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Basic BWC Rate Making

Presented by
BWC Performance Support and Training

Ohio Bureau of Workers' Compensation

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Basic Ratemaking

Objectives

- Explain ratemaking basics
- Explain the elements of ratemaking
- Explain experience period
- Identify base rated vs. experience rated employers
- Interpret how rates are modified

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Basic Ratemaking

- Insurance entity
- Actuarial section
- Premium payment

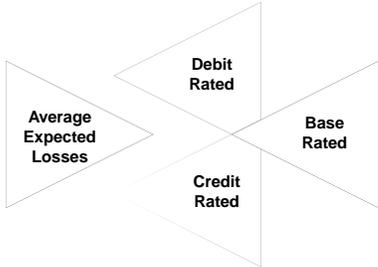
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Basic Ratemaking



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Basis for Rate Making



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The Policy Year

Premium rates are in effect for one year for each employer.

- Private employers
July 1 – June 30
- Public employers
January 1 – December 31

The Snapshot

A *snapshot* of the employer's account occurs on the following dates.

- o Private employers
December 31
- o Public employers
June 30



The Experience Period

Private employers



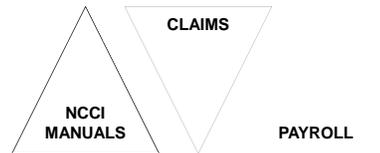
The Experience Period

Public employers



Rate Making Elements

What are the rating factors used in setting rates?



Manual Classifications



Employers are assigned manual classifications that best describe their industrial pursuit.

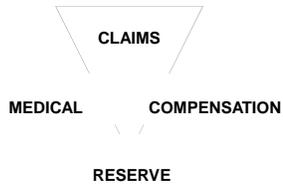


Payroll

Payroll is the best measure of exposure to a hazard. The larger the payroll, the greater the exposure to loss.



Claim Costs

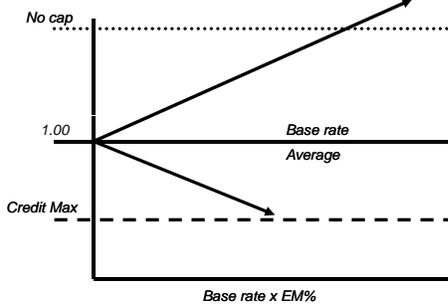


Rating Plans

Base rated

- Average – unmodified rate
- Recalculated every year
- New employers
- 64% of employers are base rated
- Experience modifier of 1.0 - average

The Base Rate



Employer's Expected Losses

- Average claim costs
- 4 year payroll x expected loss rate
- \$2,000 ↑ = Experience rated
- ↓ \$2,000 = Base rated

Rating Plans

Merit Rated

- Mandatory - \$2,000 or more in expected losses
- Experience modification = EM %
- Rate is driven by claims experience

Actual Modified Losses

All "actual" claim costs modified by:

- Reserve amounts at the time of the snapshot;
- Subrogation;
- Adjustment for max claim value – capped;
- Adjustment for HC%.



Maximum Claim Value

- o Employer's experience for a single claim
- o More is not used in premium calculation

Credibility Group	Expected Losses	Credibility %	Maximum Claim Value
1	\$2,000	6%	\$12,500

Expected vs. Actual Losses

- o What were the expected losses...
Compared to what the employer had
- o More or less than BWC expected?



Debit Rated

- o Claims costs > Average losses = Debit rated

Base rate X Debit rate = EM 1.01 ↑

Credit Rated

- Claims costs < Average losses = Credit rated

Below Base Rate = EM 0.99 ↓

Rating Formula

- o Actual costs – Expected Costs / Expected Costs = Ratio X Credibility = Modification Rate + 1 = Experience Modifier

- o Example: Payroll = \$75,000 1 Claim = \$5,000

$$\frac{\$5,000 - \$3,000}{\$3,000} = .667 \times .05 = .0333 + 1$$

- o 1.0333 = Experience Modifier Rate

Average Rates

Base Rate (Average) 2010

- o #1430 – smelting, sintering and refining – lead and drivers
= \$81.90 per \$100 of payroll
- o #8901 - telephone or telegraph office employees
= \$0.13 per \$100 of payroll

How Rates Can Change

•Base rate calculation

Manual Number	Base Rate	EM or Group EM	Group Break Even Factor	Modified Premium Rate	Admin Cost	DWRF	Additional DWRF	Deductible Program Factor	Blended Rate Per \$100 of Payroll
5645	\$9.01	1.00	0.00	\$9.01	1.454	0.08	0.009	N/A	10.553

•Debit rate calculation

Manual Number	Base Rate	EM or Group EM	Group Break Even Factor	Modified Premium Rate	Admin Cost	DWRF	Additional DWRF	Deductible Program Factor	Blended Rate Per \$100 of Payroll
5645	\$9.01	1.30	0.00	\$11.713	1.890	0.08	0.009	N/A	13.692

•Credit rate calculation

Manual Number	Base Rate	EM or Group EM	Group Break Even Factor	Modified Premium Rate	Admin Cost	DWRF	Additional DWRF	Deductible Program Factor	Blended Rate Per \$100 of Payroll
5645	\$9.01	0.51	0.00	\$4.595	0.742	0.08	0.009	N/A	5.426

Rate Reserving Analysis

Why Reserve

To have enough money set aside so that...

- o Cost are distributed equitably;
- o Protects the state fund;
- o No "surprises";
- o Case management;
- o It aids actuarial calculations.

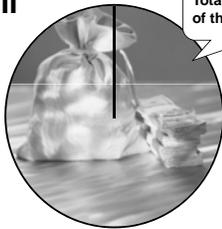
Rating Methodology

MIRA II

- o The reserving process provides the **ultimate** cost of a claim at a specific point in time with the information available for the claim.

Rating Methodology

MIRA II

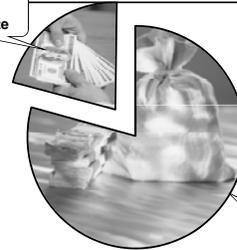


Predicts the Total Incurred Cost of the claim

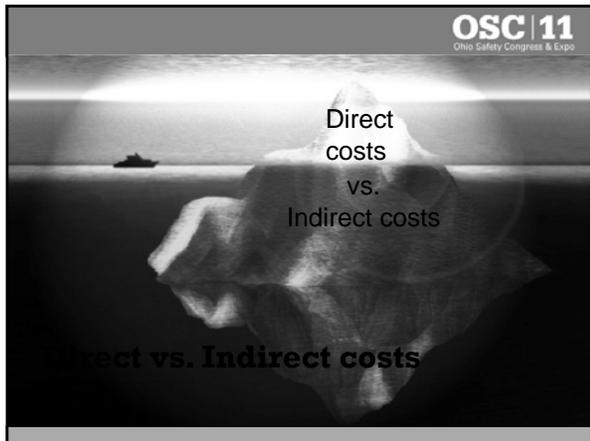
Rating Methodology

MIRA II

Payments made to date



Reserves

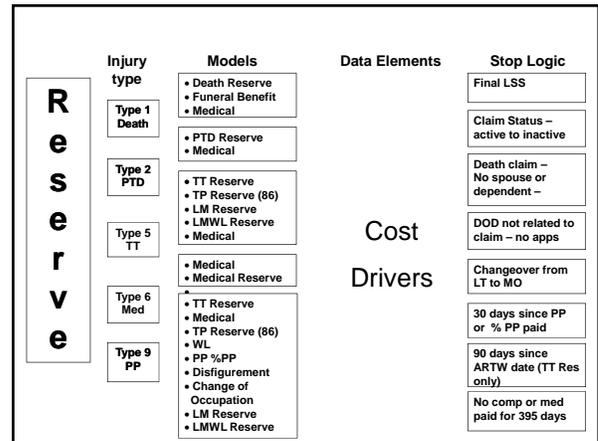


Direct		vs.	Indirect Costs	
Medical costs			Hiring replacements	
Compensation or insured costs			Training replacements	
BWC claim reserves			Overtime (lost work)	
			Legal expenses	
			Product /tool damage	
			Production delays	
			Loss of business/customer goodwill	

Components

Each injury has its own prediction logic to:

- Start reserving (Buckets)
- Stop reserving (Stop Logic)
- Change the prediction



Reserves Online **OSC 11**
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Focus on Ohio Employers

Accident/Injury Info » Claim Costs/Reserves » Claim Info » Claim Payment » Claim Reference Info » Communications » Custom Services » Payroll/Premium » Rates » Policy Management » Programs » Quick pay » Safety Services » Self-insured » State-fund guide » Forms » Section Map

Online support available Monday through Friday 7:30 a.m. - 5:30 p.m. Click here to get help!

OhioBWC - Employer: BWC Employer Section Map

Employer Section map

- Claim Costs/Reserves
 - Claim
 - Claim status history
 - Individual claim payment transactions
 - Individual claim reserve history
 - Individual claim reserve audit/adjustments
 - Individual quarterly claim costs
 - Policy
 - Claim payment transactions - policy
 - Claim reserve audit/adjustments - policy
 - Quarterly claim costs
 - Summary of reserve changes
 - Rates
 - Experience modifier history
 - Experience period data
 - Personalized policy scenarios
- Programs
 - Indemnity
 - Outstate
 - Claim payment transactions - policy
 - Eligible level look-up
 - Individual claim payment transactions
 - Monthly billings statement
 - Update program info
 - Drug-Free Safety Program
 - EM Caping
 - \$15,000 Medical-Only Program
 - Group experience rating
 - Group retrospective rating
 - Outstate
 - Annual report
 - Group performance
 - Individual retrospective rating
 - LSS options for state agencies
 - One claim program
 - State construction contractors

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Excel Spreadsheet for Reserves

Generic Employer

Policy No.	Claim No.	Prior Reserves	Current Reserves	Reason 1	Reason 2	Reason 3	Reason 4	Reason 5
12345-0	11-123456	\$10,000.00	\$5,000.00	Return to Work	Condition Denied	Changed Zip Code		

Online Scenarios **OSC 11**
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Adjust Experience Period Claims Cost

Experience Period: 11/2008 - 12/31/2008 Rating Year: 2008 Exp Period: 11/2008 - 12/31/2008

What other options do you have?

What other options do you have?

Adjustment Rate Calculations

Exp. Mod. Credibility % Max Value Cap Mod.

Questions? **OSC 11**
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General Information:

- o 1 (800) OHIOBWC or 1 (800) 644-6292
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BWC Programs **OSC 11**
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Components Used To Calculate Rates For Premiums

