

**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
DEPARTMENT OF BUSINESS REGULATION
233 RICHMOND STREET
PROVIDENCE, RHODE ISLAND 02903**

IN THE MATTER OF:

**THE BEACON MUTUAL INSURANCE COMPANY
LOSS COST MULTIPLIER FILING**

Filed April 13, 2007.

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DBR No. 06-I-0169

DECISION

**I.
INTRODUCTION**

The above-entitled matter came before the Department of Business Regulation ("Department") with the submission of a filing dated April 13, 2007 requesting approval of a Loss Cost Multiplier to be applied to adoption of the 2007 National Council on Compensation Insurance ("NCCI") Advisory Loss Costs by The Beacon Mutual Insurance Company ("Beacon"). The Filing requested approval of a Loss Cost Multiplier of 1.460 to be instituted with adoption of the 2007 NCCI Advisory Loss Cost for policies issued or renewed on or after October 1, 2007. The Filing was amended by Beacon on June 4, 2007. The amended filing indicated that approval of the amended proposal would result in an overall rate level decrease of -5.9% ¹ for a total estimated annual premium reduction of \$7.5 million.

¹ This is the average decrease. Loss Costs vary by "class codes" in which the values depend upon the type of business in which the insured is engaged. The proposal before the Department would apply the Loss Cost Multiplier to NCCI Advisory Loss Costs resulting in an average rate level decrease of -5.9% . The largest decrease in the proposal is -44.44% and the largest increase proposed is 22.54% .

The last rate level change approved for Beacon was for policies issued or renewing on or after October 1, 2006 and resulted in an overall rate level decrease of -16% with adoption of the 2006 NCCI Advisory Loss Costs and a Loss Cost Multiplier of 1.420. The previous rate level changes approved for Beacon were -7.8% effective November 1, 1998, -17.5% effective November 8, 1996 and -6.0% effective in 1994.

An order appointing Elizabeth Kelleher Dwyer and Paula M. Pallozzi as Co-Hearing Officers and John Herzfeld, FCAS, MAAA as the Department's consulting actuary was issued on September 18, 2006.

As indicated above, Beacon filed a 1.420 Loss Cost Multiplier for approval for use with its adoption of the NCCI Advisory Loss Costs effective October 1, 2006. The Attorney General raised a number of issues in connection with that filing. At that time Beacon was utilizing the Advisory Loss Costs approved in 1998 and, therefore, the rates that it was charging did not reflect the -20.2% overall decrease in Loss Costs approved effective January 1, 2005 or the -4.2% overall decrease in Loss Costs approved effective January 1, 2006. The issues raised by the Attorney General were such that they would take considerable time to litigate and the Loss Cost Multiplier filing made by Beacon was on its face reasonable. Therefore, in order to ensure that employers received the benefit of the 2005 and 2006 Loss Cost decreases as soon as possible; the Department approved the filed Loss Cost Multiplier for use with policies issued on or after October 1, 2006. In order to allow full litigation of the issues raised by the Attorney General, the Department announced that it would open a docket to consider those issues.

A prehearing conference was held on September 25, 2006. The Co-Hearing Officers ordered that Motions to Intervene be filed no later than February 15, 2007, that

discovery be completed no later than February 28, 2007, that alternative rate calculations be filed no later than March 13, 2007 and that the public hearing be held on March 27, 2007. On January 26, 2007 the Department issued a Decision in the matter of NCCI Advisory Loss Costs and Rating Values DBR 06-I-0168. That Decision approved amended Advisory Loss Costs with an overall decrease of -7.3% for Industrial Classifications and -14% for F Classifications. In accordance with the NCCI Order, Beacon informed the Department that it intended to adopt the most recent Advisory Loss Costs along with a new Loss Cost Multiplier. Therefore, a second prehearing conference was held on March 15, 2007. All parties agreed that the costs of proceeding forward concerning a Loss Cost Multiplier that would very soon be replaced was not practical. Therefore, the co-hearing officers entered a Second Prehearing Order on March 16, 2007.

The Co-Hearing Officers ordered that Beacon file its proposed Loss Cost Multiplier no later than April 16, 2007, that Motions to Intervene be filed no later than May 25, 2007, that discovery would be completed as expeditiously as possible, that alternative rate calculations be filed no later than June 13, 2007 and that the public hearing be held on June 27, 2007.

On May 21, 2007 an advertisement appeared in the Providence Journal informing the public that the hearing on this matter would be held on June 27, 2007. This notice was also posted on the Department's website.

On June 4, 2007, Beacon made an amended filing that changed the estimated overall rate effect from -5.6% to -5.9% and the expense constant from \$243 to \$284. As a result, the Attorney General made a motion to extend the time in which its alternative rate calculations must be filed and a request that Beacon be ordered to serve responses to the

Attorney General's Fourth Set of Data Requests within a set timeframe. On June 12, 2007, the co-hearing officers granted that motion ordering that the alternative rate calculations be filed by June 20, 2007 and that responses to the Fourth Set of Data Requests be filed by June 13, 2007.

The Attorney General filed a statement of issues and alternative loss cost calculations on June 20, 2007. In that document the Attorney General raised a number of issues and advocated for approval of a Loss Cost Multiplier of 1.17.

A public hearing was held on June 27, 2007. No member of the public appeared to testify.

The Attorney General introduced four exhibits designated as AG-A through AG-D. By agreement of the parties all of these exhibits were admitted in full. Beacon introduced ten exhibits designated as Beacon exhibits 1 through 3 and 5 through 11. At the request of the hearing officer each party submitted one exhibit following the hearing. The first is Beacons' use of the Attorney General's IRR Model utilizing Beacon's assumptions. The Department has designated this document as Beacon exhibit 12. The Attorney General was provided a copy of Beacon exhibit 12 and submitted comments and provided additional information on questions from the panel. The Attorney Generals' comments are designated as exhibit AG-E.

II. JURISDICTION

The Department has jurisdiction over this matter pursuant to 2003 P.L. ch. 410, R.I. Gen. Laws §§ 27-7.1-5.1, 27-9-10, 42-14-1 *et seq.*, and 42-35-1 *et seq.*

III. ISSUES

What Loss Cost Multiplier when applied to NCCI approved advisory loss costs will produce Workers' Compensation rates in Rhode Island which are not excessive, inadequate or unfairly discriminatory?

IV. MATERIAL FACTS AND TESTIMONY

Beacon made an opening statement indicating that they strongly objected to the Attorney General's alternative rate calculation and requested approval of the filed 1.46 Loss Cost Multiplier.² Beacon indicated that application of the Attorney General's suggested loss cost multiplier would not provide reasonable underwriting results and may eventually cause solvency issues. Beacon indicated that application of the Attorney General's loss cost multiplier would result in an \$18 million loss in Fiscal Year 2008 whereas the loss cost multiplier proposed by Beacon is expected to produce an operational "break even." Beacon indicated that it agreed with the Attorney General that its experience is approximately 5% better than its competitors in the market; however, the Attorney General's calculation reduces its rates by that amount but does not grant it the higher expenses which Beacon claims result in the better experience. Beacon indicated that it spends more money on claims management, however, it is these expenditures which produce the better results. The Attorney General's calculation does not fund these additional expenses.

² The "calculated" Loss Cost Multiplier as filed by Beacon was 1.54 with Beacon selecting 1.46. Therefore, any reductions should actually be made off of the "calculated" Loss Cost Multiplier rather than the "selected" number.

Beacon further indicated that it would demonstrate that the expense constant that it requested was appropriately calculated and should be accepted by the Department rather than the Attorney General's suggestion that the amount approved by the State of Florida be adopted. Finally, Beacon agrees with the methodology of the IRR model proposed by the Attorney General, however, states that the results of the model are flawed because of the assumptions made in the inputs. When adjusted to the correct assumptions the IRR model supports the 1.46 loss cost multiplier requested.

Beacon called Peter Durfee, Director of Finance. Mr. Durfee testified as to how Beacon calculated the requested expense constant of \$284. The purpose of the expense constant is to compensate for the costs associated with the issuance and auditing of the policy regardless of the size of the employer. (Transcript of hearing June 27, 2007, page 35) Mr. Durfee went through the calculations and inputs from which the \$284 was derived and indicated that this was the same methodology upon which Beacon's prior expense constant was prepared. (Transcript of hearing June 27, 2007, page 36-37)

Mr. Durfee testified that the Shared Earnings Plans referenced in the filing are programs approved by the Department that apply to individual policies. (Transcript of hearing June 27, 2007, page 42) These plans are used to compete for "good business" and to encourage safety. (Transcript of hearing June 27, 2007, page 43). Beacon pays out approximately \$6.6 million dollars a year as a result of these plans. (Transcript of hearing June 27, 2007, page 44).

As to the Bad Debt expense, Mr. Durfee produced a table of allowances for Bad Debt included in rates approved by other states for their residual market carriers. (Transcript of hearing June 27, 2007, page 44-45)

Beacon next called David Mohrman. The parties stipulated to Mr. Mohrman's qualifications as an actuarial expert (Transcript of hearing June 27, 2007, page 62). Mr. Mohrman testified that he agreed with the Attorney General's observation that Beacon had lower losses than its competitors and that calculation of the .954 was correct. (Transcript of hearing June 27, 2007, page 66). However, Beacon spent more on loss mitigation, to which they attribute its better loss experience. (Transcript of hearing June 27, 2007, page 68). While the Attorney General's calculation adjusts for the better loss experience it does not provide for the higher expenses that are essential to maintaining the better loss experience. While the Loss Adjustment Expense ("LAE") approved for NCCI based on countrywide data was 16.8%, Beacon's LAE was 29.1% (Transcript of hearing June 27, 2007, page 67). Mr. Mohrman also pointed out that Rhode Island specific data showed that Rhode Island's frequency was 20% higher than the national average and 78% higher for lost time claims (Transcript of hearing June 27, 2007, page 67-68).

Mr. Mohrman testified that he agreed with the overall IRR methodology proposed by the Attorney General other than the fact that it does not provide for schedule rating (Transcript of hearing June 27, 2007, page 71-72). However, he asserted that the reduction claimed by the Attorney General from this Model occurred as a result of the assumptions in the model not the model itself. Mr. Mohrman indicated that if the assumptions with regard to expense items are replaced with Beacon's assumptions, the model returns results similar to that filed by Beacon (Transcript of hearing June 27, 2007, page 92-93).

Mr. Mohrman disagrees with the Attorney General's overall conclusion that Beacon only needs \$115 million in premium to operate. In Mr. Mohrman's opinion Beacon needs

\$146 million which is expected to result from an LCM of 1.46 (Transcript of hearing June 27, 2007, page 72-73).

The Attorney General called Mr. Anthony J. Grippa. The parties stipulated to Mr. Grippa's qualifications as an actuarial expert (Transcript of hearing June 27, 2007, page 95). Mr. Grippa raised three issues³ which, if accepted as proposed, would reduce the loss cost multiplier to 1.17. Each of these issues is discussed below:

The Attorney General takes issue with Beacon's proposed Loss Cost Modification Factor ("LCMF"). The Filing proposes that Beacon adopt the NCCI loss costs approved effective February 1, 2007 after applying a LCMF of 1.105. The Attorney General's position is that the NCCI loss costs approved effective February 1, 2007 should be approved after applying a LCMF of 0.954 (Transcript of hearing June 27, 2007, page 104-105).

Mr. Grippa acknowledged that Mr. Mohrman was correct that the Attorney General's proposal includes the lower losses but does not provide for Beacon's higher expenses. His basis for this is that he does not believe that Beacon has shown that the higher expenses are the driving factor behind the lower losses and Beacon should, therefore, operate at the same expense level as other carriers. He indicated that the higher expenses are attributable to "unallocated" claims expenses, rather than those expenses attributable to specific claims (Transcript of hearing June 27, 2007, page 106).

Mr. Grippa also takes issue with the Expense Constant requested by Beacon. In the approval of its LCM filed with its adoption of the 1998 NCCI Advisory Loss Costs, Beacon filed and had approved an expense constant of \$160. This amount was also included in

³ The Attorney General also took issue with Beacon's use of the NCCI Premium Discount Table. There was no argument that Beacon was instituting something other than a filed and approved plan. While the Attorney General indicated that its consultant would suggest a different approach, they did not indicate

Beacon's adoption of the 2006 NCCI Advisory Loss Costs approved effective October 1, 2006. In the original filing Beacon proposed to raise its expense constant to \$243, although the exhibit supporting Beacon's initial filing showed an expense constant of \$331. In its amended filing of June 4, 2007, Beacon indicated that its expense constant had been recalculated to \$284 (Transcript of hearing June 27, 2007, page 112-113).

The Attorney General asserts that Beacon has not supported any of these numbers. Therefore, the Attorney General advocates that the Department set the expense constant at \$200 based upon a statement in Beacon's withdrawn rate filing and the fact that the Florida Office of Insurance Regulation approved an expense constant of \$200 for the January 1, 2007 NCCI filing (Transcript of hearing June 27, 2007, page 113).

The Attorney General takes issue with Beacon's expense multiplier. The Attorney General advocates that an expense multiplier should be approved which reflects a provision for expenses and underwriting profit as a percentage of standard premium of 18.52% rather than the 31.37% filed by Beacon. This position is based upon the Attorney General's analysis of the following components used in developing the proposed expense multiplier. Those components are:

1. Taxes, Licenses and Fees – Beacon has proposed a provision for these items of 5.5%. The Attorney General has calculated the amount which would be owed for various taxes, licenses and fees and determined that it should be 8.45% (Transcript of hearing June 27, 2007, page 110-111).

how this issue would affect the issue of Beacon's Loss Cost Multiplier. Since this issue is actually with regard to approval of a filed form, it is not germane to this proceeding.

2. Underwriting Profit and Contingencies – Beacon has proposed an underwriting profit provision of –5.49%. The Attorney General indicates that the provision should be –10.32%.
3. Filed Merit Rating Plans – Beacon proposes to include in its expense multiplier a provision of 4.4% for “Filed Merit Rating Plans.” The Attorney General advocates that the entire expense component for this item be eliminated and indicates that it should be treated as a dividend and paid from surplus (Transcript of hearing June 27, 2007, page 108-109). Mr. Grippa differentiated this type of plan from a retrospective rating plan in which the payment is mandatory unless the carrier is insolvent (Transcript of hearing June 27, 2007, page 127)
4. Bad Debt – Beacon included a provision of 0.5% as a provision for Bad Debt applicable to all policyholders. The Attorney General advocates for removal of this entire provision on the grounds that Beacon cannot show that the Bad Debt is due to its position as the insurer of last resort and that it is not customary practice in voluntary market filings to include a provision for bad debt (Transcript of hearing June 27, 2007, page 115-119).
5. Premium Adjustment to Average Expected Mod – The Attorney General advocates for removal of the entire 1.8% proposed provision made in the filing for this item on the basis that this should not be an expense item.

Finally, the Attorney General called Dr. Michael Ileo. Since Dr. Ileo’s IRR Model had been accepted in terms of methodology by Beacon, he was asked by the hearing panel to omit further discussion of its design. Dr. Ileo testified that, contrary to Mr. Mohrman’s statement, his IRR Model does provide for schedule rating in that a scheduled rating

component was included in Mr. Grippa's calculations which were incorporated into the IRR Model. (Transcript of hearing June 27, 2007, page 138-139).

V.
DISCUSSION

The parties essentially agree on all calculations in the filing. The difference between the 1.46 requested by Beacon and the 1.17 advocated by the Attorney General is dependent upon whether the Department includes or excludes certain items within the Loss Cost Multiplier filing. Those items are:

A.
Loss Cost Modification Factor

Beacon and the Attorney General agree that Beacon's losses only are on average .954 of the approved NCCI Advisory Loss Costs. The parties also agree that Beacon's LAE is higher than that approved for NCCI. The only question is whether Beacon will be allowed that higher LAE or whether its lower losses will be incorporated without the higher expenses.

The Attorney General's position is that Beacon has not proven that its higher expenses are driving its lower losses. The Department is unsure what type of proof the Attorney General would accept in this regard, however, it is undisputed that Beacon spends more on loss adjustment expenses and its loss experience is better than average. This would appear to be *prima facie* proof that the higher expenses are resulting in better experience. This is especially true since Beacon is the market of last resort and must, therefore, accept all risks. The Department can imagine a scenario with another carrier where the selection of the employers themselves, i.e., the risk underwritten, results in better than average experience. However, Beacon cannot control the population of its insureds in this manner and, therefore,

there is no logical explanation for the better experience other than the heightened claims management reflected in its expenses.

Workers' compensation insurance involves more than just payment of claims. For the system to work most efficiently for employers and employees, active loss prevention and mitigation are important. If Beacon's claims expense was higher and its loss experience was the same or worse than average, the Department might be concerned. However, that does not appear to be the case and elimination of the higher expenses may have the unintended consequence of raising costs for all employers by increasing losses.

For these reasons, the Department will accept the .954 advocated by the Attorney General, however, it will also include the higher LAE resulting in a factor of 1.054 for Loss Cost Modification.

B.
Expense Constant

The expense constant is the amount charged on a per policy basis regardless of the size of the policy. It is designed to compensate for the costs of issuing and servicing the policy itself. Since the issuance costs for a policy do not vary depending upon premium size, the same cost is applied to all policies.

It is agreed that Beacon has been charging an expense constant of \$160 since 1998. In its initial filing Beacon provided exhibits which calculated the expense constant at \$331. However, Beacon originally selected and requested an expense constant of \$243. In the amended filing Beacon increased this request to \$284.

The Attorney General advocates for an expense constant of \$200. This is based upon the fact that in a 2006 filing which was later withdrawn, Beacon requested complete

elimination of the expense constant. In addition, the Attorney General indicated that Florida recently approved an expense constant of \$200 for its residual market carrier.

The expense constant has a greater effect on the smaller employer since the same amount is charged to each employer regardless of size. The Department, therefore, must consider the effect of the expense constant on those small employers. Beacon provided a calculated expense constant of \$331, but did not request that the Department approve that calculated amount. Rather, it originally requested \$243 and in the amended filing, \$284 for this item. The expense constant previously approved for Beacon was \$160. This amount was approved in conjunction with the 1998 NCCI proceeding. Beginning with the NCCI Advisory Loss Costs filing effective 1-1-05, NCCI no longer filed an expense constant for Rhode Island and left that request to the individual insurer in its LCM filing.

There was no calculated basis offered for either the amounts proposed by the Attorney General or Beacon. While the Department finds the amount approved in Florida interesting, there are simply too many unknown factors in a comparison of the Florida and Rhode Island markets to base the Decision on Florida's approval. The Department has taken administrative notice of expense constants approved in our neighboring states of Massachusetts and Connecticut, \$227 and \$200 respectively and also of the average expense constants approved and utilized by other significant national workers compensation insurance carriers. The Department, therefore, has judgmentally selected an expense constant of \$215 for Beacon based upon these considerations.

C.
Expense Multiplier

The Attorney General's position with respect to the expense multiplier is dependent upon the resolution of four issues, each of which is addressed below:

Taxes, Licenses and Fees - The Attorney General has calculated the taxes, licenses and fees, to be 8.45% based upon the actual statutory and regulatory rates, rather than the 5.5% requested by Beacon and based upon historical data. We find that the historical data understates Beacon's true expense needs since it doesn't reflect Beacon's prospective obligations for Taxes, Licenses and Fees. The 8.45% provision is proper.

Underwriting Profit and Contingencies - Beacon filed for an underwriting profit provision of -5.49%. The Attorney General advocates that an underwriting profit provision of -10.32% is more appropriate.⁴ Both of these are negative numbers meaning that by accepting either the Department is stating that Beacon's rates by themselves will not fully satisfy its obligations. The assumption is that the additional revenue from investments is enough to compensate Beacon for the Underwriting loss and also generate enough revenue to produce a reasonable return on surplus.

The Department initially notes that the requested -5.49% would give Beacon the lowest underwriting profit provision of any carrier writing in the Rhode Island market. Increasing that amount to -10.32% will place them significantly below its competitors. The -10.32%, however, is calculated based upon acceptance of the Attorney General's position on the other issues in this decision. When adjusted for the Department's resolution of the

⁴ Beacon's revised filing contains an underwriting profit provision of -1.22% and an investment income offset factor of 1.0622. The effect of the investment income offset reduces Beacon's underwriting profit provision to -5.49%.

other issues, the underwriting profit provision resulting from the Beacon model produces a rate of return that is not excessive. However, we agree with the Attorney General that Beacon's model does not directly address the issues of concern to the regulator; namely what is the rate of return on surplus that the proposed premium and expense structure will produce.

We will accept the underwriting profit provision that comes out of the Beacon model for this filing, which is a value of -5.40%, but in future filings Beacon should develop a better approach to calculating this provision.

Filed Merit Rating Plans

The Attorney General's position is that all merit rating plans are in essence policyholder dividends and must, therefore, be paid from surplus. The Attorney General also indicates concern that the plans themselves are unfairly discriminatory. The Attorney General's expert testified that "...if it is a rating plan where it is optional on the part of the Beacon underwriter as to whether or not that employer will be subject to the rating plan and if in fact the actual rating plan is not 100 percent formulaic, then those are discretionary adjustment made by Beacon that should not be built into the manual rates..." (Transcript of hearing June 27, 2007, page 107) The Department approved the Plans themselves after an actuarial analysis to determine whether they would produce rates which are "excessive, inadequate or unfairly discriminatory." That review showed that these plans are "formulaic" and not subject to unfettered discretion of an underwriter. In order to qualify, the particular insured must meet certain criteria which have been determined, prior to approval of the plans, not to be unfairly discriminatory. Thus, while the Department would share the concerns of the Attorney General if the plans were as described by its expert, these plans are

not and, if implemented by the carrier in accordance with the filing, are not unfairly discriminatory.

The Attorney General also eliminated the 1.2% which Beacon had included for the loss free discounts. Mr. Grippa did not discuss loss free discounts or why the provision was eliminated. This is an actual expense of Beacon and there does not appear to be a basis to eliminate the 1.2%.

As such, we find that it is correct to include the expenses attributable to the plans in the rate base. However, Beacon's selections do not reflect the conditions likely to occur during the period when the rates will be in effect. Based on Beacon's answers to Question 10 of the Department's interrogatory dated June 8, 2007, a provision of 3.05% for shared earnings dividends as opposed to the 3.2% provision filed by Beacon is appropriate.

Bad Debt

Beacon filed for a Bad Debt component of 0.5%. This compares favorably with the 1.6% which it had requested in its last Loss Cost Multiplier filing. The Attorney General, however, advocates for complete elimination of the bad debt expense. The basis for this is that it is unfair for employers who pay their bills to absorb the expense of those that do not. While the Department agrees with this general statement, this is true in dealing with any company or product. Any company which suffers bad debt necessarily must increase costs to others to offset that expense.

The Attorney General advocates some measures which would exclude employers who are more likely to cause the bad debt to be excluded as insureds. With a purely voluntary company some of these suggestions would be appropriate, however, Beacon is not a purely voluntary company. Beacon is the residual market and, therefore, the ability to

obtain insurance from Beacon is paramount to the ability of employers to operate in Rhode Island. The Department is supportive of restrictions on employers who have already shown that they pose additional risk by failing to pay prior premiums.⁵ However, access barriers as advocated by the Attorney General such as high deposit premiums and credit checks would reduce access to the market of last resort.

The Department notes that Beacon's bad debt expense has significantly decreased in the last year. The Department has been working with Beacon to remove access barriers to the residual market and does not believe that it is in the public interest to insist that additional barriers be created. Bad debt is an actual expense of the company and the Department will approve this relatively low provision for it.

Premium Adjustment to Average Expected Mod

The Attorney General advocates removal of the entire 1.8% provision. Beacon claims that a provision of 1.0% is reasonable. While we agree with the Attorney General that the support for the 1% provision is weak, being based on only one year of data, there is support for Beacon's position. Therefore, we will grant a provision of 0.5% in this filing and will require Beacon to produce more robust support in future filings.

D. **Minimum Premium Multiplier**

In the filing Beacon proposed an increase in minimum premium multiplier from 95 to 120. Although the Attorney General did not raise this issue, the Department notes that no

⁵ Beacon's enabling act specifically provides that an employer is not eligible for insurance from Beacon if it owes premium for current or former policies or even if premium is owed by a predecessor in interest. See, 2003 P.L. ch. 410, section 11(b)(2).

support was provided for the proposed increase in the minimum premium multiplier, either in the filing itself or in the hearing. As such, the Department has no basis upon which to evaluate the propriety of this proposed change. The request is, therefore, denied and Beacon's minimum premium multiplier will remain the previously approved 95.

**V.
FINDINGS OF FACT AND CONCLUSIONS OF LAW**

1. On April 13, 2007 Beacon made a filing requesting approval of a Loss Cost Multiplier of 1.460 to be instituted with adoption of the 2007 Advisory Loss Costs approved for NCCI for policies issued or renewed on or after October 1, 2007.
2. On May 21, 2007 an advertisement appeared in the Providence Journal informing the public that the hearing on this matter would be held on June 27, 2007 in satisfaction of the statutory notice requirement.
3. The Attorney General filed an Alternative Rate Calculation advocating for a Loss Cost Multiplier of 1.17.
4. A public hearing was held on June 27, 2007. No member of the public appeared to testify.
5. Beacon has satisfied its burden of proof that the proposed loss cost multiplier is justified.
6. An expense constant of \$215 is justified.
7. A provision for taxes, licenses and fees of 8.45% is justified.
8. An underwriting profit and contingencies provision of -5.40% is justified.

9. The inclusion of the expense of the approved merit rating plans in rates is justified. However the proper amount is 3.05% for shared earnings rather than the 3.2% requested in the filing and the 1.2% for loss free credits.
10. The inclusion of an expense for bad debt of 0.5% is justified.
11. Premium Adjustment to Average Expected Mod of .5% is justified.
12. Beacon proposed an increase in minimum premium multiplier from 95 to 120. No support was offered for this change and, therefore, it is rejected. The minimum premium multiplier will remain 95.
13. Adoption of the 2007 NCCI Advisory Loss Costs along with a Loss Cost Multiplier of 1.46 is expected to produce rates which are not excessive, inadequate or unfairly discriminatory.

**VI.
RECOMMENDATION**

Based on the above analysis, the Hearing Officers recommend that:

1. Consistent with the directives listed above, a Loss Cost Multiplier of 1.46 applied to the 2007 NCCI Approved Loss Costs is expected to produce rates which are not excessive, inadequate or unfairly discriminatory.
2. Beacon will apply the 2007 NCCI Advisory Loss Costs and a Loss Cost Multiplier of 1.46 to all policies issued or renewing on or after October 1, 2007.

Dated: July 13, 2007



Elizabeth Kelleher Dwyer, Esq.
Hearing Officer

Dated: July 13, 2007



Paula M. Palozzi
Hearing Officer

I have read the Hearing Officers' Decision and Recommendation in this matter, and I
hereby

ADOPT
 REJECT
 MODIFY

the Decision and Recommendation.



Dated: July 13, 2007

A. Michael Marques
Director

NOTICE OF APPELLATE RIGHTS

THIS DECISION CONSTITUTES A FINAL ORDER OF THE DEPARTMENT OF BUSINESS REGULATION PURSUANT TO R.I.G.L. § 42-35-12. PURSUANT TO R.I.G.L. § 42-35-15, THIS ORDER MAY BE APPEALED TO THE SUPERIOR COURT SITTING IN AND FOR THE COUNTY OF PROVIDENCE WITHIN THIRTY (30) DAYS OF THE MAILING DATE OF THIS DECISION. SUCH APPEAL, IF TAKEN, MUST BE COMPLETED BY FILING A PETITION FOR REVIEW IN SUPERIOR COURT. THE FILING OF THE COMPLAINT DOES NOT ITSELF STAY ENFORCEMENT OF THIS ORDER. THE AGENCY MAY GRANT, OR THE REVIEWING COURT MAY ORDER, A STAY UPON THE APPROPRIATE TERMS.