Experience Rating Reform

In June 2008, the Board of Directors approved a series of proposals to continue experience rating reform that will better align premiums with projected levels of risk. In the proposals, BWC noted the concerns expressed by sponsoring associations and third-party administrators about the potential financial impacts to employers, and recommended to cap increases in employer premiums in two ways:

1) **Cap per-year premium increases resulting solely from changes to the credibility table at 20%.**
2) **Cap year-to-year employer Experience Modifier (EM) increases at 100%.**

The BWC has continued to solicit and receive feedback to develop the detailed capping recommendations that will be presented to the Board of Directors at the October 2008 meeting.

CAPPING DESIGN RECOMMENDATION

BWC's original proposal to cap premium increases at 20-percent would require employers to initially pay their full premiums without regard to the caps. Then, after the policy year ends and premiums are received by the BWC, the premium cap would be calculated with the employers receiving a refund check as applicable. Due to the complexity and the delayed premium reduction for employers, this method of capping would be less than ideal. The BWC would like to implement a capping strategy that is easy to understand, communicate, and implement. Therefore, the BWC recommends using an EM cap at a percentage that will achieve similar results as a 20-percent premium cap. Using a 30% EM cap permits the employers to pay premiums at a capped EM rate immediately without waiting for the policy year to end to receive the benefit of the capping strategy. The BWC continues to recommend the 100% cap to moderate premium increases from one policy year to the next for individually rated employers.

CAPPING IMPACT COMPARISON

The following data compares the projected impacts of the original capping strategy (100-percent EM/20-percent premium) to that of the current recommendation (100-percent Year-to-Year EM/30-percent Single Year EM).

Group Loss Ratio Relative to Non-Group Loss Ratio				Number of Policies Capped		Average Premium of all policies		
At 85% Credibility Table	At 77% Credibility Table	20% Premium cap	30% EM cap	20% premium cap	30% EM cap	Before Capping	After 20% premium cap	After 30% EM cap
1.52	1.34	1.33	1.34	61,529	73,865	$8,348	$8,182	$8,168

*Group loss ratio relative to non-group loss ratio at the 85% maximum credibility table is 1.52

CAPPING DESCRIPTION

1) **Implement a Within-Year EM Cap of 30-percent to moderate premium increases as a result of the July 1, 2009 credibility table change.** This cap will limit to 30-percent the EM increase that is caused solely by the change from an 85-percent maximum credibility table to a 77-percent maximum credibility table. There will be two EM's calculated for 7/1/2009. The first will be calculated using the 85-percent credibility table and the second using the 77-percent credibility table. The selected EM will be the lower of the 85-percent maximum credibility table EM increased by 30-percent or the 77-percent maximum credibility table EM. Any changes due to the employer's experience would not be included as part of this cap, since both EM calculations use the same experience period data. This capping process may be repeated in subsequent years (pending further actuarial analysis) until the uncapped premium level is achieved for the policy.

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Within-Year EM Cap of 30-percent Scenarios

Employer EM Scenarios	(A) 7-1-2009 EM (85-percent maximum tables)	(B) 85% EM plus 30-percent	(C) 7-1-2009 EM (77-percent maximum tables)	(D) Selected EM (lower of column B or C)
Individual Employer not in a group – cap	0.23	0.30	0.31	0.30
Individual Employer not in a group – no cap	0.57	0.74	0.60	0.60
Individual Employer group rated for PY 7-1-2009 – cap	0.15 (group EM)	0.20 (group EM)	0.23	0.20
Individual Employer group rated for PY 7-1-2009 – no cap	0.36 (group EM)	0.47 (group EM)	0.45	0.45

2) Implement a Between-Year EM Cap of 100-percent to moderate premium increases from one policy year to the next, beginning July 1, 2009. This cap will capture any changes to an individual employer's experience rating history. The baseline EM will be the July 1, 2008 published EM which uses experience period data calculated as of the December 31, 2007 survey date. This baseline EM will not be adjusted at any point in the future. No cap will be applied to EM decreases.

Between-Year EM Cap of 100-percent Scenarios

Employer EM Scenarios	(A) 7-1-2008 EM	(B) 7-1-2009 Capped EM (7-1-2008 EM x 2)	(C) 7-1-2009 EM (77-percent maximum tables)	(D) Selected EM for 7-1-2009 policy year (lower of column B or C)
Individual Employer – no cap	0.63	1.26	0.73	0.73
Individual Employer – no cap	0.63	1.26	0.50	0.50
Individual Employer – cap	0.63	1.26	1.55	1.26
Individual Employer- group rated in PY 7-1-2008 no longer group in PY 7-1-2009	0.15 (group EM)	0.30	1.05 (individual EM)	0.30

Between-Year EM Cap of 100-percent Exclusion

It is important to recognize that changes in exposure have an impact on premium requirements. Therefore, where more than one employer policy's experience is used to develop an EM and the exposure is now different than was used to calculate the baseline EM, the resulting EM is not subject to the 100-percent year to year cap.

Exceptions to the Exclusion that will allow the cap to be applied:

1) A Debtor in Possession policy combination as a result of bankruptcy proceedings. This transaction is a change in policy number without any change in exposure.
2) A succeeding employer policy that is base rated as of the effective date of the transfer that wholly or partially succeeds only one other policy. This exception acknowledges the change in exposure.

In both of the exceptions above, the baseline EM of the successor policy will be the predecessor policy's 7/1/2008 published EM.

Discount Programs

1) The One Claim Program (OCP) will continue to operate under the current rules and parameters. The only exception being, any employer that has a lower EM (due to the 100-percent year-to-year cap) than the .60 EM currently offered under the OCP would receive the 100-percent capped EM. The employer should still apply for the OCP as the current rules require. This will allow the BWC to use the OCP EM as the baseline EM in subsequent policy years.
2) The baseline EM for those employers that are currently participating in either the Premium Discount Program or the Drug Free Workplace Program will be the published EM prior to the program discounts.

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