

Your answers are shown below:

**1. Which one of the following statements is correct regarding the typical workers' compensation statute?**

- A. Benefits will only be paid if the employer is proven to be at fault for the injury.
- B. Rehabilitation costs incurred by an independent contractor are typically covered.
- C. All U.S. workers' compensation laws include benefits covering occupational diseases.
- D. Medical bills sustained while an employee commutes to work on the subway are covered.

C is correct. (Obj 1 - Type A).

A is incorrect. Workers' compensation statutes typically impose absolute liability on employers, which is liability imposed without regard to fault.

B is incorrect. Workers' compensation does not cover injuries sustained by an independent contractor.

D is incorrect. Workers' compensation benefits provide coverage for work-related injuries sustained in the course of employment. Coverage does not apply to injuries occurring while traveling to or from work.

**2. Which one of the following statements is correct regarding the typical workers' compensation statute?**

- A. There is usually no deductible or coinsurance imposed on medical benefits.
- B. To be covered, an injury or disease must result from the employer's negligence.
- C. Benefits for pain and suffering are typically provided if the injury is life threatening.
- D. The common cold is typically a covered disease under the statutes.

A is correct. (Obj 1 - Type A).

B is incorrect. Workers' compensation statutes typically impose absolute liability on employers, which is liability imposed without regard to fault. To be covered, an injury or disease must arise out of and in the course of the employment.

C is incorrect. Workers' compensation benefits do not include benefits for pain and suffering.

D is incorrect. The common cold is usually not a covered disease.

**3. Which one of the following represents a benefit under workers' compensation?**

- A. Property damages.
- B. Pain and suffering benefits.
- C. Death benefits.
- D. Punitive damages.

**C is correct. (Obj 1 - Type A).**

Workers' compensation benefits typically include:

- Medical benefits.
- Disability income benefits, including lost wages.
- Rehabilitation benefits.
- Death benefits.

**4. Which one of the following statements is correct regarding workers' compensation statutes?**

- A. Rehabilitation benefits are excluded from coverage.
- B. Disability income benefits are payable subject to a deductible in the form of a waiting period.
- C. Injuries to customers on the insured premises are covered.
- D. Before workers' compensation statutes were enacted, employees were covered by no-fault protection in most states.

B is correct. (Obj 1 - Type A).

A is incorrect. Both medical rehabilitation and vocational rehabilitation are included in coverage.

C is incorrect. Workers' compensation benefits provide coverage for work-related injuries sustained in the course of employment.

D is incorrect. Before workers' compensation statutes were enacted, employees had to establish that the employer was at fault to recover damages.

**5. Which one of the following statements is correct regarding workers' compensation statutes?**

- A. Disability income benefits are paid to an injured worker quarterly.
- B. Coverage is typically provided to federal government workers.

- C. Burial expenses are never covered.
- D. The percentage of wage loss payable varies by state.

D is correct. (Obj 1 - Type A).

A is incorrect. Disability income benefits are paid on a weekly basis.

B is incorrect. Federal government workers are excluded from workers' compensation coverage because they are covered by alternate plans.

C is incorrect. Death benefits under workers' compensation include burial expenses.

6. Rick, a landscaper, signs a contract with Daddy Custom Homes to plant grass and trees in a new home. Rick uses his own tools and follows the specifications in the contract. Rick injures his back while planting a tree. Will Daddy Custom Homes' workers compensation policy cover Rick's injury?

- A. No, because Rick was at fault.
- B. No, because Rick is an independent contractor.
- C. Yes, because the injury occurred while Rick was performing services for the company.
- D. Yes, because the statutes impose absolute liability on an employer.

B is correct. (Obj 1 - Type B).

Rick is considered an independent contractor based on the facts presented. Workers' compensation policies do not cover independent contractors.

7. John Solana and Associates, a tax return preparation firm, contracts with a temporary agency during tax busy season. The temporary agency, Tax Helpers, provides four experienced tax return preparers for a period of six weeks. While working at John Solana and Associates, one of the temporary employees is injured when a filing cabinet topples over and lands on her foot. Which one of the following statements is correct regarding workers' compensation coverage?

- A. John Solana and Associates and Tax Helpers' workers' compensation policies would each cover 50% of the claim.
- B. John Solana and Associates' workers' compensation policy would cover the claim.
- C. Tax Helpers' workers' compensation policy would cover the claim.
- D. Neither workers' compensation policy would cover the claim.

**C is correct. (Obj 1 - Type B).**

A temporary employee is an employee of the providing firm, not the firm using the employee's services.

**8. Paul Hughson is an employee of Lenuvi Enterprises, a computer parts manufacturer. Lenuvi operates in Texas, Oklahoma, and Louisiana. Paul was injured while attending a conference in Florida, and he chose Florida as his benefit state for workers' compensation. How would a standard workers' compensation policy address out-of-state coverage?**

- A. Paul would not be covered because his injury occurred outside of the states in which Lenuvi does business.
- B. Paul would be covered because his injury was work-related.
- C. Paul would not be covered because he was attending a conference out-of-state.
- D. Paul would be covered as long as Lenuvi purchases a policy endorsement within 30 days after the injury.

**B is correct. (Obj 1 - Type B).**

The typical workers' compensation policy covers injuries that arose out of employment.

**g. When an employee is required to travel to another state, and the employee is injured in that other state, which one of the following is a usual consideration in determining which state's workers' compensation law applies?**

- A. The income earned by the employee.
- B. The place the employee was hired.
- C. The employee's age.
- D. The location of the insurer.

**B is correct. (Obj 2 - Type A).**

When an employee is required to travel to another state, and the employee is injured in that other state, the following are typical considerations in determining which state's workers' compensation law applies:

- The place and nature of employment.
- The place where the employee was hired.
- The state in which the employer is domiciled.
- The employee's place of residence.

**10. Which one of the following statements is correct regarding the application of workers' compensation laws in foreign countries?**

- A. Most countries have workers' compensation laws comparable to those found in the U.S.
- B. A disadvantage of foreign voluntary workers' compensation coverage is that it excludes coverage for repatriation costs and most endemic diseases.
- C. No workers' compensation coverage is available to individuals working outside the U.S. for more than 60 days.
- D. Employees temporarily working outside the U.S. are typically covered by the extraterritorial provision of the workers' compensation law of the state where they regularly work.

D is correct. (Obj 2 - Type A).

A is incorrect. Only a few countries have workers' compensation laws comparable to those found in the United States.

B is incorrect. Foreign voluntary workers' compensation coverage often includes coverage for repatriation expenses and endemic diseases.

C is incorrect. Although there are rules relating to time limits, there is no such rule precluding coverage for individuals working outside the U.S. for more than 60 days.

**11. Which one of the following statements is correct regarding the United States Longshore and Harbor Workers' Compensation Act (LHWCA)?**

- A. It provides an exclusive remedy to injured maritime workers, such as longshoremen.
- B. The various states have jurisdiction when an individual is injured.
- C. Benefits will only be paid if the employer is proven to be at fault for the injury.
- D. Officers and crew members of vessels are covered by the LHWCA.

A is correct. (Obj 2 - Type A).

B is incorrect. LHWCA provides for federal jurisdiction.

C is incorrect. The LHWCA provides benefits without regard to fault.

D is incorrect. Officers and crew members of vessels are not covered by the LHWCA.

**12. Which one of the following represents an acceptable method for employers to demonstrate financial ability to pay workers' compensation claims that may apply?**

- A. Selecting an insurance plan offered by the federal government.
- B. Purchasing a commercial property insurance policy from a local insurer.
- C. Purchasing workers' compensation insurance from a private insurer.
- D. Maintaining a cash reserve to pay out potential claims.

**C is correct. (Obj 2 - Type A).**

The following are methods for employers to demonstrate financial ability to pay workers' compensation claims that may apply:

- Purchasing workers' compensation insurance from a private insurer.
- Applying to an assigned risk plan (if the employer was rejected by private insurers).
- Meeting state requirements to qualify as a self-insurer.
- Purchasing coverage through a state fund.
- Joining a self-insured group.

**13. For an employer to operate a qualified self-insurance workers' compensation plan, the employer must:**

- A. Have at least 50 employees.
- B. Purchase excess insurance.
- C. Post a surety bond.
- D. Participate in an assigned risk plan.

C is correct. (Obj 2 - Type A>.

To qualify as a self-insurer, the employer must post a surety bond with the workers' compensation administrative agency of the state.

14, An employer that qualifies for workers' compensation self-insurance may decide to purchase excess insurance to cover catastrophic losses.

An excess insurance policy that covers a loss resulting from a single occurrence only for the amount that exceeds the policy retention is a(n):

- A. An aggregate excess policy.
- B. A specific excess policy.
- C. A stop loss excess policy.
- D. A surety policy.

B is correct. (Obj 2 - Type A).

A is incorrect. An aggregate excess policy is insurance that covers losses only after the insured has retained a stated amount of aggregate loss during the policy period. It is also known as stop loss excess insurance.

C is incorrect. An aggregate excess policy is insurance that covers losses only after the insured has retained a stated amount of aggregate loss during the policy period. It is also known as stop loss excess insurance.

D is incorrect. Although a surety bond must be posted to qualify as a self-insurer, this is not a type of excess insurance.

15. Which one of the following statements is correct regarding states with workers' compensation monopolistic state funds?

- A. They compete with private insurers to sell workers' compensation in that state.
- B. They require an employer to purchase excess insurance if the insurer is self-funding their workers' compensation losses.
- C. They provide workers' compensation insurance through a mutual insurance company.
- D. They do not permit any other insurers to sell workers' compensation insurance in that state.

D is correct. (Obj 2 - Type A>.

A monopolistic state fund is a facility owned and operated by a state government that provides workers' compensation insurance and does not permit any other insurers to sell workers' compensation insurance in that state.

16. Which one of the following items is listed on the Information Page of the Workers' Compensation and Employers Liability Policy?

- A. Coverage exclusions.
- B. Definitions of important terms, such as "we", "you," and "workers' compensation law."
- C. Policy endorsements.
- D. Dollar limit for workers compensation benefits.

C is correct. (Obj 3 - Type A).

A is incorrect. The Workers' Compensation and Employers Liability Policy does not list exclusions on the Information Page.

B is incorrect. Definitions are contained in the General Section, not the Information Page of the policy.

D is incorrect. Although a dollar limit is listed on the Information Page for Employers Liability Insurance, there is no dollar limit listed for Workers' Compensation insurance.

17. Which one of the following statements is correct regarding the Workers' Compensation and Employers Liability policy?

- A. The General Section indicates the employee, or their dependents, is the insured under the policy.
- B. The Information Page is divided into four major parts, and is similar in function to the declarations page of other types of insurance policies.
- C. It enables employers to satisfy their workers' compensation obligations by mandating risk control measures in accordance with state guidelines.
- D. Benefits provided are typically paid based on the benefits selected by the employee from a schedule of benefits.

B is correct. (Obj 3 - Type A>.

A is incorrect. The insured is the employer under the policy.

C is incorrect. The policy enables employers to satisfy their workers' compensation obligations by providing a means to pay benefits required by state workers' compensation statutes.

D is incorrect. Benefits provided are typically paid based on the benefits specified by the various state workers' compensation laws listed in the policy Information Page.

18. A correct statement regarding Part One of the Workers' Compensation and Employers Liability Policy is that it:

- A. Reflects no dollar limits for benefits.
- B. Contains several exclusions.
- C. Prohibits the employee from taking direct action against the insurer.
- D. Does not provide for defense costs.

A is correct. (Obj 3 - Type AI.

B is incorrect. Part One of the Workers' Compensation and Employers Liability Policy contains no exclusions.

C is incorrect. The policy is primarily intended to benefit employees and their dependents. Therefore, these individuals have a direct right of action against the insurer.

D is incorrect. Part One of the Workers' Compensation and Employers Liability Policy indicates the insurer has the right and duty to defend the insured against claims.

19. Which one of the following statements is correct regarding Part One of the Workers' Compensation and Employers Liability Policy?

- A. It lists a dollar limit for benefits payable under the policy.
- B. An employer's failure to comply with health and safety laws results in cancellation of the policy.
- C. The insurer has no responsibility to pay additional costs, such as claim investigation costs and litigation costs.
- D. When the insurer pays benefits, any right of recovery against a third party becomes the right of the insurer.

D is correct. (Obj 3 - Type AI.

A is incorrect. According to the policy, the insurer will pay benefits required by the workers' compensation law. The policy reflects no dollar limit for benefits payable, since any applicable limit would be based on the law itself.

B is incorrect. If an employer fails to comply with health and safety laws, the policy provides that the employer will reimburse the insurer for any penalties required under a workers' compensation law.

C is incorrect. Under Part One of the Workers' Compensation and Employers Liability Policy, the insurer agrees to pay additional costs, such as for investigation a claim and handling litigation costs.

20. Which one of the following statements is correct regarding Part Two - Employers Liability Insurance coverage of the Workers' Compensation and Employers Liability Insurance Policy?

- A. It only covers occupational injury or disease if the injury or disease is covered under the state's workers' compensation statute.
- B. Coverage is not provided for third-party-over claims.
- C. There are no dollar limits contained in the policy for these benefits.
- D. The insurer agrees to defend the insured against claims or suits seeking covered damages.

D is correct. (Obj 4 - Type AI.

A is incorrect. Employers Liability Insurance covers an employer against liability for an employee's occupational injury or disease that is NOT covered by a workers' compensation statute.

B is incorrect. Coverage is provided in the policy for third-party-over claims.

C is incorrect. Employers Liability Insurance coverage does contain dollar limits.

21. Which one of the following would be covered under Part Two - Employers Liability Insurance coverage of the Workers' Compensation and Employers Liability Insurance Policy?

- A. Claims by family members of an injured employee for loss of services.
- B. Damages assessed due to a sexual harassment lawsuit by an employee.
- C. Punitive damages resulting from an injury to an illegally employed individual.
- D. Liability assumed under contract.

A is correct. (Obj 4 - Type AI.

B is incorrect. Damages resulting from employment practices (including sexual harassment, termination, discrimination) are not covered.

C is incorrect. Punitive damages resulting from an injury to an illegally employed individual is an exclusion under Part Two – Employers Liability Insurance.

D is incorrect. Liability assumed under contract is an exclusion under Part Two – Employers Liability Insurance.

22. Which one of the following statements is correct regarding Part Two - Employers Liability Insurance coverage of the Workers' Compensation and Employers Liability Insurance Policy?

- A. The insurer has a duty to pay defense costs even after it has paid damages equaling the applicable limit of insurance.
- B. The "bodily injury by disease - each employee" limit is the most the insurer will pay for bodily injury by disease to any one employee.
- C. For bodily injury by disease, the policy that is in effect on the first day that the employee exhibits symptoms of occupational disease is the policy that applies.
- D. Coverage is provided for bodily injury intentionally caused by the employer.

B is correct. (Obj 4 - Type A),

A is incorrect. The insurer has no duty to pay defense costs or supplementary payments once it has paid damages equaling the applicable limit of insurance.

C is incorrect. For bodily injury by disease, the policy that is in effect on the employee's last day of last exposure to the conditions causing or aggravating the injury is the policy that applies.

D is incorrect. Coverage excludes bodily injury intentionally caused by the employer.

23. Which one of the following would be covered under Part Two - Employers Liability Insurance coverage of the Workers' Compensation and Employers Liability Insurance Policy?

- A. An employer is fined for a violation of state law.
- B. An employee suffers depression after being harassed at work.
- C. An employer breached a contract resulting in damages to the other party.
- D. An employee is exposed to disease during the policy period.

D is correct. (Obj 4 - Type A).

A is incorrect. Fines or penalties for violation of state law are excluded from coverage.

B is incorrect. Damages resulting from employment practices (including harassment, termination, discrimination) are not covered.

C is incorrect. Liability assumed under contract is excluded from coverage.

24. Chuck worked in the warehouse as an employee for Power Manufacturing Company (Power). Due to negligence on the part of Power, the warehouse caught on fire, causing Chuck's death. At the time of his death, Chuck was unmarried, but he was the sole caregiver of his disabled adult daughter, Clarissa. Clarissa filed a lawsuit against Power for loss of services. Assuming Power had a workers' compensation and employers liability policy, would the policy provide coverage for damages assessed as a result of the lawsuit?

- A. No, because the policy does not cover suits brought on by relatives of the employee.
- B. No, because loss of services is specifically excluded under the policy.
- C. No, because the policy will not provide relief to an insured employer who was negligent.
- D. Yes, because the policy covers claims for care and loss of services.

D is correct. (Obj 4 - Type B).

The Part Two of the workers' compensation and employers liability policy covers claims that are not covered under the state's workers' compensation statute, including third-party claims and claims for care and loss of services.

25. Because the workers' compensation policies issued by some monopolistic state funds do not include employers liability insurance, an employer should consider purchasing which one of the following to address this lack of coverage?

- A. Other states coverage.
- B. Commercial general liability coverage.
- C. Stop gap coverage.
- D. Umbrella coverage.

**C is correct. (Obj 5 - Type A).**

Stop gap coverage is coverage for employers liability that private insurers provide to employers operating in a monopolistic fund state that does not include employers liability coverage in its workers' compensation policies.

**26. Which one of the following statements is correct regarding stop gap coverage?**

- A. It provides 90 days of automatic workers' compensation coverage when an employer expands operations to a new state.
- B. It covers employers in monopolistic fund states that do not include employers liability with their workers' compensation policies.
- C. It is used to provide workers' compensation coverage to a company with operations in states its insurer is not licensed in.
- D. It must be obtained from a different insurer than the insurer providing the employer's general liability insurance.

B is correct. (Obj 5 - Type A).

Stop gap coverage is coverage for employers liability that private insurers provide to employers operating in a monopolistic fund state that does not include employers liability coverage in its workers' compensation policies. Stop gap coverage is often provided by the same insurer that provides the insured's general liability insurance.

27. If an insured employer has operations in a particular state on the effective date of the Workers' Compensation and Employers Liability Policy, but that state is not listed in Item 3.A of the policy, the insured:

- A. Will be eligible for coverage automatically as long as that state is not a monopolistic fund state.
- B. Cannot obtain coverage for that state.
- C. Must notify the insurer within 30 days or else no coverage will apply for that state.
- D. Will be covered as long as that state is listed under Item 3.C of the policy.

C is correct. (Obj 5 - Type A).

Item 3.C is used for states that the insured does NOT currently conduct business in, but may conduct business in the future. If an insured employer has operations in a particular state on the effective date of the workers' compensation and employers liability policy, but that state is not listed in Item 3.A of the policy, the insured must notify the insurer within 30 days or else no coverage will apply for that state.

28. If an employer begins operations in a new state, and that state is listed in Item 3.C of the employer's Workers' Compensation and Employers Liability Insurance Policy Information Page, the policy would provide which one of the following coverages?

- A. The same coverage as if that state were listed in Item 3.A.
- B. Workers' compensation coverage, but not employers liability coverage for that state.
- C. Limited coverage for up to 90 days, and no coverage after 90 days unless that state is added to Item 3.A.
- D. Up to \$100,000 of coverage.

A is correct. (Obj 5 - Type A).

If an employer begins operations in a new state, and that state is listed in Item 3.C of the employer's Workers' Compensation and Employers Liability Insurance Policy Information Page, the policy provides the same coverage as if that state were listed in Item 3.A.

29. CynchCo currently conducts business in New Jersey, Kansas, Michigan, and Pennsylvania. The company has a Workers' Compensation and Employers Liability Insurance Policy, and has listed these four states under Item 3.A of the Information Page. In the next six months, the company plans to expand its operations to Nebraska. Which one of the following statements is correct regarding workers' compensation insurance for CynchCo in Nebraska?

- A. CynchCo should list Nebraska under Item 3.C of the existing policy.
- B. CynchCo should purchase a new policy and include Nebraska in Item 3.A.
- C. Coverage will extend automatically to Nebraska under the policy even if no action is taken by CynchCo.
- D. CynchCo should add Nebraska under Item 3.A of the existing policy.

A is correct. (Obj 5 - Type B).

Item 3.C of the policy lists other states the insured currently does NOT do business in, but expects to do business in at some point in the future. If the company plans to expand operations to Nebraska, then it should list Nebraska in Item 3.C of the policy.

**30. Which one of the following statements is correct regarding the United States Longshore and Harbor Workers'**

**Compensation Act (LHWCA)?**

- A. Coverage must be provided by the insurer by law if requested by an insured.
- B. In some situations, an employer may be subject to both the LHWCA and the state workers' compensation law.
- C. Insurers are eager to add LHWCA coverage to a Workers' Compensation and Employers Liability Policy because of its high profitability.
- D. LHWCA and workers' compensation exposures must be subject to the same rating.

B is correct. (Obj 6 - Type AI).

A is incorrect. LHWCA coverage is not mandatory.

C is incorrect. In practice, insurers are reluctant to add LHWCA coverage because of the unfavorable loss experience associated with this coverage.

D is incorrect. LHWCA and workers' compensation exposures must be covered and rated separately.

**31. Which one of the following statements is correct regarding the United States Longshore and Harbor Workers' Compensation Act (LHWCA)?**

- A. It covers employer liability attributable to employer negligence.
- B. It provides a remedy to injured factory workers not otherwise covered under their state's workers' compensation statute.
- C. The LHWCA endorsement to the WC&EL Policy modifies the definition of insured worker in the policy to include crew of vessels.
- D. LHWCA and workers' compensation exposures must be covered and rated separately.

D is correct. (Obj 6 - Type AI).

A is incorrect. The purpose of LHWCA is not to provide coverage for negligence.

B is incorrect. The LHWCA provides a remedy to injured maritime workers.

C is incorrect. The LHWCA endorsement to the WC&EL Policy amends the definition of workers' compensation law to include the LHWCA with respect to operations in any state designated in the endorsement's schedule.

**32. Which one of the following statements is correct regarding the Voluntary Compensation and Employers Liability Endorsement to a Workers' Compensation and Employers Liability Policy?**

- A. It is unavailable to sole proprietors, partners, or executive officers in all states.
- B. It requires the insurer to pay an amount equal to the benefits that would be payable if exempt employees were subject to the workers' compensation law.
- C. It permits an employer to make voluntary payments to injured workers even if the employer is not liable or responsible for the injury.
- D. It is used to provide coverage for certain maritime workers engaged in longshoring or shipbuilding.

B is correct. (Obj 6 - Type A).

A is incorrect. In some states, the workers compensation laws do not apply to sole proprietors, partners, or executive officers as they are considered "exempt persons." The Voluntary Compensation and Employers Liability Endorsement may extend coverage to exempt persons.

C is incorrect. The Voluntary Compensation and Employers Liability Endorsement amends the WC&EL Policy to cover employees who are not subject to a workers' compensation statute.

D is incorrect. The United States Longshore and Harbor Workers' Compensation Act (LHWCA) provides a remedy for certain maritime workers engaged in longshoring or shipbuilding.

**33. If an employee entitled to payment under the Voluntary Compensation and Employers Liability Endorsement to a Workers' Compensation and Employers Liability Policy brings suit under common law:**

- No coverage will be provided under the policy.
- The insurer will write a check directly to the injured employee.
- The insurer is not responsible for defending the insured against the employee's suite.
- Coverage provided by the endorsement reverts to the employers liability insurance.

**D is correct. (Obj 6 - Type AI).**



If an employee entitled to payment under the Voluntary Compensation and Employers Liability Endorsement to a Workers' Compensation and Employers Liability Policy brings suit under common law, the insurer will defend the insured against the employee's suit, and pay any settlement awarded subject to the limits of liability.

34. Talledega Farms employs two accountants, an attorney, three farm workers, and a maid. Which one of the following would be the best endorsement to add to their Workers' Compensation and Employers Liability (WC&EL) Policy to ensure all employees are covered?

- A. United States Longshore and Harbor Workers' Compensation Act Endorsement.
- B. Excluded Employees Liability Endorsement.
- C. Voluntary Compensation and Employers Liability Coverage Endorsement.
- D. Casual and Farm Labor Compensation Endorsement.

C is correct. (Obj 6 - Type B).

The Voluntary Compensation and Employers Liability Coverage Endorsement amends the WC&EL Policy to cover employees who are not subject to a workers' compensation statute, such as farm labor and domestic employees.

35. Which one of the following statements is correct regarding the rating of workers' compensation insurance?

- A. Several states have independent rating bureaus for workers' compensation insurance.
- B. The retrospective rating system identifies groups of similar employments whose experience is combined to establish rates.
- C. The premium reflected on the Information Page of the policy is the final premium that must be paid by the employer.
- D. With only a few exceptions, the premium base for workers' compensation insurance is the total number of employees.

A is correct. (Obj 7 - Type A).

B is incorrect. The class rating system identifies groups of similar employments whose experience is combined to establish rates.

C is incorrect. The premium reflected on the Information Page of the policy is the estimated premium. The final premium is determined by audit.

D is incorrect. With only a few exceptions, the premium base for workers' compensation insurance is payroll.

36. Which one of the following statements is correct regarding an experience rating plan?

- A. The plan increases or decreases the premium based on the insured's own losses during the same policy period.
- B. The average premium required to qualify for experience rating is \$10,000 per state.
- C. The computation results in an experience modification, which is a rate multiplier.
- D. The past period used for experience rating is typically the prior calendar year.

C is correct. (Obj 7 - Type A).

A is incorrect. The retrospective rating plan, not the experience rating plan, increases or decreases the premium based on the insured's own losses during the same policy period.

B is incorrect. The average premium required to qualify for experience rating varies by state, but is typically in the \$2,500-\$5,000 range.

D is incorrect. The past period used for experience rating is typically the three-year period that began four years prior to the inception of the policy.

37. A rating plan that adjusts the insured's premium for the current policy period based on the insured's loss experience during the current period is referred to as a(n):

- A. Dividend plan.
- B. Retrospective rating plan.
- C. Experience rating plan.
- D. Premium discount plan.

B is correct. (Obj 7 - Type A).

A retrospective rating plan is a rating plan that adjusts the insured's premium for the current policy period based on the insured's loss experience during the current period. An experience rating plan is a rating plan that adjusts the insured's premium for a future period based on that insured's loss experience for a period in the recent past.

**38.** Which one of the following statements is correct regarding the rating of workers' compensation insurance?

- A. Most, if not all, of the expenses of providing workers' compensation insurance increase proportionately with increases in premium.
- 40. B.** A constant expense rating plan provides insureds with incentives to implement risk control measures to reduce accidents.
- 41. C.** An audit of the insured's actual payroll after the policy expiration allows the insurer to calculate the final earned premium.
- 42. D.** The insured pays an estimated premium based on the degree of hazard in the work performed by employees.

C is correct. (Obj 7 - Type A).

A is incorrect. Many of the expenses of providing workers' compensation insurance do not increase proportionately with increases in premium.

B is incorrect. An experience rating plan provides insureds with incentives to implement risk control measures to reduce accidents.

D is incorrect. The insured pays an estimated premium based on the estimate of the annual payroll at the inception of the policy.

**39.** Which one of the following statements is correct regarding premium adjustments applicable to Workers' Compensation and Employer Liability Policies?

- A. A rate deviation is a flat charge designed to cover administrative expenses, such as policy issuance costs.
- B. A retrospective rating plan is a rating plan that adjusts the insured's premium for a future period based on that insured's loss experience for a period in the recent past.
- C. Premium discount plans provide an increased credit for premiums over a certain minimum because of competitive pressures.
- **D.** A large deductible plan allows the insured to self-insure most of its claims without establishing a qualified self-insurance plan.

D is correct. (Obj 7 - Type A).

A is incorrect. An expense constant is a flat charge designed to cover administrative expenses, such as policy issuance costs.

B is incorrect. An experience rating plan is a rating plan that adjusts the insured's premium for a future period based on that insured's loss experience for a period in the recent past.

C is incorrect. Premium discount plans provide an increased credit for premiums over a certain minimum because many of the expenses of providing workers' compensation insurance do not increase proportionately with increases in premium.