PRISM

Public Risk Innovation, Solutions, and Management

Excess Workers' Compensation (EWC) Premium Allocation Methodology

Beginning with the 2011/12 year, the premium allocation methodology for the EWC Program was updated to incorporate an experience modification factor (Ex Mod) in the rating model, include credibility weighting of each member's own loss experience, and integrate a premium adjustment provision for members who brought large excess losses. These changes were transitioned according to a 5-year phase-in period and were completely implemented during the 2015/16 year.

In 2015/16, a second tower was added to the EWC Program for the EWC Program's educational members. The allocation methodology for the school members in the Education Tower remains the same as the Core Tower members, but is subject to the pool limits of that tower.

Starting in the 2016/17 fiscal year, the Underwriting Committee, Executive Committee, and the Board of Directors approved modifying the EWC Program's rating methodology by creating a fourth rating group. Prior to 2016/17, the EWC Program had 3 rating groups: Counties, Cities/Other Public Entities, and Schools. The Cities/Other Public Entities rating group was split into two separate rating groups based on safety exposure. Members with more than 40% of total payroll in safety class codes comprise the High Safety Public Entity rating group and members with less than 40% of total payroll in safety class codes comprise the Low Safety Public Entity rating group.

The methodology change was made in order to maintain equitable premiums for the public entity members. The two groups contain a credible amount of exposure to be separately actuarially rated. The methodology change was originally intended to be phased-in over three years beginning in 2016/17 and does not affect County or School members. In 2016/17, public entity members were charged a premium based 1/3rd on the new, four group rating methodology and 2/3rds on the old, three group rating methodology. In 2017/18, the Board approved increasing the phase-in from 3 years to 5 years. In 2017/18, members were charged a premium based 2/5ths on the new methodology and 3/5ths on the old methodology. The rating methodology will be fully incorporated in the 2020/21 allocation.

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In general, premiums are calculated based on each entity's exposure and experience.

Exposure

Exposure refers to payroll. At the beginning of the year, a deposit premium is determined for each member based on their estimated payroll for the coverage year. The estimated payroll is reported by the member on their renewal application, which is completed in the preceding fall. At the end of the coverage year, the premium is adjusted based on actual payroll. That process is referred to as a "payroll audit." Payroll should consist of salary and wages, including extra help, plus 2/3rds of overtime and call-backs. When estimating payroll, members should only include the payroll for positions that are intended to be filled during the coverage year.

Experience

Experience refers to claims. The data includes total incurred losses (paid plus outstanding reserves) on a per occurrence basis. The data is valued as of 6/30 and will exclude COVID-19 claims that were part of the original occurrence from the 2019/20 program year up until the end date established by the Board, effective 6/30/2022.

Loss experience will include data for the layer being rated, which we will call "stratified losses." For example, when calculating premium for members that participate in the $125,000 to $300,000 pool layer, losses valued between $125,000 and $300,000 will be considered. Likewise, when calculating premium for members that participate in the $300,000 to $1,000,000 pool layer, losses valued between $300,000 and $1,000,000 will be considered. In both cases, the data will include losses from the most recent and complete 7 fiscal years. Individual in program PRISM losses valued at more than $1,000,000 will be reviewed for potential surcharges on the premium for the layers excess of $1,000,000.

Credibility Weighting

Credibility weighting is a way of measuring how much reliance should be put on an individual member's own loss experience. Part of calculating premium is forecasting the amount of losses the members will have in the year. Larger members have more employees, which results in more claims, which provides more data to predict with. Smaller members have fewer employees, less claims, and less data, and as a result, less reliance should be placed on their own experience to predict the future.

For both rating layers, a member's size will factor into the premium calculation with the smallest members having their premium based 10% on their own experience and the largest members having their premium based 75% on their own experience. The majority of the members will fall somewhere within the 10% - 75% range, based on their size relative to the rest of the group.

Rating Model

There are two rating layers. One layer is for members that participate in the $125,000 to $300,000 layer. A second rating layer is used for members that participate in the $300,000 to $1,000,000 layer. Members with a SIR lower than $300,000 will have two separate Experience Modifiers (Ex Mods) calculated and applied to both rating layers. The model uses 7 years of loss data and 7 years of payroll data to calculate a loss rate per $100 of payroll for each member. The individual loss rate is then divided by the average loss rate for the member's rating group to determine an Ex Mod. The Ex Mod is multiplied by a credibility factor to adjust for an individual member's size relative to a credibility standard for the Program. The adjusted Ex Mod is expressed in the form of a percentage. If the percentage is less than 100%, that means the entity's loss experience is better than average, and they will receive a credit in the premium allocation. If the percentage is greater than 100%, that means the entity's loss experience is worse than average, and they will receive a corresponding surcharge in the premium allocation.

$1,000,000 to Pool Limit Layer

The base premium for this layer is calculated by multiplying the actuarial rate by their exposure. Members' actuarial rates are adjusted for their SIR.

A premium surcharge will be applied to the rated premium for this layer if the member has a significant loss ratio and a frequency of claims valued at more than $1,000,000 (or the member's SIR, whichever is higher) in the 7 years of loss experience. For JPA members who add sub-members with loss history that warrant a surcharge and the loss occurred prior to joining the PRISM Member's JPA, the surcharge percentage would apply only to the portion of payroll rated premium the JPA Sub-Member ANCP brings to the program versus applying the surcharge to the entire payroll rated premium of the parent JPA member

The table below illustrates the percentage the premium for the layer will be increased.

	Loss Ratio for $1M - $5M Layer				
# of Claims xs $1M	**0% to 50%**	**50% to 74%**	**75% to 99%**	**100% to 249%**	**More than 250%**
1	0%	0%	0%	0%	0%
2	2.5%	2.5%	5%	10%	15%
3	5%	7.5%	10%	15%	20%
4	10%	12.5%	15%	20%	25%
5	15%	17.5%	20%	25%	30%

To prevent adverse selection and allow for premium relief to members with good loss history, the Underwriting Committee will make an annual decision to determine how much of the loss surcharge should be retained by the Program or reallocated back to the members with a better loss history. . A credit will only be redistributed to members who are not receiving a surcharge and who do not have any claims above $1,000,000. The amount of the credit will be based on the member's percentage of rated premium in this layer.

Layer Excess of the Pool Layer

The base premium for this layer is calculated by multiplying the negotiated rate by the exposure.

An excess loss surcharge applies to members in the Core Tower who have claims within the last 10 years excess of $3,500,000 and to members in the Ed Tower who have claims within the last 10 years excess of $1,750,000. These loss thresholds were established based on Alliant's input who advised that losses above these thresholds (currently set at 70% of the pool limit in both towers) most directly affect the reinsurance and excess renewals for the entire Program. Staff will consult with Alliant regularly to determine if the loss thresholds remain appropriate.

The excess loss surcharges are calculated based on a percentage the member's reinsurance or excess premium for the layer in which the large claims are affecting and are ultimately capped based on a percentage of the member's total premium. Both the surcharge percentage and the percentage cap of the member's total premium are based on a sliding scale that increases with the number of claims above these thresholds.

For JPA members who add sub-members with loss history that warrant a surcharge and the loss occurred prior to joining the PRISM Member's JPA, the surcharge percentage would apply only to the portion of payroll rated premium the JPA Sub-Member ANCP brings to the program versus applying the surcharge to the entire payroll rated premium of the parent JPA member

Number of Claims Exceeding Excess Loss Thresholds	Excess Loss Surcharge Percentage	Percentage Cap on Total Premium
1	25%	5%
2	35%	7.5%
3 or more	45%	10%

To prevent adverse selection and allow for premium relief to members with good loss history, the Underwriting Committee will make an annual decision to determine how much of the loss surcharge should be retained by the Program or reallocated back to the members with a better loss history. A credit will only be redistributed to members who are not receiving a surcharge and who have a SIR to program limits loss ratio of 30% or less. The amount of the credit will be based on the member's percentage of excess or reinsurance premium for the layer in which the large claims are affecting.

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