

## Calculating Loggers Worker's Compensation Insurance Premium

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Most loggers consider worker's compensation insurance (WCI) to be a major expense. Unfortunately, many loggers do not understand how their premiums are computed. Any attempt to control the cost of worker's compensation insurance has to begin with a thorough understanding of the system. The calculation of the loggers' worker's compensation insurance in West Virginia varies from (1) before January 1, 2006, to (2) January 1, 2006 – June 30, 2008, and to (3) after July 1, 2008.

Based on the procedures used by West Virginia Workers' Compensation Commission (<http://www.state.wvcc.org>) and some other methods (Jackson and Greene, 1991), the following steps could be used as a reference in computing a WCI premium for logging in West Virginia.

### Step 1 – Base Rates

There are over 600 job classifications or codes approved by the National Council on Compensation Insurance (NCCI). Each code has a rate listed in the rating manual, thus name manual rates. In the state of West Virginia, everyone was in the state insurance program if he/she is engaged in the logging business before January 1, 2006. The Compensation Programs Performance Council (CPPC) under the West Virginia Worker's Compensation Division determined the worker's compensation base rates for every fiscal year. There are 91 class codes in West Virginia Worker's Compensation Base Rates. Three of them are used for wood products industry (Hassler *et al.*, 1993). These are B04 – Wood Products Manufacturing (the secondary processing industry), B10 – Timbering (Logging), and B12 – Sawmills (primary processing). Base rates are quoted as cost per \$100 of annual payroll. Base rates of last few fiscal years are listed in Table 1 for forest products industry in WV (Employers Services Corporation, 1988, <http://www.state.wvcc.org>).

Table 1. Base rates for forest products industry in WV.

|             | Class Code  | B04                            | B10       | B12      |
|-------------|-------------|--------------------------------|-----------|----------|
|             | Description | Wood products<br>manufacturing | Timbering | Sawmills |
| Fiscal Year | 1996-1997   | 5.76                           | 42.46     | 12.59    |
|             | 1997-1998   | 5.76                           | 43.44     | 12.59    |
|             | 1998-1999   | 6.05                           | 47.90     | 11.73    |
|             | 1999-2000   |                                |           |          |
|             | 2000-2001   |                                |           |          |
|             | 2001-2002   |                                |           |          |
|             | 2002-2003   | 5.42                           | 48.35     | 8.58     |
|             | 2003-2004   | 5.80                           | 52.20     | 9.84     |
|             | 2004-2005   | 5.80                           | 52.20     | 9.84     |

### Step 2 – Base Premium

The base or unadjusted premium is calculated by multiplying your base rate and your annual payroll and dividing by 100. For example, if your logging operation had an annual payroll of \$150,000 and was covered with a manual rate of \$47.90 per \$100 of payroll for logging in fiscal year of 1998-1999, your base premium would be calculated as follows:

$$\text{Base Premium} = \frac{(\$47.90) \times (\$150,000)}{100} = \$71,850$$

### Step 3 - WVLSI

The West Virginia Loggers Safety Initiative (WVLSI) is a collaborative effort between the West Virginia Workers' Compensation Division, the West Virginia Forestry Association, the West Virginia Forestry Division, the WVU Appalachian Hardwood Center, loggers, and cooperating companies. This initiative is an attempt on the part of the West Virginia Workers' Compensation Division to establish a comprehensive program that provides immediate rate relief to participating logging companies, while simultaneously addressing the long term reduction in rates through safety training and performance monitoring.

Participating loggers will also be expected to maintain safe work environments for their employees, which includes safe work practices, use of personal protective equipment, ongoing training, and compliance with existing OSHA (Occupational Safety and Health Administration) standards. An ongoing inspection program is an integral part of ensuring that logging companies are maintaining safe work practices. The long term benefits of this program are the anticipated reduction in injuries to logging employees through improved safety practices. Fewer injuries will then lead to fewer claims, thereby reducing the experience modification factor for individual companies as well as potential

reductions in the base rate for the logging industry. However, the LSI is not active in West Virginia.

The LSI participants can get 15% off the annual base rate. In our example,

$$\begin{aligned}\text{LSI-Based Premium} &= \text{Base Premium} * 0.85 \\ &= \$71,850 * 0.85 = \$61,073\end{aligned}$$

#### **Step 4 – Experience Modifier**

CPPC tracks the risk of insuring your individual business through an experience modifier that is updated each year based upon last three years of claims. The experience modifier is a multiplier that either increases or reduces your premium. A logger with a good record will have an experience modifier of less than 1.0 while a poor record will lead to an experience modifier of more than 1.0. For example, if you have a better than average record, you might have an experience modifier of 0.86. The base premium is multiplied by the experience modifier to obtain the experienced rated premium. For example,

$$\begin{aligned}\text{Experienced Rated Premium} &= \text{LSI-Based Premium} \times \text{Experience Modifier} \\ &= \$61,073 \times 0.86 = \$52,523\end{aligned}$$

This is the logger's final premium in West Virginia.

#### **Summary**

These calculations can be only used for references in West Virginia. Some calculations may be subject to change due to the state laws or regulations.

For more information about workers' compensation in West Virginia, please visit West Virginia Workers' Compensation web site at <http://www.wvcc.org/handcrafted2.asp>.

#### **Literatures Cited**

Employers Service Corporation. 1998. West Virginia Worker's Compensation Base Rates Finalized.

Hassler, C., R. Wright, and H. Sims. 1993. Analysis of West Virginia worker's compensation records for the wood products industry (1989-1990). Miscellaneous Publication 24, Agricultural and Forestry Experiment Station, West Virginia University.

Jackson, B. and W. D. Greene. 1991. Calculating loggers worker's compensation insurance premium. Report FOR91-004, the University of Georgia.

## West Virginia Workers' Compensation System

### Introduction

In October 2005, the West Virginia Offices of the Insurance Commissioner (OIC) appointed NCCI as the exclusive workers' compensation rating organization for the state. That appointment was a key step in moving West Virginia's workers' compensation market place from a monopolistic market to an open and competitive market. Beginning January 1, 2006, BrickStreet Mutual Insurance became the sole insurance carrier to provide workers' compensation insurance coverage to the employers of West Virginia until July 1, 2008.

Beginning July 1, 2008, the West Virginia market will open to other insurers. At that time, the West Virginia workers' compensation system will be fully converted and insurers will be able to offer greater diversity to the state's business owners. NCCI will continue to serve as the state's designated rating organization and will provide industry participants with critical information regarding rates, filings, data reporting requirements, policy forms and endorsements, classifications, and much more.

### Loss Cost Filings

As the designated rating organization, NCCI submitted an initial loss cost filing which resulted in a 10% overall decrease, effective July 1, 2006. BrickStreet will file loss cost multipliers for approval by the OIC. NCCI's loss cost filing along with BrickStreet's loss cost multiplier filing will create the full rates which will be applied to the workers' compensation insurance policies issued by BrickStreet for policy periods beginning July 1, 2006.

Subsequent loss costs filings will be submitted by NCCI annually for review and approval by the OIC. All insurers licensed to do business in the state of West Virginia will likewise be required to file their loss cost multipliers individually with the OIC.

### Classification System

NCCI's Classification System groups employers into categories or "classifications" so that the rate for each classification reflects the exposures common to employers in the class. To ensure an equitable rate for each classification, each classification group must be large enough to provide a credible statistical base.

Each business enterprise is assigned the one basic classification that best describes the nature of the business. Subject to certain exceptions, each classification includes all of the various types of labor found within the business. Generally, it is the "business" that is classified, not the individual employments, occupations or operations within a business. As each classification has similar exposure to losses, the overall cost of the workers' compensation system is distributed fairly among all employers.

The NCCI classification system becomes effective in West Virginia July 1, 2006. The system consists of 478 four-digit classification codes, including a number of West Virginia state special classification codes. Since many businesses share a code with similar employments, there are more classification descriptions (called phraseologies) than code numbers. The NCCI classification system contains approximately 1,700 phraseologies. In contrast, the classification system used by West Virginia prior to the adoption of NCCI's classification system had 94 code groups with 264 sub-groups.

NCCI's classification system is based on the rules found in NCCI's **Basic Manual for Workers Compensation and Employers Liability Insurance**. Additionally, NCCI's **Scopes® of Basic Manual Classifications** provides an interpretation of the classification codes and serves as a useful tool for the classifier.

## West Virginia Workers' Compensation System

### Policy Forms and Endorsements

NCCI's **Workers Compensation and Employers Liability Insurance Policy** is the basic insuring agreement between an employer and an insurance company. It has been approved by the Insurance Commissioner for use in West Virginia as of July 1, 2006. The basic agreement provides coverage for all statutorily required workers' compensation benefits in West Virginia, and is the same form currently used in all states, except the four remaining monopolistic states, where workers' compensation insurance is offered.

In addition to the policy form, all of NCCI's national endorsement forms, which allow for optional coverages, have been approved by the Insurance Commissioner for use in West Virginia. Three endorsements specific to West Virginia laws relating to deliberate intent, recovery from others, and domestic employees have also been filed and approved for use in West Virginia.

### Statistical Agent and Proof of Coverage Services

In its statistical agent role, NCCI maintains and validates the nation's largest workers' compensation database containing hundreds of millions of data records on virtually every aspect of workers' compensation insurance. As a statistical agent, NCCI has a proven track record of ensuring that state workers' compensation databases are complete, accurate, and up-to-date. This directly supports the delivery of advisory/rating services, administration of residual markets, production of experience modifications, and responsiveness to reform initiatives.

NCCI has also been appointed to act as an agent of the OIC for the collection of workers' compensation coverage information. NCCI collects coverage information from insurance providers through an electronic format and transmits the data to regulators (in West Virginia, the Insurance Commission) on a daily basis.

The following is a brief description of three types of data that insurers will be required to report to NCCI beginning July 1, 2006:

#### Policy Data

NCCI collects **policy data** on every workers' compensation policy in which coverage is provided in one or more NCCI jurisdictions. Policy data comes from:

- Policy Information Pages
- Endorsements
- Cancellation Notices
- Reinstatement Notices
- Non-renewal Notices
- Proof of Coverage Notices

This data includes risk-specific coverage information, including estimated exposure and premium, and is used for:

- Tracking the receipt of unit statistical data, administration of assigned risk pools, and actuarial analysis
- Proof of Coverage (POC) Service—for regulators to confirm coverage
- Mechanism for delivery of experience rating modifications

## West Virginia Workers' Compensation System

### Unit Statistical Data

**Unit statistical data** is reported to NCCI by insurers through unit reports. These reports reflect audited exposure and loss information by risk and by state, at a classification code level. Specific uses of unit statistical data include:

- Ratemaking—Development of advisory loss costs or rates to determine premium for W/C insurance
- Experience Rating—Production of experience modification factors based on the relative experience of an insured used to forecast future losses
- Actuarial Analysis—Evaluation of claim costs, frequency, development, and other statistical values.

NCCI's **Unit Report Expansion (URE) Workers Compensation Statistical Plan** has been filed and approved in West Virginia. The Statistical Plan contains the rules for reporting unit statistical data to NCCI.

### Financial Data

**Financial data** is aggregated premium, losses, and expenses data—an insurer's summary of financial performance. It is required for all insurance companies writing workers' compensation. The data is used to:

- Determine the required overall change in statewide premium levels
- Determine the rate needed by state
- Develop trends
- Analyze past history

Once the policy, unit statistical reports, and financial data have been collected and processed through NCCI's system, NCCI uses the information collected to:

- Prepare schedules of loss costs/rates and rating values;
- Administer rating plans and rating systems;
- Evaluate potential costs of legislation to assist legislatures and regulatory agencies considering changes to a state's workers' compensation system;
- Prepare experience rating modifications
- Conduct inspections of employers to ensure proper classifications; and
- Develop products to support data providers, employers, and companies' decision making.

NCCI adheres to strict data security procedures in connection with the collection and processing of all types of data. NCCI's policies, procedures and practices ensure that the confidentiality of the data is maintained as permitted by applicable laws and/or regulations. NCCI's data security procedures encompass both computerized and non-computerized data, to ensure both physical and electronic security. NCCI's security procedures cover all areas of operation ranging from the physical building facility to each computer application program used to collect and manage the data. NCCI also employs a comprehensive disaster recovery process in the event of a natural or other disaster.

NCCI looks forward to providing world-class products and services to all West Virginia stakeholders.