Loss Sensitive Rating Plan (LSRP)

A guide to the mandatory residual market retrospective rating plan

NCCI’s Loss Sensitive Rating Plan (LSRP)

This brochure is designed to help you understand NCCI’s LSRP and how it affects workers compensation insurance costs in the residual market. It provides an overview of the filed and approved plan. Refer to the glossary for terms used frequently throughout this brochure. Refer to the LSRP Rules in NCCI’s ***Residual Market Manual for Workers Compensation and Employers Liability Insurance*** (***Residual Market Manual***), LSRP, for details and state-specific requirements of LSRP.

Introduction

LSRP is a mandatory residual market retrospective rating plan for those residual market employers (employers) whose LSRP standard premium meets a minimum threshold of $250,000. Unlike experience rating, which adjusts the premium of an employer’s policy based on the employer’s past experience, LSRP adjusts the premium of an employer’s policy on the basis of losses incurred during the same policy period. LSRP does not change the coverage provided by the standard workers compensation and employers liability policy (policy).

As with any retrospective rating plan, LSRP is a type of pricing plan that is applied to a policy. Premium for a retrospectively rated policy is determined after the expiration of the policy. The premium continues to be adjusted for several years after the policy expires, based on the employer’s losses incurred during the policy term.

LSRP is constructed to be uniformly applied to all eligible residual market employers. The plan parameters of the LSRP are not negotiable because residual market assignment is random; fixed parameters are necessary to ensure consistent application of the LSRP rules.

Purpose

LSRP is designed to

- encourage safety and loss prevention
- depopulate the residual market
- provide incentives for employers with favorable loss experience through lower premiums, and
- provide disincentives for employers with unfavorable loss experience through higher premiums.

LSRP provides large employers with a financial incentive to promote workplace safety and reduce losses by requiring employers to accept greater financial responsibility for the losses they incur. Also, LSRP removes the potential financial advantage that guaranteed cost residual market coverage might otherwise provide for large employers with unfavorable loss experience.

The intent of LSRP is for the policy premium to reflect the actual loss experience of the employer on that policy. The ultimate impact of LSRP on any given policy depends on the employer’s incurred losses on that policy over time.

LSRP valuations

LSRP policies are subject to four valuations after policy expiration when incurred losses are valued in accordance with the applicable statistical plan. The first valuation occurs 18 months after the month in which the policy became effective. The subsequent valuations occur annually thereafter at 30, 42, and 54 months after the month in which the policy became effective.

The valuations adjust LSRP standard premium to reflect the actual experience of the employer by using this formula:

LSRP (Additional/Return) Premium = {[(SP x BPF) + (ICL x LCF) + (SP x LDF x LCF)] x TM} – SP

Where ...	**Equals ...**
SP	LSRP standard premium
BPF	Basic premium factor
ICL	Incurred losses
LCF	Loss conversion factor
LDF	Loss development factor
TM	Tax multiplier

The actual experience result may be additional premium, return premium, or no change to the estimated premium.

Nonpayment of any additional premium to the assigned carrier may result in cancellation of any in-force Workers Compensation Insurance Plan (WCIP) policy by any assigned carrier; the employer, as defined under the WCIP, may no longer be eligible for coverage under the WCIP.

Eligibility

LSRP is a mandatory plan for all qualifying policies in the residual market in states where LSRP is approved. Generally, to qualify for LSRP, the combined LSRP standard premium of all LSRP-approved states on the policy (or policies to the extent that an employer has multiple policies that are combinable for experience rating as defined in NCCI's ***Experience Rating Plan Manual for Workers Compensation and Employers Liability Insurance*** (***Experience Rating Plan Manual***) must meet or exceed $250,000. Employers that generate premium of at least that size ($250,000) are expected to have a sufficient number of claims to allow loss prevention services to be effective. Refer to NCCI's ***Residual Market Manual*** for more information about LSRP qualification.

Generally, LSRP applies to an employer with multistate operations when the total LSRP standard premium of all states that have approved LSRP meets the LSRP standard premium eligibility requirement. For states that don't have LSRP, multiple policies may be required. Refer to NCCI's ***Residual Market Manual*** for information regarding the issuance of separate WCIP policies for multistate operations.

Prior to policy issuance, each application and/or policy renewal is reviewed by the assigned carrier to estimate the policy premium. All residual market policies are issued with the Assigned Risk Loss Sensitive

Rating Plan Notification Endorsement advising the employer of the potential applicability of LSRP during the policy term. If the policy meets the LSRP premium threshold, the policy is issued with the Assigned Risk Loss Sensitive Rating Plan Endorsement notifying that it qualifies for LSRP.

LSRP contingency deposit

If an employer qualifies for LSRP, an LSRP contingency deposit of 20% of the LSRP standard premium is required for new and renewal residual market policies. The LSRP contingency deposit is in addition to the deposit required of all employers. The LSRP contingency deposit serves as collateral for premium that may be due to the assigned carrier as a result of losses incurred during the policy term.

The LSRP contingency deposit is calculated by multiplying the LSRP standard premium by 20%. When residual market policies are combined for LSRP purposes, the LSRP contingency deposit is calculated by multiplying the combined LSRP standard premium for all approved LSRP states by 20%. All non-LSRP states are not included in the calculation of the contingency deposit. A new LSRP contingency deposit is required for each renewal policy.

The LSRP contingency deposit must be paid using any of these payment methods:

- automated clearing house/electronic funds transfer (ACH/EFT)
- credit card
- personal or business check, or
- irrevocable letter of credit (ILOC).

If an ILOC is used, the ILOC is provided for each policy term as collateral for the LSRP contingency deposit. The ILOC must be for an amount at least equal to the LSRP contingency deposit of 20% and must meet certain conditions as defined in in NCCI's ***Residual Market Manual***. The ILOC can only be used for the LSRP contingency deposit.

Failure by the employer to submit an acceptable ILOC within 30 days of the issue date of the binder will require the employer to submit payment to the assigned carrier within 10 days of the employer informing the assigned carrier that an ILOC could not be obtained. If the ILOC or LSRP contingency deposit is not provided within the required time frame, the policy may be cancelled for nonpayment of premium.

Typically, the LSRP contingency deposit is retained by the assigned carrier until the 4th or final valuations are completed. However, the assigned carrier may use underwriting judgment to determine whether to return the LSRP contingency deposit at an earlier valuation.

Note: The assigned carrier **must** hold the LSRP contingency deposit for all professional employer organizations (PEO) and temporary arrangement policies until the 4th or final valuation is completed.

Except in instances when the deposit is applied to outstanding debt, servicing carriers should not cede funds associated with the contingency deposit to the reinsurance pooling mechanism.

LSRP eligibility adjustment period

During the first 120 days of the policy term (except for those policies issued to PEOs and temporary arrangements), the assigned carrier reevaluates the LSRP eligibility of the policy if the

- policy premium changes
- employer obtains coverage in the voluntary market, or
- employer cancels the policy for reasons other than retiring from business.

The purpose of this adjustment period is to account for premium increases and decreases within the first 120 days of the policy period.

Depopulation of the residual market is a major goal of LSRP. If an employer with an LSRP policy can obtain coverage in the voluntary market within 120 days of the policy inception, the premium for the LSRP policy is calculated on a guaranteed cost basis.

The following tables summarize how the LSRP adjustment period can affect a residual market policy.

Increase/decrease in LSRP standard premium

If during the first 120 days of the policy term …	**Then …**
The LSRP standard premium **decreases** and falls below the LSRP eligibility threshold	• The policy is converted to a guaranteed cost policy, retroactive to policy inception • LSRP contingency deposit is returned
The LSRP standard premium **increases** and meets the LSRP eligibility threshold	• LSRP is applied retroactively to policy inception • An LSRP contingency deposit will be required within 30 days of the assigned carrier issuing notice of the application of LSRP
If after the first 120 days of the policy term …	**Then …**
The LSRP standard premium **decreases** and falls below the LSRP eligibility threshold	LSRP continues to be applied to the policy(ies)
The LSRP standard premium **increases** and meets the LSRP eligibility threshold	• The policy(ies) will remain a guaranteed cost policy(ies) • LSRP is applied at renewal, subject to meeting the eligibility requirements on the renewal policy(ies)

Obtaining voluntary coverage

If an employer with an LSRP policy(ies) obtains coverage in the voluntary market …	**Then …**
During the first 120 days of the policy term	• the policy is converted to a guaranteed cost policy, retroactively to policy inception • the LSRP policy is cancelled pro rata, and the LSRP contingency deposit and any unearned premium is returned, subject to final audit.
After the first 120 days	• LSRP continues to apply to the policy, and • the policy is cancelled short rate in accordance with Cancellation of LSRP policies • valuations are calculated in accordance with NCCI's ***Residual Market Manual***, and • the assigned carrier must hold the LSRP contingency deposit in accordance with - Application of LSRP (additional/return) premium.

Application of LSRP to professional employer organization (PEO) and temporary arrangements

Additional rules apply for LSRP application to policies covering PEO and temporary arrangements. Due to the fluctuations in exposure for these types of operations, LSRP is applied to policies covering PEO and temporary arrangements if, at any time during the policy period, the premium for that coverage reaches the minimum threshold required for LSRP eligibility. Conversely, if the premium falls below the threshold during the policy period, the policy continues to be subject to LSRP. This is due to the wide variances in payroll for these types of operations.

Application of LSRP to PEO and temporary arrangements

Policy type/type of arrangement	LSRP eligibility is determined...
PEO master policy	using LSRP standard premium for the entire master policy (PEO and clients).
PEO multiple coordinated policy	• for PEOs (excluding clients), using LSRP standard premium of any PEO policy written in accordance with the Rules for MCP policy issuance or other applicable state-specific WCIP MCP rule, or • for individual clients of PEOs, using LSRP standard premium separately for each individual client PEO policy written in accordance with the Rules for MCP policy issuance or other applicable state-specific WCIP MCP rule.
Temporary arrangement	using LSRP standard premium for the entire temporary arrangement policy.

PEO and temporary arrangement policies are subject to NCCI's ***Residual Market Manual***. If the LSRP eligibility threshold is met at any time, then:

- LSRP is applied retroactive to the policy inception
- An LSRP contingency deposit is required to be paid within 30 days of the assigned carrier issuing notice of the application of LSRP

PEO and temporary arrangement LSRP policies are subject to a first valuation with three subsequent valuations for a maximum of four valuations. The assigned carrier **must** hold the LSRP contingency deposit for all PEO and temporary arrangement policies until the 4th or final valuation is completed.

Examples of the calculation of LSRP

These examples will help you understand how valuations may impact your workers compensation premium. In these examples, the assigned carrier is holding the LSRP contingency deposit until the 4th valuation. The values and factors used in the valuations are for illustration purposes only. Refer to NCCI's ***Residual Market Manual***, Assigned Risk Rates, Assigned Risk Miscellaneous Values, for applicable factors in your state.

This formula applies for all examples:

LSRP (Additional/Return) Premium = {[(SP x BPF) + (ICL x LCF) + (SP x LDF x LCF)] x TM} – SP

Where ...	**Equals ...**
SP	LSRP standard premium
BPF	Basic premium factor
ICL	Incurred losses
LCF	Loss conversion factor
LDF	Loss development factor
TM	Tax multiplier

Example 1

Consider Policy A, with valuations between the LSRP minimum and maximum premium amounts.

LSRP standard premium (SP)	$339,000
LSRP contingency deposit percentage	20%
LSRP contingency deposit	$67,800

LSRP factors

Basic premium factor (BPF)	0.40
Minimum premium factor (MinPF)	0.75
Maximum premium factor (MaxPF)	1.75
Loss conversion factor (LCF)	1.125
Tax multiplier (TM)	1.126

Valuation	Incurred losses (ICL)	Loss development factors (LDF)
1st	$184,000	0.31
2nd	$271,200	0.21
3rd	$280,000	0.15
4th	$289,650	0.10

LSRP (additional/return) premium calculations

	Factors/Formulas	1st valuation	2nd valuation	3rd valuation	4th valuation
1.	LSRP standard premium (SP)	$339,000	$339,000	$339,000	$339,000
2.	Basic premium factor (BPF)	0.40	0.40	0.40	0.40
3.	Basic premium (1) x (2)	$135,600	$135,600	$135,600	$135,600
4.	Incurred losses (ICL)	$184,000	$271,200	$280,000	$289,650
5.	Loss conversion factor (LCF)	1.125	1.125	1.125	1.125
6.	Converted losses (4) x (5)	$207,000	$305,100	$315,000	$325,856
7.	Loss development factor (LDF)	0.31	0.21	0.15	0.10
8.	Loss development premium (1) x (7) x (5)	$118,226	$80,089	$57,206	$38,138
9.	Subtotal (3) + (6) + (8)	$460,826	$520,789	$507,806	$499,594
10.	Tax multiplier (TM)	1.126	1.126	1.126	1.126
11.	Valued LSRP premium (9) x (10)	$518,890	$586,408	$571,790	$562,543
12.	Minimum premium factor (MinPF)	0.75	0.75	0.75	0.75
13.	LSRP minimum premium (1) x (12)	$254,250	$254,250	$254,250	$254,250
14.	Maximum premium factor (MaxPF)	1.75	1.75	1.75	1.75
15.	LSRP maximum premium (1) x (14)	$593,250	$593,250	$593,250	$593,250
16.	LSRP premium (adjusted for minimum/maximum if necessary)	$518,890	$586,408	$571,790	$562,543
17.	Premium billed through prior valuation	$339,000	$518,890	$586,408	$571,790
18.	LSRP (additional/return) premium (16) – (17)	$179,890 (additional)	$67,518 (additional)	$14,618 (return)	$9,247 (return)

Example 1 summary

Based on the incurred losses, the LSRP premium as of the 4th valuation is $562,543. The valued LSRP premium is between the minimum and the maximum premium under the LSRP. Therefore, no further premium adjustment is needed.

At the 4th valuation, the amount due to the employer is $77,047, which is the sum of the return premium of $9,247, and the LSRP contingency deposit of $67,800.

Example 2

Consider Policy B, with the 4th valuation below the LSRP minimum premium amount.

LSRP standard premium (SP)	$270,000
LSRP contingency deposit Percentage	20%
LSRP contingency deposit	$54,000

LSRP factors

Basic premium factor (BPF)	0.40
Minimum premium factor (MinPF)	0.75
Maximum premium factor (MaxPF)	1.75
Loss conversion factor (LCF)	1.171
Tax multiplier (TM)	1.168

Valuation	Incurred losses (ICL)	Loss development factors (LDF)
1st	$78,000	0.31
2nd	$90,300	0.20
3rd	$60,000	0.16
4th	$53,100	0.01

LSRP (additional/return) premium calculations

	Factors/Formulas	1st valuation	2nd valuation	3rd valuation	4th valuation
1.	LSRP standard premium (SP)	$270,000	$270,000	$270,000	$270,000
2.	Basic premium factor (BPF)	0.40	0.40	0.40	0.40
3.	Basic premium (1) x (2)	$108,000	$108,000	$108,000	$108,000
4.	Incurred losses (ICL)	$78,000	$90,300	$60,000	$53,100
5.	Loss conversion factor (LCF)	1.171	1.171	1.171	1.171
6.	Converted losses (4) x (5)	$91,338	105,741	$70,260	$62,180
7.	Loss development factor (LDF)	0.31	0.20	0.16	0.01
8.	Loss development premium (1) x (7) x (5)	$98,013	$63,234	$50,587	$3,162
9.	Subtotal (3) + (6) + (8)	$297,351	$276,975	$228,847	$173,342
10.	Tax multiplier (TM)	1.168	1.168	1.168	1.168
11.	Valued LSRP premium (9) x (10)	$347,306	$323,507	$267,293	$202,463
12.	Minimum premium factor (MinPF)	0.75	0.75	0.75	0.75
13.	LSRP minimum premium	$202,500	$202,500	$202,500	$202,500

	Factors/Formulas	1st valuation	2nd valuation	3rd valuation	4th valuation
	(1) x (12)				
14.	Maximum premium factor (MaxPF)	1.75	1.75	1.75	1.75
15.	LSRP maximum premium (1) x (14)	$472,500	$472,500	$472,500	$472,500
16.	LSRP premium (adjusted for minimum/maximum if necessary)	$347,306	$323,507	$267,293	$202,500
17.	Premium billed through prior valuation	$270,000	$347,306	$323,507	$267,293
18.	LSRP (additional/return) Premium (16) – (17)	$77,306 (additional)	$23,799 (return)	$56,214 (return)	$64,793 (return)

Example 2 summary

Based on the incurred losses, the valued LSRP premium as of the 4th valuation is $202,463. Since the valued LSRP premium of $202,463 is below the LSRP minimum premium of $202,500, the LSRP minimum premium of $202,500 becomes the LSRP premium.

At the 4th valuation, the LSRP premium of $202,500 is subtracted from the amount paid through the 3rd valuation, $267,293. The 4th valuation is adjusted to a return premium of $64,793. The amount due to the employer is $118,793, which is the sum of the return premium of $64,793 and the LSRP contingency deposit of $54,000.

Example 3

Consider Policy C, with 3rd and 4th valuations above the LSRP maximum premium amount.

LSRP Standard Premium (SP)	$420,000
LSRP Contingency Deposit Percentage	20%
LSRP Contingency Deposit	$84,000

LSRP factors

Basic premium factor (BPF)	0.40
Minimum premium factor (MinPF)	0.75
Maximum premium factor (MaxPF)	1.75
Loss conversion factor (LCF)	1.185
Tax multiplier (TM)	1.151

Valuation	Incurred losses (ICL)	Loss development factors (LDF)
1st	$240,000	0.20
2nd	$300,000	0.14
3rd	$400,000	0.10
4th	$560,000	0.05

LSRP (additional/return) premium calculations

	Factors/Formulas	1st valuation	2nd valuation	3rd valuation	4th valuation
1.	LSRP standard premium (SP)	$420,000	$420,000	$420,000	$420,000
2.	Basic premium factor (BPF)	0.40	0.40	0.40	0.40
3.	Basic premium (1) x (2)	$168,000	$168,000	$168,000	$168,000
4.	Incurred losses (ICL)	$240,000	$300,000	$400,000	$560,000
5.	Loss conversion factor (LCF)	1.185	1.185	1.185	1.185
6.	Converted losses (4) x (5)	$284,400	$355,500	$474,000	$663,600
7.	Loss development factor (LDF)	0.20	0.14	0.10	0.05
8.	Loss development premium (1) x (7) x (5)	$99,540	$69,678	$49,770	$24,885
9.	Subtotal (3) + (6) + (8)	$551,940	$593,178	$691,770	$856,485
10.	Tax multiplier (TM)	1.151	1.151	1.151	1.151
11.	Valued LSRP premium (9) x (10)	$635,283	$682,748	$796,227	$985,814
12.	Minimum premium factor (MinPF)	0.75	0.75	0.75	0.75
13.	LSRP minimum premium (1) x (12)	$315,000	$315,000	$315,000	$315,000
14.	Maximum premium factor (MaxPF)	1.75	1.75	1.75	1.75
15.	LSRP maximum premium (1) x (14)	$735,000	$735,000	$735,000	$735,000
16.	LSRP premium (adjusted for minimum/maximum if necessary)	$635,283	$682,748	$735,000	$735,000
17.	Premium billed through prior valuation	$420,000	$635,283	$682,748	$735,000
18.	LSRP (additional/return) premium (16) – (17)	$215,283 (additional)	$47,465 (additional)	$52,252 (additional)	$0

Valuation	Incurred Losses (ICL)	Loss Development Factors (LDF)
1st	$78,000	0.31
2nd	$90,300	0.20
3rd	$60,000	0.16
4th	$53,100	0.01

Example 3 summary

Based on the incurred losses, the valued LSRP premium as of the 3rd valuation is $796,227. When the maximum premium factor is applied, the LSRP maximum premium equals $735,000 ($420,000 x 1.75). Therefore, the adjusted policy premium at the 3rd valuation is $735,000.

The valued LSRP premium as of the 4th valuation is $985,814. Since this also exceeds the LSRP maximum premium of $735,000, the LSRP maximum premium still applies at the 4th valuation.

Because the maximum premium of $735,000 still applies and has been paid in full as of the 3rd valuation, no LSRP additional/return premium is due. Therefore, the only amount due to the employer is the LSRP contingency deposit of $84,000.

Example 4

Consider Policy D, multistate policy in New Hampshire (NH) and Vermont (VT).

	NH	VT	Total
LSRP Standard Premium (SP)	$398,578	$41,779	$440,357
LSRP Contingency Deposit Percentage	-	-	20%
LSRP Contingency Deposit	-	-	$88,071

LSRP factors

	NH	VT
Basic Premium Factor (BPF)	0.40	0.40
Minimum Premium Factor (MinPF)	0.75	0.75
Maximum Premium Factor (MaxPF)	1.75	1.75
Loss Conversion Factor (LCF)	1.145	1.146
Tax Multiplier (TM)	1.09	1.026

NH

Valuation	Incurred Losses (ICL)	Loss Development Factors (LDF)
1st	$17,629	0.28
2nd	$17,891	0.20

VT

Valuation	Incurred Losses (ICL)	Loss Development Factors (LDF)
1st	$2,688	0.28
2nd	$2,688	0.20

LSRP (additional/return) premium calculations

	Factors/Formulas	1st Valuation - NH	1st Valuation - VT	2nd Valuation - NH	2nd Valuation - VT
1.	LSRP Standard Premium (SP)	$398,578	$41,779	$398,578	$41,779
2.	Basic Premium Factor (BPF)	0.40	0.40	0.40	0.40
3.	Basic Premium (1) x (2)	$159,431	$16,712	$159,431	$16,712
4.	Incurred Losses (ICL)	$17,629	$2,688	$17,891	$2,688
5.	Loss Conversion Factor (LCF)	1.145	1.146	1.145	1.146
6.	Converted Losses (4) x (5)	$20,185	$3,080	$20,485	$3,080
7.	Loss Development Factor (LDF)	.28	.28	.2	.2
8.	Loss Development Premium (1) x (7) x (5)	$127,784	$13,406	$91,274	$9,576
9.	Subtotal (3) + (6) + (8)	$307,401	$33,198	$271,191	$29,368
10.	Tax Multiplier (TM)	1.09	1.026	1.09	1.026
11.	Valued LSRP Premium (9) x (10)	$335,067	$34,061	$295,598	$30,131

	Valuation calculation for multistate policy (NH and VT)	1st Valuation	2nd Valuation
12.	Minimum premium factor (MinPF)	0.75	0.75
13.	LSRP minimum premium (1) x (12) (1= total policy LSRP standard premium)	$330,268	$330,268
14.	Maximum premium factor (MaxPF)	1.75	1.75
15.	LSRP maximum premium (1) x (14) (1= total policy LSRP standard premium)	$770,625	$770,625
16.	LSRP Premium (adjusted for minimum/maximum if necessary) (row 11 = NH + VT) (2nd valuation is $325,729 so minimum premium applies)	$369,128	$330,268
17.	Premium billed through prior valuation (1st valuation uses original standard LSRP premium) (2nd valuation uses the 1st valuation LSRP premium)	$440,357	$369,128
18.	LSRP (additional/return) premium (16) – (17)	$-71,229 (return)	$-38,860 (return)

Example 4 summary

The per state basis for the 1st valuation is the actual LSRP premium calculated: NH–$335,066 and VT–$34,061.

Based on the incurred losses, the valued LSRP premium as of the 2nd valuation is $325,729. When the minimum premium factor is applied, the LSRP minimum premium equals $330,268 ($440,357 x .75). Therefore, the adjusted LSRP premium at the 2nd valuation is $330,268.

On per state basis, the LSRP minimum premium on the second valuation needs to be divided between each individual state. The way to accomplish this is to divide the amount for each state's actual total LSRP standard premium by the total LSRP Standard Premium calculated. Then multiply the LSRP Minimum Premium by the percentage of LSRP Standard Premium calculated for each state. The second valuation LSRP standard premium would be calculated as:

- NH – 295,598 / 325,729 = 90.75%. Then $330,268 * .9075 = $299,717
- VT – 30,131 / 325,729 = 9.25%. Then $330,268 * .0925 = $30,551

LSRP frequently asked questions

1. **Is there one LSRP contingency deposit for the entire time anemployer qualifies for LSRP?**

   No. LSRP eligibility is determined on a per-policy period basis. Each policy is a separate contract and, therefore, requires a separate contingency deposit for each policy.

2. **If I have operations in more than one state, how will LSRP apply?**

   LSRP is designed to accommodate the large residual market employer that has operations in several states. The combined LSRP standard premium (for either several states on one policy, or multiple WCIP policies) will be evaluated to determine whether the multistate employer is eligible for LSRP. For states that don't have an LSRP, multiple policies may be required.

   Refer to NCCI's ***Residual Market Manual*** for the rules that require the issuance of separate WCIP policies.

3. **What factors are applied to LSRP valuations?**

   The factors for LSRP can be found in the individual state Assigned Risk Miscellaneous Values in NCCI's ***Residual Market Manual,*** Assigned Risk Rates. The factors are applied on a policy effective date basis.

4. **If there is a deductible on LSRP, how are the losses included in LSRP valuations?**

   For those states that have deductible programs applicable to residual market policies, the deductible program is optional to the policyholder, but if selected, applies to the LSRP policy. The credit is applied as outlined in the state's assigned risk workers compensation premium algorithm. The rules for LSRP require assigned carriers to use the same loss information as reported under NCCI's ***Statistical Plan for Workers Compensation and Employers Liability Insurance (Statistical***

Plan).

5. **How will I know if I am written under an LSRP policy?**

You will be notified that your policy is eligible for LSRP as follows:

a. **ACORD® 133 application**

Notification about LSRP is provided to the employer and its representative when submitting the ACORD® 133 application for coverage in the residual market. By signing the applicant statement on the ACORD® 133, the applicant understands and agrees that it is acknowledging that the LSRP has been explained by the producer and also agrees to the terms of LSRP if the employer meets the eligibility requirements. If the eligibility requirements are met, the applicant agrees to submit an additional LSRP contingency deposit equal to 20% of LSRP standard premium.

b. **NCCI binder**

In states that have approved LSRP, notification about the application of LSRP to an employer's residual market policy is provided to the employer and its representative under Informational Notices in the Additional Notices section of the binder.

c. **Endorsements**

Each application and/or policy renewal is reviewed by the assigned carrier to determine the size of the premium owed under the policy. If the policy meets the LSRP minimum premium eligibility threshold of $250,000 at the time the policy is reviewed, the policy is issued with the Assigned Risk Loss Sensitive Rating Plan Endorsement indicating that it qualifies for LSRP and the Assigned Risk Loss Sensitive Rating Plan Notification Endorsement. Conversely, if the policy does not meet the LSRP eligibility requirements at the time it is reviewed, it is issued with the Assigned Risk Loss Sensitive Rating Plan Notification Endorsement.

LSRP endorsements

Endorsement	**Instructions and purpose**
Assigned Risk Loss Sensitive Rating Plan Notification Endorsement	• Assigned carriers **must** attach this endorsement to **all** new and renewal residual market policies regardless of premium size • This endorsement ensures that all residual market employers, regardless of premium size, are notified of the intent and details of LSRP as well as possible application of LSRP if the employer meets the eligibility requirements

Endorsement	Instructions and purpose
Assigned Risk Loss Sensitive Rating Plan Endorsement	• All assigned carriers **must** attach this endorsement to **all** new and renewal residual market policies meeting the LSRP eligibility requirements • This endorsement advises employers meeting the eligibility requirements of the applicable LSRP factors and how LSRP premium is calculated

d. Renewal quotes

The assigned carrier must indicate on all renewal quotes to employers that payment of the renewal deposit constitutes knowledge and acceptance of the possible application of LSRP to the policy.

Glossary

The following definitions are provided for terms used in this brochure. The definitions apply to the way that terms are used in this brochure. Some terms may have different meanings in other contexts. *Refer to* NCCI's ***Residual Market Manual*** *for detailed definitions.*

Basic premium

Basic premium is determined by multiplying the total LSRP standard premium by the BPF.

The basic premium contributes to the recovery of expenses, such as
- those for servicing the LSRP policy
- loss prevention services
- premium audit, and
- general administration of the LSRP policy.

The basic premium does not include premium taxes or claim adjustment expenses. These elements are provided for in the tax multiplier and the loss conversion factor.

Basic premium factor (BPF)

The basic premium factor (BPF) is a fixed factor of 0.40 used to determine the basic premium.

Converted losses

Converted losses are determined by applying an LCF to the actual incurred losses. A converted loss is the loss amount including an approximate load for claim adjustment expenses.

Guaranteed cost policy

Guaranteed cost policies are policies where the premium is a fixed cost based on a payroll base, manual rates, and any applicable pricing programs.

Incurred losses

Losses used in the LSRP calculation are those incurred losses (ICL) reported in accordance with the applicable statistical plan, subject to exclusions in NCCI's ***Residual Market Manual***.

Loss conversion factor

A loss conversion factor (LCF) is applied to actual incurred losses to determine converted losses.

The LCF

- includes claim adjustment expenses
- includes the costs of the assigned carrier's claim services, such as investigation of claims and filing claim reports, and
- applies on a state basis, as shown in the individual state residual market miscellaneous values.

Loss development factor (LDF)

The loss development factor (LDF) is included in all four LSRP adjustments of LSRP premium.

The LDF:

- anticipates a pattern of increasing loss valuations during the adjustment periods, and
- stabilizes premium adjustments
- applies on a state basis, as shown in the individual state residual market miscellaneous values.

LSRP maximum premium

LSRP maximum premium is determined by multiplying LSRP standard premium by the MaxPF. It limits the impact of incurred losses on LSRP premium. The employer does not pay more than the calculated LSRP maximum premium. For combinable policies, the LSRP maximum premium is based on the combined LSRP standard premium for all combinable policies.

LSRP minimum premium

LSRP minimum premium is determined by multiplying LSRP standard premium by the MinPF. The employer does not pay less than the calculated LSRP minimum premium. For combinable policies, the LSRP minimum premium is based on the combined LSRP standard premium for all combinable policies.

LSRP standard premium (SP)

LSRP standard premium (SP) is determined on the basis of authorized rates (including premium developed from payroll assigned to aircraft classifications).

LSRP SP includes

- any increased limits of liability
- any experience rating modification
- any deductible credit, if applied
- any ARAP and/or residual market surcharge programs and/or other residual market pricing programs other than LSRP, and
- minimum premium.

Determination of LSRP standard premium must exclude

- premium resulting from nonratable elements
- premium discount
- premium developed by the occupational disease rates for employers subject to the Federal Mine Safety and Health Act
- expense constant, and
- premium developed by catastrophe provisions in accordance with Catastrophe provisions and applicable charges.

LSRP standard premium is calculated differently than standard premium as defined in NCCI's ***Basic Manual*** rule definition for Standard premium.

LSRP standard premium may change before, during, and/or after a policy period due to reasons including, but not limited to

- premium endorsements
- preliminary and/or final audits
- a change in ownership or combinability status in accordance with NCCI's ***Experience Rating Plan Manual***.

Maximum premium factor

The maximum premium factor (MaxPF) is a fixed factor of 1.75 used to determine the greatest amount of premium that may be paid.

Minimum premium factor

The minimum premium factor (MinPF) is a fixed factor of 0.75 used to determine the least amount of premium that may be paid.

Tax multiplier (TM)

The tax multiplier (TM) varies by state and includes licenses, fees, assessments, and taxes that an assigned carrier must pay on the premium it collects. The appropriate factors for these elements are located in the residual market miscellaneous values.

Further information

- For general information regarding LSRP, contact your producer of record, assigned carrier, or an NCCI Assigned Risk Analyst at 800-**NCCI**-123 (800-622-4123) or visit **ncci.com**
- For information regarding your policy, contact your producer of record or assigned carrier
- For information on the application of LSRP on North Carolina assigned risk policies, contact the North Carolina Rate Bureau at 919-783-9790 or www.ncrb.org
- For information on the application of LSRP on Indiana assigned risk policies, contact the Indiana Compensation Rating Bureau at 317-842-2800 or www.icrb.net