



## **EXHIBIT A**

### **Primary Workers' Compensation Program Methodology for Premium Rate Adjustments**

The calculation of the deposit premium will be based upon a rate per \$100 of estimated payroll for a given program year. The final premium will be based upon an adjusted rate per \$100 of actual payroll. The initial rate and subsequent adjustments to the rate will be determined based upon one of the following methods:

#### **Rating Method**

If the PRISM PWC Committee determines that because of the size of the member, an individual actuarial analysis of the member's loss experience is unavailable or inappropriate, the initial rate will be based upon the "Rating Method". If the Rating Method is used, the PRISM PWC Committee will, in consultation with its reinsurer, determine the initial rate to be used. The initial deposit premium will be the initial rate times estimated payroll. The deposit premium will be adjusted after the end of the first policy period based upon the same rate multiplied by actual payroll.

The rate will be adjusted in subsequent years in accordance with the "Internal Rate Smoothing Procedure" shown below except that the "indicated rates" will be the combination of all members of the PWC that are on the Rating Method. Alternatively, the PWC Committee could determine that the combination of all members under the Rating Method is too small for actuarial purposes in which case the indicated rates for all members combined may be used.

#### **Experience Method**

Initial deposit premium for the PWC, and all subsequent rate adjustments will be actuarial based on the individual member's experience. The initial deposit premium will be the member's expected discounted rate (as determined by PRISM's actuary) times estimated payroll. The deposit premium will be adjusted after the end of the first policy period based upon the same rate multiplied by actual payroll. In subsequent years, deposit and final premium will be based upon the "Internal Rate Smoothing Procedure" set forth below.

#### **Modified Experience Method**

Upon consultation with the reinsurer, the PRISM PWC Committee may approve application of a modification factor to the initial expected discounted rate. This modification factor will also be applied to the final rate calculated in the payroll adjustment premium described below. A member's modification factor may change in subsequent years, but will not be higher during the commitment period than the member's modification factor in the first year of the commitment.

## **Internal Rate Smoothing Procedure**

### **Deposit Premium**

1. Multiply indicated rates (expected, discounted, as provided by the actuary) by the estimated payroll for each member to come up with the Total Needed Deposit Premium for the year.
2. Calculate the 2-year average rate by member (avg. of expiring year's indicated rate and the indicated rate for the upcoming year).
3. Apply the 2-year average rate to the estimated payroll for each member to come up with the rated premium.
4. Adjust the rated premium on a pro-rata basis to bring it back to the Needed Deposit Premium. This will determine the deposit premium for each member.

### **Payroll Adjustment Premium**

1. Multiply indicated rates (expected, discounted, as provided by the actuary) by the actual payroll for each member provided six (6) months after expiration to come up with the Final Needed Premium for the year.
2. Apply the two (2) year average rate calculated in step 2 above to the actual payroll for each member to come up with the final rated premium.
3. Adjust the rated premium, on a pro-rata basis, to bring it back to the Final Needed Premium for the year.
4. Calculate additional premium needed, or return premium due, by subtracting the Deposit Premium from the Final Needed Premium for each member.