contained in Part A, Section C, Appendix B[6] for classifications assigned to that NAICS Sector grouping to generate the expected loss rates proposed to be effective January 1, 2010 that are included in Table II of the ERP. (See Table II in Part B, Section C.)

At the recommendation of the Experience Rating Task Force, the WCIRB has enhanced the methodology used to compute expected loss rates to correct for any historical bias by classification in the process. While this methodological enhancement will improve the accuracy of experience modifications, the 2010 experience modifications for some employers will be impacted. Table 1 compares the difference between the average expected loss rate adjustment factor for each NAICS Sector grouping (Line 12 of Exhibits 1.2 through 1.19) and the statewide average factors (Line 10 of Exhibit 1.1), which approximates the impact of the methodological enhancements on expected loss rates by NAICS Sector grouping.

Table 1: Approximate Impact of Recommended Methodology Changes on January 1, 2010 Expected Loss Rates		
NAICS Sector Grouping	NAICS Sector Grouping Description	Approximate Expected Loss Rate Impact
11 & 21	Agriculture & Mining	+1.8%
22 & 23	Utilities & Construction	-7.1%
31	Manufacturing	+2.3%
42	Wholesale	+2.3%
44	Retail	+0.7%
48	Transportation & Warehousing	+0.5%
51	Information	+2.3%
52	Finance & Insurance	-0.5%
53	Real Estate	+15.9%
54	Professional Services	+2.1%
56	Administrative	+6.5%
61	Education	+7.3%
62	Health	+1.4%
71	Arts & Entertainment	+15.0%
72	Hospitality	+4.2%
81	Other	-5.0%
8742	Outside Sales	-12.2%
92 & 8810	Clerical & Public Administration	-4.1%

The impact of the methodological enhancements on the experience modifications for individual experience rated employers will depend on the mix of NAICS Sector groupings to which each employer's classifications are assignable and the statistical credibility of its experience. Exhibit 2 shows a distribution of potential experience modification changes resulting from the enhanced expected loss rate computation methodology. As shown, the impact of the expected loss rate methodology change should be relatively minor for the overwhelming majority of experience rated employers.

[6] If the relativity for a classification is restricted to a 25% change, the expected loss rate for the classification is generated by applying the expected loss rate factors for the applicable NAICS sector grouping to the Selected Loss to Payroll Ratios (Restricted to 25% Change) for indemnity and medical shown on the classification relativity review sheet, adjusted to remove the limit factors.

employers, the “W” value is 0 and, as a result, none of the employer’s actual excess losses is reflected in the experience rating formula. For much larger employers, the experience rating formula reflects the actual excess experience of the employer to a larger extent than it does the industry average expected excess losses.

The current experience rating plan “B” and “W” values were adopted by the Commissioner effective January 1, 1997. As has been documented in Part A, Section A of this filing,[7] since the time the “B” and “W” values were last updated, there has been a significant decline in claim frequency and a significant increase in average claim severity. As a result, the indicated credibilities based on the more current experience have changed.

Based on a review of the policy year 2006 loss experience of experience rated employers, the WCIRB has recommended the adoption of updated credibility values that reflect (a) a primary/excess loss split of $7,000 and (b) the maximum predictive accuracy indicated by the most recent experience. The combined impact of the change to the $7,000 single split formula and the indicated adjustments to the credibility values would be to improve the predictive accuracy of the Plan by approximately 12%.

Exhibits 1.1 and 1.2 show the estimated changes in credibility by size of employer (as measured by expected losses) indicated under the alternative split formula and credibility values described above.[8] As shown, the change in indicated statistical credibility at each risk size is relatively small, with slight increases in overall credibility for smaller risks and slight decreases for the very largest risks.

Impact on Employer Modifications

On average, the change in total credibility under the proposed changes for most employers is relatively small and the average experience modification over all employers is essentially unaffected by the proposed changes to the experience rating split formula and credibility values. However, the changes will affect the experience modification for some employers.

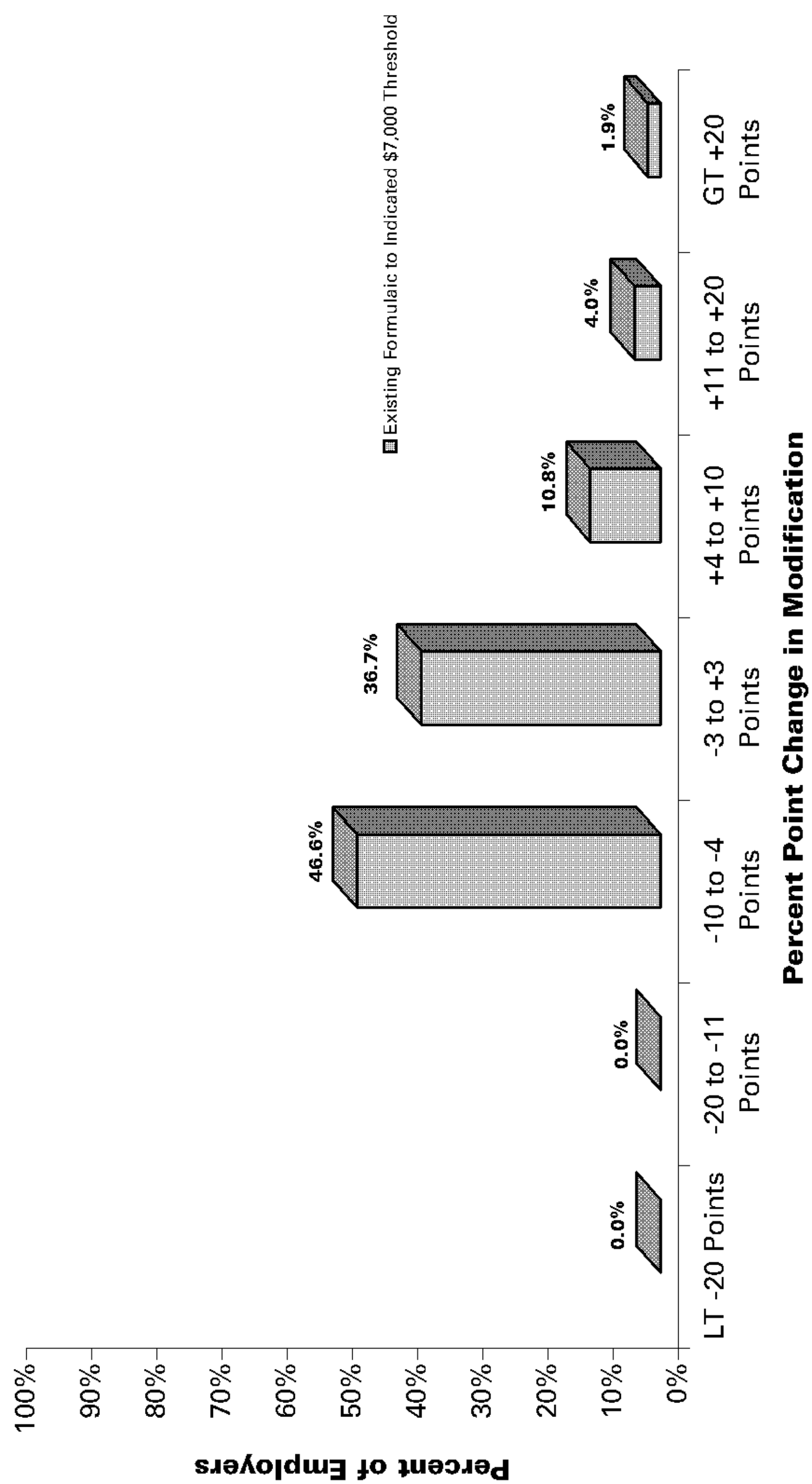
Exhibits 2.1 through 2.7 show distributions of indicated experience modification changes under the alternative split formula and credibility values by various risk size and experience modification intervals. In total, the proposed changes are estimated to have essentially no impact on the statewide average modification.

Exhibits 3.1 through 3.3 show several sample experience modifications under the current and alternative formulas. For comparison purposes, Exhibit 4 compares the distributions of indicated experience modification changes under the alternative split formula and credibility values to the typical year-to-year changes experienced. As shown, the dislocations resulting from the proposed ERP changes are less than would typically be the case due to year-to-year fluctuations in experience.

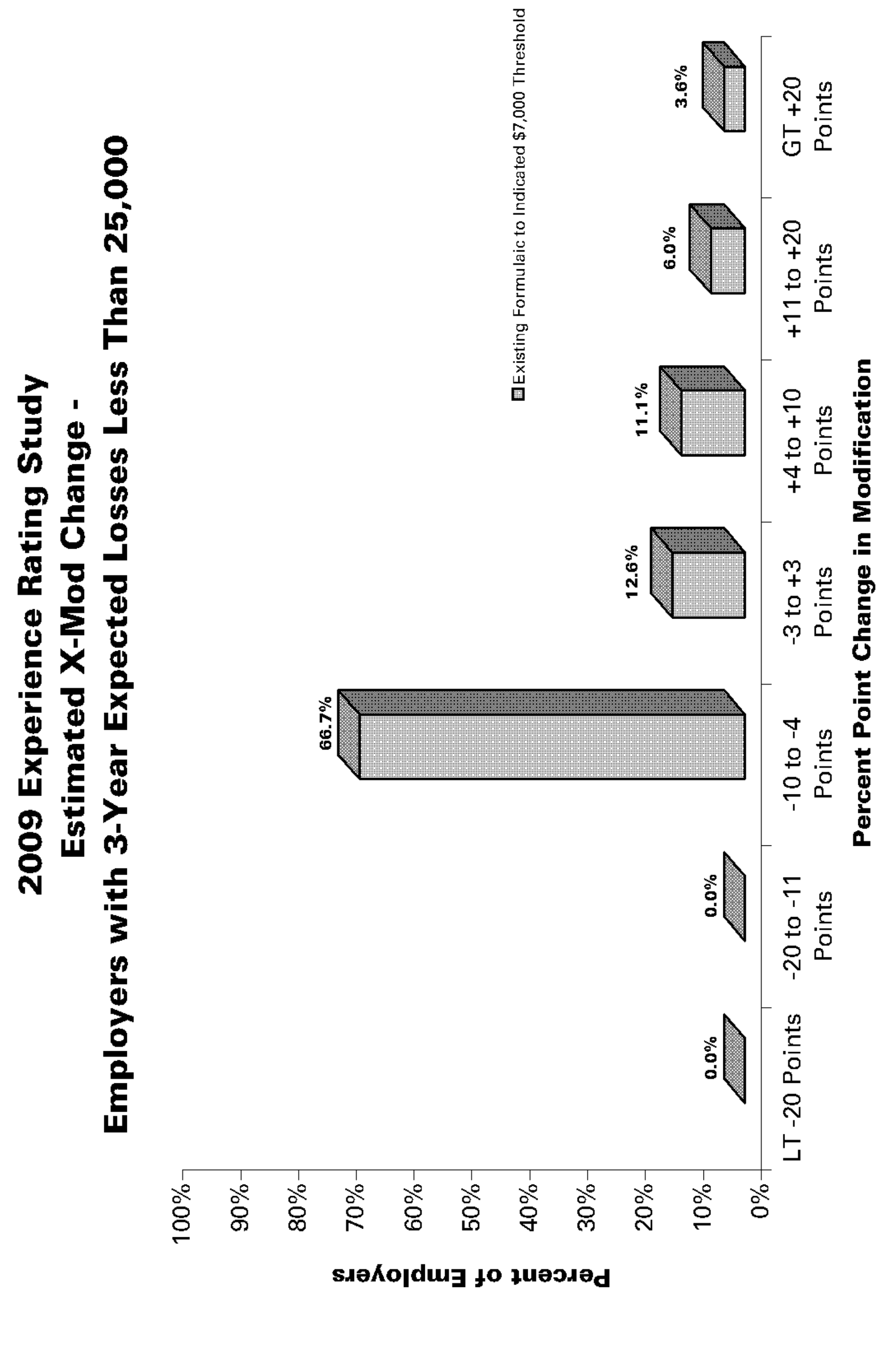
[7] See Part A, Section B, Appendix C, Exhibits 1, 2.1 and 2.2.

[8] The total credibility is computed as the weighted average of the primary and excess credibilities, with the weight given to the primary credibility equal to the average “D-ratio” under each alternative reviewed.

2009 Experience Rating Study
Estimated X-Mod Change - All Employers

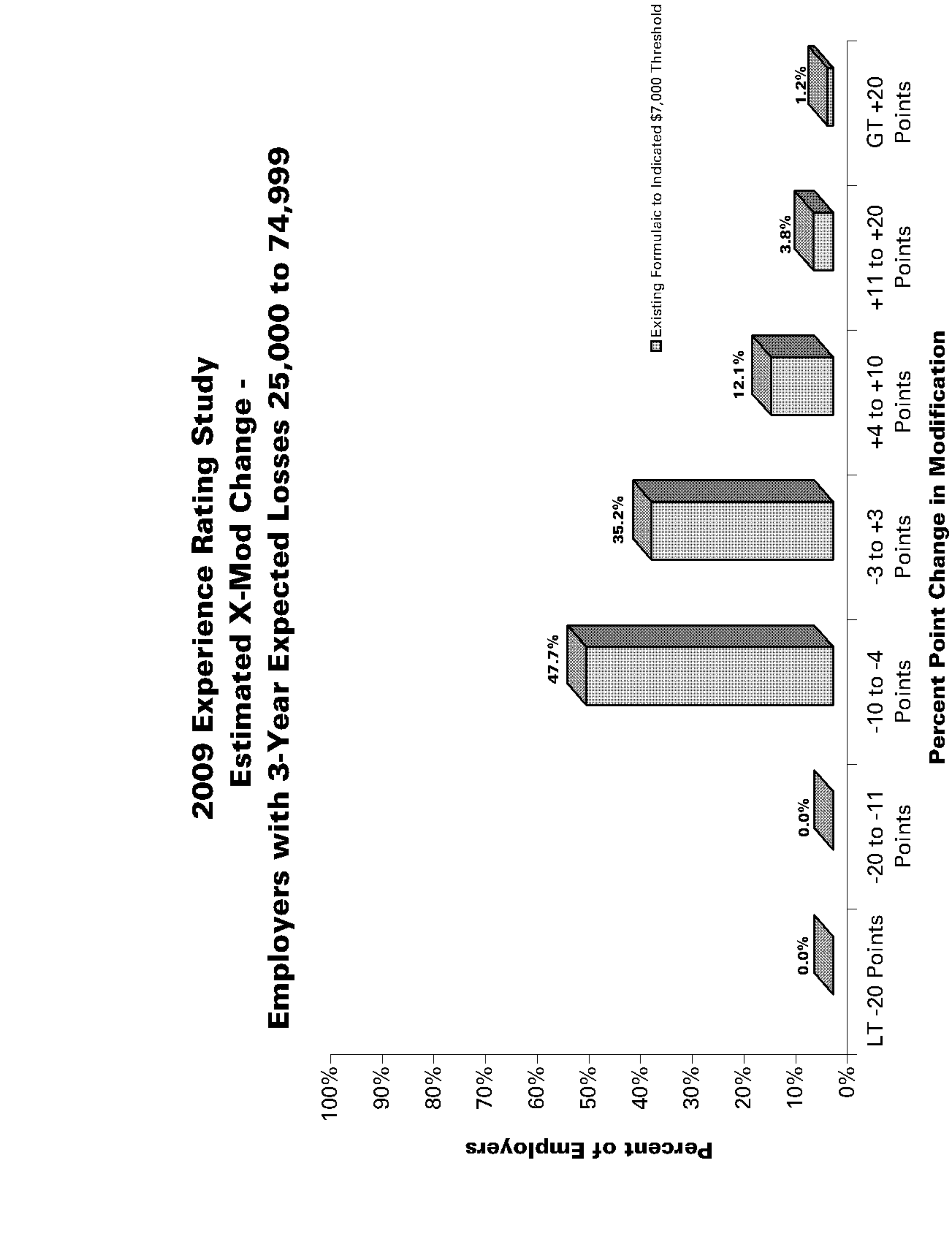


NOTE: Above based on 100,000 risks from policy year 2006.



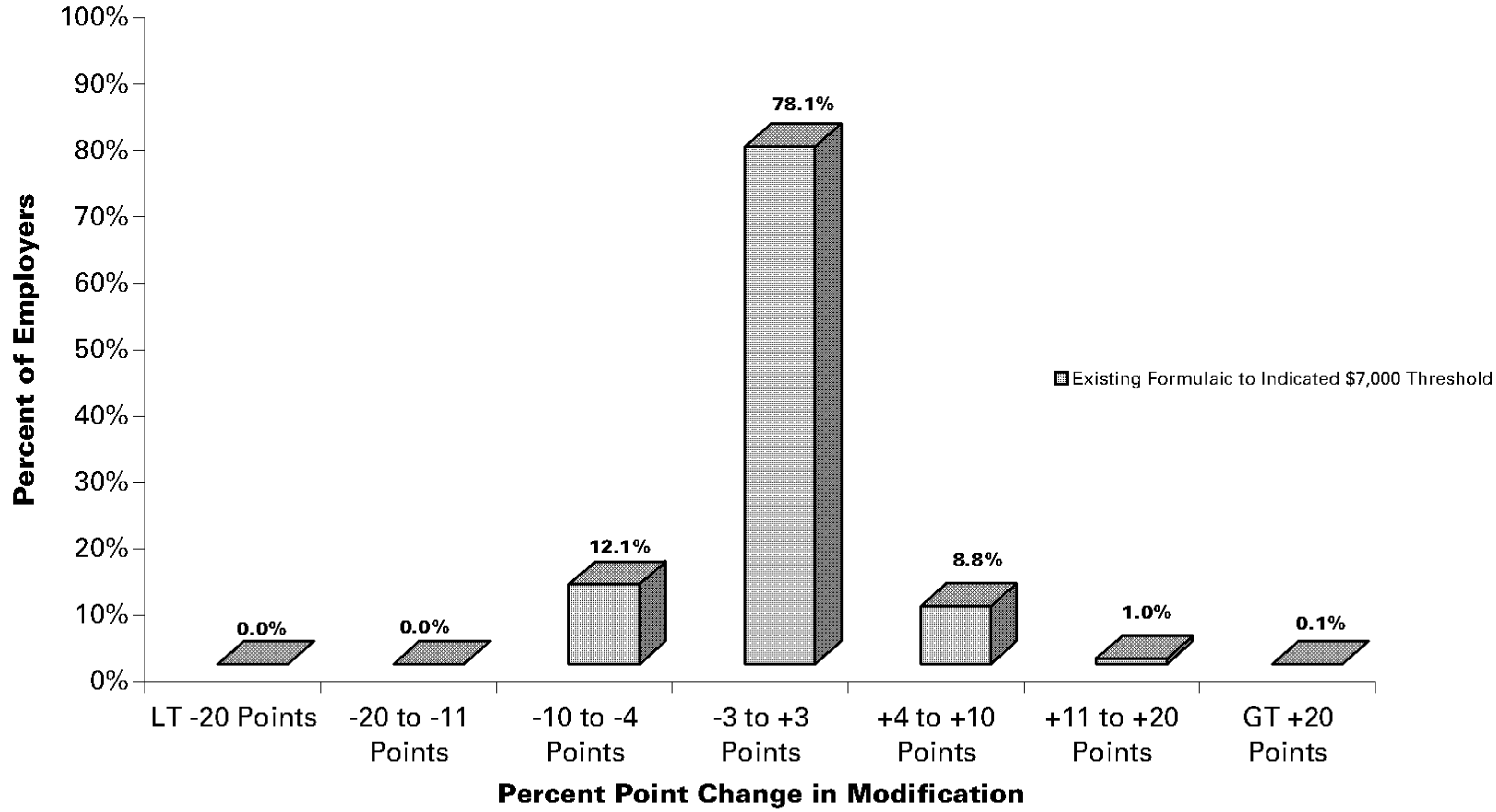
NOTE: Above based on 100,000 risks from policy year 2006.

2009 Experience Rating Study
Estimated X-Mod Change -
Employers with 3-Year Expected Losses 25,000 to 74,999



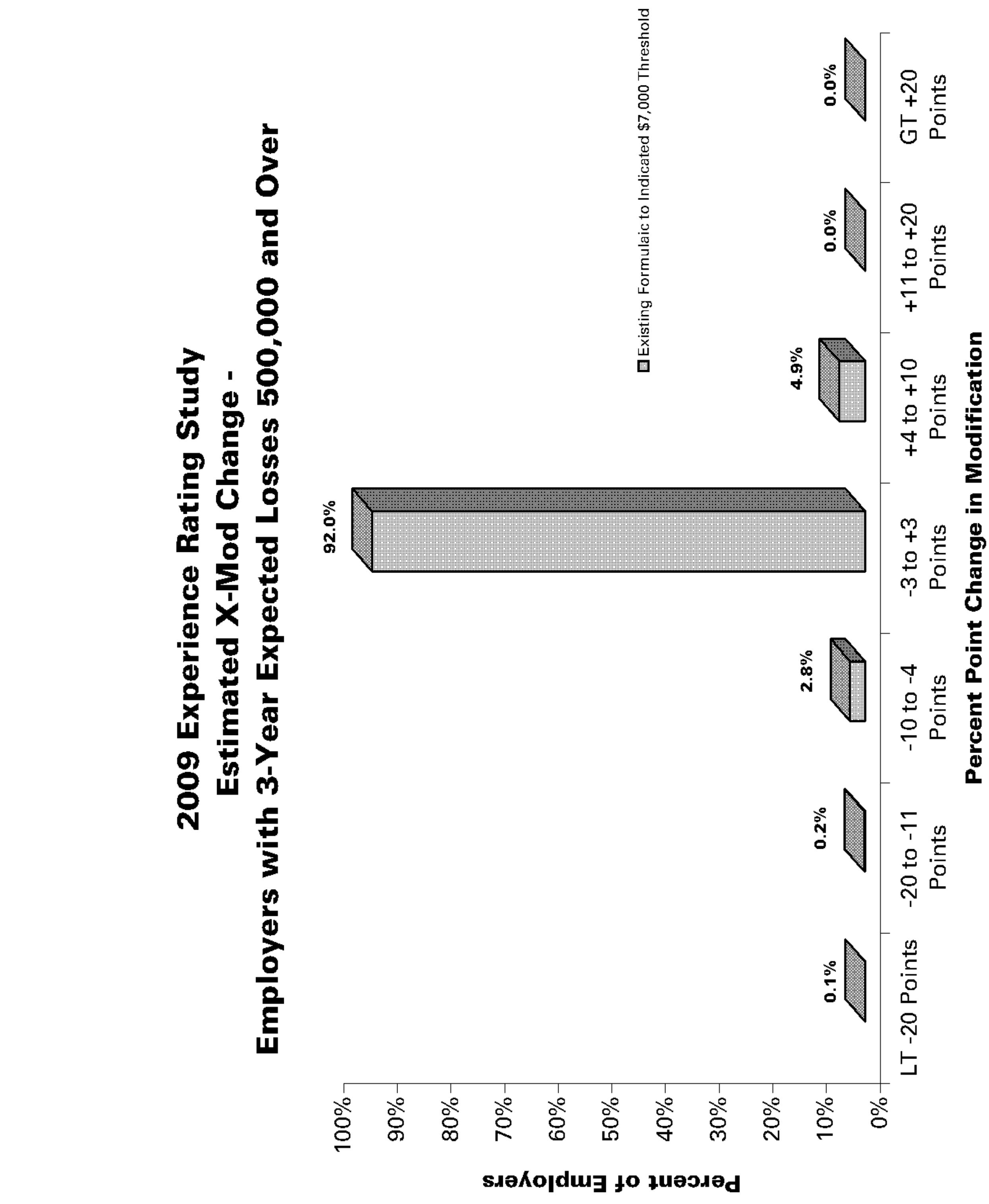
NOTE: Above based on 100,000 risks from policy year 2006.

2009 Experience Rating Study
Estimated X-Mod Change -
Employers with 3-Year Expected Losses 75,000 to 499,999



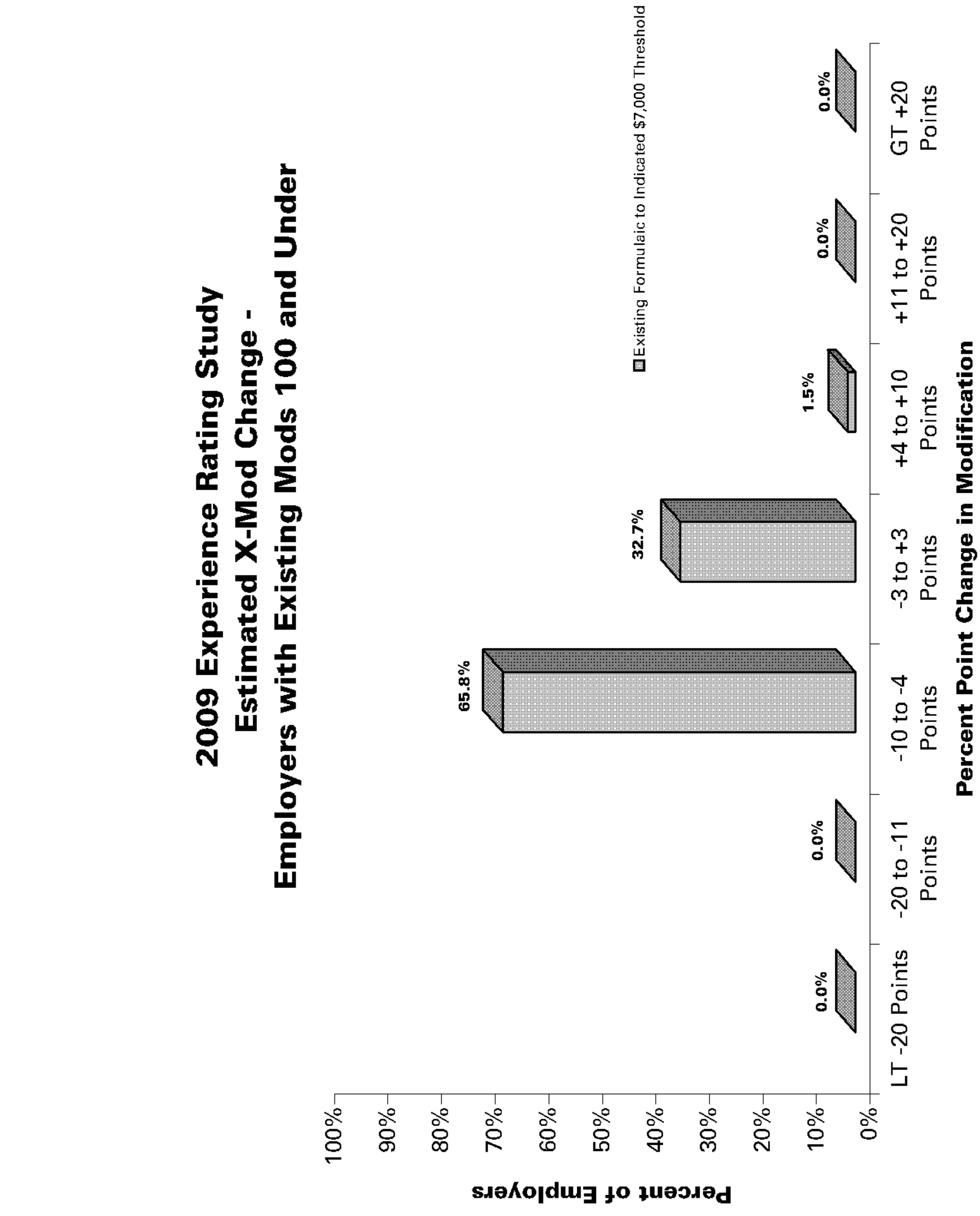
NOTE: Above based on 100,000 risks from policy year 2006.

2009 Experience Rating Study
Estimated X-Mod Change -
Employers with 3-Year Expected Losses 500,000 and Over



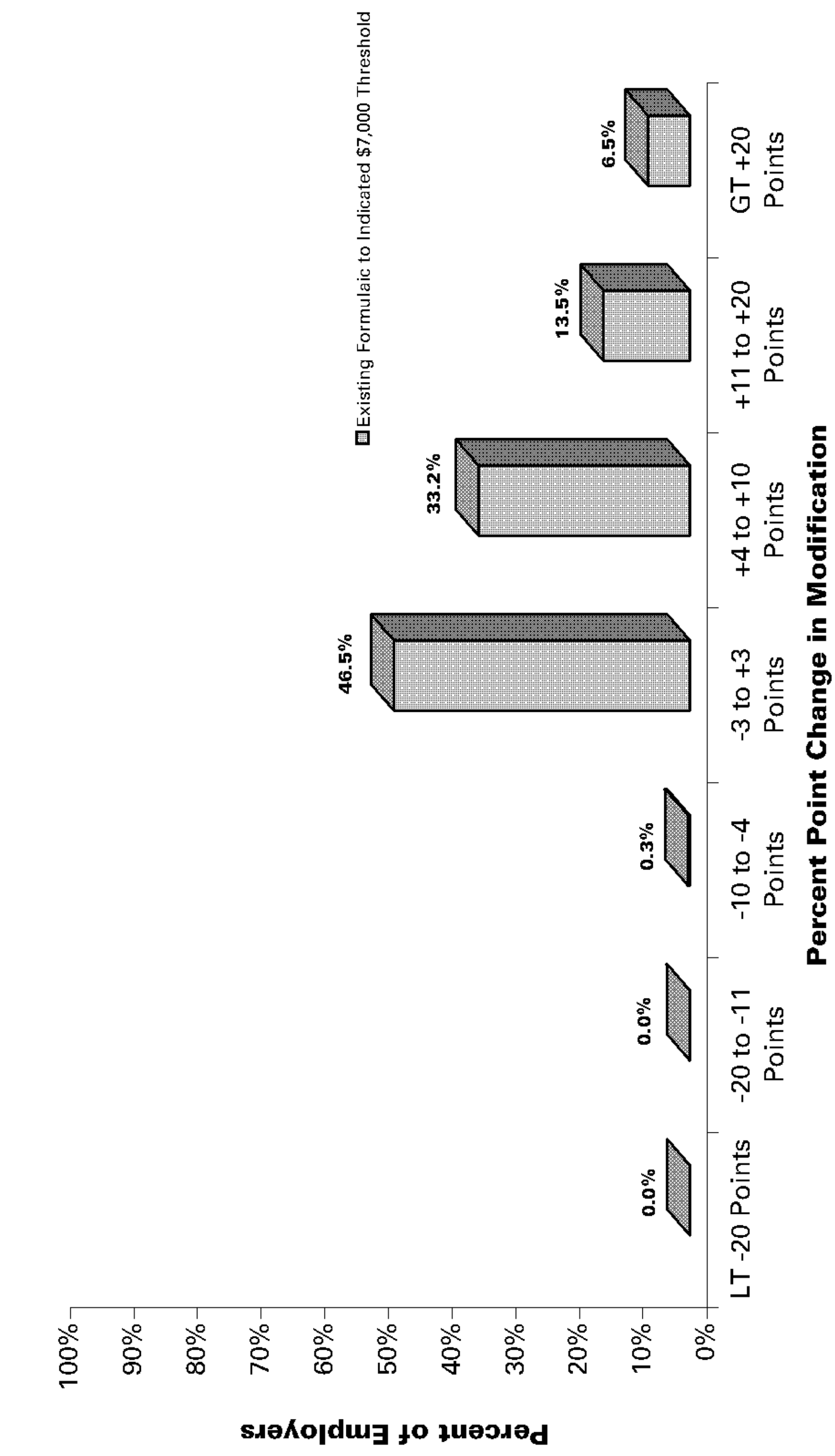
NOTE: Above based on 100,000 risks from policy year 2006.

2009 Experience Rating Study
Estimated X-Mod Change -
Employers with Existing Mods 100 and Under



NOTE: Above based on 100,000 risks from policy year 2006.

2009 Experience Rating Study
Estimated X-Mod Change -
Employers with Existing Mods Over 100



NOTE: Above based on 100,000 risks from policy year 2006.