

Workers' Compensation Premium Assessment

A Comparison Between
Plan 2 – Private Insurers and
Plan 3 – Montana State Fund

Establishing Premium Rates

Premiums collected in FY 2010 must be sufficient to pay for benefits for workers injured in FY 2010 for up to 50 to 60 years

Establishing Premium Rates

Final premium rates =

Loss costs X Loss cost multiplier = Manual rate

Manual rate X increased limits of employers liability

X experience modification factor

X construction credit factor

X scheduled rating modifier (credit or debit)

- volume discount

+ terrorism charge

+ catastrophe charge

+ expense constant

Differences Between Plan 2 and Plan 3

● Plan 2 – Private Ins

- Rating tiers – allowed
- Loss costs – NCCI
- Loss cost multipliers
- Scheduled rate mods- 40%
- Volume discounts
- Terrorism charges
- Catastrophe charges
- Retrospective rating plans
- No state agencies
- Regulatory oversight

● Plan 3 – MSF

- Rating tiers used exclusively
- Loss costs – board adopted
- Loss cost multipliers
- Scheduled rate mods- +220%,-100%
- Volume discounts
- Terrorism charges
- Catastrophe charges
- Retrospective rating plans
- State agency book of business
- No regulatory oversight

Rating Tiers

- Mimics flexibility of multiple companies
- Low accidents and benefit claims - low costs for premiums
- Higher accidents and benefit claims – higher costs for premiums
- 5 different rating tiers
- Tier 1 lowest risk employers, tier 5 highest risk employers

Rating Tiers - MSF

- Over \$5,000 annual premiums based on NCCI experience rating – FY 2009 7,605 policies
- \$1,500 to \$5,000 annual premiums, tier 4 1st year, after based on accidents and number of years insured range between tier 2 and tier 5 – FY 2009 7,955 policies
- Below \$1,500 annual premiums, tier 4 1st year, can move to tier 5 based on accidents – FY 2009 12,817 policies

Loss Costs

NCCI establishes loss costs for Montana

Grouped into 5 industries

Each industry grouped into classification codes for jobs within the industry

Loss costs

- Private insurers – adopt NCCI or file modifications based on historical experience and actuarial justification
- MSF – Board adopts, NCCI with exceptions for state agencies, agriculture and others based on MSF management recommendations with letter from contracted actuary certifying process

Manual Rates

- Loss costs X loss cost multiplier
- Loss cost multiplier increases or decreases loss costs
- Loss cost multiplier includes production and general expenses, licenses and fees, profit and contingency costs

Manual Rates – Private Insurers

- Filed and reviewed by Insurance Commissioner
- Filing includes effects of revisions, premium level change, loss cost modifications, total costs included, effects of investment income, impacts of expense constants, minimum premiums, premium discounts, and expense graduation, and actuarial support for changes
- FY 2010, 297 companies had loss costs above 1.0, 7 loss costs below 1.0

Manual Rates - MSF

- Rating tier determines loss costs

Tier	Experience Mod From	Mod To	Loss Cost Multiplier
● Tier 1	0.01	0.79	0.911
● Tier 2	0.80	0.94	0.973
● Tier 3	0.95	1.24	1.041
● Tier 4	1.25	1.74	1.249
● Tier 5	1.75 & above		1.655

Manual Rates - MSF

NCCI				
Tier	Loss Costs	Loss Cost Multiplier	Premium Rate	Variance From 3
1	\$1,000	0.911	\$ 911	-12.49%
2	\$1,000	0.973	\$ 973	- 6.53%
3	\$1,000	1.041	\$1,041	0.00%
4	\$1,000	1.249	\$1,249	19.98%
5	\$1,000	1.665	\$1,665	59.94%

Manual Rates - MSF

Lost Cost Multiplier Components Per \$1,000 of NCCI Loss Costs

Description	Tier 1	Tier 2	Tier 3	Tier 4	Tier 5
Loss cost/LAE	\$730	\$780	\$ 834	\$1,001	\$1,334
Additional Costs					
Underwriting	103	110	117	141	188
General/Acquisition	122	130	139	167	223
Profit/Contingency	<u>(44)</u>	<u>(47)</u>	<u>(50)</u>	<u>(60)</u>	<u>(80)</u>
Total Additional	<u>181</u>	<u>193</u>	<u>206</u>	<u>248</u>	<u>331</u>
Total	\$911	\$973	\$1,040	\$1,249	\$1,665

Standard Premium – Experience Modification Effect Calculated

Increases or decreases manual premium based on the business's experience over the last 3 years

Standard Premium - MSF

Manual Rate	Exp Mod		Standard Premium	
	From	To	From	To
\$ 911	0.01	0.79	\$ 9.11	\$ 719.69
\$ 973	0.80	0.94	\$ 778.40	\$ 914.62
\$1,041	0.95	1.24	\$ 988.95	\$1,290.84
\$1,249	1.25	1.74	\$1,561.25	\$2,173.26
\$1,665	1.75	& above	\$2,913.75	& above

Scheduled Rate Modifiers

Comparator States

Alaska	Allows	Unlimited
Idaho	Allows	25 %
New Mexico	Allows	15 %
North Dakota	Not Allowed	
Oregon	Not Allowed	
South Dakota	Allows	25 %
Washington	Not Allowed	
Wyoming	Not Allowed	

Scheduled Rate Modifiers

- Private Insurers – limited to + or – 40 percent, reviewed and regulated by Insurance Commissioner
- MSF – unlimited currently +220 to – 100 percent

Legislative Option

- MSF board policy allows MSF unlimited aggregate limits for its range of scheduled rate modification while private insurers are limited by the Insurance Commissioner to a range of plus or minus 40 percent.
- The legislature may wish to examine the impact on actuarial soundness and employers of changing or restricting MSF aggregate limits for its scheduled rate modification ranges.

State Agency Premium Assessments

- State agencies required to use MSF
- FY 2010 total estimated premium \$17.6 million – 9.45 percent of MSF premiums
- Loss costs developed by MSF, not NCCI
- SB 304 recommended eliminating requirements state agencies use MSF
- Savings may result including lower manual and standard rates associated with experience modification factors, scheduled rate modification factors, higher volume discounts, or better retrospective rating plans

State Agency Premiums

If legislature considers allowing RFP for state agencies to acquire workers' compensation, need to ensure "cherry picking" of state agencies with better risks does not occur, if private insurer is to ensure state agencies must insure all state agencies.

State Agency Premiums

Another option – state could self insure

State agencies premiums budgeted at 9.45 percent of total premium FY 2010

MUS self insurance program appears to have saved on premium costs for the MUS

State Agency Premiums – Legislative Option

The legislature may wish to request the Department of Administration develop information on the potential cost savings, other benefits, and potential drawbacks that may be realized if the department was allowed the flexibility to obtain workers' compensation insurance for state agencies through any of the three compensation plans.

Regulatory review

Private insurers regulated by Insurance Commissioner

Insurance Commissioner conducts financial exams and market conduct exams

10 state funds reviewed by LAD have some form of regulation by state Insurance Commissioner or similar office

MSF not subject to regulatory oversight

Regulatory review – Legislative Option

The legislature may wish to consider including MSF as an insurance company for the purposes of regulatory oversight provided by the Insurance Commissioner.