



Circular

DECEMBER 28, 2007

ANNOUNCEMENT

AK-2007-08

Alaska—Item 02-AK-2007—Terrorism Risk Insurance Program Reauthorization Act of 2007

ACTION NEEDED

Please review the changes outlined in the attachments for their impact on your company's systems and procedures. Also review the *Status of Item Filings* circular for state approval of this item.

Caution: At the time of distribution of this circular, this item has been filed with the regulator but is **not yet approved**. This information is provided for your convenience and analysis. Please do not use the information until the regulator has approved the filing.

BACKGROUND

The Terrorism Risk Insurance Act of 2002 ("TRIA" or the "Act") was implemented as a result of the Congress recognizing that terrorism is a catastrophe exposure that is real and significant for insurers of workers compensation and other lines of insurance. Items B-1383, B-1398, and P-1392 were subsequently filed to implement the Terrorism Risk Insurance Act of 2002 and to provide miscellaneous values for foreign terrorism.

TRIA was scheduled to expire on December 31, 2005. Prior to the expiration of that Act, Congress passed the Terrorism Risk Insurance Extension Act of 2005 ("TRIEA"), which is scheduled to expire on December 31, 2007. Item 01-AK-2006 was subsequently filed to implement the disclosure requirements of TRIEA.

Recognizing that terrorism is a catastrophe exposure that continues to be significant for insurers of workers compensation and other lines of insurance, Congress has now enacted TRIPRA, which makes several amendments to the Act including:

- Amending the definition of "act of terrorism" to remove "acting on behalf of any foreign person or foreign interest"
- Extending the Act to December 31, 2014

IMPACT

There is no change in premium as a result of this item.

NCCI ACTION

NCCI will release updated pages of NCCI's *Basic Manual for Workers Compensation and Employers Liability Insurance* and *Unit Report Expansion Workers Compensation Statistical Plan* upon approval.

PERSON TO CONTACT

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FILING MEMORANDUM

ITEM 02-AK-2007—TERRORISM RISK INSURANCE PROGRAM REAUTHORIZATION ACT OF 2007

(To be effective 12:01 a.m. on January 1, 2008, applicable to new and renewal voluntary and assigned risk policies.)

PURPOSE

As a result of the recent passage of the Terrorism Risk Insurance Program Reauthorization Act of 2007 ("TRIPRA") by the United States Congress (Congress), this item makes the following changes:

- Replaces the references of "foreign terrorism" in NCCI manuals with the term "terrorism" to eliminate the distinction between foreign and domestic terrorism
- Removes the December 31, 2005 expiration date from Rule 3-A-24-a of NCCI's **Basic Manual for Workers Compensation and Employers Liability Insurance**
- Establishes a statistical code for reporting premium collected under the terrorism catastrophe provision in Alaska

BACKGROUND

The Terrorism Risk Insurance Act of 2002 ("TRIA" or the "Act") was implemented as a result of the Congress recognizing that terrorism is a catastrophe exposure that is real and significant for insurers of workers compensation and other lines of insurance. Items B-1383, B-1398, and P-1392 were subsequently filed to implement the Terrorism Risk Insurance Act of 2002 and to provide miscellaneous values for foreign terrorism.

TRIA was scheduled to expire on December 31, 2005. Prior to the expiration of that Act, Congress passed the Terrorism Risk Insurance Extension Act of 2005 ("TRIEA"), which is scheduled to expire on December 31, 2007. Item 01-AK-2006 was subsequently filed to implement the disclosure requirements of TRIEA.

Recognizing that terrorism is a catastrophe exposure that continues to be significant for insurers of workers compensation and other lines of insurance, Congress has now enacted TRIPRA, which makes several amendments to the Act including:

- Amending the definition of "act of terrorism" to remove "acting on behalf of any foreign person or foreign interest"
- Extending the Act to December 31, 2014

PROPOSAL

This item proposes the following:

- Change the references of "Foreign Terrorism" to "Terrorism" in the Alaska Workers Compensation Premium Algorithms located on the Alaska Miscellaneous Rules and Alaska Miscellaneous Rules—Applicable to Assigned Risk Policies Only pages of NCCI's **Basic Manual** and Miscellaneous Values Pages located in NCCI's **Basic Manual**
- Alaska State Exception 3-A-24-c, which will be located in NCCI's Basic Manual and will replace National Rule 3-A-24-c
- Removes the December 31, 2005 expiration date from National Rule 3-A-24-a located in NCCI's **Basic Manual**

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FILING MEMORANDUM

ITEM 02-AK-2007—TERRORISM RISK INSURANCE PROGRAM REAUTHORIZATION ACT OF 2007

- Establishes a statistical code in Alaska to be used for reporting the premium for the terrorism catastrophe provision, which will be located in NCCI's *Unit Report Expansion (URE) Workers Compensation Statistical Plan*

This item is being filed in conjunction with Item 03-AK-2007—Terrorism Risk Insurance Program Reauthorization Act of 2007 Endorsements, which proposes that effective January 1, 2008, the Alaska Terrorism Risk Insurance Program Reauthorization Act Endorsement (WC 54 01 01) and the Alaska Terrorism Premium Endorsement (WC 54 04 05) be adopted, and the Terrorism Risk Insurance Extension Act Endorsement (WC 00 01 13) and Foreign Terrorism Premium Endorsement (WC 00 04 22) be withdrawn from use in Alaska. This item and Item 03-AK-2007 should be adopted concurrently.

IMPACT

There is no change in premium as a result of this item.

IMPLEMENTATION

The attached exhibits outline the changes necessary:

- **Exhibits 1–7** show the changes required in NCCI's *Basic Manual*
- **Exhibit 8** shows the changes required in NCCI's *URE Workers Compensation Statistical Plan*

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ITEM 02-AK-2007—TERRORISM RISK INSURANCE PROGRAM REAUTHORIZATION ACT OF
2007

EXHIBIT 1

BASIC MANUAL

Rule 3—RATING DEFINITIONS AND APPLICATION OF PREMIUM ELEMENTS

A. EXPLANATION AND APPLICATION

24. Catastrophe Provisions

c. ~~Foreign Terrorism~~

~~Premium for Foreign Terrorism 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 appropriate value found in the state pages. The calculation is expressed as (Payroll/100 x Foreign Terrorism Value = 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 this premium.~~

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

EXHIBIT 2
BASIC MANUAL—2001 EDITION
ALASKA STATE RULE EXCEPTIONS
RULE 3—RATING DEFINITIONS AND APPLICATION OF PREMIUM ELEMENTS
A. EXPLANATION AND APPLICATION
24. Catastrophe Provisions

c. Terrorism

Change Rule 3-A-24-c as follows:

Premium for Terrorism 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 appropriate value found in the state pages. The calculation is expressed as $(\text{Payroll}/100 \times \text{Terrorism Value} = \text{Premium})$. 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.

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 this premium.

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

Expense constants are not subject to premium under this Act.

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

ITEM 02-AK-2007—TERRORISM RISK INSURANCE PROGRAM REAUTHORIZATION ACT OF 2007

EXHIBIT 3
BASIC MANUAL—2001 EDITION
MISCELLANEOUS RULES

ALASKA WORKERS COMPENSATION PREMIUM ALGORITHM

The following algorithm provides the framework for premium charges and credits. Where not specified, the premium base would be the result from the prior line.*

	PREMIUM ELEMENTS	EXPLANATORY NOTES
	MANUAL PREMIUM	[(PAYROLL / 100) * RATE]
+	Supplementary Disease (foundry, abrasive, sandblasting)	[(SUBJECT PAYROLL / 100) * DISEASE RATE]
+	USL&H Exposure for non-F classification codes	[(SUBJECT PAYROLL / 100) * (RATE * USL&H FACTOR)]
	TOTAL MANUAL PREMIUM	
+	Waiver of Subrogation factor	[% applied to the portion of Total Manual Premium where waiver is applicable, subject to minimum charge]
+	Employers Liability (E/L) increased limits factor	[% applied to Total Manual Premium]
+	Employers Liability increased limits charge	[Balance to E/L increased limits minimum premium]
+	Employers Liability increased limits factor (Admiralty, FELA)	[Factor applied to the portion of Manual Premium where Admiralty/FELA coverage is applied]
+	Employers Liability/Voluntary Compensation flat charge	[Coverage in Monopolistic State Funds]
	TOTAL SUBJECT PREMIUM	
x	Experience Modification (Exp Mod)	
	TOTAL MODIFIED PREMIUM	
x	Contracting Class Prem Adj Program factor (1 – CCPAP credit %)	
+	Supplemental Disease Exposure (Asbestos, NOC) [†]	
+	Atomic Energy Radiation Exposure ^{NOC†}	
+	Charge for nonratable catastrophe loading [†]	
+	Aircraft Seat Surcharge	
+	Balance to Minimum Premium (State Act)	[Balance to minimum premium at Standard Limits]
+	Balance to Minimum Premium (Admiralty, FELA)	
	TOTAL STANDARD PREMIUM[‡]	
–	Premium Discount [§]	[% applied to Standard Premium]
+	Coal Mine Disease Charge	[Underground, surface, surface auger]
+	Expense Constant	
+	Foreign Terrorism	[(PAYROLL / 100) * FOREIGN TERRORISM VALUE]
	ESTIMATED ANNUAL PREMIUM	

NOC = Not Otherwise Classified.

* The above rating method would be used in absence of independent carrier filings.

**EXHIBIT 3 (CONT'D)
BASIC MANUAL—2001 EDITION
MISCELLANEOUS RULES**

- † Nonratable Element Premiums generated by nonratable portion of manual rate are subject to all applicable premium elements applied to the policy, however, not subject to experience rating or retrospective rating.
- ‡ Statistical calls for ratemaking data contain a different definition of "Standard Premium." Refer to *Reporting Guidebook for the Annual Calls for Experience*.
- § For policies subject to premium adjustments under a retrospective rating plan, premium discount does not apply.

ITEM 02-AK-2007—TERRORISM RISK INSURANCE PROGRAM REAUTHORIZATION ACT OF 2007

**EXHIBIT 4
BASIC MANUAL—2001 EDITION
MISCELLANEOUS RULES—APPLICABLE TO ASSIGNED RISK POLICIES ONLY**

ALASKA ASSIGNED RISK WORKERS COMPENSATION PREMIUM ALGORITHM

The following algorithm provides the framework for premium charges and credits. Where not specified, the premium base would be the result from the prior line.

	PREMIUM ELEMENTS	EXPLANATORY NOTES
	MANUAL PREMIUM	[(PAYROLL / 100) * RATE]
+	Supplementary Disease (foundry, abrasive, sandblasting)	[(SUBJECT PAYROLL / 100) * DISEASE RATE]
+	USL&H Exposure for non-F classification codes	[(SUBJECT PAYROLL / 100) * (RATE * USL&H FACTOR)]
	TOTAL MANUAL PREMIUM	
+	Waiver of Subrogation factor	[% applied to the portion of Total Manual Premium where waiver is applicable, subject to minimum charge]
+	Employers Liability (E/L) increased limits factor	[% applied to Total Manual Premium]
+	Employers Liability increased limits charge	[Balance to E/L increased limits minimum premium]
+	Employers Liability increased limits factor (Admiralty, FELA)	[Factor applied to the portion of Manual Premium where Admiralty/FELA coverage is applicable]
+	Employers Liability/Voluntary Compensation flat charge	[Coverage in Monopolistic State Funds]
	TOTAL SUBJECT PREMIUM	
x	Experience Modification (Exp Mod)	
	TOTAL MODIFIED PREMIUM	
x	Contracting Class Prem Adj Program factor (1 – CCPAP credit %)	
x	AK Residual Market Safe Workplace Incentive factor (1 – SWI %)	
+	Supplemental Disease Exposure (Asbestos, ^{NOC} †)	
+	Atomic Energy Radiation Exposure ^{NOC} †	
+	Charge for nonratable catastrophe loading †	
+	Aircraft Seat Surcharge	
+	Balance to Minimum Premium (State Act)	[Balance to minimum premium at Standard Limits]
+	Balance to Minimum Premium (Admiralty, FELA)	
	TOTAL STANDARD PREMIUM ‡	
+	Coal Mine Disease Charge	[Underground, surface, surface auger]
+	Assigned Risk Surcharge (1 + Surcharge %)	[This surcharge of up to 25% applies only to modified premium in excess of \$3,000. To apply the surcharge, first subtract the \$3,000 from the standard premium, then add the \$3,000 back]

ITEM 02-AK-2007—TERRORISM RISK INSURANCE PROGRAM REAUTHORIZATION ACT OF 2007

**EXHIBIT 4 (CONT'D)
BASIC MANUAL—2001 EDITION
MISCELLANEOUS RULES—APPLICABLE TO ASSIGNED RISK POLICIES ONLY**

	PREMIUM ELEMENTS	EXPLANATORY NOTES
+	Expense Constant	
+	Foreign Terrorism	[(PAYROLL / 100) * FOREIGN TERRORISM VALUE]
	ESTIMATED ANNUAL PREMIUM	

NOC = Not Otherwise Classified.

† Nonratable Element Premiums generated by nonratable portion of manual rate are subject to all applicable premium elements applied to the policy, however, not subject to experience rating or retrospective rating.

‡ Statistical calls for ratemaking data contain a different definition of "Standard Premium." Refer to *Reporting Guidebook for the Annual Calls for Experience*.

ITEM 02-AK-2007—TERRORISM RISK INSURANCE PROGRAM REAUTHORIZATION ACT OF
2007

EXHIBIT 5

BASIC MANUAL

ALASKA

MISCELLANEOUS VALUES PAGES

ADVISORY LOSS COST PAGES

Foreign Terrorism (Advisory Loss Cost) 0.02

ITEM 02-AK-2007—TERRORISM RISK INSURANCE PROGRAM REAUTHORIZATION ACT OF
2007

EXHIBIT 6

BASIC MANUAL

ALASKA

MISCELLANEOUS VALUES PAGES

ASSIGNED RISK RATE PAGES

Foreign Terrorism (Assigned Risk) 0.03

ITEM 02-AK-2007—TERRORISM RISK INSURANCE PROGRAM REAUTHORIZATION ACT OF
2007

EXHIBIT 7

BASIC MANUAL

RULE 3—RATING DEFINITIONS AND APPLICATION OF PREMIUM ELEMENTS

A. EXPLANATION AND APPLICATION

24. Catastrophe Provisions

- a. ~~Terrorism Risk Insurance Act (TRIA) of 2002~~ This provision expires effective December 31, 2005 and any amendments thereto enacted by Congress

ITEM 02-AK-2007—TERRORISM RISK INSURANCE PROGRAM REAUTHORIZATION ACT OF 2007

**EXHIBIT 8
URE WORKERS COMPENSATION STATISTICAL PLAN**

9. STATISTICAL CODES – PREMIUM AMOUNT NOT SUBJECT TO EXPERIENCE MODIFICATION FACTOR

Description	Stat Code	Premium Credit (-) or Debit (+)	Applicable States	Effective Date	Discontinuation Date
Catastrophe Provisions for Foreign Terrorism—Not Subject to Experience Rating	9740	+	AK	1/1/06	12/31/07
Terrorism—Not Subject to Experience Rating	9752	+	AK	1/1/08	