

NATIONAL CASUALTY COMPANY

WORKERS COMPENSATION VARIABLE DIVIDEND PLAN 4

1. Eligibility

- A. Eligibility is limited to policies developing at least \$100,000 premium at audit. It must be full term annual (12 month) policy.
- B. Accounts must meet the company's underwriting guidelines for participation in the dividend plan. Underwriting guidelines include, but are not limited to, an acceptable three (3) year loss ratio for policy terms prior to the participating term.
- C. Accounts must have met all state and/or federal claims reporting requirements for the past three (3) years.
- D. The account policy is not subject to retrospective rating, any other dividend plans, or high deductible programs.
- E. The plan is available to those insured that meet the above criteria and choose to participate in a plan with declared dividends that vary with the policyholder's experience.

2. Dividend Payments

- A. Dividend payments are not guaranteed. Dividends are subject to approval by the Board of Directors. Dividends are paid from earned surplus.
- B. If the Board of Directors approves a dividend, payment will be made according to the calculation rules (4.A-D) and the premium/loss ratio dividend schedule (5.).
- C. A dividend will not be paid if:
 - 1. The policy is cancelled by the insured during the policy period.
 - 2. The policy is cancelled by the insurer for non-payment of premium.
 - 3. The insured's payroll records are inadequate or unavailable for the determination of final proper audited earned premium.
- D. In the event a dividend is to be paid and all the premium on the policy (for which the dividend has been declared) has not been paid, the amount due under the policy will be subtracted from the dividend. If the amount of the dividend to be paid exceeds the premium due, the excess amount will be paid to the policyholder.

3. Timing of Dividend Payments

- A. The dividend will be calculated 18 months after the inception of the policy and after the completion of the final premium audit. If there are no open claims, the full dividend amount will be paid. If there are open claims, 50% of the dividend will be paid after the first calculation. The second calculation will occur 12 months following the first. The final dividend payment will be equal to the second dividend calculation minus the first calculation.
- B. The dividend will be paid within three (3) months of the calculation as described in 3.A.

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4. Dividend Calculation Rules

- A. Earned Premium is audited policy premium after the application of all modifications (audits, premium discounts, experience rating, schedule rating, etc.)
- B. Losses are the annual policy term losses incurred (including reserves for future payment of open claims) plus allocated loss adjustment expenses. Deductible amounts paid by the insured will not be included.
- C. The loss ratio is calculated by dividing the Losses (4.B) by the Earned Premium (4.A).
- D. Multi-state policies: The total policy earned premium and loss ratio establish the entry level to the plan for each state. Determine the dividend factor at this level per applicable state plan. Compute dividends on each state's earned premium.

5. Dividend Distribution Table

LOSS RATIO	PREMIUM RANGE		
FROM TO	\$100,000 to \$124,999	\$125,000 to \$149,999	\$150,000 & Over
0.0 - 5.0	24.0%	27.0%	30.0%
5.1 - 10.0	23.0%	26.0%	28.0%
10.1 - 15.0	21.0%	24.0%	26.0%
15.1 - 20.0	18.0%	21.0%	23.0%
20.1 - 25.0	14.0%	16.0%	19.0%
25.1 - 30.0	11.0%	13.0%	15.0%
30.1 - 35.0	8.0%	9.0%	10.0%
35.1 - 40.0	6.0%	7.0%	8.0%
40.1 - 45.0	5.0%	6.0%	7.0%
45.1 - 50.0	3.0%	4.0%	5.0%
Over 50.0	0.0%	0.0%	0.0%

Example Calculation:

Audited premium = \$125,000
Losses + LAE = \$12,500
Loss ratio = $\$12,500 / \$125,000 = 0.10$
Dividend factor = 26.0%
Dividend = $\$125,000 * 0.26 = \underline{\underline{\$32,500}}$