

*Workers' Compensation:
Classification of Business*

Economic Affairs Interim Committee

March 4, 2024

Introduction

- Very high-level background
 - MANY details not covered here
 - One component of premium calculation
- Here for informational purposes
 - One of many insurers subject to NCCI
 - Based upon MSF's knowledge and experience
 - Nothing said binds NCCI



Classification Basics

Why Does This Matter?

- Business classification is a core component of ratemaking
 - “Anchor” of the employer’s premium calculation
 - Often most significant rate driver
- Uniform to the industry; insurers don’t have discretion to deviate

National Council on Compensation Insurance

- CSI-designated advisory organization
- Functions include loss cost development (aka “ratemaking”)
 - Data collection and actuarial analysis

Loss Cost

- Loss cost = total claim cost without other expenses (e.g. overhead)
 - Also known as “rate”
- Assigned on a class code-specific basis
- Subject to CSI approval

Classification

- Each employer is assigned a four-digit governing class code
 - Montana employers with similar business operations and exposures
- NCCI defines covered business operations
 - BUT, states can modify/add/remove class codes

Class Code “Rate”

- Each class code is assigned a loss cost:
 - Reflecting claim exposure associated with business operations
 - Calculated as rate per \$100 in employee payroll
- Manual premium = Business payroll x rate
 - BEFORE adjustments (e.g. e-mod, LCM, etc.)

Manual Premium Calculation

Example: Business with \$1 million in payroll. What is manual premium?

- ABC Law Office: CC 8820 = 0.14
 - $.0014 * \$1,000,000 = \underline{\$1,400}$
- XYZ Roofing: CC 5551 = 12.76
 - $.1276 * \$1,000,000 = \underline{\$127,600}$



Agriculture Classification

Agriculture Classification – Montana

- Agriculture-based businesses classified under
 - Farm or Ranch – All Employees & Drivers: **0006**
 - 2023 filed rate = **4.79**
- Covered operations include:
 - Field crops, livestock raising, sod growers, dairy farms, orchard grown crops and **vineyards**

Agriculture Classification – Other States

- Some states apply multiple class codes to agricultural operations
- Class codes have differing loss costs
- Example: Alabama
 - 0008: Farm – Vegetable & Drivers
 - 0079: Berry or Vineyard & Drivers
 - 0083: Farm --- Cattle or Livestock Raising

Classification Review Committee

- Class code modification is an administrative function. § 33-16-1012, MCA
- Classification Review (CR) Committee establishes and revises class codes through rulemaking.

Montana
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