

Rate Reform: Split-Plan Workgroup

Tuesday, November 18

Objectives:

- Define split-experience rating plan
- Review past split-plan testing
- Discuss split-plan parameters to consider
- Define how to determine successful results

Split-Plan Timeline

Jan. – June 2009	Plan structure and begin modeling
Sept. 2009	Finalize parameters and continue modeling
June 2010	Split-plan design complete
July 2011	Split-plan effective for PA employers
January 2012	Split-plan effective for PEC employers

What is a split-experience rating plan?

- A split-rating plan is utilized in 38 other states
- A split-experience rating plan uses a measure of both frequency and severity to assess employer risk
- Uses a per claim split point to distinguish primary and excess losses
 - Primary – represents claim frequency
 - Excess – represents claim severity
- More weight is put on the primary loss bucket (frequency)

What is a split-experience rating plan?

- Today, BWC uses the following calculation to determine an employer's EM.

$$\frac{(\text{Actual Losses}) - (\text{Expected Losses})}{(\text{Expected Losses})} * (\text{Credibility Percentage}) + 1 = \text{EM}$$

- A split plan uses the following calculation to determine an employer's EM.

$$1 + (\text{Primary Cred.}) * \frac{(\text{Act. Primary}) - (\text{Exp. Primary})}{(\text{Exp. Losses})} + (\text{Excess Cred.}) * \frac{(\text{Act. Excess}) - (\text{Exp. Excess})}{(\text{Exp. Losses})} = \text{EM}$$

Past split-plan parameters and modeling

- Used data from policy years 2003 - 2005 and applied to various split-plan scenarios to produce a new restated history.
 - \$10,000, \$15,000, \$20,000 single split
 - \$175,000, \$250,000 MSL
 - \$8,000 minimum expected loss
 - Oldest 4 of 5 years of experience
 - Medical only losses at 30-percent
 - Increased credibility by risk size

Parameters to consider

- Calculation of actual losses
 - MSL point
 - Split point(s)
 - Application of medical losses
- Calculation of primary and excess expected loss rates
 - Primary ELR = Expected Loss Rate x D-ratio
 - » D-Ratio = Primary losses/Total Losses
 - » D-Ratio is determined for each manual class
- Calculation of primary and excess credibility levels
 - Primary = $(E + 700G)/(1.10E + 3,270G)$
 - Excess = $(E + 5,100G)/(1.75E + 208,925G)$
 - » G = State Average Cost per Case (SACC)/1000
 - » SACC = Total Claim Count/Total Incurred Losses
 - » Allows for an indexing of credibility
- Impact of MIRA II Reserves

Other considerations

- Lowering the qualification minimum;
- Varying the split point by size of risk;
- Varying the maximum single loss by size of risk;
- Considering a different experience period; and,
- Considering multiple-split points.

Performance Measures

- It is critical to define key performance measures associated with testing and analysis.
- The results should produce similar performance across any segment of employers.
- This similar performance will indicate that we are charging employers an appropriate premium level relative to the risk they bring to the system.

Split plan performance

- o Loss ratios and loss ratio relativities by size
- o Loss ratios and loss ratio relativities by status
- o Premium distribution by size
- o Loss ratio by size and quintile

What other performance measures should be considered as we begin additional testing?

Defining success

- What criteria should be used to determine the success of a rating plan?
 - Objective performance measures
 - Employer impacts
 - Stability
 - Ease of use/understanding

Rate Reform: Split Plan Workgroup

Tuesday, November 18