B. DEFINITIONS

1. **General Definitions**

   a. **Allocated Loss Adjustment Expense (ALAE)**

   Allocated loss adjustment expense for workers compensation and employers liability insurance, as defined in the ***New York Workers Compensation Statistical Plan,*** may also be included as part of incurred losses under a retrospective rating plan if agreed upon by the insured and carrier. This will be called the Allocated Loss Adjustment Expense Option (ALAE Option).

   b. **Increased Limits for Coverage B**

   If the policy provides for increased limits for employers liability coverage, the losses may be subject to the retrospective rating loss limitation. The premium for employers liability increased limits is based on the percentages provided in the ***New York Workers Compensation and Employers Liability Manual.***

   c. **Incurred Losses**

   Incurred losses for workers compensation and employers liability insurance are defined in the ***New York Workers Compensation Statistical Plan***. Incurred losses include paid and outstanding losses.

   If the ALAE Option is elected, then incurred losses will include ALAE.

   Refer to Rule 1-B-1-a of this manual for the definition of Allocated Loss Adjustment Expense (ALAE) when including ALAE as part of incurred losses.

   Note: The rating formula for incurred losses will not include a loss resulting from:

   - Non-ratable element codes
   - Occupational disease for employers subject to the Federal Mine Safety and Health Act
   - Terrorism, natural disasters and catastrophic industrial accidents
   - Reported as fully fraudelent according to the Statistical Plan
   - Reported as noncompensable according to the Statistical Plan

   d. **Large Risk Rating Option (LRRO)**

   The New York Large Risk Rating Option is a flexible retrospective rating plan that is mutually agreed to by the insured and carrier. It is an available option for insureds with an estimated annual standard premium of at least $500,000 individually or in any combination with any commercial casualty insurance line (general liability, commercial automobile, hospital professional liability, crime, glass) and/or workers compensation and employers liability insurance.

e. **Loss Limitation**

A loss limitation is the limit placed on a claim dollar amount that is to be included in the retrospective rating plan calculation. This is an elective element agreed upon by the insured and carrier; there is an additional charge associated with a loss limitation

f. **Standard Premium (SP)**

For purposes of the retrospective rating plan, standard premium is determined on the basis of authorized rates, any experience rating modification, and minimum premiums. Determination of standard premium excludes:

(1) Premium discount
(2) Expense constant
(3) Premium resulting from the non-ratable element codes
(4) Premium developed by the occupational disease rates for employers subject to the Federal I Act
(5) Premium developed by the provisions for terrorism, natural disasters and catastrophic indus

g. **Unallocated Loss Adjustment Expense (ULAE)**

Unallocated loss adjustment expense for workers compensation and employers liability insurance is defined in the ***New York Workers Compensation Statistical Plan***. Unallocated loss adjustment expense includes the general overhead of a carrier's claim operations.

2. **Elements of the Retrospective Rating Plan Formula**

The following formula includes all of the elective elements available under a retrospective rating plan. *See Rule 3 of this manual* for other variations of the retrospective rating formula.

Retrospective Rating Premium = (Basic Premium + Excess Loss Premium + Retrospective Rating Development Premium + Converted Losses) x Tax Multiplier.

a. **Retrospective Rating Premium (RRP)**

Retrospective rating premium is the premium based on the application of retrospective rating plan elements as a result of a mutual agreement between the insured and carrier.

b. **Basic Premium (BP)**

Basic premium is a percentage of standard premium. It is determined by multiplying the standard premium by a basic premium factor. The basic premium factor is developed by the carrier and includes:

- General administration costs of the carrier
- Related loss control service cost
- Insurance charges

The basic premium factor does not cover premium taxes or claims adjustment expenses. Those elements are usually provided for in the tax multiplier and the loss conversion factor.

c. **Converted Losses**

Converted losses are based on the incurred losses of the insured for the policy or policies to which a retrospective rating plan applies. A loss conversion factor is applied to incurred losses to produce the converted incurred losses. (Losses x LCF).

d. **Loss Conversion Factor (LCF)**

The loss conversion factor covers the cost of the carrier's claim services (e.g., investigation of claims and filing claim reports). The loss conversion factor is established by negotiation between the insured and carrier.

If the ALAE option is elected as part of incurred losses, the loss conversion factor must be adjusted to exclude ALAE.

e. **Excess Loss Premium (ELP)**

Excess loss premium is a charge for the election of a loss limitation. The excess loss premium factor is applied after the basic premium in the retrospective rating plan formula.

(Excess Loss Premium = Excess Loss Factor x Standard Premium x Loss Conversion Factor)

In New York, the New York Compensation Insurance Rating Board (NYCIRB) files excess loss pure premium factors. The excess loss pure premium factors must be converted to excess loss factors using the carrier's expense provisions that have been approved for use in New York.

The conversion formula is:

Excess Loss Premium Factor = [(Excess Loss Pure Premium Factor x Expected Loss Ratio) x (1 + Loss Adjustment Expense %)].

The Excess Loss Pure Premium Factor and LAE % are NYCIRB-provided values.

The carrier determines the Expected Loss Ratio (ELR). ELR is a ratio of pure losses (no LAE) to premium.

Refer to the Tables of Retrospective Rating Values in this manual for the excess loss pure premium factors. Refer to the latest approved New York loss cost filing for the LAE %, which can be found on the NYCIRB website, www.nycirb.org.

The Table of Classifications by Hazard Group is used to determine the excess loss factor. This factor is determined based on the selected loss limitation and the hazard group assignment shown in the Table for the classification producing the largest amount of estimated workers compensation standard premium for each state included in the plan. *Refer to the Tables of Retrospective Rating Values in this manual for the New York Table of Classifications by Hazard*

Group.

For insureds having USL&HW coverage for non-F-classification codes, the applicable hazard group to use for the determination of an excess loss factor (ELF) is the New York classification code hazard group, increased two levels. When the classification hazard group is already at the highest level hazard group, use that highest level hazard group.

New York Classification Hazard Group	**USL&HW fo Codes**
A	
B	
C	
D	
E	
F	
G	

For the classification codes that include federal coverages (F-classification codes), use the hazard group assigned to that code.

f. **Retrospective Development Premium (RDP)**

Retrospective development premium is an elective element that varies by state. The RDP stabilizes premium adjustments for an insured written under a retrospective rating plan by anticipating future increases in loss costs. The RDP is calculated using the following formula:

Retrospective Development Premium = Standard Premium x Retrospective Development Premium Factor x Loss Conversion Factor.

The retrospective development premium factor anticipates a pattern of increasing valuation of losses after the policy is expired. The retrospective development premium factor may be included in the first three calculations of the retrospective premium.

In New York, NYCIRB files retrospective development pure premium factors. The retrospective development pure premium factors must be converted to retrospective development premium factors using the carrier's approved expense provisions. *Refer to the Tables of Retrospective Rating Values of this manual for retrospective development pure premium factors.*

The conversion formula is:

Retrospective Development Premium Factor = Retrospective Pure Premium Development Factor x Expected Loss Ratio x (1 + Loss Adjustment Expense %).

The Retrospective Pure Premium Development Factor and LAE% are NYCIRB provided values. *Refer to the Tables of Retrospective Rating Values in this manual for the retrospective pure premium development factors. Refer to the latest approved New York loss cost filing for the LAE %.*

The carrier determines the Expected Loss Ratio (ELR). ELR is a ratio of pure losses (no LAE) to premium.

g. **Tax Multiplier (TM)**

Tax multipliers vary by state and generally cover licenses, fees, assessments, and taxes that the carrier must pay on the premium collected in an individual state.

For New York where NYCIRB files loss costs, you may refer to NCCI's Tax and Assessment Directory for state tax Information.

h. **Maximum Retrospective Premium**

Maximum retrospective premium is a percentage of the standard premium determined by the application of a maximum retrospective rating plan premium factor. It is the greatest amount of premium payable by an insured subject to the retrospective rating plan. Maximum retrospective premium places a limit on the impact of incurred losses on a retrospective rating plan premium. It is established by an agreement between the insured and carrier.

i. **Minimum Retrospective Premium**

Minimum retrospective premium is a percentage of the standard premium determined by the application of a minimum retrospective premium factor. It is the least amount of premium payable by an insured subject to the retrospective rating plan. A minimum retrospective premium factor is established by an agreement between the insured and carrier.