



Wisconsin Compensation Rating Bureau

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Located at 20700 Swenson Drive, Suite 100, Waukesha, WI 53186

CIRCULAR LETTER 2913 - DECEMBER 30, 2002

TO: Members of the Bureau

FROM: Donna Knepper

RE: Proceedings of the Rating Committee
Item Number 3839 Terrorism/Catastrophe Issues

On December 27, 2002, the WCRB filed NCCI Item Number 1383 - Catastrophe Provision - Certified Terrorism Losses (As Defined In Terrorism Risk Insurance Act of 2002). An overall risk rate of \$0.03 per \$100 of payroll has been filed. Included in this filing are changes to the Basic Manual, Retrospective Rating Manual, WI Unit Stat Manual, and Terrorism Risk Insurance Act Endorsement WC 00 04 20.

On December 20, 2002, the Office of the Commissioner of Insurance issued a bulletin entitled "Expedited Filing Procedures for Compliance with the Terrorism Risk Insurance Act of 2002". Included in this bulletin are examples of a Policyholder Disclosure Notice. These can be accessed through the OCI Web site at <http://oci.wi.gov/bulletin.htm>.



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December 30, 2002

Ms. Laura Andreasson
Office of the Commissioner of Insurance
P.O. Box 7873
Madison, WI 53707-7873

RE: Proceedings of the Wisconsin Rating Committee
Item Number 3839 Terrorism/Catastrophe Issues

Dear Ms. Andreasson:

This filing will replace our initial filing on December 27, 2002.

Enclosed is a copy of NCCI Proposal Item B-1383 Catastrophe Provision - Certified Terrorism Losses (as defined in Terrorism Risk Insurance Act of 2002). This filing proposes an overall loss cost of \$0.02 per \$100 of payroll. The loss cost is then divided by the permissible loss ratio (PLR) of \$0.6414, (from the 7-1-02 approved rate filing) which factors in expenses, to arrive at an overall risk rate of \$0.03.

The NCCI contracted with a natural catastrophe modeling firm, EQECAT, to assess the impact of terrorist threats to worker's compensation. Fourteen jurisdictions have been modeled for the purpose of providing catastrophe provisions, by state, that address certified terrorism losses as defined in the Terrorism Risk Insurance Act of 2002. Wisconsin was not used as a model for the study; however, Iowa was used as a proxy state for the development of the overall risk rate. Iowa was selected based on assumed similarities in geographics, benefits, and likelihood of loss.

Also attached are revisions to the Basic Manual, the Retrospective Rating Manual, the WI Unit Statistical Manual, and Terrorism Risk Insurance Act Endorsement WC 00 04 20.

We are proposing an effective date of January 1, 2003, applicable to new and renewal business only. We would appreciate your review and response to the attached as soon as possible.

Sincerely,

Ralph Herrmann
President

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Terrorism Loss Costs Including LAE by State

<u>State</u>	<u>Proxy State</u>	Selected <u>Loss Cost</u> <u>(exc. LAE)</u>	Loss-Based <u>Expense</u> <u>Factor</u>	Selected <u>Loss Cost</u> <u>(inc. LAE)</u>
Wisconsin	Iowa	0.02	1.160	0.02

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)
Wisconsin	0.02	0.6414	0.03	0.6414	0.03

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.

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

- **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.

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

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

Exhibit	Title	Page
1	Terrorism Loss Costs for States Modeled by EQECAT	9
2	Terrorism Loss Costs Including LAE by State	10
3	Terrorism Voluntary and Assigned Risk Rates by State	11
4	Estimated Impact of Terrorism Provisions by State	12
5-A	Miscellaneous Values by State—Voluntary Policies	13
5-B	Miscellaneous Values by State—Assigned Risk Policies	14
6-A	Basic Manual for Workers Compensation and Employers Liability Insurance	15
6-B	Basic Manual for Workers Compensation and Employers Liability Insurance —Florida State Special Rating Plans and Programs	17
6-C	Basic Manual for Workers Compensation and Employers Liability Insurance —Idaho	18
7	Retrospective Rating Plan Manual	19
8	Policy Forms and Endorsements Manual Form WC 00 04 20	20
9-A	URE Workers Compensation Statistical Plan	22
9-B	Virginia Workers Compensation Statistical Plan	24
10	Statistical Reporting Instructions	25
11-A	Assigned Risk Mandatory Loss Sensitive Rating Plan (LSRP)	27
11-B	Policy Forms and Endorsements Manual Form WC 00 04 18 A	28

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Exhibit	Title	Page
12-A	Kansas Assigned Risk Retrospective Rating Plan	30
12-B	<i>Policy Forms and Endorsements Manual</i> Form WC 15 04 03 B	31
13	Workers Compensation Premium Algorithms (Voluntary and Assigned Risk Policies)	
	Alabama	34
	Alaska	36
	Arizona	38
	Arkansas	40
	Colorado	42
	Connecticut	43
	District of Columbia	45
	Florida	47
	Georgia	48
	Hawaii	50
	Idaho	51
	Illinois	53
	Indiana	55
	Iowa	57
	Kansas	59
	Kentucky	61
	Louisiana	62
	Maine	63
	Maryland	64
	Mississippi	65
	Missouri	67
	Montana	68
	Nebraska	69
	Nevada	70
	New Hampshire	72
	New Mexico	74
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	South Carolina	82
	South Dakota	84
	Tennessee	86
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	Virginia	90

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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.

EXHIBIT

NATIONAL COUNCIL ON COMPENSATION INSURANCE, INC.

(Applies in: AL, AK, AZ, AR, CO, CT, DC, FL, GA, HI, ID, IL, IN, IA, KS, KY,
LA, ME, MD, MS, MO, MT, NE, NV, NH, NM, NC, OK, OR, RI, SC, SD, TN, UT, VA, VT)

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WISCONSIN WORKERS COMPENSATION PREMIUM ALGORITHM

see www.wcrb.org, Products tab, Public Products, WI Premium Algorithm

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**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.

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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.

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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.

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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
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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.

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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
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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.

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* (5) Waiver of Subrogation – Report the premium charged for the waiver of subrogation under **Code 0930 for policies with an effective date prior to October 26, 2001.**

(6) Short Rate Penalty Premium - **Code 0931**

Where policies are canceled prior to normal expiration, the cancellation date shall be entered in the block captioned Policy Expiration Date and the symbol "Y" entered in the Policy Condition Field Canceled Mid-Term. When a policy is canceled short rate, the payroll and Manual premium by classification shall be reported on the basis of the actual exposure. The experience mod, if any, shall then be applied to the Manual premium to determine the total modified premium. The additional premium resulting from application of the short rate cancellation table to such modified premium extended to full annual basis shall be assigned to **Code 0931** and reported in the Premium Amount column. The Exposure Amount and Manual Rate columns shall be left blank. (For an example, see Section IV.)

b. *Premium Not Subject to Experience Modification, to be reported on lines "D", "E" or "F" on the hard copy Unit Statistical Report.*

(1) Aircraft Operation - Passenger Seat Surcharge - **Code 9108** - Refer to Item B.5.b. of this Section.

(2) Contractor's Premium Adjustment Credit – **Code 9046**. Report the contracting credit modification factor in the rate field, and the amount of premium credit. Report no exposure for this code.

* (3) Waiver of Subrogation – Report the premium charged for the waiver of subrogation under **Code 9115 for policies with an effective date of October 26, 2001 and after.**

c. *Premium Not Subject to Experience Rating, to be Reported in line "H", "I", and "J" on the Hard Copy Unit Statistical Report.*

(1) Premium Discount - **Code 006_**. If premium discount is applied, the total amount of the discount for the state should be shown in the premium column on line "H" and shall be assigned to Statistical **Code 0063** for Type A carrier discount plan or **Code 0064** for Type B carrier discount plan. THIS AMOUNT MUST NOT BE INCLUDED IN THE TOTAL STANDARD PREMIUM AMOUNT ENTERED. Be sure to complete the Code number "**006_**" to indicate which discount has been applied.

(2) Expense Constant - **Code 0900**. On each policy where an expense constant has been charged, the amount so charged shall be assigned to **Code 0900** for all industry groups. Do not include the expense constant in the Total Standard Premium.

(3) **Terrorism Risk Insurance Act of 2002 – Code 9740**. Premium debit earned under the Terrorism Risk Insurance Act of 2002 is reported on a hard copy unit report subsequent to experience modification on the line after the expense constant.

D. **Loss Information...**

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- (5) Mandatory Supplemental Loadings – Prior to Policy Effective Date 7-1-98:
- | | |
|----------------|------------------|
| For Class 4470 | Code 0770 |
| For Class 4773 | Code 0773 |
| For Class 4774 | Code 0774 |
| For Class 4775 | Code 0775 |
| For Class 4776 | Code 0776 |
| For Class 4779 | Code 0779 |
| For Class 4799 | Code 0799 |
| For Class 7323 | Code 0763 |
| For Class 7405 | Code 7445 |
| For Class 7431 | Code 7453 |

- Mandatory Supplemental Loadings – After to Policy Effective Date 7-1-98:
- | | |
|----------------|------------------|
| For Class 4799 | Code 0799 |
| For Class 7323 | Code 0763 |
| For Class 7405 | Code 7445 |
| For Class 7431 | Code 7453 |

- * (6) Waiver of Subrogation – **Code 9115 for policies with an effective date of October 26, 2001 and after.**

- c. Premium Not Subject to Experience Modification (Reported on lines "H", "I", or "J"):
- | | |
|---|------------------|
| Expense Constant | Code 0900 |
| Premium Discount – Type A | Code 0063 |
| Premium Discount – Type B | Code 0064 |
| Terrorism Risk Insurance Act of 2002 | Code 9740 |

C. Loss Information Codes

1. Update Type

Report the 1-position alphabetic code that identifies the activity of an exposure record.

<u>Code</u>	<u>Description</u>
P	Previously Reported
R	Revised

2. Injury Type

<u>Code</u>	<u>Description</u>
01	Death
02	Permanent Total Disability
05	Temporary Total or Temporary Partial Disability
06	Medical Only Claims
09	Permanent Partial Disability

3. Claim Status

<u>Code</u>	<u>Description</u>
0	Open
1	Closed