

Comprehensive rate reform and July 1, 2009 private employer (PA) rate recommendation

Thursday, March 19, 2009

Goals

- Lower base rates
- Provide actuarially sound rates for non-group employers
- Bring group rate levels closer to their indicated level for July 1, 2009
- Set group rates at the indicated level for July 1, 2010 to achieve full rate equity for the group and non-group segments

July 1, 2009 rate level recommendation

Rate level indications

- Oliver Wyman's analysis of claim costs and trends produced a range of claim cost projections which resulted in a recommended actuarially sound range of overall rate changes:
 - Optimistic (low end of range): -18.1 percent
 - Baseline change: -11.8 percent
 - Conservative (high end of range): -5.5 percent
- Projected claim costs for policy year 2009 indicate that a decrease will produce actuarially sound rates.

Impacts of rate level proposal

- The Administrator and staff recommend an overall rate decrease of **12 percent**.
- Claims costs projections show a significant decrease is warranted
- Decrease will be directed entirely to non-group employers
- The change would be distributed as follows:
 - Non-group employers: -25.3 percent
 - Group employers: + 9.6 percent

Impacts of rate level proposal

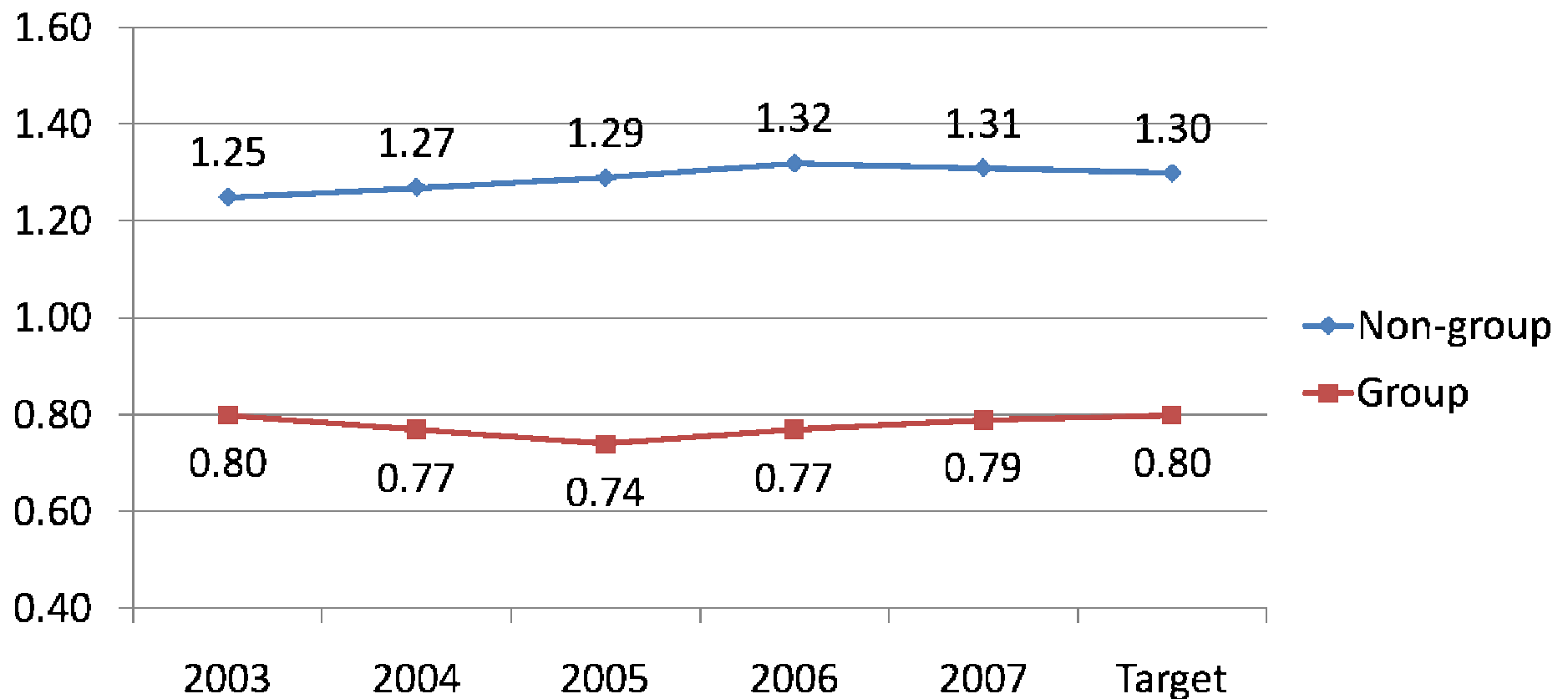
- Recommended changes will not result in an expected shortfall and the resulting pressure on net assets
- Decrease will be directed entirely to non-group employers
- The result will be lower base rates and actuarially sound rates for non-group employers

Comprehensive rate reform proposal

Differentials in claim costs

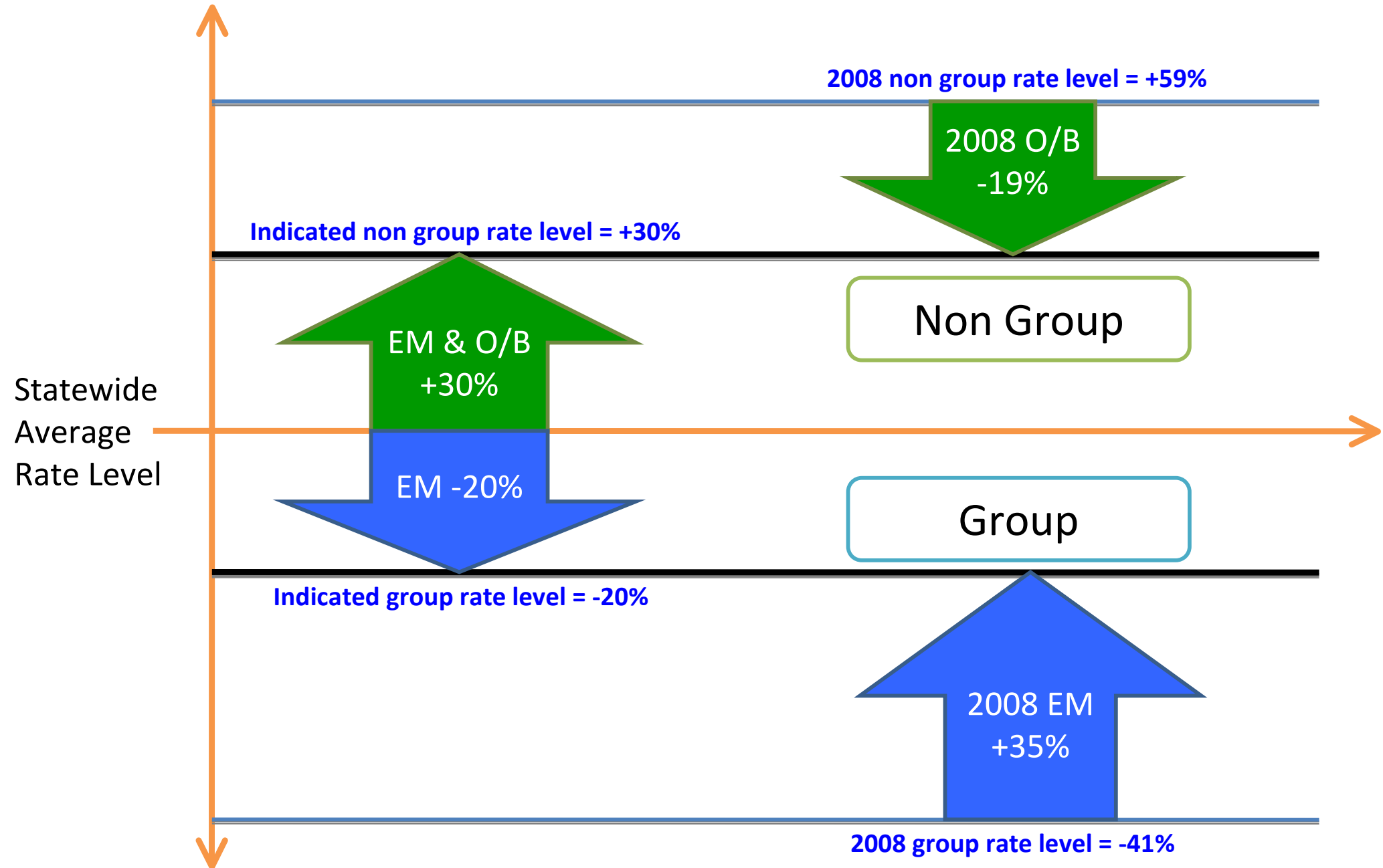
- Last month, BWC showed the actual difference in costs presented by group-rated employers and non-group employers
 - Claim costs for non-group employers are 30 percent higher than average
 - Claim costs for group employers are 20 percent lower than average

Incurred loss differentials: Group and non-group employers



BWC Class Rate level Targets

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



Key conclusions

- Eliminate 500+ varying off-balances averaging 1.49
- Set standard off-balance for non-group employers at 1.23
- Additional base rate decrease of 12 percent brings non-group employers to the target rate level relativity of 1.30
- Published base rates will decline approximately 25 percent

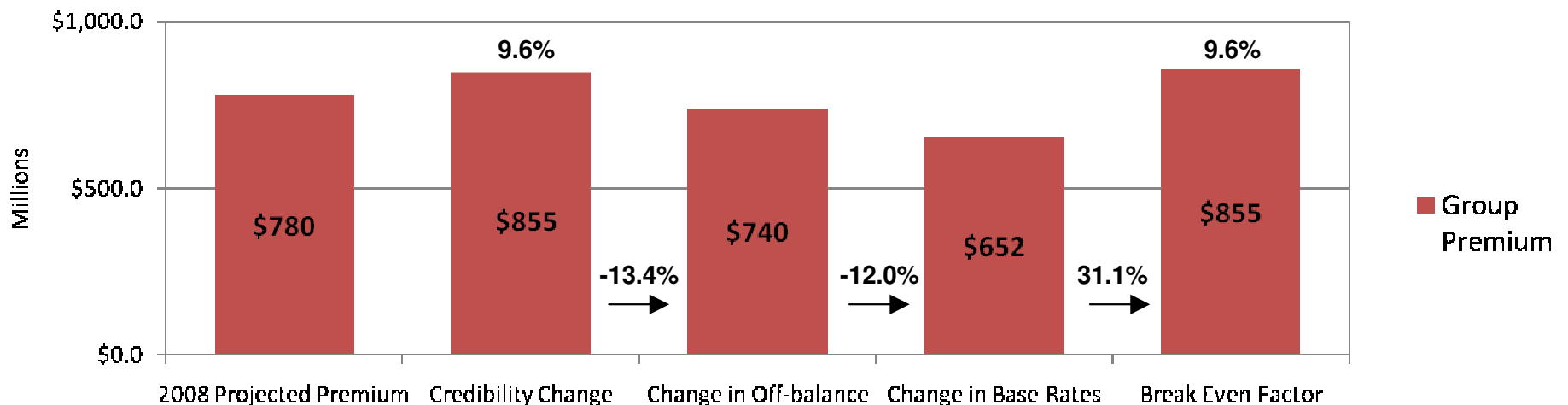
Set group rates closer to indicated levels

- Reduce credibility from 85 percent to 77 percent, which will increase premiums by an average of 9.6 percent for group employers
- Apply base rate reductions
- Institute adjustment factor for group-rated employers to offset base rate reductions
- Eliminate stacking of discounts for group-rated employers

Impacts for group employers

- Preserve the impact of changing to a 77 percent maximum credibility, which increases premiums by an average of 9.6 percent
- Implement a “break-even factor” (group adjustment factor) offsets changes for non-group employers that would otherwise impact group employers

Private Employer Group Projected Premiums 2008 and 2009



Impacts for group employers

- Reduction of maximum credibility to 77 percent increases group rate levels by 9.6 percent. **This remains their target change for July 1, 2009.**
- Mechanism for accomplishing this is a 31 percent assessment factor
- In 2009, group rate level relativity will be 0.71 - midway to the indicated 0.80 level

Projected premium impacts - group

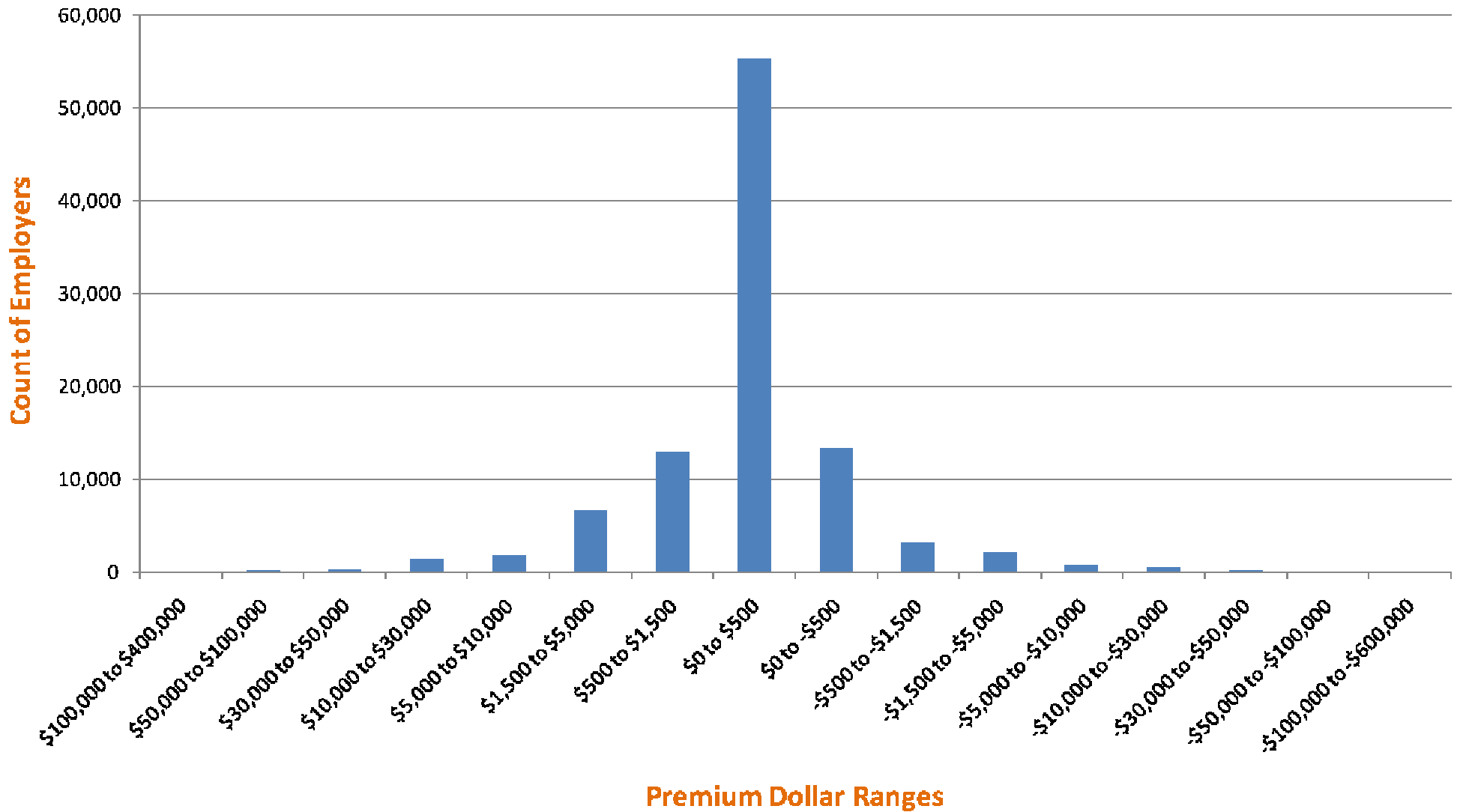
Policy Year 2008 Group Rated Employers

Distribution of premium dollar increase or decrease PY 2008 to 2009 ¹	Total premium dollars in category	Policy Count n category	Percentage of group population	Average premium increase
\$300,000 to \$400,000	\$300,076	1	0.00%	\$300,076
\$200,000 to \$300,000	\$1,208,183	5	0.01%	\$241,637
\$100,000 to \$200,000	\$2,940,497	24	0.02%	\$122,521
\$50,000 to \$100,000	\$9,832,769	150	0.15%	\$65,552
\$30,000 to \$50,000	\$10,542,266	281	0.29%	\$37,517
\$10,000 to \$30,000	\$22,859,834	1,354	1.38%	\$16,883
\$5,000 to \$10,000	\$12,527,136	1,769	1.80%	\$7,081
\$1,500 to \$5,000	\$17,534,876	6,636	6.75%	\$2,642
\$500 to \$1,500	\$11,099,085	12,855	13.08%	\$863
\$0 to \$500	\$7,847,728	55,337	56.31%	\$142
\$0 to -\$500	-\$1,411,688	13,306	13.54%	-\$106
-\$500 to -\$1,500	-\$2,734,041	3,071	3.13%	-\$890
-\$1,500 to -\$5,000	-\$5,824,272	2,116	2.15%	-\$2,752
-\$5,000 to -\$10,000	-\$4,751,471	678	0.69%	-\$7,008
-\$10,000 to -\$30,000	-\$8,204,450	493	0.50%	-\$16,642
-\$30,000 to -\$50,000	-\$3,475,001	93	0.09%	-\$37,366
-\$50,000 to -\$100,000	-\$4,290,389	62	0.06%	-\$69,200
-\$100,000 to -\$200,000	-\$3,211,241	23	0.02%	-\$139,619
-\$200,000 to -\$300,000	-\$2,014,114	8	0.01%	-\$251,764
-\$300,000 to -\$400,000	-\$699,042	2	0.00%	-\$349,521
-\$400,000 to -\$500,000	-\$456,132	1	0.00%	-\$456,132
-\$500,000 to -\$600,000	-\$1,199,826	2	0.00%	-\$599,913

¹Dollar Difference in proposed rating plan using the 77% credibility table, base rates with a standard 1.23 off balance factor and with a group adjustment factor of 1.31.

Projected premium impacts - group

Policy Year 2008 Group Rated Employers



Additional elements

- Modify the 100-percent EM cap
- Without changes, it will become part of a premium strategy – an unintended result
 - Proposed changes:
 - Cap of 100 percent only applies to an employer whose individual experience modifier is 1.01 or greater
 - The employer must actively incorporate safety measures with guidance from BWC or a sponsor
 - Employers not in good standing with BWC are ineligible

Additional elements

- BWC will actively target those employers who aren't selected for group rating and examine other options to help them to mitigate their costs
 - Typically in lower-tier discount groups
 - Approximately 40 percent of these employers will pay less premium in 2009 by being individually rated than they did in group during 2008
 - Because those employers will leave groups, many lower-tier discount groups will cease to exist leaving other employers needing other options
- BWC will also monitor impacts of ELRs on groups and consider revising the assessment if it collects excessive premiums from group-rated employers

Elements of rate reform proposal

- Set accurate non-group rates with standard off-balance at 1.23
- Capture 9.6 percent average premium increase that resulted from moving the credibility table from 85 percent to 77 percent
- Reduce overall rates by 12 percent (but apply to non-group only)
- Implement flat “break-even” factor at 1.31 for all group employers
- Eliminate premium shortfall through “break-even” factor, restricting stacking of discount programs, and overall rate reduction
- Modify 100-percent EM cap to target employers whose individual EM is 1.01 or greater and who are in good standing with BWC

Elements of rate reform proposal

- Sponsoring associations have until April 6 to notify employers they will not be renewed (currently March 30)
- Monitor ELR impacts on groups and consider revising assessment
- Assist with managing employers not selected for group as a result of the assessment
- Implement group rating program in 2010 that creates no shortfall

Outreach

- Met with various audiences to discuss comprehensive proposal with employers, sponsoring associations, and third-party administrators representing both group and non-group employers
 - Business Coalition
 - SAO
 - We've Had Enough
 - Workers' Compensation Forum

Group rating 2010

- Implement comprehensive solution to accurately reflect risk that groups bring to the system:
 - Maintain current infrastructure with continuity and “break-even” factor
 - Convert current group system to group retrospective rating
 - Devise process where groups are submitted to BWC, who will then quote the discount for the group
- Reduce credibility to 65 percent
- Consider modifications to homogeneity, benefits of sponsorship requirements, and other aspects of the program to improve performance
- Provide parameters for multi-split rating plan
- **Target completion date: July 1, 2009**

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