

#### Explanation of "Statement of Risk Class, Wording, Payroll and Manual Premium Subject Data" Section

This Section contains a statement of the class code wording, audited payrolls and calculated manual premium subject for the base period used in the rating called the "experience period".

Abbreviated wordings are indicated for each class code number.

The payrolls for each year are shown separately in (A1), (A2), (A3), (A4), and (A5) for each class code number.

The manual rates (B), catastrophe elements (C), excess elements (D), and expected loss factors (E) are shown separately for each class code number.

The manual premiums subject are calculated for each class in accordance with the indicated formulae in (F), (G), and (H).

#### Explanation of "Statement of Risk Incurred and Modified Losses" Section

This Section contains the statement of incurred losses for the experience period.

Losses are tabulated separately for each policy year.

Serious losses are individually identified by claim number and accident date with incurred indemnity and medical amounts in (I) and (J) respectively. All other losses are summed and collectively designated as "Total Minor Losses" (TML) in (I) and (J).

The actual incurred losses are adjusted to current benefit level by the factors shown in (K) and (L) and, the losses so modified, are listed in (M) and (N).

The modified losses are subdivided to excess indemnity and medical (O) and (P) respectively and to normal indemnity and medical (Q) and (R) respectively. "Excess" is a measure of accident severity; "normal" is a measure of accident frequency. The upper limits of normal and excess losses used in rating are controlled by the current Experience Rating Plan. The modified "total minor losses" (TML) are treated entirely as normal indemnity and medical in (Q) and (R) respectively.

The losses in (O), (P), (Q) and (R) are added vertically and the totals of (O) and (P) (excess losses) and (Q) and (R) (normal losses) are entered in (V) and (W) respectively in the Statement of Risk Summary Data Section.

The code system used in the Column captioned "O" or "F" is as follows:

"F" - case closed

"O" - case open

The code system used in the Column captioned "KIND" is as follows:

"1" - Death

"2" - Permanent Total Disability

"3" - Major Permanent Partial Disability

"4" - Minor Permanent Partial Disability

"5" - Temporary Total or Temporary Partial Disability

"6" - Non-Compensable Medical Disability

"8" - Total Minor Losses

The Column captioned "CAT. No." is used to identify claims resulting from a single accident.

The code system used in the Column captioned "TYPE" is as follows:

"10" - State Section 20

"11" - State Trauma

"12" - State Trauma/Recovery

"14" - State Disease

"15" - State Disease/Recovery

"17" - State Cumulative

"18" - State Cumulative/Recovery

"21" - U.S. Trauma

"22" - U.S. Trauma/Recovery

"24" - U.S. Disease

"25" - U.S. Disease/Recovery

"27" - U.S. Cumulative

"28" - U.S. Cumulative/Recovery

"31" - Employers Liability Trauma

"34" - Employers Liability Disease

"37" - Employers Liability Cumulative

"41" - W.C. Trauma With Employers Liability

"42" - Federal Employers Liability Act

"43" - Other States Benefits

"44" - W.C. Disease With Employers Liability

"45" - Admiralty

"47" - W.C. Cumulative With Employers Liability

"50" - State Section 20/MCO

"51" - State Trauma/MCO

"52" - State Trauma/Recovery/MCO

"54" - State Disease/MCO

"55" - State Disease/Recovery/MCO

"57" - State Cumulative/MCO

"58" - State Cumulative/Recovery/MCO

#### Explanation of "Statement of Risk Summary Data" Section

Experience rating compares the injury record of an individual risk with the standard or expected losses of an average risk of the same size and kind and adjusts the premium for the individual risk upon the basis of that comparison so as to reward or penalize the employer for the relative success of his efforts to control the frequency ("normal" losses) and severity ("excess" losses) of work injuries. In the comparison, graduated credibility factors are used so as to place greater emphasis on the employer's own experience as his premium size increases and, generally, to place greater weight on the normal losses than on the excess losses.

The total expected losses, (U), are obtained by multiplying the sum of the previously calculated "Total Manual Premium Subject (H)" by the expected loss factor, (E). The excess expected losses, (S), are obtained by multiplying the sum of the previously calculated excess manual premium subject, (F), by the expected loss factor. The normal expected losses, (T), are the difference between the total and excess expected losses.

The losses incurred by the risk ("risk modified losses") are carried forward from the "Statement of Risk Incurred and Modified Losses" Section and are shown separated as excess and normal in (V) and (W) respectively.

The credibility factors, (X) and (Y), are determined for excess and normal respectively by the indicated formulae, limited to 100% (1.000).

The risk modified losses, (V) and (W) are multiplied by the respective credibility factors, (X) and (Y). The sum of these two products, representing the "risk" losses for rating purposes, is entered in (Z<sub>1</sub>). The expected losses, (S) and (T), are multiplied by the complements of the respective credibilities. The sum of these two products, representing the "class" losses for rating purposes, is entered in (Z<sub>2</sub>). (Z<sub>1</sub>) and (Z<sub>2</sub>) are then added and the sum is entered in (Z<sub>3</sub>), as total final adjusted losses.

The experience modification is the ratio of the total final adjusted losses, (Z<sub>3</sub>) to the total expected losses (U).