating plan period for all insurance subject to this endorsement.

2) If the other policies listed in the Schedule of this endorsement are cancelled or not renewed, the effective date of cancellation or nonrenewal will become the end of the rating plan period for all insurance subject to this endorsement unless we agree with you, by endorsement, to continue the rating plan period.

3) If we cancel or do not renew for nonpayment of premium, the maximum retrospective rating plan premium will be the standard premium for the rating period, increased pro rata to three years (1,095 days), and will include all of the applicable retrospective rating plan factors shown in the Schedule.

4) If you cancel or do not renew, the standard premium for the rating plan period will be increased by our short rate table and procedure. This short rate premium will be the minimum retrospective rating plan premium and will be used to determine the basic premium.

   The short rate premium will be used to determine the excess loss premium and retrospective development premium if you chose these elective elements.

   The maximum retrospective rating plan premium will be based on the standard premium for the rating plan period, increased pro rata to three years (1,095 days).

5) Section F.4. will not apply if you cancel or do not renew because:

   a) All work covered by the insurance is complete

   b) All interest in the business covered by the insurance is sold

   c) You retire from all business covered by the insurance

SCHEDULE

1) Other policies subject to this Retrospective Rating Plan Premium Endorsement

2) Loss Limitation: $

3) Loss Conversion Factor

   Minimum Retrospective Rating Plan Premium Factor ____________

   Maximum Retrospective Rating Plan Premium Factor ____________

EXHIBIT II (Cont'd)

WORKERS COMPENSATION AND EMPLOYERS LIABILITY INSURANCE POLICY **WC 00 05 04 *D***

RETROSPECTIVE RATING PLAN PREMIUM ENDORSEMENT THREE YEAR PLAN

4) The basic premium factors shown here are based on estimates of standard premium. If the actual standard premium is within the range of estimated standard premiums shown here, the basic premium factor will be obtained by linear interpolation to the nearest one-tenth of 1%. If the actual standard premium is not within the range of estimated standard premiums, shown below, the basic premium factor will be recalculated.

	50%	100%	150%
Estimated Standard Premium:	$ ____________	$ ____________	$ ____________
Basic Premium Factor	____________	____________	____________

5) The tax multipliers, excess loss premium factors, and retrospective development factors, and the states where they apply, are shown in the Table of States.

TABLE OF STATES

State	Excess Loss Premium Factors		Tax Multiplier		Retrospective Development Factors		
	State (Other than "F" Classes)	Federal ("F" Classes Only)	State (Other than "F" Classes)	Federal ("F" Classes Only)	1st	2nd	3rd

This endorsement changes the policy to which it is attached and is effective on the date issued unless otherwise stated.

(The information below is required only when this endorsement is issued subsequent to preparation of the policy.)

Endorsement Effective Policy No. Endorsement No.

Insured Premium $

Insurance Company

Countersigned by ________________________________

EXHIBIT II (Cont'd)

WORKERS COMPENSATION AND EMPLOYERS LIABILITY INSURANCE POLICY WC 00 05 05 *D*

RETROSPECTIVE RATING PLAN PREMIUM ENDORSEMENT WRAP-UP CONSTRUCTION PROJECT

This endorsement is added to Part Five (Premium) because you chose to have the cost of the insurance rated retrospectively. This endorsement explains the rating plan and how the retrospective rating plan premium will be determined.

This endorsement applies in the states listed in the Schedule. It determines a retrospective rating plan premium for the insurance provided during the rating plan period by this policy, and policy listed in the Schedule, and the renewals of each. The rating plan period is the duration of the wrap-up construction project described on the Information Page, beginning with the effective date of this endorsement.

The amount of retrospective rating plan premium depends on five standard elements and two elective elements.

A. Retrospective Rating Plan Premium Standard Elements

The five standard elements are explained here.

1) Standard premium is the premium we would charge during the rating plan period if you had not chosen a retrospective rating plan. Standard premium does not include the following elements and any other elements excluded based on our manuals:

- Premium discount
- Expense constant
- Premium resulting from the non-ratable element codes
- Premium developed by the occupational disease rates for employers subject to the Federal Coal Mine Safety and Health Act
- Premium developed by the catastrophe provisions

2) Basic premium is less than standard premium. It is standard premium multiplied by a percentage called the basic premium factor. The basic premium factor varies depending on the total amount of standard premium. The basic premium factor includes:

- General administration costs of the carrier
- Cost of loss control services
- ***Net aggregate loss factor***

The basic premium factor does not cover premium taxes or claims adjustment expenses. Those elements are usually provided for in the tax multiplier and the loss conversion factor.

The Schedule shows a range of basic premium factors for differing amounts of estimated standard premium. The actual basic premium factor will be determined after the standard premium is determined. If earned standard premium is not within the range of the estimated standard premiums shown in the Schedule, the basic premium will be recalculated.

3) Incurred losses are all amounts we pay or estimate we pay for losses, interest on judgements, expenses to recover against third parties, and employers liability loss adjustment expenses. This includes paid and outstanding losses (including any reserves set on open claims). If the allocated loss adjustment expense (ALAE) option is elected, then incurred losses will include ALAE

Note: The rating formula for incurred losses will not include a loss for the following elements or any other elements excluded from our manuals where applicable:

- Resulting from the non-ratable element codes
- For the disease-related portion of losses covered under the Federal Mine Safety and Health Act
- Resulting from the application of catastrophe provisions
- Reported as fully fraudulent
- Reported as non-compensable

4) Converted incurred losses are based on the incurred losses for a policy or policies to which the retrospective rating plan applies. A loss conversion factor is applied to incurred losses to produce the converted incurred losses. The loss conversion factor is shown in the Schedule.

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5) Taxes are a part of the premium we collect. Taxes are determined as a percentage of basic premium and converted incurred losses and any elective elements. The percentage is called the tax multiplier. It varies by state and by federal and non-federal classifications. The tax multipliers or an average tax multiplier are shown in the Schedule. Tax multipliers may change during the rating plan period. Changes will be shown by endorsement.

B. Retrospective Rating Plan Premium Elective Elements

Two other elements are included in determining retrospective rating plan premium if you elected to include them. They are the excess loss premium for the loss limitation and the retrospective development premium. They are explained here.

1) The election of a loss limitation means that the amount of incurred loss to be included in the retrospective rating plan premium is limited to an amount called the loss limitation. The loss limitation applies separately to each person who sustains bodily injury by disease and separately to all bodily injury arising out of any one accident.

   The charge for this loss limitation is called the excess loss premium. Excess loss premium is a percentage of standard premium multiplied by the loss conversion factor. The percentage is called the excess loss premium factor.

   Excess loss premium factors vary by state, by classification, and by the amount of the loss limitation. If you chose this elective element, the loss conversion factor, the loss limitation, the excess loss premium factors, and the states where they apply are shown in the Schedule. Excess loss premium factors may change during the retrospective rating plan policy period. Changes will be shown by endorsement.

2) The retrospective development element is used to help stabilize premium adjustments. The premium for this element is charged with the first three calculations of a retrospective rating plan premium and is called the retrospective development premium. It is a percentage of standard premium multiplied by the loss conversion factor. The percentage of standard premium is called the retrospective development factor.

   Retrospective development factors vary by state, by electing a loss limitation, and by first, second, and third calculations of retrospective rating plan premium. If you chose this elective element, the retrospective development factors are shown in the Schedule.

C. Retrospective Rating Plan Premium Formula

Insurance policies listed in the Schedule will be combined with this policy to calculate the retrospective rating plan premium. If the policies provide insurance for more than one insured, the retrospective rating plan premium will be determined for all insureds combined, not separately for each insured.

1) Retrospective rating plan premium is the sum of basic premium, converted losses plus the excess loss premium and retrospective development premium elective elements if you chose them. This sum is multiplied by the applicable tax multiplier shown in the Schedule.

2) The retrospective rating plan premium will not be less than the minimum or more than the maximum retrospective rating plan premium. The minimum and maximum retrospective rating plan premiums are determined by applying the minimum and maximum retrospective rating plan premium factors, shown in the Schedule, to the standard premium.

3) If this endorsement applies to more than one policy or state, the standard premium will be the sum of the standard premiums for each policy and state.

D. Calculation of Retrospective Rating Plan Premium

1) We will calculate the retrospective rating plan premium using all loss information we have as of a date six months after the rating plan period ends and annually thereafter.

   We may make a special valuation of a retrospective rating plan premium as of any date that you are declared bankrupt or insolvent, make an assignment for the benefit of creditors, are involved in reorganization, receivership, or liquidation, or dispose of all your interest in work covered by the insurance. You will pay the amount due us if the retrospective rating plan premium is more than the total standard premium as of the special valuation date.

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We may make interim calculations of retrospective rating plan premium for the first year and the first two years of the rating plan period. We will use all loss information we have as of a date six months after the end of each of these periods.

2) After any calculation of retrospective rating plan premium, you and we may agree that it is the final calculation.

3) After each calculation of the retrospective rating plan premium, you will pay promptly the amount due us, or we will refund the amount due you. Each insured is responsible for the payment of all standard premium and retrospective rating plan premium calculated under this endorsement.

E. Insureds Operating in More than One State

If any of the policies provide insurance in a state not listed in the Table of States, and if you begin work in that state during a retrospective rating plan period, this endorsement will apply to that insurance if this retrospective rating plan applies in that state on an interstate basis. The retrospective rating plan premium standard elements, and the elective elements you chose, will be determined by our manuals for that state, and added to the Schedule by endorsement.

F. Cancellation and Nonrenewal of a Policy Under a Retrospective Rating Plan

1) If the policy to which this endorsement is attached is cancelled or not renewed, the effective date of the cancellation or nonrenewal will become the end of the rating plan period for all insurance subject to this endorsement.

2) If other policies listed in the Schedule of this endorsement are cancelled or not renewed, the effective date of cancellation or nonrenewal will become the end of the rating plan period for all insurance subject to this endorsement unless we agree with you, by endorsement, to continue the rating plan period.

3) If we cancel or do not renew for nonpayment of premium, the maximum retrospective rating plan premium will be based on the standard premium for the rating plan period, plus the estimated standard premium from the end of the rating plan period to the estimated project completion date, and will include all of the applicable retrospective rating factors shown in the Schedule.

4) If you cancel or do not renew, the standard premium for the rating plan period will be increased by our short rate table and procedure. This short rate premium will be the minimum retrospective rating plan premium and will be used to determine the basic premium.

   The short rate premium will be used to determine the excess loss premium and retrospective development premium if you chose these elective elements.

   The maximum retrospective rating plan premium will be based on the standard premium for the rating plan period plus the estimated standard premium from the end of the rating plan period to the estimated project completion date.

5) Section F.4. will not apply if you cancel or do not renew because:

   a) All work covered by the insurance is complete

   b) All interest in the business covered by the insurance is sold

   c) You retire from all business covered by the insurance

SCHEDULE

1) Other policies subject to this Retrospective Rating Plan Premium Endorsement

2) Loss Limitation: $ ___________

3) Loss Conversion Factor _______

   Minimum Retrospective Rating Plan Premium Factor ____________

   Maximum Retrospective Rating Plan Premium Factor ____________

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4) The basic premium factors shown here are based on estimates of standard premium. If the actual standard premium is within the range of estimated standard premiums shown here, the basic premium factor will be obtained by linear interpolation to the nearest one-tenth of 1%. If the actual standard premium is not within the range of estimated standard premiums, shown below, the basic premium factor will be recalculated.

	50%	**100%**	**150%**
Estimated Standard Premium:	$ ____________	$ ____________	$ ____________
Basic Premium Factor	____________	____________	____________

5) The tax multipliers, excess loss premium factors, and retrospective development factors, and the states where they apply, are shown in the Table of States.

TABLE OF STATES

State	**Excess Loss Premium Factors**		**Tax Multiplier**		**Retrospective Development Factors**		
	State (Other than "F" Classes)	**Federal ("F" Classes Only)**	**State (Other than "F" Classes)**	**Federal ("F" Classes Only)**	**1st**	**2nd**	**3rd**

This endorsement changes the policy to which it is attached and is effective on the date issued unless otherwise stated.

(The information below is required only when this endorsement is issued subsequent to preparation of the policy.)

Endorsement Effective Policy No. Endorsement No.

Insured Premium $

Insurance Company

Countersigned by ________________________________

EXHIBIT III

INDEX
POLICY FORMS AND ENDORSEMENTS
APPLICABLE IN NEW JERSEY

	STANDARD IDENTIFIER	VERSION IDENTIFIER±
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Information Page (With New Jersey Requirements)	WC 00 00 01	A

FEDERAL COVERAGES AND EXCLUSIONS

	STANDARD IDENTIFIER	VERSION IDENTIFIER±
Defense Base Act Coverage Endorsement	WC 00 01 01	A
Federal Employers' Liability Act Coverage Endorsement	WC 00 01 04	A
Longshore and Harbor Workers' Compensation Act Coverage Endorsement	WC 00 01 06	A
Outer Continental Shelf Lands Act Coverage Endorsement	WC 00 01 09	C
Notification Endorsement of Pending Law Change to Terrorism Risk Insurance Program Reauthorization Act of 2015	WC 00 01 15	
New Jersey Voluntary Compensation Federal Employers' Liability Act Coverage Endorsement	WC 29 01 01	

MARITIME COVERAGES AND EXCLUSIONS

	STANDARD IDENTIFIER	VERSION IDENTIFIER±
Maritime Coverage Endorsement	WC 00 02 01	B
Voluntary Compensation Maritime Coverage Endorsement	WC 00 02 03	

OTHER COVERAGE AND EXCLUSIONS

	STANDARD IDENTIFIER	VERSION IDENTIFIER±
Alternate Employer Endorsement	WC 00 03 01	A
Designated Workplaces Exclusion Endorsement	WC 00 03 02	
Insurance Company as Insured Endorsement	WC 00 03 04	
Joint Venture as Insured Endorsement	WC 00 03 05	
Rural Utilities Service Endorsement	WC 00 03 09	B
New Jersey Workers Compensation and Employers Liability Coverage for Residence Employees Endorsement	WC 29 03 02	A
New Jersey Employee Leasing Labor Contractor Endorsement	WC 29 03 03	
New Jersey Employee Leasing Client Exclusion Endorsement	WC 29 03 04	
New Jersey Employee Leasing Labor Contractor Exclusion Endorsement	WC 29 03 05	
New Jersey Part Two Employers Liability Endorsement	WC 29 03 06	B
New Jersey Sole Proprietor and Partners Coverage Endorsement	WC 29 03 07	
New Jersey Limited Other States Insurance Endorsement	WC 29 03 09	A
New Jersey Workers Compensation Insurance Plan Eligibility Endorsement	WC 29 03 10	

PREMIUM

	STANDARD IDENTIFIER	VERSION IDENTIFIER±
Experience Rating Modification Factor Endorsement	WC 00 04 03	
Pending Rate Change Endorsement	WC 00 04 04	
Policy Period Endorsement	WC 00 04 05	
Premium Discount Endorsement	WC 00 04 06	A
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Premium Due Date Endorsement	WC 00 04 19	
Catastrophe (Other than Certified Acts of Terrorism) Premium Endorsement	WC 00 04 21	D
Terrorism Risk Insurance Program Reauthorization Act Disclosure Endorsement	WC 00 04 22	B
Audit Noncompliance Charge Endorsement	WC 00 04 24	
Experience Rating Modification Factor Revision Endorsement	WC 00 04 25	
New Jersey Approved Managed Care Program Endorsement	WC 29 04 09	A
New Jersey Construction Classification Premium Adjustment Endorsement	WC 29 04 10	

RETROSPECTIVE PREMIUM

	STANDARD IDENTIFIER	VERSION IDENTIFIER±
Retrospective Rating Plan Premium Endorsement – One Year Plan	WC 00 05 03	D ★
Retrospective Rating Plan Premium Endorsement – Three Year Plan	WC 00 05 04	D ★
Retrospective Rating Plan Premium Endorsement – Wrap-Up Construction Project	WC 00 05 05	D ★
Retrospective Premium Endorsement Aviation Exclusion	WC 00 05 08	
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Retrospective Rating Plan Premium Endorsement Nonratable Catastrophe Element or Surcharge	WC 00 05 10	B
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New Jersey Large Risk – Large Deductible Endorsement	WC 29 06 01	A
New Jersey Large Risk – Large Deductible Retrospective Adjustment Endorsement	WC 29 06 02	B
New Jersey Large Risk – Large Deductible Aggregate Limit Endorsement	WC 29 06 04	A
New Jersey Large Risk – Large Deductible Retrospective – Per Person Basis	WC 29 06 05	

OTHER

	STANDARD IDENTIFIER	VERSION IDENTIFIER±
Policy Information Page Endorsement	WC 89 06 00	B
New Jersey Participating Provisions Endorsement	WC 29 06 03	

NEW JERSEY NOTICES

	STANDARD IDENTIFIER	VERSION IDENTIFIER±
New Jersey Notice of Cancellation	Form 116-B	
New Jersey Notice of Reinstatement	Form 117-A	
New Jersey Posting Notice	Form 16NJ	A
New Jersey Posting Notice (Spanish)	Form 17NJ	
New Jersey Notice of Election – Proprietors and Partners Workers Compensation and Employers Liability Insurance	Form PP-1	B
New Jersey Transmittal Letter	Form TL-1	
New Jersey Confidential Request for Ownership Information	NJCRIB ERM-14 Form	

± Absence of a version identifier denotes original printing
★ Revised forms