

## THE COMPREHENSIVE INSURANCE RATING PLAN

BY

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The Comprehensive Insurance Rating Plan became effective in the days when Douglas MacArthur was vaguely identified as a retired army man located somewhere in the Philippine Islands. At that time the Plan was officially adopted as the "Comprehensive Rating Plan for National Defense Projects." Under existing conditions I have been encouraged to drop the qualifying phrase in the title of the Plan and shall refer to it simply as the Comprehensive Insurance Rating Plan. Before considering the Plan itself, however, it is essential that there be some consideration of the developments leading up to its introduction.

In 1940 the Federal Government took steps to expand the armed forces of the country. This involved the construction and operation of facilities required for the training and equipment of such expanded forces. The War Department adopted the practice of letting contracts on a cost-plus-a-fixed-fee basis and specifically provided that there should be included as an item of cost the premiums for such forms of insurance as the contracting officer approved as reasonably necessary for the protection of the contractor.

In the latter part of 1940 the War Department promulgated regulations pertaining to insurance to be carried by contractors and sub-contractors operating under cost-plus-a-fixed-fee contracts. Those regulations prescribed the qualifications of insurance carriers authorized to write such insurance, the forms of coverage to be afforded, and the limits of coverage; and required the contractor to secure four bids for insurance, two of which were to be from stock companies and two from mutual companies. A further condition provided that in evaluating the bid of a dividend-paying company the average rate of dividend paid over the past ten years should be computed and used as the anticipated dividend to be deducted from the deposit premium. Since the major portion of the premiums on these projects is for workmen's compensation and is subject to regulation requiring all carriers to use the same rates, the effect of this requirement was to exclude all non-participating stock casualty companies from writing any of this business.

The contracts involve large undertakings and the casualty insurance premiums, particularly those for workmen's compensation insurance, are very substantial. Undoubtedly the government officials entrusted with the duty of passing upon the various items of cost incurred under these contracts were concerned with the reasonableness of the amounts included in stock company quotations for acquisition and general administration services, and realized that the dividends of mutual casualty companies are due, in a great measure, to a saving in these two items of expense. This was a particularly bitter pill for the stock casualty companies, since for years they have advo-

cated a program of graded reductions in allowances for acquisition and general administration expenses and their failure to secure general approval of that program has been due largely to the opposition of the mutual companies.

The stock companies requested the Under-Secretary of War to afford them an opportunity to present for his consideration a program designed to make insurance of stock companies available at the lowest possible cost on United States Government defense construction contracts let on a cost-plus-a-fixed-fee basis. That program contemplated a reduction in the expense provisions sufficient to make the guaranteed cost of stock insurance comparable with the anticipated net cost of mutual insurance. The Under-Secretary granted the request and appointed an Advisory Committee on Insurance to consider the program. The members of that committee are:

GEORGE S. VAN SCHAICK, Vice President, New York Life Insurance Company, *Chairman*

RALPH H. BLANCHARD, Professor of Insurance, Columbia University

SOLOMON S. HUEBNER, Professor of Insurance, University of Pennsylvania

GEORGE K. GARDNER, Professor of Law, Harvard Law School

The program was considered at a conference with the Advisory Committee on February 11, 1941, but no agreement could be reached with respect to a satisfactory solution of the problem.

Subsequently plans reflecting reduced expense provisions for "United States Government Defense Projects for which compensation and employers' liability insurance is approved by or recommended by the United States Government or any agency thereof" were introduced in a number of states. The Rates Committee of the National Council on Compensation Insurance adopted a resolution providing for a separate classification to be established for these risks, and further providing that the expense portion of the classification rates normally applicable to such operations should be "a"-rated. Separate rates were adopted by stock and non-stock companies. The stock companies generally adopted a discount of 20% which contemplated a maximum total production cost allowance of 5% of the reduced premium. The mutual companies generally adopted a discount of 10%. The discount adopted by the mutual companies, when taken in conjunction with their dividends, produced premiums slightly less than those of stock companies and still placed them in a position to under-bid the stock companies on substantially all of these risks in regulated states. There was some variation from state to state with respect to the special type of plan adopted for rating national defense projects, and as the great majority of such plans are still in effect there is included in Appendix A of this paper a statement

setting forth the details of such special plans for those states in which they are in effect.

This effort of the stock companies to remedy an impossible situation reacted to the benefit of the War Department in that it resulted in a reduction of their insurance cost but it did not in any way improve the position of the stock companies. By this time it was generally recognized by almost all interested parties that the situation was an extremely unhealthy one. The War Department itself recognized the unsound condition which existed and Major Reese Hill (then Lieutenant Hill) developed a plan which effectively removed the competitive element and at the same time assured to the Government insurance at cost. That plan known as "The War Department Rating Plan" was endorsed by the Advisory Committee on Insurance and was adopted by the carriers for application generally to projects for which compensation and liability insurance is approved by or recommended by the United States Government or any agency thereof. As adopted by the insurance companies it is known as The Comprehensive Insurance Rating Plan. The details of the Plan itself are set forth in Appendix B. In essence the Plan is a form of retrospective rating with a maximum premium equal to 90% of the standard premium increased to provide for state taxes. The premium under the Plan is equal to the sum of

1. A fixed charge which corresponds to the basic premium under the standard Retrospective Rating Plan and which contains provision for losses in excess of the maximum and for expenses of general administration, payroll audit, and inspection. The fixed charge contains no provision whatsoever for production cost nor for taxes.
2. Losses incurred increased 12% to provide for unallocated claim adjustment expenses.
3. Actual allocated claim expenses incurred for all forms of coverage.
4. A provision for state premium taxes through the medium of a tax multiplier to be applied to the sum of the three foregoing items.

#### TABLE OF FIXED CHARGES

Analysis of the table of fixed charges indicates that while there is no margin for profit, the values on the whole appear to be adequate. There is set forth below a table showing the indicated excess or deficiency in the fixed charges basing the charge for losses in excess of the maximum upon the table of excess pure premium ratios used in developing the existing standard Retrospective Rating Plan and assuming the necessary expense provisions to be 4% of the standard premium for general administration and payroll audit expenses and 2% of the standard premium for inspection and accident prevention expenses regardless of size of risk.

## THE COMPREHENSIVE INSURANCE RATING PLAN

(1) Standard Premium	(2) Fixed Charge	(3) Loss Allowance in Maximum Premium .900—Col. (2) 1.12	Ratio of Losses in Excess of Allowance in Maximum Premium		(6) Gross Charge for Excess Losses Col. (5) × 1.12	(7) Indicated Excess (+) or Deficiency (—) in Fixed Charge Col. (2) — [Col. (6) + .060]
			(4) To Losses (from Table of Excess Pure Prem. Ratios)	(5) To Prem. Col. (4) × .60		
\$ 5,000	.370	.473	.476	.286	.320	— .010
10,000	.290	.545	.351	.211	.236	— .006
25,000	.240	.589	.268	.161	.180	—
50,000	.184	.639	.182	.109	.122	+ .002
100,000	.125	.692	.101	.061	.068	— .003
150,000	.115	.701	.088	.053	.059	— .004
200,000	.105	.710	.074	.044	.049	— .004
250,000	.097	.717	.060	.036	.040	— .003
300,000	.090	.723	.042	.025	.028	+ .002
350,000	.075	.737	.020	.012	.013	+ .002
400,000	.065	.746	.001	.001	.001	+ .004
450,000 to 700,000	.065	.746	—	—	—	+ .005
700,000 and over	.063	.747	—	—	—	+ .003

The indicated excess of .003 for risks of \$700,000 premium and over, and of .005 for risks developing premiums of from \$450,000 to \$700,000, actually constitute the only provision for losses in excess of the maximum, since the table of excess pure premium ratios used in this analysis indicates no insurance charge required for the loss allowance in the maximum premium. Similarly, in the case of risks of \$400,000 the insurance charge of .001 for losses in excess of the maximum actually is inadequate, and here again the apparent excess of .004 is more properly construed to represent a part of the insurance charge. For the smaller premium sizes the indicated deficiency in the fixed charge is appreciable. However, it may be contended with some merit that this is compensated by the fact that in calculating the maximum premium, 90% of the full standard workmen's compensation premium is used, whereas in calculating the fixed charge the standard workmen's compensation premium is first discounted 10% in lieu of applying experience rating. From this it may be argued that the latter premium is the "true standard premium" for the workmen's compensation portion and that the use of the undiscounted workmen's compensation premium in the above analysis in calculating the charge for losses in excess of the maximum premium, should be recognized as equivalent to using a maximum in excess of 90% of the standard. On this line of reasoning a lower insurance charge for losses in

excess of the maximum would be developed and, consequently, the analysis would show a more favorable balance for contingencies.

#### LOSS MODIFICATION FACTOR

The factor of 1.12 which is applied to incurred losses corresponds to the loss conversion factor as used in the standard Retrospective Rating Plan and is equivalent to an allowance of 7.2% of the standard premium, assuming an expected loss ratio of 60%. While workmen's compensation rates normally contemplate 8% of the standard premium for total claim expenses, it should be noted that allocated claim expenses are added to modified losses under this Plan. Consequently, an allowance of 7.2% for unallocated claim expenses only, appears to be adequate. For automobile bodily injury liability the rates normally contemplate 6.1% of the standard premium for unallocated claim expenses and that figure related to the permissible loss ratio of 55.4% produces an indicated factor of 1.11%. However, for automobile property damage liability the rates normally contemplate 9.8% for unallocated claim expenses and this figure in conjunction with the standard permissible loss ratio of 51.7% produces an indicated factor of 1.19. Assuming the ratio of bodily injury to property damage liability premiums to be three to one, an average factor of 1.13 would be indicated for automobile bodily injury and property damage liability combined. For liability other than automobile, the rates normally contemplate a provision of 7.5% for unallocated claim expenses. This provision on the basis of a permissible loss ratio of 51% indicates a factor of approximately 1.15.

The Plan does not provide for applying the loss modification factor to allocated claim expenses. The permissible loss ratios cited above for the several liability lines include allocated claim expenses, and consequently there is some deficiency in the allowance for unallocated claim expenses arising out of the fact that the loss modification factor is applicable only to losses and not to the allocated claim expenses. This may be partially offset by the provision for including allocated claim expenses on workmen's compensation as well as on the liability lines. Admittedly, allocated claim expenses represent a relatively small proportion of the total claim expenses on workmen's compensation insurance. On the other hand, the workmen's compensation hazard represents the major portion of the risk on projects written under this Plan.

The provision for claim adjustment expenses appears to be adequate if it be assumed that the inclusion of allocated claim expenses on workmen's compensation is sufficient to absorb the apparent deficiency in the provision for unallocated claim expenses on the liability lines.

## TABLE OF TAX MULTIPLIERS

The table of tax multipliers which is made a part of the Plan, has been so developed as to provide for the State premium tax and in addition to provide 0.8% on workmen's compensation premiums and 0.3% on premiums of other lines of business for the maintenance of rating boards and bureaus. Ordinarily, the provision for the maintenance of rating boards and bureaus is included in the item of inspection. The inclusion of these allowances in the tax multiplier makes up the apparent deficiency in the provision for inspection and accident prevention in the fixed charge.

In addition to the State premium tax, provision is also made for taxes levied on other than a premium basis for the maintenance of Industrial Commissions such, for example, as the assessment of the New York Industrial Commission which is levied on indemnity losses, the assessment of the Maryland Industrial Commission which is levied on payrolls, and the assessment of the Kansas Industrial Commission which is levied on claims. In each of these instances the amounts of these special taxes are added to the premium before application of the tax multiplier. Strictly speaking, this procedure is not proper as it reduces the amount available for losses in the maximum premium. The proper procedure would be to modify the Plan to provide that the maximum premium is equal to 90% of the standard premium increased by any special taxes and the total so obtained increased by application of the tax multiplier. There is no provision in the tax multiplier for social security taxes nor for miscellaneous licenses, taxes and fees.

The determination of the premium under the Plan could be greatly simplified by the use of a single tax multiplier applicable to all lines within any one state. In the great majority of states the difference in tax multiplier is brought about by a difference in the provision for the maintenance of rating boards and bureaus and in these states the use of the workmen's compensation tax multiplier on liability lines will not seriously affect the final premium, since the difference amounts to only one-half of 1% of the liability portion of the premium and that in turn represents a very small proportion of the total premium. This simplification appears desirable even though it may be found necessary to use separate multipliers by line in those few states in which there is a substantial difference between the tax rate applicable to workmen's compensation and that applicable to other lines.

## GENERAL COMMENT ON RATING VALUES

It cannot reasonably be argued that the premiums produced under the Plan are inadequate, but it is apparent that carriers will have to operate with maximum efficiency, as no margin of profit has been provided. There

is no definite provision in the Plan to provide for the cost of reopened cases or for incurred but not reported losses. Additional losses from both of these sources must be expected and they must be provided for either through a reserve or by deferring final settlement under the Plan for a sufficient period of time beyond the date of completion of the project to eliminate the possibility of any delayed reporting of losses and to reduce to a minimum, if not to eliminate, the possibility of any reopened cases.

### COMMISSIONS

The Plan departs radically from standard practice in the casualty insurance business in that no allowance of any kind is included in the premium for the payment of any commissions. The regulations of the governmental bodies providing for the use of the Plan also provide for the selection by the cost-plus-a-fixed-fee contractor of an insurance adviser who is paid directly by the contractor and whose remuneration is expressed as a percentage of the standard premium developed under the Plan all in accordance with the terms of the prescribed Insurance Service Agreement entered into by the insurance adviser and the contractor. The remuneration to be paid the insurance adviser under the regulations of the Bureau of Yards and Docks of the Navy Department differs somewhat from that developed under the regulations prescribed by the other departments. The War Department, the United States Maritime Commission and the Federal Works Agency have adopted the same scale. The two scales of remuneration are set forth below. In each case the remuneration is based upon the standard premium for workmen's compensation and all liability coverages combined less 10%.

Discounted Standard Premium	Charge Payable Adviser Expressed as Percentage of Discounted Standard Premium	
	War Department, Maritime Commission and Federal Works Agency	Bureau of Yards and Docks
First \$ 10,000	7.5%	7.5%
Next 40,000	4.0	4.0
Next 50,000	2.0	2.0
Next 400,000	1.0	1.0
Next 500,000	1.0	0.5
Over 1,000,000	1.0	0.25

Since the Plan contains no provision whatsoever for commissions, the insurance carrier is neither in a position nor under obligation to pay a commission to any producer or to any countersigning agent.

### JOINT RATING COMMITTEE

The Plan eliminates any necessity for bids for insurance and permits the contractor to select his insurance carrier, provided that carrier complies with

the qualifications established by the Government. Therefore, it is essential that all carriers use the same rates in determining the standard premium. Since the Plan provides for combining workmen's compensation, automobile bodily injury and property damage liability, and general liability coverages into a single rating; since in the great majority of states none of these forms of coverage, other than workmen's compensation, is subject to regulation; and since workmen's compensation is not subject to regulation in all states, it is necessary to provide for the establishment of a uniform schedule of rates to be used by all carriers in applying the Plan. In order to accomplish this objective a Joint Rating Committee has been established. That Committee comprises three stock companies representing the Association of Casualty and Surety Executives and three mutual companies representing the American Mutual Alliance. The companies represented on this Committee at the present time are as follows:

- American Employers Insurance Company
- American Lumbermen's Mutual Casualty Company
- American Mutual Liability Insurance Company
- Globe Indemnity Company
- Liberty Mutual Insurance Company
- Travelers Insurance Company

The Committee has elected Mr. William Leslie, General Manager of the National Bureau of Casualty and Surety Underwriters to act as chairman.

The Committee establishes rules and rates to be used in determining the standard premium under the Plan and files those rules and rates with the proper government officials for their approval. It is the point of contact between the government officials and the various company ratemaking organizations and in this capacity submits its recommendations both to the Government and to the ratemaking organizations for consideration. In anticipation of the possible approval of the Plan for use in all states, the Joint Rating Committee has established the manual rules and rates for each form of coverage coming under the Plan for all states and has submitted them to the appropriate officials of the Government. These manual rules and rates which are enumerated below have already been approved for application to projects of the following divisions of the Government:

- War Department
- Bureau of Yards and Docks of the Navy Department
- Federal Works Agency
- United States Maritime Commission

#### WORKMEN'S COMPENSATION

The manual rules and rates of the National Council on Compensation Insurance have been established as the basis for determining the standard premium for workmen's compensation insurance for the District of Columbia,



for the territories of Alaska and Hawaii, and for all states in which private carriers may write such insurance excepting those states enumerated below:

Arizona	Massachusetts	Pennsylvania
California	Minnesota	Texas
Delaware	New Jersey	Virginia
Louisiana	New York	Wisconsin
	North Carolina	

For these states the Joint Rating Committee has established as the basis for determining the standard premium the manual rules and rates approved or established by the public officials charged with the duty of approving or establishing workmen's compensation rates.

It is specifically provided that experience rating shall not be employed, but in lieu thereof, and in further recognition of hazard differences, the following rule has been adopted:

“For the purpose of determining the amount of the ‘fixed charge’ under the Comprehensive Insurance Rating Plan, the standard premium for workmen's compensation insurance shall be discounted 10% before applying the appropriate percentage as prescribed in Table I of the Plan.” (See Appendix B.)

In actual practice, any attempt to apply the Experience Rating Plan in determining the standard premium would lead to endless difficulties. In the non-regulated states there is no rating organization established to assemble the experience and rate the risk. In many instances the projects are conducted by contractors who have had no previous experience in the state in which the project is located and, consequently, would not be eligible for experience rating. Projects are undertaken frequently by a group of contractors as joint venturers, and under a strict interpretation of experience rating rules this would constitute a new risk not eligible for experience rating. This particular difficulty could be circumvented by providing for the use of a modification based upon the arithmetic average of the modifications of the individual contractors involved, but that procedure has obvious defects and in all probability would, or at least could, be objected to as improper in the event that the resulting modification should be a debit. Furthermore, these projects generally are on a far greater scale than and differ materially from the normal operations conducted by the contractors involved and it is doubtful whether an experience modification reflecting the normal operations of the contractor is indicative of the experience which may be incurred on them. In the light of these conditions and in recognition of hazard differences which exist on these projects, the Committee adopted the rule providing for a 10% discount and the elimination of experience rating.

Inasmuch as the provision for expenses is already fixed at a minimum amount as set forth in the analysis of the fixed charges, it is provided that no discount which may be provided for in any of the manual rules to reflect a reduction in expense, shall be applicable in determining the standard premium.

Soon after the Plan became effective it was recognized that the use of average rates for each form of coverage, if practicable, would result in a substantial saving to the carrier, the contractor, and the Government, and would eliminate difficulties and delays due to differences of opinion respecting classification assignment of payrolls. It was recognized that average rates, if used, would have to be developed separately for each individual risk. Not infrequently complete specifications are not available at the inception of construction projects and in many instances are necessarily revised materially during the course of construction. Similar conditions exist on some operation projects but probably to a much more limited extent. The Joint Rating Committee in considering this matter adopted a resolution recommending to the various rating organizations that they permit the use of average rates on operation projects for which they are furnished the necessary data to develop average rates, provided both the carrier and the governmental department affected agree to their use. The rating organizations and supervising officials of the states in which the Plan is effective have adopted this recommendation, except the States of California, Colorado, Delaware, Pennsylvania and Texas.

#### EMPLOYERS' LIABILITY AND VOLUNTARY COMPENSATION INSURANCE

The manual rules and rates of the National Bureau of Casualty and Surety Underwriters have been established as the basis for determining the standard premium for employers' liability insurance for the States of Mississippi, Oregon and Washington, and for voluntary compensation insurance for the States of Oregon and Washington.

In only one instance to date has any question arisen respecting voluntary compensation rates in any other monopolistic state fund state. In this case the contractor qualified under the State Compensation Act as a self-insurer and then sought voluntary compensation coverage. As no rating organization had established rates for this coverage the Joint Rating Committee recommended that the rates be agreed upon between the carrier and the governmental department affected and the risk was handled on this basis.

#### AUTOMOBILE BODILY INJURY AND PROPERTY DAMAGE LIABILITY INSURANCE

The manual rules and rates of the National Bureau of Casualty and Surety Underwriters, subject to the modifications set forth below, have been estab-

lished as the basis for determining the standard premium for automobile bodily injury and property damage liability insurance for the District of Columbia, for the territories of Alaska and Hawaii, and for all states except the following:

Louisiana	North Carolina
Massachusetts	Texas

Subject to the same modifications, the manual rules and rates used as the basis for determining the standard premium for automobile bodily injury and property damage liability insurance for the foregoing states have been established as the rules and rates promulgated or approved by the public officials empowered by statute to promulgate or approve such rates. For the States of Illinois, New Hampshire, New York, Oklahoma, Virginia and Washington, the manual rules and rates of the National Bureau of Casualty and Surety Underwriters are those filed with and approved by the State officials having jurisdiction.

It was recognized by the Joint Committee that the conditions under which operations are required to be conducted on these projects would make it at least extremely difficult and probably impossible to secure all of the necessary detailed information required to classify all of the automobile operations strictly in accordance with the provisions of the manual. In recognition of this fact, the Committee established a single classification for commercial automobiles, a single classification for private passenger automobiles, and a single classification for non-ownership liability based upon payroll. The modifications of the manual rules and rates are as follows:

1. All commercial automobiles are rated as Medium Class 5 regardless of the class and load capacity to which such commercial car would ordinarily be assigned; provided, however, that such automobiles are rated as Medium Class 4 in these states in which Class 5 is not in effect.
2. All automobiles classified as private passenger automobiles under the manual are rated as Class B. In those jurisdictions in which private passenger cars are also rated by symbols W, X and Y, all such cars are assigned to symbol W.
3. In lieu of the rates appearing in the manual for non-ownership bodily injury and property damage liability, standard limits rates applicable to this coverage are \$0.075 per \$1000 of payroll for bodily injury liability, and \$0.05 per \$1000 of payroll for property damage liability, these rates to apply to the total payroll on the project.
4. All automobiles owned by the Federal Government and furnished for the contractor's use on a project and all automobiles hired or purchased under rental purchase contracts are classified and rated the same as automobiles owned by the contractor. Hired automobiles other than those hired under a rental purchase contract are rated in accordance with the rules and rates prescribed in the manual.

5. Neither the Experience Rating Plan nor the Automobile Fleet Plan discount nor any other individual risk rating plan is applicable, but in lieu thereof, and in consideration of the reduced hazards on these risks, the manual rates, including the rates set forth above, are subject to a uniform discount of 50%.

#### GENERAL LIABILITY INSURANCE

The manual rules and rates of the National Bureau of Casualty and Surety Underwriters have been established as the basis for determining the standard premium for general liability insurance for the District of Columbia, for the territories of Alaska and Hawaii, and for all states except the States of Louisiana and New York. For Louisiana the manual rules and rates of the Louisiana Casualty and Surety Rating Commission and for New York the manual rules and rates as approved by the New York Insurance Department, have been established as the rules and rates to be used for determining the standard premium for those states. As in the case of automobile bodily injury and property damage liability, it is provided that neither the Experience Rating Plan nor any other individual risk rating plan shall be used, but in lieu thereof, and in consideration of the reduced hazards, all manual rates are subject to a uniform discount of 50%.

It is further provided that for those classifications in the manual which are subject to "a"-rating, the rate to be used shall be obtained from the Joint Rating Committee. Average liability rates also may be obtained for application to operation projects for which average workmen's compensation rates are to be applied.

#### PERIOD OF INSURANCE

The Plan provides that "the insurance shall be continuous and concurrent until completion of the project or operation" unless the project or operation is of indefinite duration in which event the insurance under the Plan is restricted to a period of twenty-four months. Under this provision of the Plan a project or operation of definite duration is insured for the entire period and is rated on the basis of such period regardless of the length of time involved. The restriction to a period of twenty-four months applies only where the duration is indefinite. In such cases in the event that the project or operation continues for a period of more than twenty-four months, the insurance is renewed and the Plan is applied as to a new project.

Where a project or operation extends beyond twelve months any changes in manual rules and rates are reflected in determining the standard premium to the same extent as would be the case if the risk were insured under an annual policy; and any rate changes resulting from law amendments become effective in the same manner as on regular business.

## STATES IN WHICH PLAN IS APPLICABLE

The Plan is applicable in the great majority of states, although in certain instances some modifications in the Plan have been made. Those states in which the Plan is not applicable or in which some modification of the Plan has been made are enumerated below:

*Arizona*

The Plan was submitted to the Industrial Commission for approval but up to the present time no action has been taken on the filing; consequently, it is not in effect in this State.

*California*

In California the Insurance Commissioner in passing upon the Plan ruled that workmen's compensation insurance could not be combined with other lines for rating. The Plan as approved for application to California workmen's compensation risks is substantially the standard Plan aside from the fact that no other lines may be combined with workmen's compensation. The standard Plan may be applied separately to the automobile and general liability lines combined.

*Massachusetts*

The Plan has been disapproved by the Insurance Commissioner of Massachusetts.

*Mississippi*

The Insurance Commissioner of Mississippi has ruled that the War Department Insurance Service Agreement is illegal and may not be used. Inasmuch as that agreement is entered into by the insurance adviser and the assured, and as the insurance carrier is not a party to it, the ruling apparently has the effect of prohibiting Mississippi agents from acting as insurance advisers under the Plan. The Insurance Commissioner has ruled further that all policies written under the Plan "must be countersigned by a regularly licensed resident agent, who shall receive the full and customary commission on same when the premium is paid. This requirement must be complied with on all such insurance heretofore or hereafter written." Presumably the intent of this ruling is to require stock companies to pay the standard scales of commissions normally payable on business not written under the Plan. The countersignature law does not apply to mutual companies; consequently, the ruling does not apply to them and they are free to use the Plan in Mississippi. Since the Plan contains no provision whatsoever for commissions, it is obvious that no carrier could possibly afford to pay any commission on this business. Consequently, enforcement of the Commissioner's ruling will prevent stock casualty companies from writing any of these projects in the State of Mississippi and will prohibit Mississippi agents from acting as insurance advisers on any of the projects.

*Texas*

In the State of Texas the Board of Insurance Commissioners is charged under the law with the duty of establishing rates and not merely approving them. The Board has promulgated its own plan entitled "War Department Emergency Insurance Rating Plan." The Plan is substantially the same as the Comprehensive Insurance Rating Plan, but includes a provision requiring the insurance adviser to be a licensed local recording agent or a licensed solicitor under the Texas statutes and setting forth the details of the contract to be entered into between the insurance adviser and the assured.

Governmental regulations pertaining to all expenditures in connection with cost-plus contracts require approval of each item of cost by governmental officials. Consequently, the Comprehensive Insurance Rating Plan Endorsement necessarily contains a provision for approval by the appropriate official of the Federal Government of all elements entering into the determination of the premium under the Plan. Question has been raised in several jurisdictions regarding the propriety of the State supervising authority approving a plan which appears to delegate rate approval authority to an official of the Federal Government. This particular difficulty has been eliminated by a definite statement to the effect that the federal governmental officials approve for those states the manual rules and rates as established by the proper State supervising authorities, and in some instances, as in the case of Delaware, Pennsylvania and Texas, by incorporating such a statement in an endorsement to be attached to the policy.

**EXPLOSION HAZARD**

Some of the projects to be insured under the Plan include risks on which there is a definite explosion hazard, such as projects for the operation or for the construction and operation of shell loading plants, explosives manufacturing plants, etc. The Plan contains specific provision for an increase in the fixed charge in the case of projects presenting an abnormal hazard by reason of the fact that they require the handling of explosives or dangerous chemicals. Approval of any increase in the table of fixed charges is, of course, required by the Boards or Bureaus having jurisdiction, and the regulations of the governmental agencies provide that bids shall be called for if such increase exceeds 2% of the standard premium.

Up to the present time many, if not all, of the contracts have provided for the construction and operation of explosives manufacturing plants by the cost-plus-a-fixed-fee contractor. It is possible under the Plan to combine the construction and operation as a single project and the insurance carrier is thereby given a limited measure of relief, inasmuch as the combination of construction and operation premiums results in an increased maximum

premium and to that extent affords the carrier protection against catastrophe. In many instances completed units on these projects are put into operation while construction is still going on at other portions of the project and this is another sound reason for combining the construction and operation of the project for rating purposes under the Plan.

The 2% additional charge allowed for the abnormal hazard on these risks is inadequate in the light of current reinsurance quotations. In the present reinsurance market a charge of 2% of the standard premium is made for insurance of \$1,000,000 in excess of \$100,000 for any one accident, provided such loss is also in excess of the maximum premium under the Plan. In many instances, these operations are conducted in locations far removed from congested areas and in states where the workmen's compensation benefits are such that the probability of a single accident resulting in a loss in excess of \$100,000 is somewhat remote. Since on some of these operations the standard premium runs into very substantial figures, ranging up to \$500,000 and over, it is obvious that a reinsurance contract which requires that the maximum premium, amounting to 90% of the standard premium, be exhausted and then provides that the reinsurer participates only on those losses in excess of \$100,000 on any one accident, does not afford the direct-writing carrier very generous coverage for his 2%.

Admittedly, carriers wish protection against this catastrophe hazard regardless of how remote the probability of loss may be, for no carrier writes a sufficient volume of this class of risk to accumulate an adequate fund to absorb catastrophe losses. It appears desirable, if not essential, to give serious consideration either to the establishment of some better market for reinsuring the hazard or to a modification of the Plan to increase the 2% available for the purchase of reinsurance.

#### PROBLEMS UNDER THE PLAN

Among the many questions which have arisen in connection with the application of the Plan, the following appear to be of particular interest:

1. *Determination of Governing Classification*

On all of these risks there are substantial amounts of payroll which, under the manual rules, are properly assigned to the governing classification of the risk. Payrolls are audited monthly and under orthodox practices followed in workmen's compensation insurance, the governing classification cannot finally be determined until the project has been completed. This may be at some far distant future date. Consequently, the only alternative is to make a preliminary determination of the governing classification in the light of the facts known at the time of audit and make the necessary adjustments at the final accounting of the risk. The disadvantages of this procedure are obvious and it has been suggested by the Bureau of Yards and Docks of the Navy Depart-

ment that each month's payroll be used to definitely establish the governing classification of the risk for that month. This suggestion has been considered favorably by the Joint Rating Committee and they have agreed to recommend the adoption of such a rule provided the various governmental agencies find such a procedure acceptable.

There is much in favor of the proposal, since it avoids the necessity of a reconsideration of monthly audits at a date months or years after they have previously been passed upon by the governmental departments whose duty it is to approve disbursement of funds. Admittedly, such a procedure would be fraught with danger if applied generally, but its application to risks written under the Plan is quite practicable.

## 2. *Interstate Application of Plan*

In connection with a question which was raised as to whether operations in several states, all covered under one contract, should be combined for rating under the Plan, it was the unanimous conclusion of the Joint Rating Committee that the Plan contemplates application on an interstate basis. In this connection it should be noted that the table of fixed charges provides for a fixed percentage of expenses which does not vary by size of risk; consequently, the provision for expense is not in any way affected by combining operations on an interstate basis.

## 3. *Classification of Guards*

On several projects, particularly those engaged in the manufacture of explosives, question has been raised respecting the classification of the payroll of guards. This matter was considered by the Explosives Committee and by the Manual Committee of the National Council, and action was taken by that organization to provide that in all instances the payroll of guards is to be assigned to the governing classification.

An exception to this provision has been made by the California Inspection Rating Bureau which has adopted a rule to the effect that in the case of contractors engaged in miscellaneous construction work on defense projects, the payroll of watchmen or guards specifically employed to perform such duties should be assigned to Classification 7721—Patrolmen or Guards. An exception of this type may cause difficulty, particularly in the case of a contractor or sub-contractor performing work on a partially completed explosives manufacturing project which is in actual operation.

## 4. *Liability Insurance for Increased Limits*

There has been some demand for insurance for limits in excess of those provided for under the Plan, particularly on projects on which there is an explosive hazard. Insurance for limits in excess of those prescribed in the Plan is catastrophe insurance and should be handled on a guaranteed-cost basis and not under the Plan.

## 5. *Extra Legal Medical*

The War Department has ruled that medical benefits in excess of the workmen's compensation statutory benefits and made for the purpose of reducing the period or degree of disability, may be approved for



inclusion as part of the losses incurred under the Plan, only if prior approval has been obtained from the contracting officer on the project. While there appears to be no definite rule prohibiting a contracting officer from granting blanket approval for the payment of extra-legal-medical benefits, it appears probable that in the great majority of instances approval of the contracting officer will be required in each individual case.

6. *Trainees*

It is a common practice to train in an existing ordnance plant employees who are to operate new plants and question has been raised as to whether these trainees should be considered to be employees of the plant in which they are being trained. In this connection, it should be noted that there is an increased public liability hazard resulting from this practice. Under the War Department regulations trainees cannot be considered to be employees of the plant in which they are being trained. So far as the increased public liability hazard is concerned, it is suggested that interested carriers on individual risks might agree between themselves as to the procedure to be followed with respect to subrogation.

7. *Notice of Suits*

The War Department requires that it be given notice of all suits on projects of the War Department insured under the Comprehensive Insurance Rating Plan. This action is taken for the purpose of making certain that the Government will be in a position to protect its interests in the event that claims are made for an amount in excess of the policy limits, and also in the event that there is a question of negligence of a United States employee.

8. *Occupational Disease Coverage*

The Plan as phrased specifies that the workmen's compensation coverage shall include "Occupational Disease Coverage by endorsement." In actual practice, the War Department requires insurance under Paragraph 1 (b) for limits of \$50,000 per employee and \$100,000 per accident, with a \$100,000 aggregate limit for occupational disease.

9. *Competitive State Funds*

The Comprehensive Plan specifically permits but does not require that all lines of business be combined for rating. Soon after the Plan became effective question was raised as to how a carrier not authorized to transact all of the lines of business included under the Plan could write any of this business. This problem is one which is of particular interest to competitive State Funds.

There is nothing in the Plan itself nor in the regulations of the several governmental departments which would preclude the writing of the business by two carriers—one to carry the workmen's compensation portion of the risk and the other to carry the liability portion. Under such conditions the premium would still be computed upon the combined operations of all lines and the two interested carriers would agree in advance as to the distribution of premium. Some business has already been written on this basis.

### 10. Allocation of Premiums to Lines of Business

The allocation of premium on the company's records by line of business is a simple procedure in all instances in which the final premium is less than the maximum. Under these conditions the indicated premium for each individual line is calculated as the sum of the fixed charge plus the modified losses plus the allocated claim expense, all multiplied by the appropriate tax multiplier for the line.

The following procedure has been established for allocating premium by line of business where the indicated premium exceeds the maximum:

- (a) Determine for each line of business the amount by which the indicated premium exceeds the maximum and the total of such excess for all lines producing an excess.
- (b) Determine the ratio which the excess amount for each line of business bears to the total excess amount as calculated under item (a).
- (c) Determine the amount by which the total indicated premium for all lines combined exceeds the maximum premium for all lines combined.
- (d) Multiply the amount developed under item (c) by the ratios determined in item (b) for each line of business to determine the amount to be deducted from the indicated premium in each line of business.
- (e) The sum of the premiums obtained after the deduction as specified in item (d) plus the indicated premiums for the lines of business for which no excess is produced is equal to the maximum premium for all lines combined.

Where premium pertaining to more than one state is involved, each line of insurance in each state should be treated as a separate line of business for the purpose of applying these rules.

An example is set forth below illustrating the application of the procedure to a risk developing an indicated premium of \$102,000 and a maximum premium of \$90,000:

(1) Line of Insurance	(2) Indicated Premium	(3) Maximum Premium	Excess for Line Producing Excess		(6) Adjusted Excess (5) × [Total (2) - Total (3)]	(7) Premium Allocation (2) - (6)
			(4) Amount	(5) %		
Comp. ....	89,000	80,000	9,000	66.7	8,000	81,000
Auto B.I. ....	7,000	2,500	4,500	33.3	4,000	3,000
Auto P.D. ....	1,000	1,500	—	—	—	1,000
Liability ....	5,000	6,000	—	—	—	5,000
<b>Total ....</b>	<b>102,000</b>	<b>90,000</b>	<b>13,500</b>	<b>100.0</b>	<b>12,000</b>	<b>90,000</b>

### 11. Report Forms

The Plan specifically provides for making quarterly reports of losses, preliminary reports of premium settled 60 days after expiration, and final reports six months after expiration. Since the details of these report forms have not yet been finally determined, it is not possible to

include in this paper any definite information respecting such report forms.

## 12. *War Risk Hazard*

It is recognized that the war risk hazard under a workmen's compensation policy covering operations outside of continental United States represents a potential catastrophe loss of such magnitude as to be virtually uninsurable. This is recognized by both the War and Navy Departments and provision has already been made for relieving the carriers of the hazard on projects outside of continental United States not only where such projects are on a cost-plus-a-fixed-fee basis but also where they are on a lump sum basis.

There is an equally serious war risk hazard in connection with workmen's compensation risks written within the United States and this exists not only on risks written under the Comprehensive Insurance Rating Plan but also in connection with workmen's compensation risks not under the Plan. As yet, no provision has been made for this hazard, although legislation is under consideration by Congress.

## INSURANCE OF PROJECTS OUTSIDE CONTINENTAL UNITED STATES

A number of projects of the War and Navy Departments insured under the Plan are located at various points outside of continental United States. The rates used in determining the standard premium under the Plan in such instances are not established by the Joint Rating Committee, but are a matter of negotiation between the carrier and the interested governmental department on each individual project. Some of the more important considerations peculiar to projects of this type are discussed briefly below:

### 1. *Workmen's Compensation Benefits*

Legislation has been enacted by Congress extending the provisions of the Longshoremen's and Harbor Workers' Compensation Act to persons employed at military, air and naval bases acquired after January 1, 1940 from any foreign government and to such persons on any land occupied or used by the United States for military or naval purposes in any territory or possession outside continental United States but excluding the Canal Zone. The benefits payable under that Act are modified by eliminating the minimum limitation on weekly disability benefits and on average weekly wages used for computing death benefits; by limiting beneficiaries to surviving wife and children or, if there be no wife or child, to a surviving parent supported, in whole or in part, by the employee for one year immediately prior to the date of injury; and by providing that the United States Employees' Compensation Commission may at its option, or upon application of the carrier must, commute all future instalments of compensation payable to aliens and non-nationals of the United States by payment of one-half of the commuted amount of such future instalments.

Some such legislation as this is essential in order to avoid hopeless confusion. Some of these projects are located in jurisdictions which

have Workmen's Compensation Acts and others are in jurisdictions with no Compensation Acts. Many of the employees on these projects are brought from the United States and in the event of their injury question might well arise as to whether they should seek compensation under the benefits of the Act of the jurisdiction in which the project is located, under the Act of the State in which they are a resident, under the Act of the State in which they were employed or under the Act of the State from which they embarked. Since the scale of benefits under the Longshoremen's and Harbor Workers' Compensation Act is more liberal than the scale of benefits in most of the jurisdictions in which the projects are located, any confusion on this score is largely eliminated.

Some provision for the commutation of benefits payable to dependents and to employees who sustain permanent disabilities is essential in order to avoid the substantial unnecessary expense which would be involved in endeavoring to maintain biweekly payments of small amounts after projects have been completed and the carrier no longer has a representative on the project.

On many of these projects, particularly those located in the tropics or sub-tropics, the prevailing wages of local labor is very substantially below the wage contemplated by the minimum established in the Longshoremen's and Harbor Workers' Compensation Act. Removal of the minimum eliminates an incentive to malingering.

## 2. *War and Transportation Hazard*

As previously stated, many of the employees on these projects are transported from the United States. The projects involve the construction of or addition to military and naval bases and consequently present a very substantial war risk hazard. The war and transportation hazards referred to are essentially catastrophe hazards and as such are not properly included under the Plan. Therefore, provision is made on these projects to modify the Plan to provide that such losses are not subject to the maximum premium. However, the company adjusts and pays such losses and accounts for them in the same manner as for other losses under the Plan. A copy of the endorsement providing for this procedure is set forth in Appendix C.

## 3. *Medical Coverage*

The War Department in its projects at these bases provides that the company shall be relieved of the payment of all medical benefits with respect to injuries occurring to employees outside of continental United States except where such benefits are rendered within the continental United States. In practice, the War Department provides for making available to injured employees the services of the Army medical staffs and hospitals located at the projects. However, in the event that an injured employee requires medical treatment after being returned to the United States, the carrying company is required to furnish such treatment.

An endorsement covering this particular provision is set forth in Appendix C.

#### 4. *Abnormal Hazards*

While conditions in these projects vary from one to another, it is obvious that all of them present hazards which are not normally found on like operations conducted in the United States. Frequently the projects are in locations which are subject to extremes of temperature and in which employees are exposed to unusual health hazards. Furthermore, these projects not infrequently are extremely inaccessible. With respect to third party liability, carriers on these projects are dealing with unknown quantities. In certain instances there may be considerable doubt as to which court will have jurisdiction over liability claims. Where claims come within the jurisdiction of local courts, conditions may differ radically from those normally contemplated. It is possible also that an abnormal degree of claim consciousness may be encountered.

All of these elements must of necessity be carefully weighed in arriving at a schedule of rates to be used in determining the standard premium and in developing the rating values to be applied under the Plan.

#### 5. *Rating Values*

In setting up rating values under the Plan, consideration must be given to the need for expense provisions in excess of those contemplated by the fixed charges of the standard plan. A company insuring one of these projects undoubtedly will find it necessary to pay salaries higher than normal, to provide for transportation of employees from the United States to the project and return, and to provide for living expenses. Furthermore, employees located at these projects will have no opportunity to devote any of their time or effort to other work so it will be necessary to maintain on a full-time basis the maximum staff required at any one time.

On some projects of the War Department a schedule of "abnormal fixed charges" has been established to provide an additional amount for expense ranging from 9% of the standard premium for risks of \$200,000 and less down to 2.5% for risks of \$1,500,000 and over. There is included in Appendix C an "Insurance Rating Plan Endorsement" which has been used on some projects and which provides in paragraphs 1(f) and 1(g) for these abnormal fixed charges. It will be noted from this endorsement that the abnormal fixed charge in this particular case is limited to a maximum amount equal to \$1000 per month for the number of months for which coverage is afforded.

This particular "Insurance Rating Plan Endorsement" provides for a factor of 81% to be applied to the workmen's compensation portion of the total standard premium in determining the maximum premium and for a loss modification factor of 1.13. These factors presumably reflect the effect of limited medical coverage. In this connection it should be noted that the "abnormal fixed charge" has the effect of reducing the allowance for losses in the maximum and that fact as well as the actual reduction in the maximum per cent should be considered in establishing rates for the determination of the standard premium.

A tax-multiplier is permissible only in the event that a premium tax is payable. It has been contended by the War Department that the carriers insuring such projects are not required to be licensed by the jurisdictions in which the projects are located and consequently that insurance premiums on these particular projects are not subject to tax. However, it is necessary to consider the effect of the statutes of the state in which the business is written. For example, carriers admitted in New York are required to pay to New York a premium tax on all premiums written in that state on risks located outside of New York and not subject to taxation by the jurisdiction in which they are located.

#### GENERAL COMMENT

It may be expected that as the war progresses there will be a constant increase in the amount of business written under the Plan. It also may reasonably be expected that after the war policyholders who have been insured under the Plan will wish to continue their insurance on a basis which provides for adjustment of the premium to reflect directly the assured's own experience under the policy. Large risks can well afford to pay for their own normal workmen's compensation losses. Their real need is for claim and accident prevention services and for insurance against abnormal losses. This in effect is the coverage afforded under the Comprehensive Insurance Rating Plan and very probably is the type of coverage which will be demanded by large assureds in the future.

Regardless of any other effect which the Plan may have on the writing of business in the future, it is inevitable that it has had and will have the effect of hastening the introduction of graded expense. In addition, the Plan has demonstrated the value of combining third party lines of insurance for rating. From an assured's point of view the differentiation by line of business and the separate rating of each individual line is an unnecessary additional complication which further confuses him. The introduction of comprehensive insurance has gone far toward promoting the combination of liability lines, and the subsequent introduction of the Comprehensive Insurance Rating Plan is an additional step forward toward the development of a rounded rating program under which an assured pays a single premium for third party insurance, and so calculated as to reflect to the greatest degree possible the hazard of the individual risk.

Admittedly, the Plan as it now exists requires modification if it is to be applied to the business generally, but the principles underlying the Plan are sound.

## APPENDIX A

## UNITED STATES GOVERNMENT DEFENSE PROJECTS

Discount Plans for Workmen's Compensation  
and Employers' Liability Coverages

Status as of April 23, 1942

<i>State</i>	<i>Remarks</i>
ALABAMA	Effective February 19, 1941, a graded rate reduction plan applicable to "United States Government Defense Construction Contracts" was approved for STOCK companies. The plan is subject to the following discounts:

Premium Range	Discount
First \$ 1,000	—
Next 4,000	4.2%
Next 20,000	16.1
Next 25,000	18.7
Over 50,000	21.3

Applicable to new, renewal and to unexpired term of outstanding policies.

Effective February 27, 1941, a 10% reduction in rates was approved for NON-STOCK companies applicable to "National Defense projects on which Compensation and Employers Liability insurance coverage is approved or recommended by the Federal Government or any agency thereof."

In the interest of uniformity, the Insurance Department has extended its approval for STOCK companies to apply to the same classification definition approved for NON-STOCK companies.

COLORADO	Approval has been granted a filing involving a reduction of 20% in rates (with 5% maximum acquisition allowance), on a <i>specific</i> National Defense Construction Project. If any new Defense Project arises in this state, the interested companies should make direct contact with the state rate supervisory authority.
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DELAWARE	Effective April 29, 1941. Plans I and II same as Pennsylvania. Effective March 1, 1942 Plan II was withdrawn. Withdrawal of the plan not to affect policies which continue in effect over January 1, 1942 and were written prior to that time subject to the flat percentage reduction plan.
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<i>State</i>	<i>Remarks</i>
DISTRICT OF COLUMBIA	Effective January 1, 1942. Same as Florida.
FLORIDA	Effective March 13, 1941, approval of the National Council filing has been granted, involving a reduction of 20% in rates, (with 5% maximum acquisition allowance), for STOCK companies, and a 10% reduction for NON-STOCK companies, in connection with "National Defense Projects on which Compensation and Employers Liability insurance coverage is approved by or recommended by the Federal Government or any agency thereof." Applicable to new and renewal policies.
GEORGIA	<p>Effective March 10, 1941, a 20% reduction authorized for ALL CARRIERS; applicable to "National Defense Projects on which Compensation and Employers Liability insurance coverage is approved or recommended by the Federal Government or any agency thereof." The maximum acquisition allowance for STOCK companies is 5%.</p> <p>On January 21, 1942, in order to clarify the type of risks to which the rate reductions apply the National Council refiled the 20% rate discount on behalf of ALL CARRIERS limiting the application of the discount to National Defense Projects (1) where the work is to be performed upon a cost-plus-a-fixed-fee basis and where the cost of the insurance is a separate and distinct item reimbursed by the United States Government and (2) where the United States Government has specifically selected the insurance carrier—such selection being made because of some definite advantage to the government. The effective date of this interpretation is March 10, 1941 and applicable to outstanding, new and renewal business.</p>
INDIANA	Effective March 10, 1941, a rate reduction of 20% authorized (with 5% maximum acquisition allowance), provided the insurance carrier can show supporting evidence for decrease in acquisition, administration and audit expense of not less than 15% of expense loading in connection with the underwriting of any risk classified as United States Government Defense Projects. Such showing to be made to the Workmen's Compensation Rating Bureau of Indiana and the Department of Insurance of Indiana for each individual risk before such deviation applies. Plan applicable to new and renewal policies only.



<i>State</i>	<i>Remarks</i>
	Effective July 8, 1941, the law in Indiana was changed so that the Commissioner was empowered to approve maximum rates only. At present any rates not higher than those approved can now be used without commissioner's approval.
KANSAS	Effective April 15, 1941. Same as Florida.
KENTUCKY	Effective March 13, 1941. Same as Florida.
LOUISIANA	Same as Colorado.
MAINE	Same as Colorado.
MARYLAND	Effective April 4, 1941. Same as Florida.
MICHIGAN	Effective March 19, 1941. Same as Florida.
NEW HAMPSHIRE	Effective April 2, 1941. Same as Florida.
NEW JERSEY	Effective March 24, 1941, a reduction of not to exceed 20% in rates (with 5% maximum acquisition allowance), authorized for ALL CARRIERS, applicable to "National Defense Projects on which Compensation and Employers Liability insurance coverage is approved by or recommended by the Federal Government or any agency thereof." Each carrier must make its own individual filing of the flat percentage of discount which it wishes to use uniformly on Compensation and Employers Liability Defense Projects risks.
NEW MEXICO	Effective March 13, 1941. Same as Florida.
NEW YORK	Effective March 12, 1941, a reduction of 20% in rates (with 5% maximum acquisition allowance), authorized for ALL CARRIERS, applicable to "National Defense Projects on which Compensation and Employers Liability insurance coverage is approved by or recommended by the Federal Government or any agency thereof." Applicable on new and renewal business only.
OKLAHOMA	Effective March 24, 1941. Same as Florida.

<i>State</i>	<i>Remarks</i>
PENNSYLVANIA	<p>Effective April 15, 1941. Two plans to apply to defense projects where Compensation Insurance was "approved by or recommended by the Federal Government or any agency thereof."</p> <p>Plan I—A Defense Rating Plan providing retrospective adjustment of the earned premium and reduction in acquisition cost as follows:</p>

Premium Range	Allowance for Acquisition
First \$ 1,000 of standard premium . . . . .	17.5%
Next 4,000 of standard premium . . . . .	15.0
Next 15,000 of standard premium . . . . .	10.0
Next 80,000 of standard premium . . . . .	5.0
All standard premiums in excess of 100,000.	2.5

Plan II—Flat percentage reduction plan not to exceed 20% for which members of the Pennsylvania Bureau must receive Commissioner's approval. Plan II was withdrawn as of March 1, 1942 with respect to new and renewal policies effective on and after that date. Policies in force written under this plan may continue to expiration.

SOUTH CAROLINA	Effective March 13, 1941. Same as Florida.
TENNESSEE	Effective March 13, 1941. A reduction of 20% in rates authorized for ALL CARRIERS, applicable to "National Defense Projects on which compensation and Employers Liability Insurance coverage is approved or recommended by the Federal Government or any agency thereof." The maximum acquisition allowance for STOCK companies is 5%.
VIRGINIA	<p>Effective February 21, 1941, the Virginia Corporation Commission approved a 20% reduction in rates (with 5% maximum acquisition allowance) for STOCK companies, applicable to "United States Government Contracts on a Cost-Plus-A-Fixed-Fee Basis."</p> <p>Effective February 22, 1941, the Commission approved a reduction of 10% for CERTAIN NON-STOCK companies.</p>

## APPENDIX B

THE COMPREHENSIVE RATING PLAN WHICH MAY BE APPLIED TO NATIONAL DEFENSE PROJECTS FOR WHICH COMPENSATION AND EMPLOYERS' LIABILITY INSURANCE IS APPROVED BY OR RECOMMENDED BY THE UNITED STATES GOVERNMENT OR ANY AGENCY THEREOF

A. If this Plan is selected, insurance under the Plan may apply to the combined coverage of the following policies :

1. Workmen's Compensation—full coverage with occupational disease coverage by endorsement or in jurisdictions not having compensation laws, Employers' Liability Insurance for limits of at least \$50,000 per person in any one accident and, subject to that limit for each person, at least \$100,000 for injuries sustained by two or more persons in any one accident.
2. Automobile Bodily Injury Liability—insurance for limits of at least \$50,000 per person in any one accident and, subject to that limit for each person, at least \$100,000 for injuries sustained by two or more persons in any one accident, the policy to be written on the Comprehensive Liability form if permitted, covering all owned, non-owned and hired automobiles used in connection with the project, the use of which is not restricted to the premises. The fleet automatic basis will be applied.
3. Automobile Property Damage—insurance for a limit of at least \$5,000 per accident, the policy to be written on the Comprehensive Liability form if permitted, to cover all owned, non-owned and hired automobiles used in connection with the project, the use of which is not restricted to the premises. The fleet automatic basis will be applied.
4. Comprehensive Bodily Injury Liability (primary for all subcontractors and primary and protective for all principal contractors and architect-engineers)—insurance for limits of at least \$50,000 per person in any one accident, and, subject to that limit for each person, at least \$100,000 for injuries sustained by two or more persons in any one accident.
5. Property Damage Liability other than automobile—insurance, if carried, to be for such amount as may be agreed upon.

B. The Plan shall not be used where the estimated standard premium for the insurance is less than \$5,000.

C. The carrier insuring the risk may combine the operations of the principal contractor and all of his subcontractors under this Plan. The insurance shall be continuous and concurrent until completion of the project or operation except that if the project or operation is of indefinite duration the insurance to be written under this plan shall be for a period of twenty-

four (24) months. In such event, if the project or operation continues for a longer period than twenty-four (24) months, at the expiration of the first twenty-four (24) months, the policies of insurance will be renewed and the Plan applied as though it were a new project or operation.

D. All policies written under this Plan shall be subject to the following provisions:

1. The premium under the Plan shall be a fixed charge plus modified losses plus all actual allocated claim expense, all multiplied by the tax multiplier, subject to a maximum premium equal to 90% of the standard premium times the tax multiplier.
  - (a) The standard premium shall mean the premium determined by the application of the manual rules and rates, approved for this Plan for the jurisdiction in which the risk is located, without discount to reflect any expense loading modifications.
  - (b) "Losses incurred" shall mean the sum of all losses actually paid plus reserves (indemnity and medical) for unpaid losses plus actual hospital and medical expenses.
  - (c) "Modified losses" shall mean the losses incurred increased by the application of a factor of 1.12.
  - (d) "Fixed charge" shall mean the amount provided for fixed expenses and for losses in excess of the maximum. The fixed charge shall be determined by applying the appropriate per cent as set forth in Table I, to the standard premiums for Workmen's Compensation or Employers' Liability, Automobile Liability and Property Damage, and all other liability and property damage combined.
  - (e)

TABLE I  
TABLE OF FIXED CHARGES

Standard Premium (Workmen's Compensation and all Liability Coverages Combined)	Fixed Charge (Expressed as a percentage of Standard Premium)
\$ 5,000 or less.....	37
10,000 .....	29
25,000 .....	24
50,000 .....	18.4
100,000 .....	12.5
150,000 .....	11.5
200,000 .....	10.5
250,000 .....	9.7
300,000 .....	9
350,000 .....	7.5
400,000 to 700,000.....	6.5
700,000 and over.....	6.3

If the standard premium lies between any two of the figures in the standard premium column, the Fixed Charge shall be interpolated.

- (f) "Tax multiplier" shall mean a factor to be applied to the fixed charge, to the modified losses and to the allocated claim expense in order to increase those amounts sufficiently to provide for those taxes which are levied as a percentage of premiums and for assessments for industrial commissions, rating boards and bureaus.

Workmen's Compensation Tax Multiplier.....	= 1. ....
Automobile B.I. and P.D. Liability Tax Multiplier.....	= 1. ....
Other Liability Tax Multiplier.....	= 1. ....

2. The deposit premium shall not be less than 15% of the estimated annual standard premium.
3. The carrier shall be paid not less than 50% of the earned standard premium on policies written on a payroll basis determined monthly by audit of expended payrolls and shall be paid not less than 50% of the earned standard premium on all other policies determined monthly on the basis of the actual monthly exposures.
4. Within sixty (60) days after expiration (or termination on completion of the project) of the policy, the carrier shall compute the aggregate amount of modified losses times the tax multiplier, the aggregate fixed charge times the tax multiplier, the aggregate allocated claim expense times the tax multiplier and the aggregate earned standard premium, and a preliminary settlement of premium shall be made.
5. Within eight months after termination of the policy, based upon a determination of loss reserves made not earlier than six months after such termination, a final settlement of premium shall be made. If the losses so determined are not final, the final settlement shall be deferred for a further six months or such further period up to twenty-four (24) months as may be necessary. In the event of disagreement on loss reserves reached by this method, the matter shall be referred for arbitration to a committee of three, one member of which shall be selected by the insured, one by the carrier, and the third by those two members.
6. If the policy is cancelled, the earned standard premium shall be determined on a pro-rata basis, but if such cancellation is effected by the insured—except for cancellation on completion of the project—the maximum premium shall be 90% of the standard premium for the original period of insurance, obtained by extending the earned standard premium on a pro-rata basis, increased by the provision for taxes.

E. In the case of projects presenting an abnormal hazard by reason of the fact that they require the handling of explosives or dangerous chemicals, the fixed charges as set forth in Table I of this Plan may be increased, with the approval of the Board or Bureau having jurisdiction, by an amount sufficient to reflect the increased hazard.

RULES AND RATES APPLICABLE TO  
THE COMPREHENSIVE RATING PLAN WHICH MAY BE APPLIED TO NATIONAL  
DEFENSE PROJECTS FOR WHICH COMPENSATION AND EMPLOYERS' LIABILITY  
INSURANCE IS APPROVED BY OR RECOMMENDED BY THE UNITED STATES  
GOVERNMENT OR ANY AGENCY THEREOF.

1. *Workmen's Compensation Insurance*

- (a) The Manual rules and rates of the National Council on Compensation Insurance shall be used as a basis for determining the standard premium for workmen's compensation insurance. An average rate shall be permitted on operation projects only where the Board or Bureau having jurisdiction has been furnished with the data necessary to develop such rate; provided, that such rate shall not apply unless the carrier and the governmental department affected agree to its use. No discount which may be provided for in any of the above-mentioned manual rules to reflect any reduction in expense shall be applicable in determining the standard premium.
- (b) Experience Rating shall not be employed, but in lieu thereof, and in further recognition of hazard differences, the following rule shall apply:

For the purpose of determining the amount of the "fixed charge" under this Plan the standard premium for workmen's compensation insurance shall be discounted 10% before applying the appropriate percentage as prescribed in Table I of the Plan.

2. *Automobile Bodily Injury and Property Damage Liability Insurance*

The manual rules and rates of the National Bureau of Casualty and Surety Underwriters shall be used as the basis for determining the standard premium for automobile bodily injury and property damage liability insurance subject to the modifications set forth below:

- (a) All commercial automobiles shall be rated as Medium Class 5 regardless of the class and load capacity to which such commercial car would ordinarily be assigned.
- (b) All automobiles classified as private passenger automobiles under the manual shall be rated as Class B. In those jurisdictions in which private passenger cars are also rated by symbols W, X and Y, all such cars shall be assigned to symbol W.
- (c) In lieu of the rates appearing in the manual for non-ownership bodily injury and property damage liability, standard limit rates applicable to this coverage shall be \$0.075 per \$1,000 of payroll for bodily injury liability, and \$0.05 per \$1,000 of payroll for property damage liability, these rates to apply to the total payroll on the project.

- (d) All automobiles owned by the Federal Government and furnished for the contractor's use on a project and all automobiles hired or purchased under rental purchase contracts shall be classified and rated the same as automobiles owned by the contractor. Hired automobiles other than those hired under a rental purchase contract shall be rated in accordance with the rules and rates prescribed in the manual.
- (e) Neither the Experience Rating Plan nor the Automobile Fleet Plan discount nor any other individual risk rating plan shall be used, but in lieu thereof, and in consideration of the reduced hazards on these risks, the manual rates, including the rates set forth above, shall be subject to a uniform discount of 50%.

In the event that coverage is required for any automobiles for which passengers are carried for a consideration, such automobiles are to be rated in accordance with the manual rules and rates applicable to public automobiles, subject to the 50% discount applicable to other classes of automobiles.

### 3. *Comprehensive Bodily Injury Liability Insurance*

The manual rules and rates of the National Bureau of Casualty and Surety Underwriters shall be used as the basis for determining the standard premium for comprehensive bodily injury liability insurance. Neither the Experience Rating Plan nor any other individual risk rating plan shall be used, but in lieu thereof, and in consideration of the reduced hazards on those risks, all manual rates shall be subject to a uniform discount of 50%.

Rates for "a"-rated classifications, including average rates applicable to operation projects for which average rates are to be applied for the workmen's compensation coverage, shall be obtained from the Joint Rating Committee.

CALIFORNIA	The Rate Manual for Workmen's Compensation Insurance in California is the one promulgated by the California Inspection Rating Bureau. The Plan must be applied separately to workmen's compensation and to all liability coverages combined.
DELAWARE	The Rate Manual for Workmen's Compensation Insurance in Delaware is the one promulgated by the Delaware Compensation Rating and Inspection Bureau.
KANSAS	The Kansas Compensation Act provides for levying certain fees per claim which are paid into a fund for the support of the Industrial Commission. All such fees must be added to the modified losses before applying the tax multiplier.

State	Effective Date	TAX MULTIPLIERS		
		Workmen's Compensation*	Auto Liability	Other Liability
Alabama .....	May 22, 1941	1.034	1.029	1.029
Alaska .....	May 15, 1941	1.029	1.024	1.024
Arkansas .....	May 22, 1941	1.050	1.024	1.024
California .....	Dec. 22, 1941	1.035	1.030	1.030
Colorado .....	May 28, 1941	1.029	1.024	1.024
Connecticut .....	May 15, 1941	1.029	1.024	1.024
Delaware .....		1.050	1.024	1.024
District of Columbia .....	May 22, 1941	1.029	1.024	1.024
Florida .....	May 22, 1941	1.036	1.024	1.024
Georgia .....	May 29, 1941	1.053	1.024	1.024
Idaho .....	May 15, 1941	1.040	1.034	1.034
Illinois .....	May 15, 1941	1.029	1.024	1.024
Indiana .....	July 9, 1941	1.029	1.024	1.024
Iowa .....	May 15, 1941	1.034	1.029	1.029
Kansas .....	May 22, 1941	1.029	1.024	1.024
Kentucky .....	May 22, 1941	1.029	1.024	1.024
Louisiana .....	May 22, 1941	1.037	1.031	1.031
Maine .....	May 22, 1941	1.029	1.024	1.024
Maryland .....	May 22, 1941	1.029	1.024	1.024
Michigan .....	June 23, 1941	1.029	1.024	1.024
Minnesota .....	May 22, 1941	1.029	1.024	1.024
Mississippi .....	June 6, 1941	1.040	1.034	1.034
Missouri .....	June 16, 1941	1.029	1.024	1.024
Montana .....	May 15, 1941	1.029	1.024	1.024
Nebraska .....	May 15, 1941	1.029	1.024	1.024
Nevada .....	June 6, 1941	1.029	1.024	1.024
New Hampshire .....	May 22, 1941	1.029	1.024	1.024
New Jersey .....	June 3, 1941	1.042	1.024	1.024
New Mexico .....	May 15, 1941	1.029	1.024	1.024
New York .....	June 2, 1941	1.040	1.024	1.024
North Carolina .....	May 26, 1941	1.062	1.029	1.029
North Dakota .....	June 6, 1941	1.034	1.029	1.029
Ohio .....	June 6, 1941	1.034	1.029	1.029
Oklahoma .....	June 9, 1941	1.050	1.045	1.045
Oregon .....	June 6, 1941	1.031	1.026	1.026
Pennsylvania .....		1.040	1.024	1.024
Rhode Island .....	May 15, 1941	1.029	1.024	1.024
South Carolina .....	May 22, 1941	1.056	1.034	1.034
South Dakota .....	May 22, 1941	1.034	1.029	1.029
Tennessee .....	June 4, 1941	1.050	1.029	1.029
Texas .....	June 14, 1941	1.058	1.053	1.051
Utah .....	July 1, 1941	1.031	1.026	1.026
Vermont .....	June 9, 1941	1.029	1.024	1.024
Virginia .....	June 6, 1941	1.034	1.031	1.031
Washington .....	June 18, 1941	1.031	1.026	1.026
West Virginia .....	June 6, 1941	1.029	1.024	1.024
Wisconsin .....	June 9, 1941	1.029	1.024	1.024
Wyoming .....	June 6, 1941	1.034	1.029	1.029

\* Including employers' liability and voluntary compensation.

## LOUISIANA

The Rate Manuals applicable to Automobile and Other Liability Lines in Louisiana are those promulgated by the Louisiana Casualty and Surety Rating Commission.



- MARYLAND**            The Maryland Compensation Act provides for levying an assessment per \$100 of payroll for the expense of the Industrial Commission. An amount equal to 3.4 cents per \$100 of payroll for workmen's compensation insurance must be added to the fixed charges before applying the tax multiplier.
- NEW JERSEY**           The Rate Manual for Workmen's Compensation Insurance in New Jersey is the one promulgated by the Compensation Rating and Inspection Bureau of New Jersey.
- NEW YORK**            The New York Compensation Law provides for levying an assessment on indemnity losses for the expenses of the Department of Labor. An amount equal to 4.5% of the indemnity losses incurred must be added to the modified losses before applying the Tax Multiplier. The Rate Manual for Workmen's Compensation Insurance in New York is the one promulgated by the Compensation Insurance Rating Board.
- NORTH CAROLINA**    The Rate Manuals applicable in North Carolina are as follows:  
                                Workmen's Compensation:—Compensation Rating and Inspection Bureau of North Carolina.  
                                Automobile Liability:—North Carolina Automobile Rate Administrative Office.
- PENNSYLVANIA**        The Rate Manual for Workmen's Compensation Insurance in Pennsylvania is the one promulgated by the Pennsylvania Compensation Rating and Inspection Bureau.
- TEXAS**                 Separate Plan promulgated by the Board of Insurance Commissioners.
- VIRGINIA**             The Rate Manual for Workmen's Compensation Insurance in Virginia is the one promulgated by the Workmen's Compensation Inspection Rating Bureau of Virginia.
- WISCONSIN**            The Rate Manual for Workmen's Compensation Insurance in Wisconsin is the one promulgated by the Wisconsin Compensation Rating and Inspection Bureau.

APPENDIX C

WAR AND TRANSPORTATION LOSSES ENDORSEMENT

(For Use in Connection with Outlying Bases Contracts)

Amending Policy Numbered.....

It is agreed that premium based on the following losses shall not be subject to the maximum premium as specified in the ..... Insurance Rating Plan Endorsement :

- 1. All losses arising from war whether declared or not, international hostilities, rebellion, insurrection, the discharge or explosion of munitions, or the use of any instrument of war.
- 2. All losses arising from the collision of vessels in convoy, or arising from the operation of vessels without running lights or without customary peace-time aids to navigation.
- 3. The excess over \$..... of all other losses arising out of any one accident occurring in the course of water-borne or air-borne transportation to or from the continental limits of the United States of America exclusive of Alaska, and a place not within such limits, or between places not within such limits other than transportation in and about the place where work is being performed.

Whenever losses as defined in this endorsement occur, the Company shall compute the amount of such losses and shall furnish to the insured and to the ..... an itemized statement thereof. The Company shall also furnish at the same time to the insured and to the ....., with respect to such losses resulting from death, permanent total disability or permanent partial disability of employees of the insured, an itemized statement of modified losses therefrom, and a preliminary settlement of premium for such losses shall then be made. This preliminary settlement shall to the extent thereof be in lieu of the preliminary settlement of premium provided for in paragraph 6 of the ..... Insurance Rating Plan Endorsement but preliminary settlement provided for in this endorsement shall be subject to revision at the time of the settlement provided for in said paragraph 6.

Such losses as are defined in this endorsement incurred under policies ..... shall be converted to modified losses by the application of a factor 1.12 instead of 1.13 applicable to other losses under said policy.

This endorsement is executed by the ..... Company as respects insurance afforded by that company only ;

.....  
Company

## MEDICAL ENDORSEMENT

(For Use in Connection with Outlying Bases Contracts)

It is agreed that the employer shall furnish or assume the payment of the cost of, and shall save the Company harmless from the payment of, all medical, surgical and other attendance or treatment, nurse and hospital service, medicine, crutches, and apparatus, transportation or other expenses of such nature with respect to injuries occurring to employees outside of the continental United States so long as any such treatment or care is necessary in any case, except where such benefits are rendered in the continental United States.

This endorsement is executed by \_\_\_\_\_  
Company as respects insurance afforded by that company only; it is executed by \_\_\_\_\_  
Company as respects insurance afforded by that company only.

**WORKMEN'S COMPENSATION ENDORSEMENT UNDER THE ACT OF AUGUST 16, 1941 (PUBLIC LAW NO. 208, 77TH CONGRESS) COVERING EMPLOYMENTS AT CERTAIN MILITARY, AIR AND NAVAL BASES OF THE UNITED STATES**

The obligations of Paragraph One (a) of the Policy include the

Longshoremen's and Harbor Workers' Compensation Act, being Public Act No. 803 of the 69th Congress, approved March 4, 1927, as extended by the provisions of the Act of Congress providing compensation for disability or death resulting from injury to persons employed at military, air and naval bases and at certain other places, being Public Act No. 208 of the 77th Congress, approved August 16, 1941, and all laws amendatory thereof or supplementary thereto which may be or become effective while this Policy is in force.

The Company will carry out the provisions of Section 35 of Said Act. Insolvency or bankruptcy of the Employer and/or discharge therein shall not relieve the Company from payment of compensation and other benefits lawfully due for disability or death sustained by any employee during the life of the Policy.

The Company agrees to abide by all the provisions of said Act and all lawful rules, regulations, orders, and decisions of the United States Employees' Compensation Commission and of the Deputy Commissioner having jurisdiction, unless and until set aside, modified, or reversed by a court having jurisdiction of the parties and the subject matter.

If this Employer is a contractor the subject of whose contract includes operations covered by this Policy and he shall sub-contract all or any part of such contract to one or more sub-contractors the remuneration of all the direct employees of all such sub-contractors shall be included in the return of remuneration under the provisions of this Policy upon which premium is computed. Such remuneration so reported shall be considered the remuneration of employees of this Employer and shall in all instances be governed by the same terms, conditions, requirements, and obligations of the Policy as the remuneration of the direct employees of this Employer. The

requirements of this paragraph shall not apply as respects any such sub-contractor who has secured compensation for his direct employees as required by the Longshoremen's and Harbor Workers' Compensation Act but this Employer shall not claim the benefit of this exemption unless and until he shall satisfy the Company by certificate or otherwise that any such sub-contractor has legally secured the payment of compensation to his own direct employees and then only respecting any sub-contractor who has furnished such proof.

This endorsement shall not be canceled prior to the date specified in this Policy for its expiration until at least thirty days have elapsed after a notice of cancellation has been sent to the Commission, to the Deputy Commissioner, and to this Employer.

All terms, conditions, requirements and obligations expressed in this Policy or in any other endorsement attached thereto which are not inconsistent with or inapplicable to the provisions of this endorsement are hereby made a part of this endorsement as fully and completely as if wholly written herein.

References to the law of any state in Conditions B and D of this Policy are hereby declared to include, for the purposes of this endorsement only, the provisions of the Longshoremen's and Harbor Workers' Compensation Act and the said Act of Congress approved August 16, 1941 (Public Law No. 208, 77th Congress).

#### INSURANCE RATING PLAN ENDORSEMENT

(For Use in Connection with Outlying Bases Contracts)

Amending Policy Numbered WELUB.....

1. It is agreed that the premiums for the policies numbered.....

issued by the Company affording insurance in connection with the.....

Cost-Plus-A-Fixed-Fee Contract No. ...., to .....

and all subcontractors performing operations on a Cost-Plus-A-Fixed-Fee basis in connection with a project at ..... shall be the fixed charge plus the abnormal fixed charge plus modified losses plus all actual allocated claim expense, multiplied by such tax multiplier or multipliers as shall be applicable thereto, subject to a maximum premium equal to the sum of 90% of the standard premium for Automobile Bodily Injury Liability, Automobile Property Damage Liability and for all other Liability coverages plus 81% of the standard premium for Workmen's Com-

compensation and Employers' Liability insurance plus the abnormal fixed charge, multiplied by such tax multiplier or tax multipliers as shall be applicable thereto.

- a. The premium computed in accordance with the provisions of the policies, other than this endorsement, shall be known as the "standard premium" and shall be computed in accordance with manual rules and rates which have been approved by the \_\_\_\_\_  
\_\_\_\_\_
- b. "Losses incurred" as used in this endorsement shall mean the sum of all losses (indemnity and medical) actually paid plus reserves for unpaid losses as determined by the Company and approved by the insured and the \_\_\_\_\_, exclusive of all cost for medical and hospital care and treatment incurred by the employer outside of the continental limits of the United States.
- c. "Modified losses" as used in this endorsement shall mean the losses incurred under policy \_\_\_\_\_ converted by the application of the factor of 1.13 and the losses incurred under policies \_\_\_\_\_ converted by the application of the factor of 1.12.
- d. "Allocated claim expense" as used in this endorsement shall mean actual payments and reserves for legal expenses, excluding the cost of investigation and adjustment of claims by salaried employees and fee adjusters, but including attorney's fees, court costs, interest, expense for expert testimony, examination, X-ray, autopsy or medical expenses of any kind not incurred for the benefit of the injured or any other expenses incurred under the policy other than payment of indemnity or medical treatment, provided that only those items of expense which can be directly allocated to a specific claim involving litigation or possible litigation when necessary to determine the Company's liability shall be included.
- e. "Fixed charge" as used in this endorsement shall mean the amount provided for fixed expenses and for losses in excess of the maximum. The fixed charge shall be determined by applying the appropriate percentage as set forth in column (2) of Table I, to the sum of 90% of the standard premium for Workmen's Compensation and Employers' Liability and 100% of the standard premium for Automobile Bodily Injury Liability and Property Damage Liability coverages and all other bodily injury liability and property damage liability coverages combined.
- f. "Abnormal fixed charge" as used in this endorsement shall mean the amount provided for abnormal expenses in connection with contracts

being performed on outlying Bases. The abnormal fixed charge shall be determined by applying the appropriate percentage as set forth in column (3) of Table I to the sum of 90% of the standard premium for Workmen's Compensation and Employers' Liability and 100% of the standard premium for Automobile Bodily Injury Liability and Property Damage Liability coverages and all other bodily injury liability and property damage liability coverages combined, subject to a maximum of the number of months in the period of coverage multiplied by \$1,000 per month.

g.

TABLE I  
TABLE OF FIXED CHARGES AND ABNORMAL FIXED CHARGES

(1) Standard Premium to be used in determining applicable Fixed Charge percentage (90% of Standard Premium for Workmen's Compensation and Employers' Liability and 100% of Standard Premium for all bodily injury liability and property damage liability coverages)	(2) Fixed Charge (Expressed as a percentage of Standard Premium stated in column 1)	(3) Abnormal Fixed Charge (Expressed as a percentage of Standard Premium stated in column 1)
\$ 5,000 or less.....	37.0	9.0
10,000 .....	29.0	9.0
25,000 .....	24.0	9.0
50,000 .....	18.4	9.0
100,000 .....	12.5	9.0
150,000 .....	11.5	9.0
200,000 .....	10.5	9.0
250,000 .....	9.7	7.5
300,000 .....	9.0	6.5
350,000 .....	7.5	5.8
400,000 .....	6.5	5.3
500,000 .....	6.5	4.5
*600,000 to 700,000 (Col. 2) .....	6.5	4.0
700,000 .....	6.3	3.6
800,000 .....	6.3	3.4
900,000 .....	6.3	3.2
1,000,000 .....	6.3	3.0
1,100,000 .....	6.3	2.9
1,200,000 .....	6.3	2.8
1,300,000 .....	6.3	2.7
1,400,000 .....	6.3	2.6
1,500,000 and over.....	6.3	2.5

\* If the standard premium lies between any two of the figures in the standard premium column, the Fixed Charge, except for an amount between \$600,000 and \$700,000 and the Abnormal Fixed Charge shall be interpolated.

h. "Tax Multiplier" as used in this endorsement shall mean the factor as set forth in Table II as shall be applicable, to be applied to the fixed charge, to the abnormal fixed charge, to the modified losses and to the allocated claim expense in order to increase those amounts sufficiently to provide for those taxes which are legally levied as a percentage of premium and for assessments for industrial commissions rating boards, and bureaus.

i.

TABLE II  
TABLE OF TAX MULTIPLIERS

State	Workmen's Compensation and Employers' Liability	Automobile Bodily Injury Liability and Property Damage Liability	Other Bodily Injury Liability and Property Damage Liability
None Contemplated. If it is ultimately decided that tax shall be payable on operations in..... the tax shall be computed upon the basis of the formula in paragraph 2 of this endorsement.			

NOTE — Kansas Compensation Act provides for levying varying fees per claim which are paid into a fund for the support of the Industrial Commission. All such fees must be added to the modified losses before applying the tax multiplier.

Maryland Compensation Act provides for levying assessment per \$100 of payroll for expenses of Industrial Commission. An amount equal to 3.4 cents per \$100 of payroll must be added to the fixed charges before applying the tax multiplier.

New York Compensation Act provides for levying an assessment on indemnity losses for expenses of the Department of Labor. An amount equal to 4.5% of the indemnity losses incurred must be added to the modified losses before applying the tax multiplier.

2. If Table II fails to provide the proper tax multiplier, the multiplier will be obtained by using the following formula:

$$\text{Tax Multiplier} = \frac{1}{1.0 - (\text{the tax loading plus } 0.8\%)}$$

In any case where the tax multiplier is obtained by use of the formula and not the table, it will not be used in the premium computation until approved by the insured and the.....

3. The deposit premium shall be 15% of the estimated annual standard premium.

4. The company shall be paid 50% of the earned standard premium on policies written on a payroll basis determined monthly by audit of the expended payrolls and 50% of the earned standard premium on all other policies determined monthly on the basis of the actual monthly exposures.

5. The Company shall furnish to the insured and to the..... a quarterly itemized statement of incurred losses.

6. Within sixty days after termination of the policies, the Company shall compute the fixed charge plus the abnormal fixed charge plus modified losses plus all allocated claim expense, multiplied by such tax multiplier or multipliers as shall be applicable thereto, and a preliminary settlement of premium shall be made.

7. Within eight months after termination of the policies, based upon a determination of loss reserves made not earlier than six months after such termination, the final settlement of premium computed in accordance with the provisions of this endorsement and the War and Transportation Losses

Endorsement shall be made. If the losses so determined are not approved by the insured and the.....  
 and agreement cannot be reached as to any modification thereof, the final settlement shall be deferred for a further period of six months or such further period up to twenty-four months as may be necessary to produce an approved determination of such loss reserves. In the event such an approved determination of loss reserves cannot be reached by this method, the matter shall be referred for arbitration to a committee of three, one member of which shall be selected by the insured, one by the Company and the third by those two members, and the decision of this committee shall be final upon approval by the.....

8. If the policies are canceled, the earned standard premium shall be determined on a pro rata basis, but if such cancelation is effected by the insured—except for cancelation on termination of the project—the maximum premium shall be the sum of 81% of that portion of the standard premium applicable to Workmen’s Compensation Insurance and Employers’ Liability Insurance and 90% of that portion of the standard premium applicable to the Automobile Bodily Injury Liability and Automobile Property Damage Liability and other bodily injury liability and property damage liability coverages for the original policy period, obtained by extending the earned standard premium on a pro rata basis, all increased by such provision for taxes as shall be applicable thereto.

This endorsement is executed by.....  
 Company as respects insurance afforded by that company only; it is executed by.....Company as respects insurance afforded by that company only.