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Elimination of the Anniversary Rating Date Rule

The National Council on Compensation Insurance, Inc. (NCCI) is eliminating the anniversary rating date (ARD) rule on May 1, 2017. The ARD is defined as the effective month and day of a workers' compensation policy and each anniversary thereafter, unless a different date has been established by NCCI or another licensed rating organization.

This Work Comp Insights will answer common questions regarding the ARD rule and explain the NCCI's reason for eliminating it.

The ARD, a source of confusion for many employers, is being eliminated as of May 1, 2017.

Background

When the ARD rule originated in 1923, its purpose was to ensure that in the event of a midterm policy cancellation, the rewritten policy would use the same rates that applied to the canceled policy.

Consider the following example:

- An employer has a full-term policy effective Jan. 1, 2015, with a Jan. 1, 2015, ARD.
- The policy is canceled short term, effective Aug. 15, 2015.
- The rewritten policy is a full-term policy effective Aug. 15, 2015, through Aug. 15, 2016. The policy would use the following two sets of rates:
    1. Jan. 1, 2015, rates would apply from Aug. 15, 2015, through Jan. 1, 2016.
    2. Jan. 1, 2016, rates would apply from Jan. 1, 2016, through Aug. 15, 2016.

Under the proposed change, the rewritten policy effective on Aug. 15, 2015, uses rates effective on that date, not the rates effective on Jan. 1, 2015. In most cases, the rates would not have changed between the original effective date and the cancellation date, so the initial rates would continue to apply. However, if a rate change was approved during the time between the original effective date and the cancellation date, the new rates as of Aug. 15, 2015, would be applied to the rewritten policy.

Reason for Elimination

The NCCI is eliminating the ARD because it is a source of confusion for employers, as it is unique to workers' compensation policies.

Effective Date

The ARD will be eliminated for new and renewal policies effective May 1, 2017. The effective date will be the same across the country to make it less confusing for employers who have employees across state lines.

Impact on Employers

Under the ARD rule, if an employer was to cancel its policy in the middle of the term due to an approved rate decrease, the employer would have to wait until the policy's original effective date (the ARD) in order to benefit from the rate decrease. In contrast, with the elimination of the ARD, the employer would benefit from the lower rate as soon as it obtains a new policy to replace the one canceled midterm.

Employers should feel very limited impact from this elimination since approximately 90 percent of policies nationwide have an ARD that is the same as the policy effective date. Those that are affected by a cancellation will see the new rates, rules and classifications on their new policies.

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