

WORKERS COMPENSATION - NEW YORK

GENERAL RATE REVISION - OCTOBER 1, 2007

SUMMARY - ALL ELEMENTS

1.	Change indicated by Policy Year Experience (Exhibit B)	0.948
2.	Change indicated by Accident Year Experience (Exhibit C)	0.954
3.	Average Experience Indication $[(1)+(2)] / (2)$	0.951
4.	New York Trend Factor (Exhibit D)	1.014 *
5.	Change in Expense Provisions (Exhibit E)	0.987
6.	Legislative Changes (Exhibit F)	0.850 *
7.	Proposed Rate Level Change $[(3) \times (4) \times (5) \times (6)]$	0.809
8.	Change in Catastrophe Provision (Exhibit H)	1.000
9.	Total Premium Level Change $[(7) \times .961] + [(8) \times (1.0-.961)]$	0.816

\* Reflects the 7/11/07 Order & Decision of the NY State Insurance Department

WORKERS COMPENSATION - NEW YORK  
DETERMINATION OF TREND FACTOR

	Average Annual Change
(A) Annual Loss Trend (See Exhibit DD, Sheet 1)	
(1) Indemnity Claim Cost Trend	1.071
(2) Indemnity Claim Frequency Trend	0.985
(3) Indemnity Loss Trend [(1) x (2)]	1.054
(4) Medical Claim Cost Trend	1.102
(5) Medical Claim Frequency Trend	0.969
(6) Medical Loss Trend [(4) x (5)]	1.067
(7) Indemnity Weight*	0.619
(8) Medical Weight*	0.381
(9) Indicated Annual Loss Trend [(3)x(7) + (6)x(8)]	1.059
(B) Annual Wage Trend (See Exhibit DD, Sheet 12)	1.029
(C) Pre-Reform Annual Loss/Wage Trend (A9) / (B)	1.029
(D) Trended to Date of Reform (C)^1.25	1.036
(E) Post-Reform Annual Loss/Wage Trend [(C-1.0) x .50] + 1.0	1.015
(F) Trended From Date of Reform to Average Accident Date (E)^1.25	1.018
(G) Proposed Trend Factor (E) x (F)	1.055
(H) Selected Trend Factor to comply with Insurance Department O & D	1.014
* Policy Year adjusted ultimate losses - See Exhibit B	

New York Workers Compensation

Estimate of the Impact of the 2007 Reform Legislation - Summary

I. Actuarial Estimated Effects on Losses

Injury Type	Estimated Impacts on Losses						
	Pre-Reform Distribution	Inclusion of SDF Losses	PPD Duration Limits	7/1/07 Benefit Increase	7/08 & 7/09 Benefit Increase	Medical Related	Cumulative Loss Impact
Death	1.6%	0.202	0.000	0.190	0.053	0.000	1.506
Permanent Total	2.8%	0.202	0.000	0.190	0.053	0.000	1.506
Permanent Partial	55.4%	0.190	-0.505	0.075	0.015	0.000	0.643
Temporary	4.2%	0.000	0.000	0.190	0.053	0.000	1.253
Total Indemnity	64.0%	0.178	-0.437	0.091	0.020	0.000	0.742
Total Medical	36.0%	0.046	0.000	0.005	0.001	-0.066	0.983
Total - All Losses	100.0%	0.133	-0.280	0.060	0.013	-0.024	<b>0.829</b>

II. Estimated Rate Level Impact From Actuarial Evaluation

Expense Ratios From Exhibit E

Expense Provision	Total	Fixed *	Variable *
Other Acquisition	0.080	0.032	0.048
General Expense	0.065	0.026	0.039
Commission	0.068	0.000	0.068
Tax	0.028	0.000	0.028
ALAE	0.064	0.000	0.064
ULAE	<u>0.042</u>	<u>0.032</u>	<u>0.010</u>
Total	0.347	0.090	0.257
ELR	0.653		

\* Fixed and variable expense ratios were determined in response to the July 11, 2007 Order & Decision of the NY State Insurance Department.

**Rate Level Impact** =  $(.653 \times .829) + .090 / (1 - .257) : \quad \mathbf{0.850}$

III. Additional Estimated Rate Level Effects

Medical/Treatment Guidelines	Due to both the probable positive and negative impacts of these provisions, and the lack of sufficient information with which to price these elements, no specific quantification of the rate level impact is being made at this time.
ATF for PPD Cases	
Fraud	
Total	

IV. Total Estimated Rate Level Impact of Reform **0.850**

Total of II. x Total of III.

New York Workers Compensation  
Determination of New York State Assessment

I. Calculation of Indemnity Portion of Total Losses

Projected Incurred Losses for Policies Incepting 10/1/07 - 10/1/08:					Ratio
Indemnity	\$1,786,353,174	x	(1.018 <sup>2.75</sup> ) =	\$1,855,973,206	0.621
Medical	\$1,091,793,366	x	(1.018 <sup>2.75</sup> ) =	\$1,134,344,128	0.379
				\$2,990,317,334	1.000

Note : Policy year on-level developed losses are from Exhibit B and have been projected using the approved trend from Exhibit D.

II. Determination of New York State Assessment

In general, assessments, as a percentage of premium, are calculated as (assessments/losses) x (expected losses/premium). However, the 1993 legislation treats the policyholder surcharge as premium for tax purposes, so that expected losses must become expected losses plus tax. From Exhibit E, the pure expected losses are .759 / 1.163(LAE) = .653. The loading for tax results in .653/(1-.028) = 0.672

In this year's calculation, a further adjustment is made to reflect the impact of the reforms on the assessment premium base. Since this premium base will be lower as a result of the indicated decrease, the assessment percentage must increase so that the same dollars of assessment that have been charged to the carriers are collected from the policyholders. Since the estimated rate level effect of the reform is -15.0%, a factor of .850 is used to adjust the final premium percentage.

<u>Assessment</u>	<u>Actual Ass'mnt To Carriers as % of Indemnity Loss # (1)</u>	<u>New York State Assessment % of Std. Prem. [(1) x .621 x .672]/.850 (2)</u>
Workers' Comp. Board	0.069	0.034
Reopened Case Fund (WCL 25-a)	0.042	0.021
Special Disability Fund (WCL 15-8)	0.182	0.089
Interdepartmental Exp.	0.019	0.009
Special Funds Cons. Comm.	0.002	0.001
Total - All Assessments	0.314	0.155

# Assessments as percentages of Indemnity loss have been obtained from the Workers' Compensation Board and the Special Funds Conservation Committee.

Note: The trend factors and the effect of the 2007 reforms used in the above calculation of the assessment have been determined in response to the July 11, 2007 NY State Insurance Department O & D.