

## **BULLETIN**

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**R.C. 2401**

**To: The Members of the Rating Board**

**RE: New York Workers Compensation  
Experience Rating Plan Revisions – Effective October 1, 2015**

The New York State Department of Financial Services has approved revisions to the New York Workers Compensation Experience Rating Plan with an effective date of October 1, 2015. The purpose of these revisions is to improve the Plan's optimal performance, as well as to bring several plan parameters in line with national standards.

The revisions result from a change to the split point, used to distinguish between primary and excess losses in the calculation of experience modification factors, from \$10,000 to \$15,000. This change is expected to improve the performance of the plan, by increasing the credibility given to the actual experience of employers when determining their modification factor.

Revisions to Rule 2 of New York's Experience Rating Plan Manual for Workers Compensation and Employers Liability Insurance ("Experience Rating Elements and Formula"), as well as to the Supplement and Example Section of the Manual, which would now refer to the Rating Values Tables for the split point, are attached to this bulletin.

**Revised Rating Values effective October 1, 2015 will be announced in a separate Bulletin.**

**Very truly yours,**

**Monte Almer**

**President**

ZK/jg  
Encl.

★ **4. Primary/Excess Split Point Value**

The dollar value which splits a loss into its primary and excess portions is known as the primary/excess split point. This value can be found in the Experience Rating Values section under Table II – Weighting Values (W).

★ **5. Expected Primary Losses**

Expected Primary Losses for each classification are determined by multiplying the Discount Ratio times the expected losses. The result is rounded to the nearest whole number. Within the experience rating calculation, the expected primary losses represent the benchmark level of primary losses for all employers in state within a particular classification. It is against this benchmark that individual employers are compared, based on their actual primary losses.

★ **6. Expected Excess Losses**

Expected Excess Losses are determined by subtracting the total expected primary losses from the total expected losses. Within the experience rating modification calculation, the expected excess losses represent

- ★ the benchmark level of losses in total, for the portion of each claim in excess of the primary/excess split point value. It is against the benchmark that individual employers are compared, based on their actual excess losses.

- ★ *Refer to Table II of the Experience Rating Values pages of this Plan for the applicable primary/excess split point value.*

★ **7. Actual Incurred Losses**

For purposes of experience rating, Actual Incurred Losses are those reported according to the Statistical Plan. Incurred losses include both paid amounts and carrier established reserves on each claim.

★ **8. Actual Primary Losses**

Actual Primary Losses are the portion of the actual incurred losses that are used at full value in the experience rating calculation. For each actual incurred loss, the amount up to the primary/excess split point value is considered primary in New York.

- ★ *Refer to Table II of the Experience Rating Values pages of this Plan for the applicable primary/excess split point value.*

★ **9. Actual Excess Losses**

Actual Excess Losses are determined by subtracting the total actual primary losses from the total actual incurred losses. Within the experience rating calculation, the excess portion of a loss reflects its severity and is given partial weight based on the size of the risk. As risk size increases, so does the amount of the actual excess losses used in the calculation.

★ **10. Weighting (W) Value**

The Weighting Value is a factor that is applied to a risk's actual excess losses, with the complement of the W value (1.00 – W) applied to the expected excess losses. The weighting value determines how much of actual excess losses and expected excess losses are used in an experience rating. The weighting value is based on the total expected losses of the risk and increases as expected losses increase. These values may be obtained from the Table of Weighting Values in this Plan.

★ **11. Ballast (B) Value**

The Ballast Value is a stabilizing element designed to limit the effect of any single loss on the experience rating modification. It is added to both the actual primary losses and expected primary losses. The ballast value is based on the total expected losses of the risk and increases as expected losses increase. These values may be obtained from the Table of Ballast Values in this Plan.

★ 12. **Stabilizing Value**

The Stabilizing Value is a term used to describe the combined effect of the weighting and ballast values on the experience modification and is determined as follows:

$$\text{Expected Excess Losses} \times (1 - \text{Weighting Value}) + \text{Ballast Value}$$

The stabilizing value is included in both the actual and expected portions of the experience rating calculation formula. It limits the potential for significant variances in the experience rating modification factor from one year to the next. Its most significant impact is on smaller risks, which have a greater likelihood for severe swings in experience rating modification factors.

★ 13. **Ratable Excess**

a. **Expected Ratable Excess Losses**

Expected Ratable Excess Losses are determined by multiplying the complement of the weighting value (1.00-W) times the expected excess losses. The result is rounded to the nearest whole number. Within the experience rating calculation, the expected ratable excess losses represent, in total, the benchmark level of excess losses for all similarly classified employers. It is against this benchmark that individual employers are compared, based on their actual ratable excess losses.

b. **Actual Ratable Excess Losses**

Actual Ratable Excess Losses are determined by multiplying the weighting value times the actual excess losses. The result is rounded to the nearest whole number. For each actual incurred loss exceeding the primary/excess split point value, only that portion of the loss amount above the primary/excess split point value (the excess portion) is used. Within the experience rating calculation, the actual ratable excess losses represent, in total, the amount of actual excess losses to be used in the experience rating formula.

★ Refer to Table II of the Experience Rating Values pages of this Plan for the applicable primary/excess split point value.

★ 14. **Ratable Excess Limitation of Losses Employed in a Rating**

To reduce the effect of unusual or catastrophic occurrences on the experience modification, losses are limited to per claim, or multiple claims, limitations that can be found in the Table of Weighting Values.

a. **Single and Multiple Claim Limitation**

**Basic Loss Limitation Table**

If...	Then...
★ An accident involves only one person, or is an employers liability only loss	<ul style="list-style-type: none"> <li>• The loss is subject to per claim accident limitation</li> <li>• The actual primary loss is subject to the maximum primary value of the primary/excess split point value, even if the loss does not exceed the per claim accident limitation</li> </ul>

**Loss Limitations for Accidents Involving Two or More Persons - Table 1**

If an accident involves two or more persons, and...	Then...
★ The total of the losses exceeds the multiple claim accident limitation	<ul style="list-style-type: none"> <li>• The total losses are subject to the multiple claim accident limitation</li> <li>• The actual primary loss for these accidents is limited to a total of two times the primary/excess split point value.</li> </ul>
★ The total of the losses <b>does not</b> exceed the multiple claim accident limitation, and none of the individual losses within the total exceeds the per claim accident	<ul style="list-style-type: none"> <li>• The individual losses are used at full value</li> <li>• The total actual primary losses for the accident are limited to two times the primary/excess split point value.</li> </ul>

**Loss Limitations for Accidents Involving Two or More Persons - Table 2**

	<b>If an accident involves two or more persons, and the total of the losses does not exceed the multiple claim accident limitation, but an individual loss within the total exceeds the per claim accident limitation, and...</b>	<b>Then, the individual loss is limited to the per claim accident limitation and...</b>
★	The total of the remaining losses exceeds the primary/excess split point value.	<ul style="list-style-type: none"> <li>• The remainder of the losses are used at full value</li> <li>• The total actual primary losses for the accident are limited to two times the primary/excess split point value.</li> </ul>
★	The total of the remaining losses <b>does not</b> exceed the primary/excess split point value.	<ul style="list-style-type: none"> <li>• The remainder of the losses are used at full value</li> <li>• The actual primary loss is limited to the primary/excess split point value for the individually limited loss</li> <li>• No actual primary loss limitation applies for the remainder of the losses</li> </ul>

**b. Disease Loss Limitation**

Disease losses are subject to per claim and multiple claim limitations. A limitation on total disease losses may also apply to an individual policy. This is in addition to the claim limitations already applied to individual disease losses under Rule 2-C-13-a.

i. To apply the disease loss policy limitation:

- a. Determine if a risk's individual policy total limited and non-limited actual incurred disease losses exceed the policy disease limit of triple the per claim accident limitation shown in the Tables of Weighting Values, plus 120% of the risk's total expected losses for the experience period. If the risk-specific threshold is exceeded, the disease losses are limited to such threshold, and
  - ★ b. The actual primary losses are limited to two times the primary/excess split point value, plus 40% of the risk's total expected primary losses for the experience period, rounded to the nearest whole number.
- ii. A policy's total disease losses may not meet the risk-specific policy limitation amount as determined in (1)(a) above, but exceed the limitation shown in (1)(b). In such circumstances, Rule 2-C-13-a applies.
- iii. For risks that do not have an experience period of 36 months, determine policy disease losses as follows:

<b>To determine the...</b>	<b>Combine the disease losses of all policies within the experience period having an effective date...</b>
Most recent policy year	Within 24 months prior to the rating effective date
Middle policy year	More than 24 months but not exceeding 36 months prior to the rating effective date
Oldest policy year	More than 36 months prior to the rating effective date

**D. LOSS LIMITATIONS**

★ NOTE: The examples below utilize a Primary/Excess split point of \$10,000, and are meant for *illustrative purposes only*. Refer to Table II of the Experience Rating Values pages of this Plan for the applicable primary/excess split point value.

**1. Loss Limitation for Single Claims—Examples for Rule 2-C-13-a**

**a. State Per Claim Accident Limitation**

Per claim accident limits vary by state. They are intended to protect the employer from the adverse impact any single large claim could have on the experience rating modification calculation.

Assume New York’s state per claim accident limit is \$245,000. A claim of \$285,000 is reported at that amount and appears at full value on the experience rating modification worksheet. However, in the summary of all losses used in the calculation, the claim will be limited to \$245,000. This limitation applies for all claims that exceed \$245,000.

**b. State Per Claim Accident Limitation**

Company A has three claims from three separate accidents:

Loss	Actual Incurred	Actual Incurred Limited	Actual Primary
1	\$275,000	\$245,000	\$10,000
2	\$12,000	\$12,000	\$10,000
3	\$5,000	\$5,000	\$5,000
<b>Total</b>	<b>\$292,000</b>	<b>\$262,000</b>	<b>\$25,000</b>

Because Loss 1 exceeds the limit, it is reduced to that amount. Both Losses 2 and 3 are used at full value. The primary loss for Losses 1 and 2 are \$10,000 each and \$5,000 for Loss 3.

**2. Loss Limitations for Accidents Involving Two or More Persons—Examples for Rule 2-C-13-a**

States also have a multiple claim accident limitation, which is double the per claim accident limitation. If the per claim limit is \$245,000, the multiple claim limitation would be \$490,000. The multiple claim limitation is another layer of protection that the Plan provides. It ensures that the impact of catastrophic accident (one incident involving two or more claims) is lessened.

a. In this example, assume a warehouse fire occurs, resulting in four injured workers with individual claim amounts of \$250,000, \$327,000, \$85,000 and \$60,000, totaling \$722,000.

These four claims would be reported in a manner identifying them as individual claims from the same accident. This ensures that the experience rating modification calculation will limit the \$722,000 in claims to \$490,000. In addition, the actual primary loss is limited to \$20,000 for the four claims, rather than the \$40,000 (\$10,000 each) that would normally apply for each of the four claims.

b. Assume Company B has four claims resulting from a single accident:

Loss	Actual Incurred	Actual Incurred Limited	Actual Primary
1	\$525,000	Multiple Claim Limit	Actual Primary Limit
2	\$221,000		
3	\$145,000		
4	\$50,000		
<b>Total</b>	<b>\$941,000</b>	<b>\$490,000</b>	<b>\$20,000</b>

The multiple claim limitation reduced the amount of the actual incurred losses used in the experience rating calculation by \$451,000 and the actual primary losses by \$20,000.