

# **Group and Non-group Rate Levels**

## **BWC Actuarial Committee**

Thursday, February 19

# Key strategies

- Lower base rates – Correct level for non-group employers
  - Determine the differentials in rates that would bring rates for both group-rated and non-group-rated employers to actuarially sound levels.
  - Set rates for employers who are not in the group rating program at a level commensurate with the risk they present to the system.
- Address the resulting premium shortfall
  - Estimate the resulting shortfall and identify options for removing part or all it.
  - Frame the strategy in the form of proposals for Board consideration.
- Provide a “road map” of BWC rate reform
  - The elements of the comprehensive plan, this proposal, and the additional steps that must be addressed for policy year 2010.

# Rate differentials for non-group employers

## Non-Group Employer Loss Ratios as of 12/31/2008 At Base Premium Levels

Policy Year	Base premium	Undeveloped paid losses	Undeveloped incurred losses	Paid Loss Ratio	Incurred Loss Ratio	Paid Relativity	Incurred Relativity
2003	\$789,301,892	\$361,418,196	\$479,389,869	46%	61%	1.26	1.25
2004	\$894,942,490	\$321,693,830	\$432,821,194	36%	48%	1.25	1.27
2005	\$847,481,900	\$284,447,626	\$403,929,069	34%	48%	1.26	1.29
2006	\$762,310,457	\$206,573,779	\$305,887,615	27%	40%	1.29	1.32
2007	\$755,038,836	\$138,809,006	\$241,055,687	18%	32%	1.26	1.31
<b>Total</b>	<b>\$4,049,075,577</b>	<b>\$1,312,942,438</b>	<b>\$1,863,083,435</b>	<b>32%</b>	<b>46%</b>	<b>1.28</b>	<b>1.30</b>

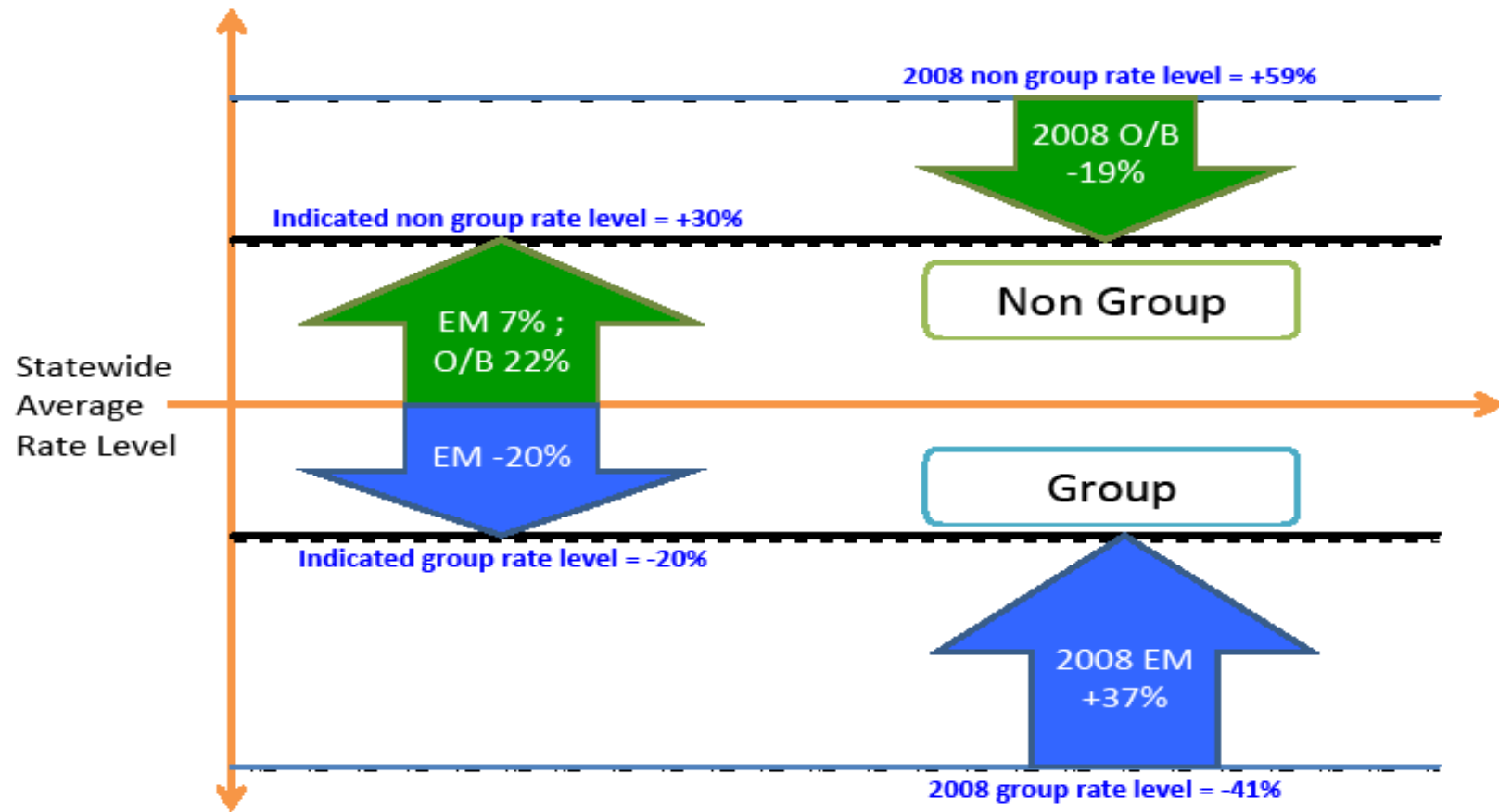
# Rate differentials for group employers

## Group Employer Loss Ratios as of 12/31/2008 At Base Premium Levels

Policy Year	Base premium	Undeveloped paid losses	Undeveloped incurred losses	Paid Loss Ratio	Incurred Loss Ratio	Paid Relativity	Incurred Relativity
2003	\$978,680,269	\$278,838,859	\$378,292,412	28%	39%	0.79	0.80
2004	\$1,024,185,653	\$228,804,073	\$298,984,182	22%	29%	0.78	0.77
2005	\$943,752,774	\$192,759,060	\$258,577,422	20%	27%	0.77	0.74
2006	\$1,080,275,523	\$179,218,286	\$253,534,626	17%	23%	0.79	0.77
2007	\$1,137,732,626	\$136,506,406	\$220,608,651	12%	19%	0.82	0.79
<b>Total</b>	<b>\$5,164,626,845</b>	<b>\$1,016,126,684</b>	<b>\$1,409,997,293</b>	<b>20%</b>	<b>27%</b>	<b>0.78</b>	<b>0.77</b>

# BWC Class Rate level Targets

[EM = experience mod factor; O/B= base rate off-balance factor]



## Setting the non-group rate level

- Non-group employers should pay premiums 30% higher than average.
  - Experience rating contributes 7%
  - A single off-balance set at 1.215 does the rest ( $1.07 \times 1.215 = 1.30$ )
  - A single off-balance (a Deloitte recommendation) will bring stability
- This will lower published base rates by approximately 18% percent

## Addressing the premium shortfall

- Projected shortfall without change to credibility: \$295 million
- Change in credibility from 85% to 77% tables: Reduction of \$71 million
- Remaining shortfall: \$224 million

# Options for closing the shortfall

- Group adjustment factors
  - Increase premium for group employers closer to the indicated level
- Reduce, restructure or eliminate premium discount programs

# Group adjustment factors

## Preliminary Group Adjustment Factors

Experience Modifier Range (77% Table)	Proposal 1	Proposal 2
0.23 – 0.29	30%	34%
0.30 – 0.44	45%	49%
0.45 – 0.56	45%	49%
0.57 +	25%	30%

# Impact of credibility table changes and group adjustment factors

## Proposal 1

Experience Modifier Range (77% Table)	Impact of Credibility Changes	Impact of Group Adjustment Factors and Off-balance Changes	Total Impact of Credibility Changes, Off-balance Changes, and Group Adjustment Factors
0.23 – 0.29	39%	4%	45%
0.30 – 0.44	17%	21%	41%
0.45 – 0.56	5%	26%	33%
0.57 +	-2%	11%	9%
<b>Total</b>	<b>8.6%</b>	<b>14.2%</b>	<b>24.0%</b>

# Impact of credibility table changes and group adjustment factors

## Proposal 2

Experience Modifier Range (77% Table)	Impact of Credibility Changes	Impact of Group Adjustment Factors and Off-balance Changes	Total Impact of Credibility Changes, Off-balance Changes, and Group Adjustment Factors
0.23 – 0.29	39%	7%	49%
0.30 – 0.44	17%	25%	45%
0.45 – 0.56	5%	30%	37%
0.57 +	-2%	16%	13%
<b>Total</b>	<b>8.6%</b>	<b>18.1%</b>	<b>28.2%</b>

## Changes to programs

- Eliminate discounts associated with PDP
- Reduce and restructure discounts associated with DFWP
- Eliminate attendance discount for safety councils (retain two percent discount for hitting frequency/severity goals)

# Changes to programs

- Outcomes:
  - Creates approximately \$60 million to \$70 million to reduce shortfall
  - Reduce base rates by an additional 2% to 3% percent (20% or more total)

# Shortfall recovery

## Projected Dollar Impact – Shortfall Recovery

	Proposal 1	Proposal 2
Projected Shortfall Before Credibility Change	\$295 million	\$295 million
Projected Increase Due to Credibility Change	\$71 million	\$71 million
Projected Increase Due to Group Adjustment Factors	\$115 million	\$147 million
Projected Contribution from Program Reductions	\$70 million	\$70 million
Projected Remaining Shortfall	\$39 million	\$7 million

# Proposed actions for BWC Board of Directors to consider

- Eliminate PDP, PDP+, and PDP-DFWP Stacked discount as well as Safety Council attendance bonuses.
- Reduce and restructure DFWP, and DFWP-EZ
- Reduce the loading in rates that offsets the effect of these programs by 2% to 3% and use the funds otherwise collected to reduce the shortfall.
- Apply group adjustment factors as shown in Proposal 1
- Possible first reading of changes to group rating rule

# Next month

- Overall change
  - Change to non-group employers
  - Impact to group employers
  - Base rates by manual class
- Consider rules for implementation

# Road map to improving system-wide ratemaking performance

- Transition to split experience rating plan
  - Implement 65 percent maximum credibility 7/1/10
  - Implement split (or multi-split) plan 7/1/11
- Reform group rating
  - Eliminate shortfall in PY 2010
  - Implement stronger sponsorship requirements
  - Improve performance of group program
- New innovative options
  - Deductibles
  - Group Retro

## Key outcomes

- Lower base rates – correct rate level for 140,000 non-group employers
- Address premium shortfall for 7/1/09
- Eliminate premium shortfall for 7/1/10 and beyond
- Create a foundation for equitable and stable rates for all employers

# **Group and Non-group Rate Levels**

## **BWC Actuarial Committee**

Thursday, February 19