



Circular

DECEMBER 28, 2007

ANNOUNCEMENT

FL-2007-13

Florida—Item 04-FL-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 06-FL-2005 was subsequently filed to implement the disclosure requirements of the Terrorism Risk Insurance Extension Act of 2005.

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

Upon approval, NCCI will release updated pages to NCCI's *Basic Manual for Workers Compensation and Employers Liability Insurance*, *Retrospective Rating Plan Manual for Workers Compensation and Employers Liability Insurance*, and *Unit Report Expansion Statistical Plan*.

PERSON TO CONTACT

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FILING MEMORANDUM

ITEM 04-FL-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 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 Florida

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 06-FL-2005 was subsequently filed to implement the disclosure requirements of the Terrorism Risk Insurance Extension Act of 2005.

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 changes the references of "Foreign Terrorism" to "Terrorism" in:

- Florida State Exception Rule 3-A-24-c, located in NCCI's **Basic Manual for Workers Compensation and Employers Liability Insurance**
- Florida Workers Compensation Premium Algorithm, located on the Florida Miscellaneous Rules pages of NCCI's **Basic Manual**
- Miscellaneous Values Pages, located in NCCI's **Basic Manual**
- Florida State Exceptions Part One–II, located in NCCI's **Retrospective Rating Plan Manual for Workers Compensation and Employers Liability Insurance**

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FILING MEMORANDUM

ITEM 04-FL-2007—TERRORISM RISK INSURANCE PROGRAM REAUTHORIZATION ACT OF 2007

- Florida Workers Compensation Premium Algorithm located in the Appendix of NCCI's *Retrospective Rating Plan Manual*

This item also removes the December 31, 2005 expiration date from National Rule 3-A-24-a located in NCCI's *Basic Manual*.

Additionally, this item establishes a statistical code in Florida to be used for reporting the premium for the terrorism catastrophe provision, which will be located in NCCI's *URE Workers Compensation Statistical Plan*.

This item is being filed in conjunction with Item 05-FL-2007—Terrorism Risk Insurance Program Reauthorization Act of 2007 Endorsements, which proposes that effective January 1, 2008, the Florida Terrorism Risk Insurance Extension Act Endorsement (WC 09 04 03) and the Florida Retrospective Premium Endorsement for Non-Ratable Catastrophe Element or Surcharge (WC 09 05 02) be revised to address the changes in TRIPRA. This item and Item 05-FL-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 1–4** show the changes required in NCCI's *Basic Manual*
- **Exhibits 5–6** show the changes required in NCCI's *Retrospective Rating Plan Manual*
- **Exhibit 7** shows the changes required in NCCI's *URE Workers Compensation Statistical Plan*

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EXHIBIT 1
BASIC MANUAL—2001 EDITION
FLORIDA STATE RULE EXCEPTIONS
RULE 3—RATING DEFINITIONS AND APPLICATION OF PREMIUM ELEMENTS
A. EXPLANATION AND APPLICATION
24. Catastrophe Provisions

c. ~~Foreign-Terrorism~~

~~Add the following to~~ 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, 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.

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**EXHIBIT 2
BASIC MANUAL—2001 EDITION
MISCELLANEOUS RULES**

FLORIDA 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	
+	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]
-	Coinsurance &/or Small Deductible or Intermediate Deductible credit	[% applied to Total Manual Premium]
	SUBJECT PREMIUM	
x	Safety Factor (1 - Safety Credit %)	
x	Drug-Free Workplace Premium Credit factor (1 - DFW credit %)	
	TOTAL SUBJECT PREMIUM	
x	Experience Modification (Exp Mod)	
	TOTAL MODIFIED PREMIUM	
x	Contracting Class Prem Adj Program factor (1 - CCPAP credit %)	[applied to Modified Premium]
+	Aircraft Seat Surcharge	
+	Supplemental Disease Exposure (Asbestos, ^{NOC} †)	
+	Atomic Energy Radiation Exposure ^{NOC} †	
+	Charge for nonratable catastrophe loading [†]	
+	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]
+	Expense Constant	

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

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**EXHIBIT 2 (CONT'D)
BASIC MANUAL—2001 EDITION
MISCELLANEOUS RULES**

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

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 the *Reporting Guidebook for the Annual Calls for Experience*.

§ For policies subject to premium adjustments under a retrospective rating plan, premium discount does not apply.

For short rate cancellations, short rate percentage/short rate penalty premium factor is subject to experience rating, included in Total Subject Premium, and applied prior to Experience Modification.

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2007

EXHIBIT 3
BASIC MANUAL
FLORIDA
MISCELLANEOUS VALUES PAGES
VOLUNTARY RATE PAGES

Foreign Terrorism (Voluntary Rates) 0.03

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2007

EXHIBIT 4

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~~

**EXHIBIT 5
RETROSPECTIVE RATING PLAN MANUAL
FLORIDA STATE RULE EXCEPTIONS
PART ONE—DESCRIPTION OF THE PLAN**

II. DEFINITIONS

Amend as follows:

E. Standard Premium

For the purpose of this Plan, standard premium means the premium for the risk determined on the basis of authorized rate, any experience rating modification, and minimum premiums. The following items are included in estimated annual premium, but excluded from the standard premium used in the retrospective premium calculation:

1. The Expense Constant.
2. Premium resulting from the Non-Ratable Element Codes listed in the *Basic Manual*.
3. Premium developed by the passenger seat charge under Code 7421.
4. Premium developed by the occupational disease rates for risks subject to the Federal Coal Mine Health and Safety Act.
5. Premium developed by ~~Foreign~~ Terrorism as detailed in the *Basic Manual*.

The Domestic Terrorism, Earthquakes, and Catastrophic Industrial Accidents (DTEC) catastrophe provision as detailed in the *Basic Manual*, which does not apply in Florida, along with Premium Discount are not included in standard premium, nor reflected on a retrospectively rated policy.

F. Incurred Losses

Incurred losses for ~~foreign~~ terrorism are excluded from the retrospective premium calculation.

J. Wrap-Up Construction Project

A Wrap-Up Construction Project is a construction, erection or demolition project for which policies have been issued by one or more insurance carriers under the same management to insure two or more legal entities engaged in such a project. The entities insured shall be limited to the general contractor (including any owner or principal acting as a general contractor) and subcontractors performing work under contracts let on an ex-insurance basis. If the contract between the owner or principal and such general contractor is on an ex-insurance basis, the owner or principal is an eligible entity for the combination.

The project must be confined to operations at a single location. In connection with building roadways, tunnels, waterways or surface or underground conduits, the entire job is considered a single location if the construction is performed by a single general contractor for a single owner or principal. The project must be of definite duration involving work to be performed continuously to completion.

K. Large Risk Alternative Rating Option

This Rule not applicable in Florida.

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EXHIBIT 6
RETROSPECTIVE RATING PLAN MANUAL
APPENDIX

FLORIDA RETROSPECTIVE 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	
+	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]
=	SUBJECT PREMIUM	
x	Safety Factor (1 – Safety Credit %)	
x	Drug-Free Workplace Premium Credit factor (1 – DFW credit %)	
=	TOTAL SUBJECT PREMIUM	
x	Experience Modification (Exp Mod)	
=	TOTAL MODIFIED PREMIUM	
x	Contracting Class Prem Adj Program factor (1 – CCPAP credit %)	[applied to Modified Premium]
=	TOTAL STANDARD PREMIUM (used in Retrospective Premium Calculation)	
	RETROSPECTIVE PREMIUM	
+	Aircraft Seat Surcharge	
+	Supplemental Disease Exposure (Asbestos, ^{NOC}) [†]	[non-ratable]
+	Atomic Energy Radiation Exposure [†]	[non-ratable]
+	Charge for nonratable catastrophe loading [†]	
+	Balance to Minimum Premium (State Act)	[Balance to minimum premium at Standard Limits]
+	Balance to Minimum Premium (Admiralty, FELA)	

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

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EXHIBIT 6 (CONT'D)
RETROSPECTIVE RATING PLAN MANUAL
APPENDIX

	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.

Note: For short rate cancellations, short rate percentage/short rate penalty premium factor is subject to experience rating, included in Total Subject Premium, and applied prior to Experience Modification.

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**EXHIBIT 7
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	+	FL	1/1/06	12/31/07
Terrorism—Not Subject to Experience Rating	9752	+	FL	1/1/08	