

FILING MEMORANDUM

ITEM B-1383—CATASTROPHE PROVISION—CERTIFIED TERRORISM LOSSES (AS DEFINED IN TERRORISM RISK INSURANCE ACT OF 2002)

PURPOSE

The purpose of this item is to propose catastrophe provisions by state that address certified terrorism losses as defined in the Terrorism Risk Insurance Act of 2002.

BACKGROUND

The treatment of catastrophes in workers compensation ratemaking has changed over the years. Prior to the 1970s, NCCI included a 1-cent catastrophe provision in every rate, which amounted to about a 1% provision. This provision was eventually removed from ratemaking. Since that time, several catastrophes affecting workers compensation have occurred. Generally, the impacts of those events have been excluded from ratemaking with no explicit method being employed to build them back in over time.

The September 11 attack was the largest workers compensation catastrophe in history. The estimated workers compensation losses are between \$1 billion and \$3 billion, with a large majority of costs coming from claims filed in a state with relatively modest death benefits. Prior to September 11, terrorism had not been considered a likely workers compensation catastrophe. The few terrorist events that did occur had a minimal impact on workers compensation. As a result, terrorism exposure has not been contemplated in current workers compensation ratemaking techniques. While workers compensation primary insurers have been dealing with this new exposure that by statute cannot be excluded from primary insurance coverage, many reinsurers are electing not to provide terrorism coverage, resulting in availability issues. This leaves many primary insurers facing the terrorism exposure with no current provision for funding it within NCCI's filed loss costs or rates.

- **Terrorism Risk Insurance Act of 2002**

The U.S. Congress has recognized that terrorism is a catastrophe exposure that is real and significant for insurers of workers compensation and other lines of insurance. While all of the provisions and features of the Act cannot be summarized in this document, it is important to review the intent and key objectives of the Act in order to provide context for determining how its provisions can be best implemented. To quote directly from the Act:

The purpose of this title is to establish a temporary Federal program that provides for a transparent system of shared public and private compensation for insured losses resulting from acts of terrorism, in order to —

1. *Protect consumers by addressing market disruptions and ensure the continued widespread availability and affordability of property and casualty insurance for terrorism risk; and*
2. *Allow for a transitional period for the private markets to stabilize, resume pricing of such insurance, and build capacity to absorb any future losses, while preserving State insurance regulation and consumer protections.*

It is the intent of this filing to address these key objectives of the Act.

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• **Terrorism Modeling**

Since there is a lack of historical data to support terrorism loss estimates, the traditional methods for evaluating and estimating risk are not suitable to assess possible terrorism exposures, predict losses and identify adequate rates. Estimating future losses from terrorist attacks requires a new blend of science and engineering capabilities. Potential threats must first be identified; then, using advanced statistical catastrophe modeling techniques, the risk can be assessed and ultimately quantified for use in determining reasonable loss cost estimates.

In NCCI’s view, assessing the financial implications of catastrophes is one of the most urgent issues facing the industry. Therefore, early this year, NCCI contracted with a leading natural catastrophe modeling firm—EQECAT—to adapt existing modeling techniques to assess the impact of terrorism threats to workers compensation insurance.

Compared to modeling for natural disasters, terrorism modeling is in its infancy. Many of the techniques and data analyses used for modeling of natural disasters can be transferred to terrorism modeling. However, the frequency of terrorism events does not have the same detailed history as is available for natural disasters. Moreover, with terrorism, we are dealing with intentional loss instead of the non-intentional nature of natural disaster. These factors make the estimation of frequency much more problematic for terrorism. The EQECAT terrorism model concentrates on severity, with frequency being normalized to one terrorism event per year.

A detailed description of the EQECAT terrorism model can be found under Appendix A.

• **Modeled and Non-Modeled States**

Analyses are performed state by state and have been completed for 13 states and Washington D.C., covering all high-risk areas, large population states, and about 75% of nationwide employment. Since all states were not modeled, some of the modeled states were used as proxies for the non-modeled states based on relative frequency of terrorist attacks from EQECAT and benefit and wage differences. The table of proxy states is shown below:

Modeled State	Proxied State
Arizona	Colorado, Idaho, Louisiana, Montana, Nevada, Oregon, Rhode Island, Utah
Florida	North Carolina
Illinois	Maryland, Virginia
Iowa	Alabama, Alaska, Arkansas, Connecticut, Hawaii, Kansas, Kentucky, Maine, Mississippi, Missouri, Nebraska, New Hampshire, New Mexico, Oklahoma, South Carolina, South Dakota, Tennessee, Vermont

• **NCCI Average Costs by Casualty Category**

NCCI provided EQECAT with average pure loss costs per case by state for each of the four injury groups:

- Fatal
- Permanent Total/Major Permanent Partial
- Minor Permanent Partial/Temporary Total
- Medical Only

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For NCCI states, Indiana, and North Carolina, average claims costs were based on recent filings of NCCI Excess Loss Factors (ELFs). These reflect ultimate undiscounted pure losses for cases incurred at the current time (approximately 2001–2003). Independent rating bureaus in the states of Delaware, Massachusetts, Minnesota, New Jersey, and Pennsylvania provided NCCI with average claim costs on the same basis.

For New York and California, NCCI utilized various pieces of data (historical claim costs, development factors, benefit level changes, trends, etc.) from the independent bureaus in these states to make estimates on the same basis. For other states modeled, EQECAT made proxy assumptions for average claim costs.

- **Frequency Assumption**

The indicated loss costs per employee for modeled states are based on the modeling approach described above assuming a frequency of one terrorist event per year as the default. The results are scalable, based on a different frequency assumption. A range of one to five terrorism events per year countrywide was used based on input from EQECAT.

- **Indicated Loss Costs by State**

The modeling exercise produces a range of loss costs per employee for the modeled states (see Exhibit 1). The loss costs exclude loss adjustment expense. Two adjustments are necessary to convert this information to a loss cost per \$100 of payroll. First, an adjustment is made to recognize the impact of the Terrorism Risk Insurance Act. This adjustment recognizes that individual company exposure is limited and that the Act addresses foreign terrorism only. Depending on the state, NCCI's analysis has led to an indicated adjustment factor of .50 to .85 for this component. The analysis is based on the provisions of the Act that allow for a recovery of 90% of the insurer's losses above an individual company retention, limited by an annual cap on terrorism losses for all covered lines of insurance of \$100 billion. For modeled states, NCCI looked at individual state expected loss distributions for terrorism and assessed the impact of the Act on a variety of attachment point and aggregate combinations. States whose aggregate expected losses are higher will expect a larger reduction in gross loss due to the Act. Additionally, if a state has a domestic workers compensation carrier with an extremely large market share, it may receive extra benefit from the Act, since the average retention is lower than it would be for another state.

The second adjustment uses the state average weekly wage to adjust the loss costs from a per-employee basis to a per-\$100 of payroll basis.

Finally, the loss costs (excluding LAE) for non-modeled states are based on the final loss costs (excluding LAE) for modeled states, based on a list of proxy states (see Exhibit 2). Loss-based expenses are included to produce final loss costs including LAE.

- **Voluntary and Assigned Risk Rates by State**

Exhibit 3 shows the final voluntary and assigned risk rates by state. Where applicable, the loss costs by state have been divided by the permissible loss ratio (PLR) in order to load in expenses, including loss adjustment expense.

- **Estimated Impact by State**

Exhibit 4 shows the estimated impact of the proposed terrorism provisions by state on both a percentage and a dollar amount basis.

- **Carrier Use of Loss Cost Information**

Exhibit 9 introduces a new statistical reporting code to handle data reporting. Exhibit 13 shows revised premium algorithms by state to illustrate how this item is to be used in the calculation of premium.

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PROPOSAL

It is proposed that the catastrophe provisions and accompanying rules and forms be applied in all states included in this filing.

IMPACT

The estimated impact in each state is shown in Exhibit 4.

IMPLEMENTATION

The attached exhibits include the proposed changes necessary to implement this item. In all states **except** Colorado, Hawaii, and Virginia, the loss costs, rates, rules and forms will be implemented:

- Effective 12:01 a.m. on December 20, 2002, applicable to new and renewal voluntary policies only
- Effective 12:01 a.m. on January 1, 2003, applicable to new and renewal assigned risk policies only

In Colorado the loss costs, rules and forms will be implemented effective 12:01 a.m. on December 20, 2002, applicable to new and renewal voluntary policies only. However, for carriers that have explicitly built a Terrorism provision into their Loss Cost Multipliers (LCMs), this item will not become effective until January 20, 2003. This will give those carriers 30 days to file adjusted LCMs, which would appropriately account for the Terrorism loads filed by NCCI.

In Hawaii, effective date is determined upon the individual carrier's election to adopt this change.

In Virginia, the loss costs, rates, rules and forms will be implemented:

- Effective for voluntary policies effective on or after 12:01 a.m. on December 20, 2002
- Effective for assigned risk policies effective on or after 12:01 a.m. on January 1, 2003

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Appendix A

Description of EQECAT Terrorism Model

• **Introduction**

The EQECAT model developed for NCCI provides an estimate of the risk to workers compensation insurers due to potential terrorist events. The types of terrorist events selected were those that could cause large numbers of injuries and casualties, and therefore, catastrophic loss to insurers.

EQECAT assembled data on the insurers' exposure and subjected that exposure to a large number of simulated terrorist events. The resulting casualties and consequent losses were combined (probabilistically) to estimate risk to the insurers. The following sections describe the various parts of the model and how the analysis was performed.

• **Model Description**

The model has four primary elements: workers compensation exposure; weapon types and their effects modeling; the selection of targets; the relative frequencies assigned to the weapon footprints at each target. A brief description of each element follows.

• **Exposure**

The location, number and types of employees are needed to characterize the exposure to terrorist events. Business information databases were used to obtain the addresses of businesses and the estimated number of employees assigned to each location. With more than 100 million workers nationwide at over 10 million businesses, it was necessary to aggregate the exposure. For this model the exposure was aggregated to the census block level (typically a city block). This aggregation level was suitable for terrorist events that span hundreds of meters.

The workers in each census block were grouped into five NCCI industry groupings: Goods & Services, Office & Clerical, Manufacturing, Construction, and All Others. Certain government classifications not covered by workers compensation were excluded.

• **Weapons Selection**

Specific weapons were selected from the range of known or hypothesized terrorist weapons. The selection process considered weapons that have been previously employed, weapons that could cause large numbers of casualties, or weapons that would be more readily available. In some cases a "likely" or "practical" weapons size (or quantity of agent) was selected; in other cases, a range of weapons sizes was selected, in part, to reflect standard quantities that might be available. The selected weapons and their sizes are described below.

Blast/Explosion

- Conventional Explosives—400 lb / 4,000 lb / 12,000 lb TNT
- Nuclear Bomb—1 kiloton and 10 kiloton
- Aircraft Impact—large passenger airline

Chemical

- Chlorine—15 ton truck, 90 ton railcar
- Anhydrous Ammonia—15 ton truck, 90 ton railcar
- Hydrogen Cyanide—50 gallons
- Sarin—1 gallon
- Mustard Gas—50 gallons

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Biological

- Anthrax—1 oz inside building, 1 oz outside building, 10 oz mobile dispersion
- Botulism—1 oz inside building

Radiological

- Nuclear Power Plant Radioactive Release Due to Sabotage—10% of core radioactivity
- Dirty Bomb—10,000 curies

Other

- Dam Failure—complete failure with full reservoir

• **Casualty Footprints**

Footprint is a term used to describe the physical distribution of the intensity of the agent as it spreads out from its initial target. The effects of each type of weapon will vary with the size of the weapon, with atmospheric conditions, and in some cases with local terrain. If detailed knowledge is available, a correspondingly detailed simulation of the effects is possible but would be time consuming to perform. In a large-scale nationwide analysis with millions of simulated events, where local atmospheric conditions and terrain are only generally known, a simpler, more generalized simulation is necessary. The simplifications necessary to efficiently model footprints of weapons effects are described below.

For conventional blast loading, blast simulation software is used to estimate casualties in various urban settings where the geometry and height of the buildings is varied. The results of these detailed simulations are used to develop simplified blast attenuation functions that vary with distance and with the general terrain. For conventional blast, the footprint is defined as a decreasing function of distance from the source of the blast.

The casualties for nuclear blast can be estimated on the basis of empirical data resulting from wartime and nuclear test experience. Casualties are assumed to be a function of distance from ground zero with the source located either at ground level or at a relatively low altitude. A simplified, conservative casualty footprint was created to encompass the range of conditions that could exist. Long-term radiation effects are not considered.

The casualty effects for aircraft impact are dependent very much upon the details of the event, so much so that only a simple, conservative footprint can be employed. A simplifying assumption is made that the extent of the footprint is a function of the height of the building.

For chemical, biological and radiological agent releases, a plume is formed that is influenced by atmospheric conditions and by the terrain. The footprint of the cumulative dose that is deposited by a plume over time was calculated using the simulation software MIDAS-AT (Meteorological Information and Dispersion Assessment System—Anti-Terrorism™). Terrain conditions were assumed to be “rough” to conservatively approximate a general urban terrain and the wind direction was assumed to be unchanging. The plume footprint was calculated for low, medium and high wind speeds and for three different atmospheric turbulence conditions. Any of the footprints could then be oriented in each of eight compass directions. Most of the footprints were truncated after an elapsed time of about two hours to account for successful evacuation.

Casualties due to dam failure are approximated using simple hydraulic relationships and assumptions made about the terrain over which the water will flow. The resulting footprint varies as depth of water (and casualty) decreases with distance away from the dam.

• **Targets**

A target is the location of a terrorist attack and, in the model, represents the locus of a casualty footprint. An inventory of targets is created by selecting locations with the following characteristics:

- Tall Buildings—10 stories and higher
- Government Buildings—with large number of employees or of a critical or sensitive nature (e.g., FBI office)

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- Airports—Major
- Ports—Major
- Military Bases—U.S. armed forces
- Prominent Locations—capitol buildings, major amusement parks, etc.
- Nuclear Power Plants—operational
- Railroads, Railroad Yards and Stations—freight lines for railroad cars carrying chemicals
- Dams—large ones near urban areas
- Chemical Facilities—emphasizes those with chlorine and ammonia on site

Nuclear Power Plants, dams and chemical facilities receive only specific casualty footprints. Other locations are assigned more than one type of terrorist weapon.

Some footprints have no specific target but are distributed at regular intervals throughout the urban area. This spreads out the effect to a larger population in the urban area.

Mobile release anthrax is not located at any target but located in the general downtown area in major metropolitan areas.

- **Frequency of Attack**

The relative likelihood of a type of attack occurring at a target location is represented by an assigned (annual) frequency. The significance of an attack's frequency is in its relationship to other attacks. Attack frequency is based on the following considerations:

- Availability of weapon
- Attractiveness of target
- Relative attractiveness of the region to other regions based on various theories

For footprints that are atmospheric releases of chemical, biological and radiological agents, wind direction affects the assigned frequency. The frequency for each wind direction is weighted by the likelihood of the wind blowing in that direction based on historical wind speed and direction measurements for the region.

- **Analysis of Model by State**

The analysis methodology is to apply a casualty footprint to an assigned target and to calculate the extent of casualties to the covered workers within the footprint. For chemical, biological and radiological footprints, the dose to each employee is calculated and a conversion is made to the degree of casualty (outpatient treatment, minor/temporary disability, major/permanent disability, and death). Degree of casualty is then converted to loss based upon the average costs by injury category provided by NCCI. The average costs provided vary by state.

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EXHIBIT 1

Terrorism Loss Costs for States Modeled by EQECAT

State (1)	Loss Cost per Employee (excluding LAE) Lower Range* (2)	Loss Cost per Employee (excluding LAE) Upper Range* (3)	Estimated Impact of Terrorism Risk Insurance Act** (4)	State Average Weekly Wage*** (5)	Loss Cost per \$100 of payroll (exc. LAE) Lower Range (6) = $(2) \times (4) / ((5) \times 52 / 100)$	Loss Cost per \$100 of payroll (exc. LAE) Upper Range (7) = $(3) \times (4) / ((5) \times 52 / 100)$
Arizona	2.33	11.63	70%	620.72	0.005	0.025
DC	168.25	841.24	50%	722.64	0.224	1.119
Florida	2.33	11.66	70%	579.54	0.005	0.027
Georgia	2.49	12.43	70%	628.79	0.005	0.027
Illinois	6.45	32.27	60%	647.75	0.011	0.057
Indiana	1.08	5.39	85%	595.11	0.003	0.015
Iowa	1.71	8.54	85%	557.31	0.005	0.025
Michigan	1.26	6.32	70%	639.29	0.003	0.013
New Jersey	2.33	11.66	60%	722.51	0.004	0.019
New York	24.76	123.80	50%	657.79	0.036	0.181
Ohio	2.39	11.93	N/A	N/A	N/A	N/A
Pennsylvania	6.40	32.01	60%	608.13	0.012	0.061
Texas	8.54	42.68	50%	600.28	0.014	0.068

* Source: Loss cost information developed by EQECAT for terrorism events

** This adjustment reflects the impact of the federal backstop relative to foreign terrorism events

*** 2001 U.S. Bureau of Labor Statistics, Current Population Survey

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EXHIBIT 2

Terrorism Loss Costs Including LAE by State

<u>State</u>	<u>Proxy State</u>	<u>Selected Loss Cost (exc. LAE)</u>	<u>Loss-Based Expense Factor</u>	<u>Selected Loss Cost (inc. LAE)</u>
Alabama	Iowa	0.02	1.176	0.02
Alaska	Iowa	0.02	1.162	0.02
Arizona	Arizona	0.02	1.153	0.02
Arkansas	Iowa	0.02	1.172	0.02
Colorado	Arizona	0.02	1.145	0.02
Connecticut	Iowa	0.02	1.157	0.02
DC	DC	0.06	1.149	0.07
Florida	Florida	0.02	1.190	0.02
Georgia	Georgia	0.02	1.000	0.02
Hawaii	Iowa	0.02	1.184	0.02
Idaho	Arizona	0.02	1.185	0.02
Illinois	Illinois	0.03	1.170	0.04
Indiana	Indiana	0.01	1.135	0.01
Iowa	Iowa	0.02	1.141	0.02
Kansas	Iowa	0.02	1.186	0.02
Kentucky	Iowa	0.02	1.000	0.02
Louisiana	Arizona	0.02	1.071	0.02
Maine	Iowa	0.02	1.152	0.02
Maryland	Illinois	0.03	1.000	0.03
Mississippi	Iowa	0.02	1.196	0.02
Missouri	Iowa	0.02	1.168	0.02
Montana	Arizona	0.02	1.137	0.02
Nebraska	Iowa	0.02	1.143	0.02
Nevada	Arizona	0.02	1.172	0.02
New Hampshire	Iowa	0.02	1.161	0.02
New Mexico	Iowa	0.02	1.143	0.02
North Carolina	Florida	0.02	1.155	0.02
Oklahoma	Iowa	0.02	1.185	0.02
Oregon	Arizona	0.02	1.000	0.02
Rhode Island	Arizona	0.02	1.176	0.02
South Carolina	Iowa	0.02	1.190	0.02
South Dakota	Iowa	0.02	1.000	0.02
Tennessee	Iowa	0.02	1.170	0.02
Utah	Arizona	0.02	1.158	0.02
Vermont	Iowa	0.02	1.142	0.02
Virginia	Illinois	0.03	1.164	0.03

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EXHIBIT 3

Terrorism Voluntary and Assigned Risk Rates by State

<u>State</u> (1)	<u>Selected Voluntary Loss Cost (exc. LAE)</u> (2)	<u>Voluntary PLR</u> (3)	<u>Selected Voluntary Rate</u> (4)=(2)/(3)	<u>Assigned Risk PLR</u> (5)	<u>Selected Assigned Risk Rate</u> (6)=(2)/(5)
Alabama	0.02	N/A	N/A	0.6872	0.03
Alaska	0.02	N/A	N/A	0.5690	0.04
Arizona	0.02	0.6683	0.03	0.6683	0.03
Arkansas	0.02	N/A	N/A	0.5822	0.03
Colorado	0.02	N/A	N/A	N/A	N/A
Connecticut	0.02	N/A	N/A	0.5689	0.04
DC	0.06	N/A	N/A	0.5720	0.10
Florida	0.02	0.6066	0.03	N/A	N/A
Georgia	0.02	N/A	N/A	0.5900	0.03
Hawaii	0.02	N/A	N/A	N/A	N/A
Idaho	0.02	0.6008	0.03	N/A	N/A
Illinois	0.03	0.6128	0.05	0.6190	0.05
Indiana	0.01	0.6555	0.02	0.6555	0.02
Iowa	0.02	0.6507	0.03	0.6507	0.03
Kansas	0.02	N/A	N/A	0.6288	0.03
Kentucky	0.02	N/A	N/A	N/A	N/A
Louisiana	0.02	N/A	N/A	N/A	N/A
Maine	0.02	N/A	N/A	N/A	N/A
Maryland	0.03	N/A	N/A	N/A	N/A
Mississippi	0.02	N/A	N/A	0.7031	0.03
Missouri	0.02	N/A	N/A	N/A	N/A
Montana	0.02	N/A	N/A	N/A	N/A
Nebraska	0.02	N/A	N/A	N/A	N/A
Nevada	0.02	N/A	N/A	0.6720	0.03
New Hampshire	0.02	N/A	N/A	0.7055	0.03
New Mexico	0.02	N/A	N/A	0.5906	0.03
North Carolina	0.02	N/A	N/A	0.6905	0.03
Oklahoma	0.02	N/A	N/A	N/A	N/A
Oregon	0.02	N/A	N/A	0.6100	0.03
Rhode Island	0.02	0.6229	0.03	N/A	N/A
South Carolina	0.02	N/A	N/A	0.6120	0.03
South Dakota	0.02	N/A	N/A	0.6268	0.03
Tennessee	0.02	N/A	N/A	0.5028	0.04
Utah	0.02	N/A	N/A	N/A	N/A
Vermont	0.02	N/A	N/A	0.6903	0.03
Virginia	0.03	N/A	N/A	0.7061	0.04

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EXHIBIT 4

Estimated Impact of Terrorism Provisions by State

<u>State</u> (1)	<u>Selected Terrorism Loss Cost (exc.) LAE</u> (2)	<u>Avg. Non- Terrorism Loss Cost (exc.) LAE</u> (3)	<u>Percentage Impact of Terrorism Loss Cost</u> (4)=(2)/(3)	<u>CY 2001 WC Written Premium (\$ 000)</u> (5)	<u>Estimated Premium Impact (\$ 000)</u> (6)=(4)x(5)
Alabama	0.02	2.30	0.9%	340,725	2,963
Alaska	0.02	2.40	0.8%	156,621	1,305
Arizona	0.02	1.00	2.0%	459,071	9,181
Arkansas	0.02	1.31	1.5%	204,944	3,129
Colorado	0.02	1.63	1.2%	866,714	10,635
Connecticut	0.02	1.30	1.5%	531,820	8,182
DC	0.06	0.48	12.5%	116,383	14,548
Florida	0.02	2.45	0.8%	2,754,296	22,484
Georgia	0.02	1.36	1.5%	897,799	13,203
Hawaii	0.02	2.03	1.0%	217,931	2,147
Idaho	0.02	1.58	1.3%	210,826	2,669
Illinois	0.03	1.59	1.9%	1,871,759	35,316
Indiana	0.01	1.03	1.0%	677,528	6,578
Iowa	0.02	1.33	1.5%	368,914	5,548
Kansas	0.02	1.14	1.8%	295,312	5,181
Kentucky	0.02	1.85	1.1%	372,578	4,028
Louisiana	0.02	2.41	0.8%	530,776	4,405
Maine	0.02	2.05	1.0%	206,276	2,012
Maryland	0.03	1.09	2.8%	554,741	15,268
Mississippi	0.02	1.76	1.1%	221,813	2,521
Missouri	0.02	1.52	1.3%	564,885	7,433
Montana	0.02	3.10	0.6%	151,999	981
Nebraska	0.02	1.44	1.4%	229,234	3,184
Nevada	0.02	2.88	0.7%	373,649	2,595
New Hampshire	0.02	1.59	1.3%	221,923	2,791
New Mexico	0.02	1.25	1.6%	131,341	2,101
North Carolina	0.02	1.52	1.3%	878,158	11,555
Oklahoma	0.02	1.94	1.0%	477,564	4,923
Oregon	0.02	1.81	1.1%	515,048	5,691
Rhode Island	0.02	1.83	1.1%	161,668	1,767
South Carolina	0.02	1.06	1.9%	390,366	7,365
South Dakota	0.02	1.40	1.4%	94,639	1,352
Tennessee	0.02	1.80	1.1%	659,558	7,328
Utah	0.02	1.12	1.8%	221,658	3,958
Vermont	0.02	1.62	1.2%	118,936	1,468
Virginia	0.03	0.87	3.4%	654,402	22,566
Total			1.5%	17,701,855	258,361

**ITEM B-1383—CATASTROPHE PROVISION—CERTIFIED TERRORISM LOSSES (AS DEFINED
 IN TERRORISM RISK INSURANCE ACT OF 2002)**

EXHIBIT 5-A

BASIC MANUAL

APPLICABLE TO VOLUNTARY POLICIES

MISCELLANEOUS VALUES

Terrorism Risk Insurance Act—Certified Losses..... See below:

State	Voluntary Loss Cost	Voluntary Rate
Alabama	0.02	N/A
Alaska	0.02	N/A
Arizona	N/A	0.03
Arkansas	0.02	N/A
Colorado	0.02	N/A
Connecticut	0.02	N/A
DC	0.07	N/A
Florida	N/A	0.03
Georgia	0.02	N/A
Hawaii	0.02	N/A
Idaho	N/A	0.03
Illinois	0.04	0.05
Indiana	0.01	0.02
Iowa	N/A	0.03
Kansas	0.02	N/A
Kentucky	0.02	N/A
Louisiana	0.02	N/A
Maine	0.02	N/A
Maryland	0.03	N/A
Mississippi	0.02	N/A
Missouri	0.02	N/A
Montana	0.02	N/A
Nebraska	0.02	N/A
Nevada	0.02	N/A
New Hampshire	0.02	N/A
New Mexico	0.02	N/A
North Carolina	0.02	N/A
Oklahoma	0.02	N/A
Oregon	0.02	N/A
Rhode Island	0.02	0.03
South Carolina	0.02	N/A
South Dakota	0.02	N/A
Tennessee	0.02	N/A
Utah	0.02	N/A
Vermont	0.02	N/A
Virginia	0.03	N/A

**ITEM B-1383—CATASTROPHE PROVISION—CERTIFIED TERRORISM LOSSES (AS DEFINED
IN TERRORISM RISK INSURANCE ACT OF 2002)**

EXHIBIT 5-B

BASIC MANUAL

APPLICABLE TO ASSIGNED RISK POLICIES

MISCELLANEOUS VALUES

Terrorism Risk Insurance Act—Certified Losses..... See below:

State	Assigned Risk Rate
Alabama	0.03
Alaska	0.04
Arizona	0.03
Arkansas	0.03
Connecticut	0.04
DC	0.10
Georgia	0.03
Illinois	0.05
Indiana	0.02
Iowa	0.03
Kansas	0.03
Mississippi	0.03
Nevada	0.03
New Hampshire	0.03
New Mexico	0.03
North Carolina	0.03
Oregon	0.03
South Carolina	0.03
South Dakota	0.03
Tennessee	0.04
Vermont	0.03
Virginia	0.04

**ITEM B-1383—CATASTROPHE PROVISION—CERTIFIED TERRORISM LOSSES (AS DEFINED
IN TERRORISM RISK INSURANCE ACT OF 2002)**

**EXHIBIT 6-A
BASIC MANUAL
RULES**

RULE 3—RATING DEFINITIONS AND APPLICATION OF PREMIUM ELEMENTS

A. EXPLANATION AND APPLICATION

11. Expense Constant

a. The expense constant is:

- Not subject to premium discount, experience rating modification, ~~or~~ retrospective rating adjustment, or additional charge for the Terrorism Risk Insurance Act of 2002
- Included in the minimum premium for each classification and must not be added to the minimum premium if the minimum premium becomes the final premium for the policy
- Shown on the Information Page of the policy. For details, refer to **User's Guide D-2-g(6)**.

Refer to **User's Guide** for an example.

20. Standard Premium

Standard Premium is the premium before the application of the premium discount.

It is the state premium determined on the basis of:

- Authorized rates
- Disease loadings
- Nonratable elements
- Aircraft seat surcharges
- Premium for increased limits of liability
- Experience rating modification
- Applicable schedule rating modification
- Minimum premiums

Total Standard Premium is the total premium for all states covered by the policy excluding expense constant, additional charge for the Terrorism Risk Insurance Act of 2002, and any disease charge subject to the Federal Coal Mine Health and Safety Act before the application of the premium discount.

Refer to state pages concerning the application of the above rating elements, or any state special rating elements.

Note: The Annual Financial Calls for experience, which are used for ratemaking, contain a different definition of standard premium.

24. Terrorism Risk Insurance Act of 2002

Premium for the Terrorism Risk Insurance Act of 2002 is calculated on the basis of total payroll according to Rule 2. A risk's total payroll in each state is divided by units of \$100 and multiplied by the Terrorism Rate found in the state pages. The calculation is expressed as (Payroll/100 X Terrorism Rate = Premium). This premium is applied after standard premium and is not subject to any other modifications including, but not limited to, premium discount, experience rating, schedule rating, or retrospective rating,

**ITEM B-1383—CATASTROPHE PROVISION—CERTIFIED TERRORISM LOSSES (AS DEFINED
IN TERRORISM RISK INSURANCE ACT OF 2002)**

Unless an “If Any” policy develops premium during the policy term or at audit, policies issued on an “If Any” basis will not be charged a terrorism rate.

Per capita charges are not subject to premium under this Act.

C. DOMESTIC WORKERS—RESIDENCES

5. Advisory Loss Costs, Rates and Premium

d. Terrorism Risk Insurance Act

Premium for the Terrorism Risk Insurance Act of 2002 does not apply to per capita classifications.

ITEM B-1383—CATASTROPHE PROVISION—CERTIFIED TERRORISM LOSSES (AS DEFINED IN
TERRORISM RISK INSURANCE ACT OF 2002)

EXHIBIT 6-B

BASIC MANUAL

STATE SPECIAL RATING PLANS AND PROGRAMS

Terrorism Risk Insurance Act of 2002

Premium for the Terrorism Risk Insurance Act of 2002 is calculated on the basis of total payroll according to Rule V. A risk's total payroll in each state is divided by units of \$100 and multiplied by the Terrorism Rate found in the state pages. The calculation is expressed as $(\text{Payroll}/100 \times \text{Terrorism Rate} = \text{Premium})$. This premium is applied after standard premium and is not subject to any other modifications including, but not limited to, premium discount, experience rating, schedule rating, or retrospective rating.

Premium developed under this act is not included in standard premium.

Expense constant and per capita charges are not subject to premium under this Act.

ITEM B-1383—CATASTROPHE PROVISION—CERTIFIED TERRORISM LOSSES (AS DEFINED
IN TERRORISM RISK INSURANCE ACT OF 2002)

EXHIBIT 6-C
BASIC MANUAL
RULES

RULE 3—RATING DEFINITIONS AND APPLICATION OF PREMIUM ELEMENTS

A. EXPLANATION AND APPLICATION

20. Standard Premium

Standard Premium is the premium before the application of the premium discount.

It is the state premium determined on the basis of:

- Authorized rates
- Disease loadings
- Nonratable elements
- Aircraft seat surcharges
- Premium for increased limits of liability
- Experience rating modification
- Applicable schedule rating modification
- Minimum premiums

Total Standard Premium is the total premium for all states covered by the policy excluding expense constant, additional charge for the Terrorism Risk Insurance Act of 2002, and any disease charge subject to the Federal Coal Mine Health and Safety Act before the application of the premium discount.

Refer to state pages concerning the application of the above rating elements, or any state special rating elements.

Note: The Annual Financial Calls for experience, which are used for ratemaking, contain a different definition of standard premium.

24. Terrorism Risk Insurance Act of 2002

Premium for the Terrorism Risk Insurance Act of 2002 is calculated on the basis of total payroll according to Rule 2. A risk's total payroll in each state is divided by units of \$100 and multiplied by the Terrorism Rate found in the state pages. The calculation is expressed as (Payroll/100 X Terrorism Rate = Premium). This premium is applied after standard premium and is not subject to any other modifications including, but not limited to, premium discount, experience rating, schedule rating, or retrospective rating.

Unless an "If Any" policy develops premium during the policy term or at audit, policies issued on an "If Any" basis will not be charged a terrorism rate.

Per capita charges are not subject to premium under this Act.

C. DOMESTIC WORKERS—RESIDENCES

5. Advisory Loss Costs, Rates and Premium

d. Terrorism Risk Insurance Act

Premium for the Terrorism Risk Insurance Act of 2002 does not apply to per capita classifications.

**ITEM B-1383—CATASTROPHE PROVISION—CERTIFIED TERRORISM LOSSES (AS DEFINED
IN TERRORISM RISK INSURANCE ACT OF 2002)**

EXHIBIT 7

RETROSPECTIVE RATING PLAN MANUAL

PART ONE

II. DEFINITIONS

E. Standard Premium

For the purpose of this Plan, standard premium means the premium for the risk determined on the basis of authorized rates, any experience rating modification, loss constants where applicable, and minimum premiums. Determination of standard premium shall exclude:

1. Premium Discount.
2. The Expense Constant.
3. Premium resulting from the Non-Ratable Element Codes listed in the Experience Rating Plan Manual.
4. Premium developed by the passenger seat surcharge under Code 7421—Aircraft Operation—flying crew.
5. Premium developed by the occupational disease rates for risks subject to the Federal Coal Mine Health and Safety Act.
6. Premium developed by the Terrorism Risk Insurance Act of 2002.

**ITEM B-1383—CATASTROPHE PROVISION—CERTIFIED TERRORISM LOSSES (AS DEFINED IN
TERRORISM RISK INSURANCE ACT OF 2002)**

EXHIBIT 8

WORKERS COMPENSATION AND EMPLOYERS LIABILITY INSURANCE POLICY WC 00 04 20

TERRORISM RISK INSURANCE ACT ENDORSEMENT

This endorsement addresses requirements of the Terrorism Risk Insurance Act of 2002.

Definitions

The definitions provided in this endorsement are based on the definitions in the Act and are intended to have the same meaning. If words or phrases not defined in this endorsement are defined in the Act, the definitions in the Act will apply.

“Act” means the Terrorism Risk Insurance Act of 2002, which took effect on November 26, 2002, and any amendments.

“Act of terrorism” means any act that is certified by the Secretary of the Treasury, in concurrence with the Secretary of State, and the Attorney General of the United States as meeting all of the following requirements:

- a. The act is an act of terrorism.
- b. The act is violent or dangerous to human life, property or infrastructure.
- c. The act resulted in damage within the United States, or outside of the United States in the case of United States missions or certain air carriers or vessels.
- d. The act has been committed by an individual or individuals acting on behalf of any foreign person or foreign interest, as part of an effort to coerce the civilian population of the United States or to influence the policy or affect the conduct of the United States Government by coercion.

“Insured terrorism or war loss” means any loss resulting from an act of terrorism (including an act of war, in the case of workers compensation) that is covered by primary or excess property and casualty insurance issued by an insurer if the loss occurs in the United States or at United States missions or to certain air carriers or vessels.

“Insurer deductible” means:

- a. For the period beginning on November 26, 2002 and ending on December 31, 2002, an amount equal to 1% of our direct earned premiums, as provided in the Act, over the calendar year immediately preceding November 26, 2002.
- b. For the period beginning on January 1, 2003 and ending on December 31, 2003, an amount equal to 7% of our direct earned premiums, as provided in the Act, over the calendar year immediately preceding January 1, 2003.
- c. For the period beginning on January 1, 2004 and ending on December 31, 2004, an amount equal to 10% of our direct earned premiums, as provided in the Act, over the calendar year immediately preceding January 1, 2004.
- d. For the period beginning on January 1, 2005 and ending on December 31, 2005, an amount equal to 15% of our direct earned premiums, as provided in the Act, over the calendar year immediately preceding January 1, 2005.

ITEM B-1383—CATASTROPHE PROVISION—CERTIFIED TERRORISM LOSSES (AS DEFINED IN TERRORISM RISK INSURANCE ACT OF 2002)

Limitation of Liability

The Act may limit our liability to you under this policy. If annual aggregate insured terrorism or war losses of all insurers exceed \$100,000,000,000 during the applicable period provided in the Act, and if we have met our insurer deductible, the amount we will pay for insured terrorism or war losses under this policy will be limited by the Act, as determined by the Secretary of the Treasury.

Policyholder Disclosure Notice

1. Insured terrorism or war losses would be partially reimbursed by the United States Government under a formula established by the Act. Under this formula, the United States Government would pay 90% of our insured terrorism or war losses exceeding our insurer deductible.
2. The additional premium charged for the coverage this policy provides for insured terrorism or war losses is shown in Item 4 of the Information Page or the Schedule below.

Schedule

State

Rate per \$100 of Remuneration

Note:

1. This endorsement addresses requirements of the Terrorism Risk Insurance Act of 2002.
2. This endorsement is effective 12:01 a.m. on December 20, 2002 applicable to new and renewal voluntary policies only.
3. This endorsement is effective 12:01 a.m. on January 1, 2003 applicable to new and renewal assigned risk policies only.

**ITEM B-1383—CATASTROPHE PROVISION—CERTIFIED TERRORISM LOSSES (AS DEFINED IN
TERRORISM RISK INSURANCE ACT OF 2002)**

EXHIBIT 9-A

URE WORKERS COMPENSATION STATISTICAL PLAN

PART 3

**14. STATISTICAL CODES—PREMIUM AMOUNT *NOT* SUBJECT TO EXPERIENCE MODIFICATION
FACTOR**

Report the premium credit or debit amount not subject to experience modification. These premiums should be reported separately from class code exposures and premiums under the designated class code or statistical code. These premiums are generated from the following premium programs or coverages:

- Aircraft Operation—Passenger Seat Surcharge (refer to Item 6.b. in this section for further instructions)
- Alternate Preferred Plan
- Assigned Risk Adjustment Program (ARAP)
- Assigned Risk Flat Charge
- Assigned Risk Surcharge
- Assigned Risk Tabular Surcharge
- Atomic Energy
- Claims Deductible Coverage
- Contracting/Construction Class Code Program—Premium Debit Offset to Experience Rating
- Contracting/Construction Premium Adjustment Program
- Deductible Reporting
- Disease Experience—Coal Mining Risks
- Disease Experience—Supplemental
- Drug-Free Workplace
- Employee Leasing Rating Adjustment
- Expense Constant
- Group Supplemental Rating Plan
- Increased Limits for Admiralty and/or FELA Coverage—Balance to Minimum Premium
- Independent Carrier Filing
- Injury Management Program
- Large Deductible Coverage
- Loss Constant
- Managed Care
- Merit Rating Debits
- Merit Rating Program
- Minimum Premium (Balance to)
- Nonratable Portion of Class Code Rate
- Nonrated Premium Credit
- Premium Discount: Stock Company/Nonstock
- Premium Transition Program
- Pulpwood Transition Program—Credit/Debit
- Rate Deviation Premium Adjustment
- Rehiring Employees With Permanent Partial Disabilities
- Risk Management Premium Credit Program
- Safety Certification Premium Credit

ITEM B-1383—CATASTROPHE PROVISION—CERTIFIED TERRORISM LOSSES (AS DEFINED IN TERRORISM RISK INSURANCE ACT OF 2002)

- Schedule Rating Program
- Small Employer Loss Free Credit Program
- Small New Employer Credit
- Supplemental Disease Experience—in Connection with Asbestos Exposure
- Supplemental Experience Rating Plan Credit Premium Adjustments
- Terrorism Risk Insurance Act of 2002—Certified Losses
- Transition Program
- Waiver of Subrogation

PART 7

8. Statistical Codes—Premium Amount *Not* Subject to Experience Modification Factor

Description	Stat Code	Premium Credit (-) or Debit (+)	Applicable States (1)	Effective Date	Discontinuation Date
Terrorism Risk Insurance Act of 2002—Certified Losses	9740	+	All States		

15. CAUSE OF INJURY CODES

Code	Narrative Description
X.	Miscellaneous Causes
96	Terrorism (for use with an assigned Catastrophe Code only)

ITEM B-1383—CATASTROPHE PROVISION—CERTIFIED TERRORISM LOSSES (AS DEFINED IN TERRORISM RISK INSURANCE ACT OF 2002)

EXHIBIT 9-B
VIRGINIA WORKERS COMPENSATION STATISTICAL PLAN
ADDENDUM

Available Premium Credit/Surcharge Programs *Not* Subject to Experience Modification

Description	Stat Code	Premium Credit (-) or Debit (+)	Applicable States (1)	Effective Date	Discontinuation Date
Terrorism Risk Insurance Act of 2002 – Certified Losses	9740	+	VA	12/20/02 (VOL) 01/03 (AR)	

CAUSE OF INJURY CODES

Code	Narrative Description
	IX. Miscellaneous Causes
96	Terrorism (for use with an assigned Catastrophe Code only)

**ITEM B-1383—CATASTROPHE PROVISION—CERTIFIED TERRORISM LOSSES (AS DEFINED IN
TERRORISM RISK INSURANCE ACT OF 2002)**

EXHIBIT 10

STATISTICAL REPORTING INSTRUCTIONS

General

Premium debit generated under the Terrorism Risk Insurance Act of 2002 – Certified Losses is recorded under Statistical Code 9740.

Policies

For new and renewal policies not yet issued as of the effective date of this filing:

- On hard copy submissions:
 - Issue the policy showing endorsement number WC 00 04 20 under Item 3D on the policy information page or attach the actual endorsement document to the policy. The premium is reported under statistical code 9740 under Item 4 of the policy Information Page. This premium is applied in an additive manner, after experience modification, premium discount and expense constant.
- On electronic submissions:
 - Issue the policy with endorsement WC 00 04 20 reported on the Endorsement Identification Record (Record Type 07). The premium is submitted on an Exposure Record (Record Type 05) under statistical code 9740. This premium is not included in the Total Estimated State Standard Premium (Record Type 04) and the Policy Total Estimated Standard Premium (Record Type 01).

For new and renewal policies already issued, but falling within the effective date of this filing:

- On hard copy submissions:
 - Issue a revised policy showing endorsement number WC 00 04 20 under Item 3D on the policy information page or attach the actual endorsement document to the policy. The premium is reported under statistical code 9740 under Item 4 of the policy Information Page. This premium is applied in an additive manner, after experience modification, premium discount and expense constant.

OR

- Issue endorsement WC 00 04 20, Terrorism Risk Insurance Act Endorsement Form. Also, attach an endorsement for each state schedule indicating statistical code 9740 with the applicable total standard payroll, rate, premium, and state.

OR

- Issue endorsement WC 00 04 20, Terrorism Risk Insurance Act Endorsement Form and complete the applicable information on the bottom portion of the form.

ITEM B-1383—CATASTROPHE PROVISION—CERTIFIED TERRORISM LOSSES (AS DEFINED IN TERRORISM RISK INSURANCE ACT OF 2002)

- On electronic submissions:

Issue a Full Policy Replacement Transaction (Transaction Codes 08-15) with endorsement WC 00 04 20 reported on the Endorsement Identification Record (Record Type 07). The premium is submitted on an Exposure Record (Record Type 05) under statistical code 9740. This premium is not included in the Total Estimated State Standard Premium (Record Type 04) and the Policy Total Estimated Standard Premium (Record Type 01).

Unit Reports

Reporting Premium: Premium debit earned under the Terrorism Risk Insurance Act of 2002 – Certified Losses is reported on a hard copy unit report subsequent to experience modification on the line after the expense constant. On electronic submissions, this premium is submitted on an Exposure (Record Type 04) as not part of the Subject Premium or Standard Premium totals (Record Type 06).

Reporting Losses: Similar to the reporting losses after the 9/11 event (catastrophe code 48), reporting instructions will be issued once an event occurs.

Financial Calls

Premium generated from this coverage is excluded from the standard financial calls. If needed, a financial call similar to the Cat 48 call will be developed for reporting premiums and losses.

Detailed Claim Information

Similar to the reporting losses after the 9/11 event (catastrophe code 48), reporting instructions will be issued once an event occurs.

ITEM B-1383—CATASTROPHE PROVISION—CERTIFIED TERRORISM LOSSES (AS DEFINED
IN TERRORISM RISK INSURANCE ACT OF 2002)

EXHIBIT 11-A

ASSIGNED RISK MANDATORY LOSS SENSITIVE RATING PLAN (LSRP)

PART ONE—DESCRIPTION OF THE PLAN

II. DEFINITIONS

E. STANDARD PREMIUM

For the purpose of this Plan, *standard premium* means the premium for the risk determined on the basis of authorized rates, any experience rating modification, ARAP, assigned risk surcharge programs other than LSRP, and minimum premiums. Determination of standard premium shall exclude:

1. Premium discount,
2. The expense constant,
3. Premium resulting from the nonratable element codes listed in the *Experience Rating Plan Manual for Workers Compensation and Employers Liability Insurance*,
4. Premium developed by the passenger seat surcharge under Code 7421—Aircraft Operation—Flying Crew, and
5. Premium developed by the occupational disease rates for risks subject to the Federal Coal Mine Health and Safety Act.
6. Premium developed by the Terrorism Risk Insurance Act of 2002 as defined in Rule 3-A of *Basic Manual for Workers Compensation and Employers Liability Insurance*.

ITEM B-1383—CATASTROPHE PROVISION—CERTIFIED TERRORISM LOSSES (AS DEFINED IN TERRORISM RISK INSURANCE ACT OF 2002)

EXHIBIT 11-B

WORKERS COMPENSATION AND EMPLOYERS LIABILITY INSURANCE POLICY

WC 00 04 18 A

ASSIGNED RISK MANDATORY LOSS SENSITIVE RATING PLAN ENDORSEMENT

This endorsement is added to Part Five (Premium) to explain the rating plan and how the Assigned Risk Loss Sensitive Rating Plan premium will be determined.

This endorsement applies where the LSRP has been approved. It determines the Assigned Risk Loss Sensitive Rating Plan premium for the insurance provided during the rating plan period of this policy. The rating plan period is the one-year period beginning with the effective date of the policy.

A. Assigned Risk Loss Sensitive Rating Plan Premium Elements

The amount of Assigned Risk Loss Sensitive Rating Plan premium depends on the six standard elements which are explained below:

1. Standard premium is the premium we would charge during the rating plan period if the insurance was not subject to this endorsement. We determine your standard premium based upon authorized rates, any experience rating modification and minimum premiums, including the effect of any other residual market rating plan or program.
Standard premium does not include the expense constant charge, the premium discount credit, premium developed by the passenger seat surcharge under Code 7421—Aircraft Operation—Flying Crew, or premium developed by the occupational disease rates for risks subject to the Federal Coal Mine Health and Safety Act, or premium developed by the Terrorism Risk Insurance Act of 2002.
2. Basic premium is calculated by multiplying the standard premium by a basic premium factor. The basic premium factor is shown in the Schedule.
3. Incurred losses are all amounts we will pay or estimate we will pay for losses, interest on judgments, expenses to recover against third parties and employers liability loss adjustment expenses.
4. A converted loss is an incurred loss multiplied by a percentage called the loss conversion factor. The Assigned Risk Loss Sensitive Rating Plan loss conversion factor is shown in the Schedule.
5. Taxes are a part of the premium we collect. Taxes are determined as a percentage of expense and development premium and converted losses. The percentage is called the tax multiplier. The tax multiplier covers assessments, fees, licenses, and taxes that we must pay on the premium we collect. It varies by Federal and non-Federal classifications. The tax multiplier(s) for each state is shown in the Schedule.
6. Development premium is calculated by multiplying the standard premium by the product of the appropriate premium development factor, the loss conversion factor and the tax multiplier. The premium development factors are shown in the Schedule.

B. Assigned Risk Loss Sensitive Rating Plan Formula

1. Assigned Risk Loss Sensitive Rating Plan premium is the sum of the basic premium, development premium and converted losses, multiplied by the tax multiplier. The payment, if any, attributable to the four items excluded from standard premium in A.1. above, is a separate obligation of yours in addition to the Assigned Risk Loss Sensitive Rating Plan premium.
2. The Assigned Risk Loss Sensitive Rating Plan premium is subject to a minimum premium and a maximum premium. The minimum premium is determined by multiplying the total audited standard premium by the minimum premium factor. The maximum premium is determined by multiplying the total audited standard premium for the qualifying states by the applicable maximum premium factor. The minimum premium factor and maximum premium factor for each state are shown in the Schedule.

C. Premium Calculation and Payments

1. You will pay a premium which amounts to 120% of the estimated annual premium. If you obtain an acceptable clean, unconditional, Irrevocable Letter of Credit (ILOC), containing an automatic renewal clause, to secure the 20% additional deposit premium, the premium will be 100% of the estimated annual premium.

ITEM B-1383—CATASTROPHE PROVISION—CERTIFIED TERRORISM LOSSES (AS DEFINED IN TERRORISM RISK INSURANCE ACT OF 2002)

2. Your rating plan premium will be determined after the rating plan period ends. We will issue an endorsement to show any change in the premium for your insurance if your annual audited standard premium equals or exceeds the premium eligibility level in one or more states where this plan has been approved.
3. The first calculation of Assigned Risk Loss Sensitive Rating Plan premium shall be determined using all loss information valued as of 18 months after the month in which the rating plan period became effective. Three additional annual premium adjustment calculations shall be made based on loss information valued as of 30, 42, and 54 months after the month in which the rating plan period became effective. We may make a special valuation of the Assigned Risk Loss Sensitive Rating Plan premium as of any date that you become 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 Assigned Risk Loss Sensitive Rating Plan premium is more than the total standard premium as of the special valuation date.
4. After each valuation, you shall promptly pay to us the amount due, or we will refund the amount to you. If you fail to pay any premium due under this plan, your current policy will be canceled and you will be disqualified from future assignments through the assigned risk plan.

D. Cancellation

1. If the policy is canceled by you or by us, a determination shall be made as to whether this program shall apply. The Assigned Risk Loss Sensitive Rating Plan shall apply only to those policies where the payroll extended to an annual basis and multiplied by the manual rates and experience modification, equals or exceeds the premium eligibility level in any of the states where this program has been approved.
2. The Assigned Risk Loss Sensitive Rating Plan will not apply if you obtain coverage outside the residual market within 120 days after the effective date of the policy.
3. If you cancel, the standard premium for the rating plan period will be based on our short rate table and procedure. This short rate premium will be used to determine the Assigned Risk Loss Sensitive Rating Plan premium.
4. Section D.3. 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, or
 - d. you obtain coverage in the voluntary market.

Schedule

1. Basic Premium Factor	_____
2. Loss Conversion Factor	_____
3. Tax Multiplier	_____
4. Minimum Premium Factor	_____
5. Maximum Premium Factor	_____
6. LSRP Development Factors:	_____
1st Adjustment	_____
2nd Adjustment	_____
3rd Adjustment	_____
Subsequent Adjustments	0.00

ITEM B-1383—CATASTROPHE PROVISION—CERTIFIED LOSSES (AS DEFINED IN TERRORISM RISK INSURANCE ACT OF 2002)

EXHIBIT 12-A

KANSAS ASSIGNED RISK RETROSPECTIVE RATING PLAN

PART ONE—DESCRIPTION OF THE PLAN

II. DEFINITIONS

E. STANDARD PREMIUM

For the purpose of this Plan, *standard premium* means the premium for the risk determined on the basis of authorized rates, any experience rating modification, ARAP, assigned risk surcharge programs, loss constants where applicable, and minimum premiums. Determination of standard premium shall exclude:

1. Premium discount,
2. The expense constant,
3. Premium resulting from the nonratable element codes listed in the ***Experience Rating Plan Manual for Workers Compensation and Employers Liability Insurance***,
4. Premium developed by the passenger seat surcharge under Code 7421—Aircraft Operation—Flying Crew, and
5. Premium developed by the occupational disease rates for risks subject to the Federal Coal Mine Health and Safety Act.
6. Premium developed by the Terrorism Risk Insurance Act of 2002 as defined in Rule 3-A of ***Basic Manual for Workers Compensation and Employers Liability Insurance***.

ITEM B-1383—CATASTROPHE PROVISION—CERTIFIED LOSSES (AS DEFINED IN TERRORISM RISK INSURANCE ACT OF 2002)

EXHIBIT 12-B

WORKERS COMPENSATION AND EMPLOYERS LIABILITY INSURANCE POLICY

WC 15 04 03 AB

KANSAS ASSIGNED RISK RETROSPECTIVE RATING PLAN ENDORSEMENT

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 Kansas Assigned Risk Retrospective Rating Plan premium will be determined.

This endorsement determines the premium for the Kansas Assigned Risk Retrospective Rating Plan for the insurance provided during the rating plan period of this policy. The rating plan period is the one-year period beginning with the effective date of the policy.

A. Kansas Assigned Risk Retrospective Rating Plan Premium Elements

The amount of Assigned Risk Retrospective Rating Plan premium depends on the six standard elements which are explained below:

1. Standard premium is the premium we would charge during the rating plan period if the insurance was not subject to this endorsement. We determine your standard premium based upon authorized rates, any experience rating modification and minimum premiums, including the effect of any other residual market rating plan or program.
Standard premium does not include the expense constant charge, the premium discount credit, premium developed by the passenger seat surcharge under Code 7421—Aircraft Operation—Flying Crew, or premium developed by the occupational disease rates for risks subject to the Federal Coal Mine Health and Safety Act, or premium developed by the Terrorism Risk Insurance Act of 2002.
2. Basic premium is calculated by multiplying the standard premium by a basic premium factor. The basic premium factor is shown in the Schedule.
3. Incurred losses are all amounts we will pay or estimate we will pay for losses, interest on judgments, expenses to recover against third parties and employers liability loss adjustment expenses.
4. A converted loss is an incurred loss multiplied by a percentage called the loss conversion factor. The Assigned Risk Retrospective Rating Plan loss conversion factor is shown in the Schedule.
5. Taxes are a part of the premium we collect. Taxes are determined as a percentage of expense and development premium and converted losses. The percentage is called the tax multiplier. The tax multiplier covers assessments, fees, licenses, and taxes which we must pay on the premium we collect. It varies by Federal and non-Federal classifications. The tax multiplier for this state is shown in the Schedule.
6. Development premium is calculated by multiplying the standard premium by the product of the appropriate premium development factor, the loss conversion factor and the tax multiplier. The premium development factors are shown in the Schedule.

B. Eligibility

1. The Kansas Assigned Risk Retrospective Rating Plan shall apply to an individual assigned risk policy if the total annual estimated standard premium or total audited standard premium is between \$100,000 and \$199,999 and the risk voluntarily selects to have its policy written on a retro.
2. A decrease in premium during the first 120 days of coverage which results in the employer falling below the Kansas Assigned Risk Retrospective Rating premium eligibility threshold shall result in the conversion of the policy to a guaranteed cost policy, retroactive to policy inception.
3. An increase in premium during the first 120 days of coverage which qualifies an employer for the Kansas Assigned Risk Retrospective Rating Plan shall result in the retroactive application of the Kansas Assigned Risk Retrospective Rating Plan to policy inception.
4. After the first 120 days of the coverage term, if it is determined that an employer qualifies for the Kansas Assigned Risk Retrospective Rating Plan, the policy shall not be affected until renewal.

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C. Kansas Assigned Risk Retrospective Rating Plan Formula

1. Kansas Assigned Risk Retrospective Rating Plan premium is the sum of the basic premium, development premium and converted losses, multiplied by the tax multiplier. The payment, if any, attributable to the four items excluded from standard premium in A.1., above, is a separate obligation of yours in addition to the Kansas Assigned Risk Retrospective Rating Plan premium.
2. The Kansas Assigned Risk Retrospective Rating Plan premium is subject to a minimum premium and a maximum premium. The minimum premium is determined by multiplying the total audited standard premium by the minimum premium factor. The maximum premium is determined by multiplying the total audited standard premium by the applicable maximum premium factor. The minimum premium factor and maximum premium factor are shown in the Schedule.

D. Premium Calculation and Payments

1. You will pay a premium which amounts to 120% of the estimated annual premium. If you obtain an acceptable clean, unconditional, Irrevocable Letter of Credit (ILOC), containing an automatic renewal clause, to secure the 20% additional deposit premium, the premium will be 100% of the estimated annual premium.
2. Your rating plan premium will be determined after the rating plan period ends. We will issue an endorsement to show any change in the premium for your insurance if your annual audited standard premium equals or exceeds the premium eligibility level in one or more states where this plan has been approved.
3. The first calculation of Kansas Assigned Risk Retrospective Rating Plan premium shall be determined using all loss information valued as of 18 months after the month in which the rating plan period became effective. Three additional annual premium adjustment calculations shall be made based on loss information valued as of 30, 42, and 54 months after the month in which the rating plan period became effective.
We may make a special valuation of the Kansas Assigned Risk Retrospective Rating Plan premium as of any date that you become 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 Kansas Assigned Risk Retrospective Rating Plan premium is more than the total standard premium as of the special valuation date.
4. After each valuation, you shall promptly pay to us the amount due, or we will refund the amount due you. If you fail to pay any premium due under this plan, your current policy will be canceled and you will be disqualified from future assignments through the assigned risk plan.

E. Cancellation

1. If the policy is canceled by you or by us, a determination shall be made as to whether this program shall apply. The Assigned Risk Retrospective Rating Plan shall apply only to those policies where the payroll extended to an annual basis and multiplied by the manual rates and experience modification, equals or exceeds the premium eligibility level in any of the states where this program has been approved.
2. The Kansas Assigned Risk Retrospective Rating Plan will not apply if you obtain coverage outside the residual market within 120 days after the effective date of the policy.
3. If you cancel, the standard premium for the rating plan period will be based on our short rate table and procedure. This short rate premium will be used to determine the Kansas Assigned Risk Retrospective Rating Plan premium.
4. Section D.3. 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; or
 - d. you obtain coverage in the voluntary market.

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	Schedule
1. Basic Premium Factor	_____
2. Loss Conversion Factor	_____
3. Tax Multiplier	_____
4. Minimum Premium Factor	_____
5. Maximum Premium Factor	_____
6. Kansas Assigned Risk Retrospective Rating Plan Development Factors:	
1st Adjustment	_____
2nd Adjustment	_____
3rd Adjustment	_____
Subsequent Adjustments	_____ 0.00