

Group Retro: Overview

Thursday, January 8, 2009

Group Retro Example

Example of Washington's Factors

BASIC PREMIUM RATIOS

LOSS CONVERSION FACTOR = .729

Effective January 1, 2006

Maximum
Premium
Ratio:

Size	Standard	
Group	Premium	
Number	Range	
16	1,060,000	- 1,288,999
15	1,289,000	- 1,604,999
14	1,605,000	- 2,051,999

	1.05	1.10	1.15	1.20	1.25	1.30	1.35	1.40	1.45	1.50	1.60	1.70	1.80	2.00
Size														
Group														
17	.339	.266	.222	.192	.171	.154	.140	.130	.121	.114	.103	.094	.088	.079
16	.320	.249	.208	.179	.159	.143	.131	.121	.113	.106	.096	.088	.083	.075
15	.303	.234	.194	.168	.148	.134	.122	.113	.106	.100	.091	.084	.079	.072
14	.293	.220	.180	.157	.141	.128	.117	.109	.103	.097	.089	.082	.078	.071
13	.281	.204	.167	.148	.133	.122	.112	.105	.099	.094	.086	.081	.076	.070
12	.269	.187	.156	.139	.126	.116	.108	.101	.096	.091	.084	.079	.075	.069
11	.254	.167	.145	.130	.119	.110	.103	.097	.092	.088	.082	.077	.073	.068
10	.238	.150	.135	.122	.113	.105	.098	.093	.089	.085	.079	.075	.072	.067
9	.219	.138	.125	.115	.106	.100	.094	.089	.085	.082	.077	.073	.071	.066
8	.197	.127	.116	.107	.100	.094	.090	.086	.082	.079	.075	.072	.069	.065
7	.170	.117	.108	.100	.094	.089	.085	.082	.079	.077	.073	.070	.068	.064
6	.137	.107	.100	.094	.089	.085	.081	.078	.076	.074	.071	.068	.066	.064
5	.105	.098	.092	.087	.083	.080	.077	.075	.073	.071	.068	.066	.065	.063
4	.096	.089	.084	.081	.078	.076	.074	.072	.070	.068	.066	.065	.064	.063

Group Retro Example

- Enroll and Choose Max Premium Ratio and Industry Class

	<u>Max Premium Ratio Chosen</u>	<u>Projected Group Standard Premium</u>			
	1.25	\$2,000,000			
	↓				
	<u>Basic Premium Ratio Determination</u>				
MPR	1.05	1.25	1.50	1.75	2.00
BPR	.293	.141	.097	.080	.071

<u>Industry Group Chosen</u>
Services Industry
LDF ^{12-month} 1.687
LDF ^{24-month} 1.438
LDF ^{36-month} 1.279
<i>LDF varies by Industry Group</i>

<u>Loss Conversion Factor</u>
1.05
<i>LCF is constant across all plans and group sizes</i>

- Individual Employers Pay Experience or Base Rated Premium each 6-month Payroll Period

<u>1st 6 Months Total of Premiums</u>	<u>2nd 6 Months Total of Premiums</u>	<u>Group Standard Premium</u>
\$1,000,000	\$1,200,000	\$2,200,000

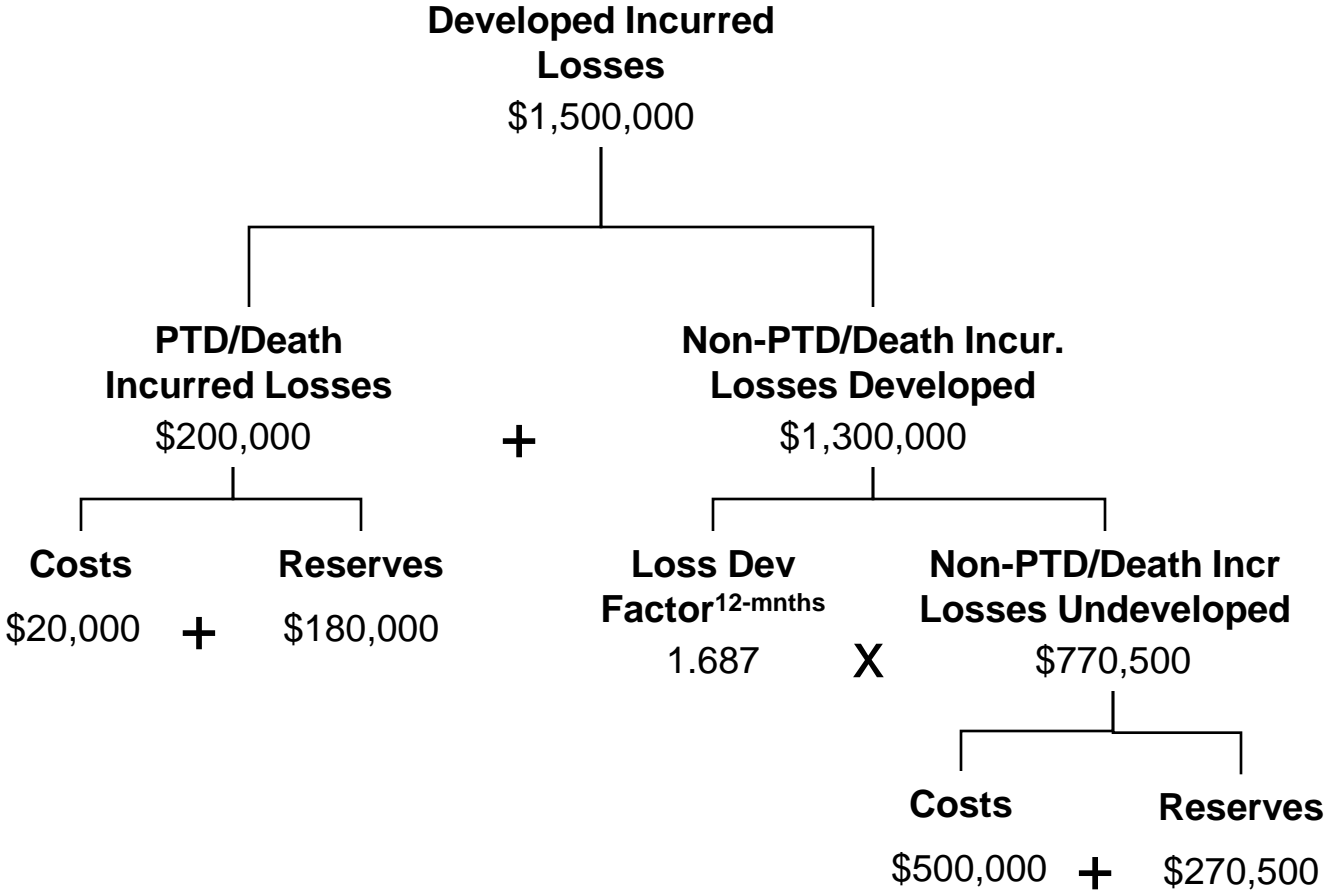
Group Retro Example

- Valuation Period 12-Months After Policy End – Refund Scenario

Retro Premium	=	$\left[\begin{array}{cc} \text{Standard Prem} & \text{Basic Prem Ratio} \\ \$2,200,000 & \times .141 \end{array} \right]$	+	$\left[\begin{array}{cc} \text{Loss Cnv Fctr} & \text{Dev Incurred Loss} \\ 1.05 & \times \$1,500,000 \end{array} \right]$
Retro Premium	=	\$310,200	+	\$1,575,000
Retro Premium	=	\$1,885,200		

Refund/ Assessment Calculation	=	Standard Prem	-	Retro Premium
		\$2,200,000	-	\$1,885,200
Refund/ Assessment Calculation	=	\$314,800 Group Refund		

- Developed Incurred Loss Calculation



Group Retro Example

- Valuation Period 12-Months After Policy End – Assessment Scenario

$$\begin{aligned}
 \text{Retro Premium} &= \left[\begin{array}{cc} \text{Standard Prem} & \text{Basic Prem Ratio} \\ \$2,200,000 & \times .141 \end{array} \right] + \left[\begin{array}{cc} \text{Loss Cnv Fctr} & \text{Dev Incurred Loss} \\ 1.05 & \times \$3,000,000 \end{array} \right] \\
 \text{Retro Premium} &= \qquad \qquad \qquad \$310,200 \qquad \qquad \qquad + \qquad \qquad \qquad \$3,150,000 \\
 \text{Retro Premium} &= \qquad \qquad \qquad \mathbf{\$3,460,200}
 \end{aligned}$$

$$\begin{aligned}
 \text{Maximum Premium} &= \text{Standard Prem} \times \text{Max Prem Ratio} \\
 &= \$2,200,000 \times 1.25 \\
 \text{Maximum Premium} &= \mathbf{\$2,750,000}
 \end{aligned}$$

If Max Premium is less than Retro Premium, then use Max Premium in Assessment Calculation

$$\begin{aligned}
 \text{Refund/Assessment Calculation} &= \text{Standard Prem} - \text{Retro Premium} \\
 &= \$2,200,000 - \$2,750,000 \\
 \text{Refund/Assessment Calculation} &= \mathbf{\$550,000 \text{ Group Assessment}}
 \end{aligned}$$

Determining the Break-Point

- o To determine the loss ratio required for a group to receive a refund, the following formula should be applied:

$$\text{Target Loss Ratio} = \frac{(1 - \text{Basic Premium Ratio})}{\text{Loss Conversion Factor}}$$

This example:

$$\text{Target Group Loss Ratio} = (1 - .141) / 1.05$$

$$\text{Target Group Loss Ratio} = .818$$

Ohio Group Retro Overview

1) Product Structure

- 1) Incurred Loss Retrospective
- 2) Individual experience or base rated premium paid the first year
- 3) Valuation periods at 12, 24, and 36 months after policy year end
 - 1) Refunds or assessments distributed based on comparing a retrospective premium to the total premium paid by the group in the first year
 - 2) Retrospective premium is based on incurred costs, open reserves, and a *Loss Development Factor*
 - 1) *Maximum Premium Ratio* that is chosen during the group's application.
 - 1) *Max Premium Ratio* options of 1.05, 1.25, 1.50, 1.75, and 2.00
 - 2) Choosing high level will result in a lower *Basic Premium Ratio* allowing for a higher possible refund
 - 2) There will be no per accident or claim maximum when calculating incurred losses (will be re-assessed in future releases)
 - 3) Refunds or assessments will be directly distributed or billed to the employer
 - 1) The amount to each employer will be calculated pro-rata based on their proportion of total group premium paid

2) Group Requirements

- 1) A sponsor must be certified according to the Group Sponsorship Rules
- 2) Groups must have a minimum annual premium size of \$1 million dollars the previous year
- 3) No limit on the number of groups a sponsor can form
- 4) All members of a group must comply with the Homogeneity Rules (being finalized currently)
- 5) Must submit yearly safety plan and evaluation of current safety efforts

- 3) Employer Participation Requirements
 - 1) No minimum premium or EM threshold to participate
 - 2) Must be active and have less than 30 lapsed days in past 24 months
 - 3) Groups have the ability to apply their own eligibility and safety requirements
 - 4) Not compatible with Individual Retro, \$15K Medical, Deductible, or Salary Continuation

Review of Detailed Ohio Group Retro Requirements

Sponsorship requirements

o General information

- Requirements are the same for Ohio sponsors who wish to participate in either current group and group retro
- Requirements may change as early as 1/1/10 as it relates to who is responsible for issuing refunds/assessments

Washington vs. Ohio – Application Requirements

Requirement	Washington	Ohio
By-laws	Yes	Yes
Organizational structure	No	Yes
Employer roster	No	Yes
Mission statement	No	Yes
Board of Directors	No	Yes
Articles of incorporation	Yes	Yes
Member dues structure	No	Yes

Washington vs. Ohio – Industry Selection

Requirement	Washington	Ohio
Employers in groups must be homogeneous	Yes	Yes
Sponsor may only offer groups that reflect their broader purpose	Yes	No
Sponsor must submit safety plan for approval for each group	Yes	Yes
Sponsor may offer multiple groups for each industry	Yes	Yes
Sponsor must submit marketing materials for each group	Yes	No
Marketing materials	Yes	No

Sponsorship – Key Dates

Date	Milestone
1/22/09	Board of Directors – first reading of sponsorship rules
2/26/09	Board of Directors – second reading of sponsorship rules
3/2/09	Sponsor application form posted online
3/30/09	Sponsor applications due to BWC
4/20/09	BWC approves/denies sponsor applications
5/4/09	Sponsors begin assembling groups
5/29/09	Groups due to BWC
6/26/09	BWC approves/denies groups