



Loss Cost Values and Expected Loss Rates: Explaining the Transition to Three Decimals

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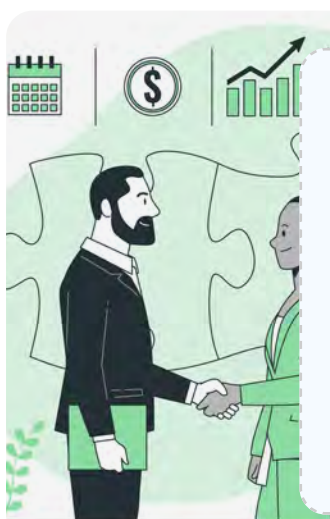
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What is Changing?

Historically, loss cost values and expected loss rates have been filed and published with two decimal places, e.g., 2.32. However, **beginning with the Rating Board's 2025 loss cost filing, effective October 1, 2025, these values will be published with three decimals, e.g., 2.324.** As explained in this pamphlet, this transition will provide additional stability and accuracy to these important rating values.

Background



Loss Cost Values

Loss costs are actuarially developed values used to calculate the amount of premium needed to cover claims, including certain associated expenses. The Rating Board develops and publishes loss cost values for each occupational classification code. For example, as of October 1, 2023, the loss cost value for Classification Code 8810 is \$0.10 per \$100 of payroll. Loss cost values serve as the starting point in the determination of workers' compensation insurance premiums and insurance carriers use the loss costs published by the Rating Board to derive final rates.

Each year, the Rating Board updates the loss cost values for each occupational classification code to reflect the most recent data and files them with the New York State Department of Financial Services ("DFS"). Following review and approval by DFS, revised loss cost values become effective on October 1 of each year and are published in the Loss Cost section of the Workers' Compensation and Employers' Liability Manual. These revised loss cost values are also made available to insurance carriers electronically in a WCRATES file format, which is the approved standardized Workers' Compensation Research Organizations ("WCIO") format for rating values.

Expected Loss Rates

Expected loss rates ("ELRs") are used by the Rating Board as part of the determination of experience rating modification factors. ELRs vary by occupational classification, are updated annually in conjunction with the loss cost update and are published in Table I of the Experience Rating Plan Manual.

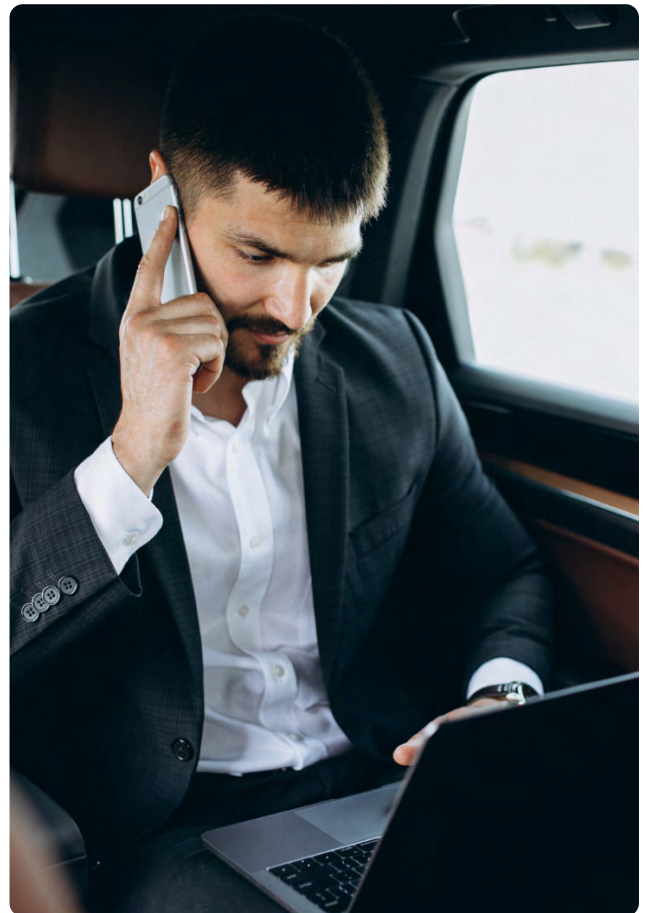


The Rationale for the Change to Three Decimal Places

Low value loss costs with only two decimal places contain an inherent limitation: the smallest increment of change – \$.01 – is not sufficiently granular to revise the loss cost value with updated data while also providing pricing stability to New York State employers. Compounding this limitation, the number of classification codes with low loss cost values has increased in recent years.

Consider the following example:

Effective October 1, 2023, classification code 8803 (Clerical Service Contractor – Traveling) has a loss cost of \$0.03 per \$100 of payroll. The smallest incremental change available in a two decimal place system is \$0.01. A \$0.01 change in the loss cost for this class code – either an increase or a decrease – would result in a 33% change in its loss cost value and the final premium charged on the workers' compensation policy. The magnitude of this increase is driven more by rounding than it is by the new data used to derive the updated value. Similarly, with respect to two decimal ELRs, minimal changes in ELR values can result in an inordinate impact on an employer's experience rating modification factor.



Transitioning from loss cost values and ELRs with two decimal places to those with three decimal places will facilitate future revisions that reflect the latest data while maintaining pricing stability. Introducing three decimal places for these values will enable revisions in smaller increments, thereby enhancing accuracy and avoiding the disproportional impact that rounding to two decimal places has had on low loss cost value classification codes.

Additional Advantage: The transition to three decimal loss cost values will aid the Rating Board's continuing effort to make Classification Code 8810 (Clerical Office Employees – NOC) more homogenous and accurate. To explain, Classification 8810 is the largest occupational classification in terms of payroll. Over the years, it has grown to include a wide variety of occupations and has become more heterogeneous as a result, reducing its accuracy. Achieving sufficient accuracy and stability for low loss cost value occupations, whether in a new classification code or as part of an existing classification code, is only possible with the additional loss cost granularity provided by a three decimal loss cost value.



The Impact on Premium and Methodology

Extending loss cost values and ELRs to three decimal places is **premium neutral** on an industry group and statewide basis and **will not give rise to any change to the methodologies** underlying the calculation of loss costs or ELRs. However, several values used in the derivation of loss costs and ELRs will be rounded differently where appropriate. The classification experience exhibits, which are used to derive the loss costs, will include classification pure premiums with three decimals.

The Impact on Premium Derivation

Upon approval of the October 1, 2025 loss cost filing, the loss cost section of the New York Workers' Compensation and Employers' Liability Manual will include loss costs with three decimal places and **insurance carriers will be required to use these loss cost values to derive carrier specific manual rates**, which are expected to also include three decimals.

This transition may require that insurance carriers implement information technology programming changes to accommodate the utilization and submission of relevant three decimal values.



The Impact on Data Reporting

Policy and Unit Reporting

For unit statistical reports and policy data reporting, insurance carriers are required to report the manual rates utilized to derive policy premium. For policies effective on or after October 1, 2025, insurance carrier **manual rates are expected to include three decimals**. The approved WCIO record layouts for WCPOLS and WCSTAT file formats already accommodate a manual rate field with three decimals. As noted above, insurance carriers may be required to implement changes to their information technology systems to utilize and report three decimal manual rates.



Financial Data Reporting

Financial data reporting requires insurance carriers to submit premiums at the designated statistical reporting level, which in New York for policies effective on or after October 1, 2008, refers to premiums at loss cost level. For policies effective on or after October 1, 2025, the derivation of premiums at loss cost level will require insurance carriers to utilize three decimal loss costs.

The Impact on Experience Rating and WCRatings File Format

The ELR table in the Experience Rating Plan Manual will display ELRs with three decimal places and experience rating modification factors with rating effective dates on or after October 1, 2025 will be derived utilizing these ELRs.

The experience rating worksheets, which contain the derivation of individual experience rating modifications, will be revised to display ELRs with three decimal places. Final experience rating modification factors will continue to be published with two decimals.

The WCRatings file format, which is used by insurance carriers to upload experience rating information from the Rating Board to their underwriting systems, will require modification to accommodate three decimal ELRs. Any modification of the WCRatings file format is subject to review and approval by the WCIO.