



# Elimination of Anniversary Rating Date (ARD) FAQs

July 2, 2015

## NCCI's Item B-1430—

### Elimination of Anniversary Rating Date (ARD)

The following information is provided to assist in communicating the national item filing changes to our customers. It has been developed as a guide for consistent communication.

#### General FAQs

**Q1.** Why is NCCI filing this item?

**A1.** We are introducing this countrywide filing to eliminate the anniversary rating date (ARD) rule.

**Q2.** What is anniversary rating date (ARD)?

**A2.** ARD is the effective month and day of the policy in effect and each anniversary thereafter unless a different date has been established by NCCI or another licensed rating organization.

Rules, classifications, and rates are applied on an ARD basis for all employers.

**Q3.** What was the original purpose of ARD and when was it implemented? Does ARD exist in other lines?

**A3.** The ARD rule originated in 1923 and is unique to workers compensation. Introduced during the early development of the workers compensation system, its intent was to ensure that in the event of a midterm policy cancellation, the rewritten policy would use the same rates that applied to the cancelled policy. The rule applies whether it is the carrier or the employer that initiates the cancellation.

Consider an example of applying the current ARD rule:

- An employer has a full-term policy effective 1/1/2015 with a 1/1/2015 ARD.
- The policy is cancelled short-term effective 8/15/2015.
- The rewritten policy is a full-term policy effective 8/15/2015. The 8/15/2015–8/15/2016 policy would use two sets of rates:

Applicable Rates	ARD Application Range
1/1/2015 rates apply	From 8/15/2015 to 1/1/2016
1/1/2016 rates apply	From 1/1/2016 to 8/15/2016

Under this proposed change, the 8/15/2015 rewritten policy use rates effective on that date, not the rates effective on 1/1/2015. In many cases, the rates would not have changed in that January–August time frame, so the same rates would continue to apply. In other cases, if a rate change were approved during the time between the original policy effective date and the cancellation date, the new rates as of 8/15/2015 would be applied to the rewritten policy.



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**Q4.** What is the change? Why is it being made now?

**A4.** We are filing for the elimination of ARD in all states because it is a source of confusion for employers. It is unique to workers compensation and difficult for employers to understand, particularly since it does not exist for any other type of insurance they purchase on a business or personal level.

**Q5.** Do all states use ARD? Which states have already eliminated ARD? Why did they?

**A5.** Not all states use ARD. Before this item filing, 8 NCCI states had already stopped using the ARD rule. Illinois (1992), Alabama (1996), Maine (1996), Louisiana (2001), Georgia (2010), New Mexico (2011), and West Virginia (2014) are the states that eliminated ARD. Texas has also not utilized this rule for many years.

In some cases, the reason was based on a regulatory directive. Their intent was, as is with our national proposal, to eliminate an archaic rule that causes confusion for employers.

**Q6.** What prevents employers or carriers from cancelling policies to take advantage of lower rates? Higher rates?

**A6.** In a system without the ARD rule, nothing would prohibit an employer from cancelling a policy to take advantage of a recent loss cost/rate filing decrease. The short rate penalty exists, which acts as a deterrent to an employer who cancels. That penalty would likely substantially reduce or completely eliminate any "gains" to be had by cancelling early to take advantage of the new, lower rates.

For carriers, some states provide prohibitions to cancelling a policy except for issues such as nonpayment of premium, breach of the policy terms, fraud, or misrepresentation.

**Q7.** Why do we need a national filing? When will this change become effective?

**A7.** A national filing is necessary to provide a single countrywide effective date for implementation of this change, particularly given the impact it will have for multistate employers. This change will be filed to become effective May 1, 2017.

Without a common effective date, employers may have the added confusion of dealing with a single policy that has both new rates applicable in some states (as of a rewritten policy's effective date) and a prior policy's rates in other states where they continue to apply.

**Q8.** Do any of the independent bureaus use ARD? Will this change also be filed in the independent bureau states?

**A8.** Currently, only Minnesota Workers' Compensation Insurers Association, Inc. does not use ARD. We intend to recommend this item to the independent bureaus for their consideration. The individual state bureaus will make their own determination as to whether this change will be filed in their states.



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**Q9.** Where will this information be located in the manuals?

**A9.** There are many references to ARD that will be changed as a result of this item filling. Just a few of these locations include NCCI's:

- **Basic Manual:**
  - Introduction—Application of Manual Rules
  - Rule 3-A-2—Anniversary Rating Date
  - Various references in National Rule 3—Rating Definitions and Application of Premium Elements
  - Rule 4—Workers Compensation Insurance Plan Rules
  - Various state-specific rules
- **Basic Manual User's Guide**
- **Experience Rating Plan Manual**
- **Forms Manual**—Anniversary Rating Date Endorsement (WC 00 04 02)
- **Statistical Plan**
- *Your Guide to Understanding Anniversary Rating Date* is also available on [ncci.com](http://ncci.com).

### Application FAQs

**Q10.** Is ARD a mandatory or voluntary rule?

**A10.** Application of ARD where applicable is mandatory.

**Q11.** What are the added complexities of ARD when there are multiple loss cost or rate changes in a year?

**A11.** More than one loss cost/rate change within a one year time frame for a particular state is an unusual but certainly not a rare occurrence. For purposes of the ARD rule, multiple changes within a year increase the confusion for employers.

Consider an example of applying the current ARD rule when there are multiple loss cost/rate changes:

- A full-term policy with an ARD and effective date of 1/1/2015 is cancelled 8/15/2015.
- The policy is then rewritten as a full-term policy effective 8/15/2015–8/15/2016.
- A loss cost/rate change was approved on 3/1/2016, applicable to all outstanding policies.
- The 8/15/2015–8/15/2016 policy would use three sets of rates:

Applicable Rates	ARD Application Range
1/1/2015 rates apply	From 8/15/2015 to 1/1/2016
1/1/2016 rates apply	From 1/1/2016 to 3/1/2016
3/1/2016 rates apply	From 3/1/2016 to 8/15/2016



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**Q12.** What are the complexities of ARD when there is a multistate policy?

**A12.** This is another source of employer confusion regarding ARD. Assume an employer has operations in 10 states. In 5 states, the ARD rule is used. The other 5 are among the 8 states that do not use ARD. If a policy cancels midterm, the rewritten policy must be handled in two different ways. In 5 states, the ARD rule will dictate that the rates applicable to the original policy continue to be used for the rewritten policy. In the other 5 states, the rewritten policy will use the rates in effect on the effective date of the rewritten policy.

### Impact FAQs

**Q13.** Can you provide an example of how eliminating ARD will impact an employer?

**A13.** Consider the following. An employer has a 1/1/2015 policy with a classification rate of \$3.40. Effective 7/1/2015, an approved rate decrease lowers the rate 10% to \$3.06. The employer cancels the 1/1/2015 policy on 8/15/2015 and obtains another full-term policy effective 8/15/2015.

Under the existing ARD rule, a cancellation of the 1/1/2015 policy on 8/15/2015 would not result in application of the lower 7/1/2015 rate to the rewritten policy until 1/1/2016, the ARD. At that point, the rewritten policy is endorsed to use the lower (7/1/2015) rate from 1/1/2016 until the policy expiration on 8/15/2016.

Under the proposed new approach, which eliminates the ARD, the rewritten 8/15/2015 policy immediately uses the lower rates that were approved on 7/1/2015.



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**Q14.** What is the overall impact of eliminating ARD?

**A14.** We expect that there will be very limited impact because approximately 90% of policies countrywide have an ARD that is the same as the policy effective date. Based on our observation of how the system works in states that have already eliminated ARD, there is no anticipated increase in the usual and customary cancellation activity by carriers or employers.

Consider two of the most recent states that eliminated ARD:

- Georgia eliminated ARD in 2010. From 2009 through 2013 (no change in 2010), the filed and approved voluntary market premium level changes were -7.9%, -3.7%, +3.0%, and -2.3%.
- New Mexico eliminated ARD in 2011. From 2009 through 2013, the filed and approved voluntary market premium level changes were -6.7%, -4.5%, +4.2%, +7.4%, and +4.0%.
- These rate level changes have not resulted in an increase in cancellation activity compared to when ARD applied.
- Note that cancellations may be initiated by either the employer or carrier and may be for any number of reasons. NCCI cannot isolate instances where cancellations were for the purpose of applying new loss costs/rates.

NCCI

**Georgia-New Mexico Cancelled Policies, Excluding Cancelled Flat  
by Policy Year as of 6/18/2015**

State	Policy Year	# of Cancelled Policies	% of Total Policies	State	Policy Year	# of Cancelled Policies	% of Total Policies
GA	2009	20,234	12.63%	NM	2009	3,792	10.11%
GA	2010	18,875	12.00%	NM	2010	3,536	9.46%
GA	2011	18,311	11.66%	NM	2011	3,426	9.13%
GA	2012	17,537	11.11%	NM	2012	3,329	8.97%
GA	2013	17,441	10.91%	NM	2013	3,260	8.79%

As the above chart indicates for Georgia and New Mexico, both states experienced a *decline* in the number and percentage of policies cancelled after ARD was eliminated (refer to the highlighted rows, which indicate the years ARD was eliminated). It is not possible to predict the individual employer premium impact. No statewide premium impact is expected as a result of the elimination of ARD.



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**Q15.** How does this benefit or harm employers in my state?

**A15.** We don't view this as a "benefit or harm" issue. If both parties (carrier and employer) are satisfied with the business relationship, neither will likely have an incentive to discontinue it, particularly by cancelling the policy midterm. In instances where a midterm cancellation does occur, this change will simply provide that the rates in effect when the new policy is written will be the rates that apply. This is consistent with employers' insurance buying experience for all other lines of business and personal insurance.

**Q16.** How many employers in my state will be affected?

**A16.** In 2014, approximately 90% of policies countrywide have an ARD that is the same as the policy effective date (PED). So a possible impact may be experienced by the remaining 10% of policies countrywide.

It is not possible to predict the individual employer premium impact. No statewide premium impact is expected as a result of the elimination of ARD.

**Q17.** Do the same reasons exist for the elimination of ARD in full rate states vs. loss cost states? If the reasons to eliminate ARD are no longer applicable in a loss cost environment, why are we filing it in full rate states?

**A17.** The original intent of the ARD rule was to ensure that the same rates that applied to a policy also applied to a rewritten policy after a cancellation occurred. Functionally in a loss cost environment, this no longer happens and hasn't for many years. If the policy issued after the cancellation is written by another carrier, the rates will be different due to the variance in the respective carrier loss cost multipliers.

The principal reason for proposing the change is to resolve the issues involving employer confusion with the rule and the fact that no other line of insurance contains such a provision. It is difficult to explain the rule from a concept perspective. It is even more difficult to explain and rationalize when complicated by multiple cancellations, short-term policies, or coverage gaps, and in situations where the employer has operations in more than one state.

**Q18.** Does the elimination of ARD impact experience rating?

**A18.** There is no impact to the calculation of experience rating modification factors. There is also no impact to the process of determining the rating effective date. The only change to the ***Experience Rating Plan Manual*** will be how a modification is applied to a policy if the ARD is different from the policy effective date. With the proposed change, the ARD reference will be eliminated. For instance, a change in a modification will be applied based on when a change occurs in comparison to the policy effective date (as it is today) or the rating effective date if later than the policy effective date. National Exhibits 15 and 16 provide the revised rules in their entirety. State special rules may also apply.



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**Q19.** When and how will employers be notified that they no longer have an ARD?

**A19.** Most employers continue to routinely renew their workers compensation policies on an annual basis. For them, this change will be a nonevent. For others, when a cancellation occurs, the new policy they receive from the rewriting carrier will apply the rates, rules, classifications, experience rating modifications, etc., that are in effect as of the effective date of the new policy.

**Q20.** Does the elimination of ARD affect the premium calculation on an employer's policy?

**A20.** The premium calculation method for a policy does not change in any manner. What *does* change is the elimination of applying multiple sets of rates used in the calculation on a given policy.

**Q21.** Why are the eight states in which ARD does not apply included in this item?

**A21.** Alabama, Georgia, Illinois, Louisiana, Maine, New Mexico, Texas, and West Virginia are included in Item B-1430 because they currently have state-specific rules indicating that the national ARD rule does not apply. For these states, the item is proposing only the removal of these state-specific rules because now ARD will no longer apply nationally.

**Q22.** Why did NCCI file the item applicable to new and renewal policies only?

**A22.** NCCI's standard is to file changes on a new and renewal basis with a specific implementation date. For this particular item, this means that ARD is eliminated for new and renewal policies effective 5/1/2017 and later.

Consider a policy that is effective 4/30/2017 (one day before ARD is eliminated) and has an ARD of 8/1/2017. That 8/1/2017 ARD would still apply. When the renewal policy is written 4/30/2018, the rates in effect as of that policy effective date would apply for the full term of the policy.