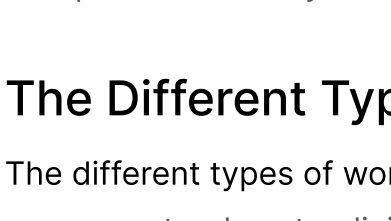


Types of Workers' Compensation Policies in New York

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Background

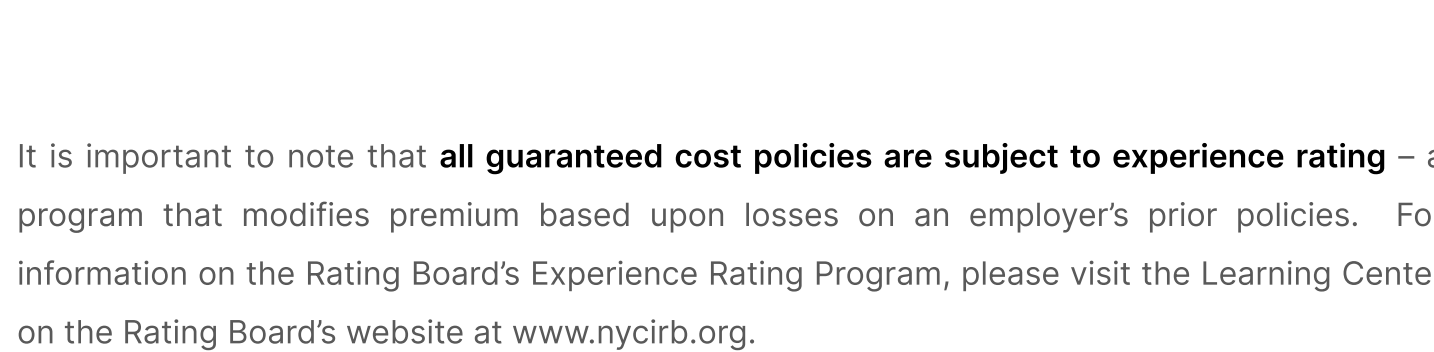
In the New York workers' compensation insurance marketplace, there are several different types of workers' compensation policies that are available to employers. Each type of policy is subject to different rating and coverage rules, but all require the use of the Standard Workers' Compensation Policy Form (WC 00 00 00 C) along with associated endorsements.

The Different Types of Workers' Compensation Policies

The different types of workers' compensation policies available in New York are:

- guaranteed cost policies;
- deductible policies (small and large deductibles);
- retrospectively rated policies; and
- large risk rating option policies

Guaranteed Cost Policies



The defining feature of a guaranteed cost workers' compensation policy is that the final policy premium is not affected by claims filed and paid during the policy period. Premium on guaranteed cost policies is largely a function of the amount of payroll in each occupational classification on the policy. The premium algorithm, which is located in the Rating Board's Workers' Compensation and Employers' Liability Manual ("Manual"), allows for a variety of credits and debits on the policy premium such as workplace safety credits and schedule

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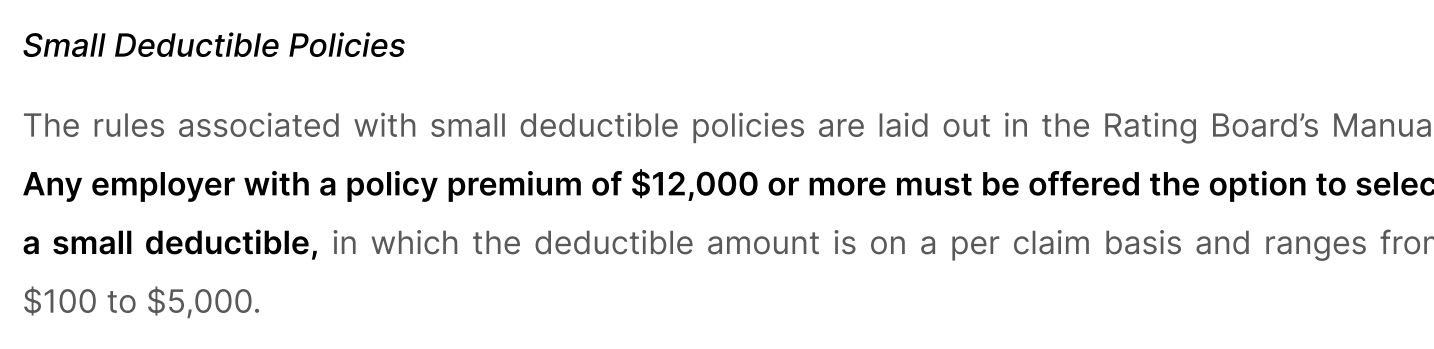
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rating credits and debits. As indicated above, none of these credits or debits depend on the losses that emerge during the policy period at issue. For more information on the Rating Board's premium algorithm, please visit the Learning Center on the Rating Board's website.

It is important to note that all guaranteed cost policies are subject to experience rating – a program that modifies premium based upon losses on an employer's prior policies. For information on the Rating Board's Experience Rating Program, please visit the Learning Center on the Rating Board's website at www.nycirb.org.

Deductible Policies

An employer may elect to have a deductible on their policy. The defining feature of deductible policies is that while carriers remain responsible for handling and paying claims, an employer is responsible for reimbursing the carrier for any loss amounts paid up to the amount of the deductible. Accordingly, even though the actual premium on the policy is agreed upon at policy issuance, the employer's ultimate financial responsibility will depend on the losses paid during the policy period.



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Types of Deductible Policies

There are two main types of deductible policies: small deductible policies and large deductible policies.

Small Deductible Policies

The rules associated with small deductible policies are laid out in the Rating Board's Manual. Any employer with a policy premium of \$12,000 or more must be offered the option to select a small deductible, in which the deductible amount is on a per claim basis and ranges from \$100 to \$5,000.

If an employer chooses to place a deductible on their policy, they will receive a premium credit. In other words, an employer's regular policy premium will be lower as a result of the deductible credit, but the ultimate financial responsibility of the employer will depend on the claims that emerge during the policy period and the losses paid on those claims.

Premium credits are determined based on a set of values, known as "loss elimination ratios," which are contained in the Miscellaneous Values section of the Rating Board's Manual.

Large Deductible Policies

While a policy with a deductible amount greater than \$5,000 is referred to as a large deductible policy, most large deductible programs offer significantly higher deductible amounts, such as \$100,000 or more. The rules for large deductible policies are not contained in the Rating Board's Manual. Rather, the rating and pricing of large deductible policies are subject to endorsements and rules that are filed by carriers independently and approved by the New York State Department of Financial Services.

The final pricing arrangement of large deductible policies is subject to negotiation between a carrier and an employer within the bounds of the carrier's independently filed and approved large deductible program.

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All large deductible programs include a per claim deductible amount and some of those deductible programs may also include an aggregate deductible amount, which limits the employer's deductible responsibility on the policy in the aggregate regardless of the number of claims made during the policy period and the resulting losses.

Depending on the size of an employer's deductible amount, the associated deductible premium credit applied may cause the final policy premium to be significantly lower than the premium would have been had the policy been written on a guaranteed cost basis. However, the employer's ultimate financial responsibility on a large deductible policy will depend on the claims that occur during the policy period.

Consider the following example:

On a large deductible policy with a \$100,000 per claim deductible, the employer is expected to pay the policy premium as well as the first \$100,000 in losses on each claim occurring during the policy period. If there are two claims on the policy, one costing \$150,000, and the other costing \$120,000, the employer will be responsible to reimburse the carrier for the first \$100,000 of each claim, for a total of \$200,000, in addition to the policy premium.

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Per claim deductible of \$100,000

Claim #1: \$150,000

Employer Responsibility \$100K	Carrier Responsibility \$50K
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Claim #2: \$120,000

Employer Responsibility \$100K	Carrier Responsibility \$20K
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Total Employer Responsibility: \$200,000

If that same large deductible policy described above contained an aggregate deductible amount of \$150,000, then the employer's deductible responsibility on the policy would be capped at \$150,000 because the aggregate deductible amount limits the employer's overall deductible responsibility for claims made under that policy.

Per claim deductible of \$100,000 with an aggregate deductible of \$150,000

Claim #1: \$150,000

Employer Responsibility \$100K	Carrier Responsibility \$50K
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Claim #2: \$120,000

Employer Responsibility Pays \$50K	Carrier Responsibility Pays \$70K
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*Employer met the aggregate deductible cap

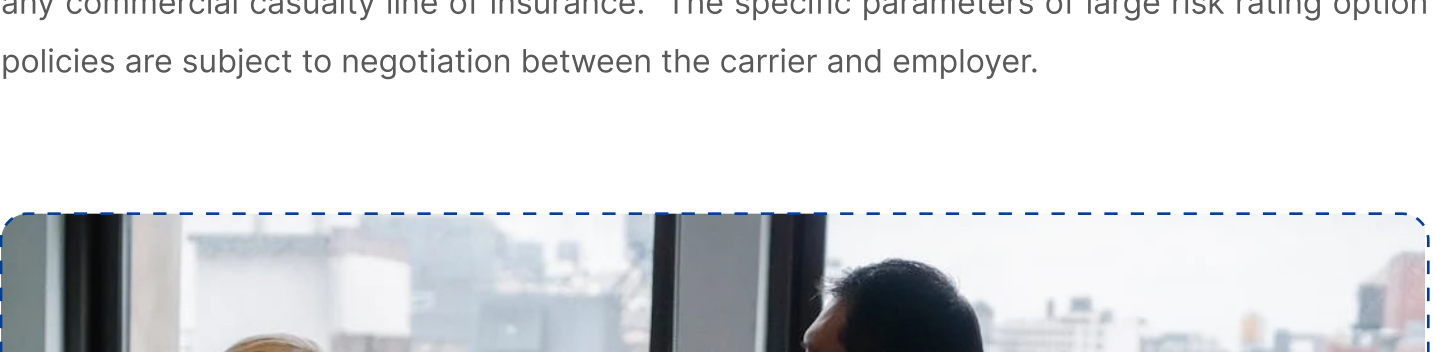
Total Employer Responsibility: \$150,000

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Retrospectively Rated Policies

For retrospectively rated policies, the final premium is based on the amount of losses on the policy, subject to a pre-determined minimum and maximum premium amount. The New York Retrospective Rating Plan manual contains the rules and formulas utilized to determine the final premium amount due on these policies.



Consider the following example:

If a retrospectively rated policy with a \$200,000 minimum premium and a \$500,000 maximum premium had no claims in the policy period, the final premium amount would be \$200,000 – the minimum premium. Conversely, if that same policy had claims, and the value of those losses yield a premium in excess of \$500,000, then the final premium amount would be limited to \$500,000 – the maximum premium.

It is important to note that losses on a policy may change over time. Policy premiums may therefore be adjusted annually until either all information on claims is finalized or within a specified time period agreed to by the employer and the carrier.

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Large Risk Rating Option Policies

A large risk rating option policy is a flexible retrospective rating plan policy that is mutually agreed to by the employer and carrier. It is an available option for employers with an estimated annual standard premium of at least \$500,000 individually or in combination with any commercial casualty line of insurance. The specific parameters of large risk rating option policies are subject to negotiation between the carrier and employer.

For additional information relating to these different types of workers' compensation policies that are available for employers in New York, please visit the Rating Board's website at www.nycirb.org.

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