

**EXPENSE LOSS COST MULTIPLIER WORKSHEET FOR
GROUP SELF-INSURANCE FUND
USING RATING ORGANIZATION LOSS COSTS
MULTIPLIER CALCULATION
WORKSHEET AND INSTRUCTIONS**

Name of fund: _____

Address: _____

City/Town: _____ State: _____ ZIP: _____

Insurer code: _____

Fund officer responsible for this filing: _____

Title: _____ Firm: _____

Telephone: _____ Ext: _____ Fax: _____

Email address: _____

Fund Year the multiplier calculated in this worksheet covers: From - - To - -
MM DD YYYY MM DD YYYY

INSTRUCTIONS

The following worksheet provides specific parameters for filing an expense loss cost multiplier and an overall contribution rate in compliance with 34 Pa. Code § 125.135 for the upcoming fund year. **THIS WORKSHEET IS FOR USE BY FUNDS USING RATING ORGANIZATION LOSS COSTS.**

Nothing in the worksheet, these instructions or actuarial guidelines should be construed as placing an upper limit on the degree of additional conservatism that is determined necessary in creating and maintaining adequate surplus for the support of the fund's inherent asset and liability risks.

This worksheet and all supporting material must be received by the Bureau of Workers' Compensation no later than 45 days prior to the beginning of the upcoming fund year. Do not deviate from the instructions for each line of the worksheet.

The worksheet assumes that (1) no other rate change has been/is being filed for the upcoming fund year; (2) the fund membership for the upcoming year is relatively known, and (3) that the rating organization loss costs being used for the upcoming year are those, as of the form's submission, approved "to be in effect" for insurance company members of the rating organization as of the start of the upcoming fund year. Please contact the Self-Insurance Division, Bureau of Workers' Compensation ra-libwc-si@pa.gov, 717-783-4476, if these assumptions are not valid for the fund.

The worksheet exhibits should be uploaded as an EXCEL document.

Please note that once the bureau approves the loss cost multiplier for the upcoming year, the fund must complete and file an ANNUAL CONTRIBUTION WORKSHEET (LIBC-350) on each member.

Although an actuary is not required to complete the worksheet, use of an actuary is recommended, as in any situation involving the calculation or preparation of rates.

**LOSS COST MULTIPLIER CALCULATION WORKSHEET
FOR GROUP USING RATING ORGANIZATION LOSS COSTS**

- A. LOSS COST CONTRIBUTION (in dollars) A. _____
- Create an exhibit which includes the following fields for each expected member during the upcoming fund year:
 - Rating Organization Classification
 - The exposure of the member (e.g., \$100 of payroll)
 - The loss costs for the classification
 - Multiple rows of such fields must be included for members with exposure in more than one classification. (The ANNUAL CONTRIBUTION WORKSHEET, LIBC-350, provides guidance for this exhibit.) Multiply exposure by loss costs and enter into this box the sum of all the products for all members.
 - Based on its experience, the fund should consider loss costs at a greater level than the approved rating organization loss costs to avoid deficit funding.
- B. STANDARD CONTRIBUTION (in dollars) B. _____
- Additional Columns should be added to **BOX A's** exhibit which show:
 - The member's experience modification, according to rating organization formula and manual calculated based upon that member.
 - The member's "Standard Contribution" (in dollars) which is the loss cost contribution multiplied by its experience modification.
 - The sum of each member's standard contribution gives the Fund's total Standard Contribution.
 - The sum does NOT include any discounting for time value of money, allowances for income from (nor any transfer of) earlier fund years' surplus, credits, expenses, or expense constant.
- C. ADJUSTED PROJECTED EXCESS INSURANCE PREMIUM GROSS OF EXCESS LOSSES (in dollars) C. _____
- The premium may not be reduced by the losses expected to be covered by the excess insurance.
 - Attach an exhibit or other information explaining the amount of estimated gross excess insurance premium, e.g., a written premium quote.
 - The premium must also be entered in **Part 1, Line A** of the attached EXPENSE EXHIBIT form.
- D. ADJUSTED PROJECTED VARIABLE EXPENSE (in dollars) D. _____
- Complete the attached EXPENSE EXHIBIT form. The adjusted projected variable expense is taken from **Part 1, Line E** of that form.
- E. ADJUSTED PROJECTED FIXED EXPENSE (in dollars) E. _____
- The adjusted projected fixed expenses are taken from **Part 2, Line D** of the EXPENSE EXHIBIT form.
NOTE: This is net of expense constant.
- F. EXPENSE CONSTANT COMPONENT OF CONTRIBUTION F. _____
- This is taken from **Part 2, Line C** of the EXPENSE EXHIBIT form.
- G. CONSERVATIVE ESTIMATE OF DEFICITS (as negative amount) FROM THE CURRENT AND PREVIOUS LOSS YEARS. G. _____
- Create an exhibit showing the amount of any known surplus for each loss year the fund has existed. "Surplus" refers to a loss year's collected premium (and accrued investment income) after subtracting of ultimate losses and expenses (including the dividends already approved for that loss year).
 - Estimates produced (within the last 12 months) by an actuarial report is preferable, especially if a discounted estimate at 75 percent or higher confidence level was used. Estimates of the surpluses for each of the prior loss years should have been produced at least as recently as the latest fiscal year report. If no such analysis has been created for the current loss year the exhibit will be limited to only prior years.
 - If the sum of the exhibit's surpluses is negative, then enter that negative sum into **BOX G** and submit the exhibit with this form.
 - If the sum of such surpluses is positive or zero, then enter 0 into **BOX G** and submit the exhibit with this form.
- H. CALCULATED MINIMUM AMOUNT OF CONTRIBUTIONS NEEDED TO BE COLLECTED GROSS OF SAFETY COMMITTEE CREDITS (in dollars) H. _____
- $H = B + C + D + E + F - G$ (*NOTE: If **BOX G** is negative, its subtraction adds to the overall size of H*)
 - *NOTE: **Box H** should be gross of discounts granted by the group to members with a certified safety committee under section 1002 of the W.C. Act.*
- I. SELECTED ADDITIONAL MARGIN WITHIN CONTRIBUTION I. _____
- Enter any additional margin (gross of safety committee credits) determined to be needed for fluctuation in the claim count, for adverse development in claim severity, or for unexpected expense. **BOX I** may not be less than zero.

- J. SELECTED/PROPOSED CONTRIBUTION TO BE COLLECTED GROSS OF SAFETY COMMITTEE CREDITS (in dollars) J. _____
- $J = H + I$ NOTE: **BOX J** is net of credits (except safety committee credits) and gross of expense constant.
- K. LOSS COST MULTIPLIER (LCM) BASED ON SELECTED CONTRIBUTIONS K. _____
 (State multiplier to 4 digits to right of decimal point (i.e., #.####))
- $K = (J + G - F) / B$ NOTE: While the selected contribution in **BOX O** is net of safety discounts and is gross of expense constant charges, the LCM provided by **BOX K** is not.
- L. STANDARD CONTRIBUTIONS FROM MEMBERS APPROVED FOR SAFETY GROUP DISCOUNT (in dollars) L. _____
- Enter 0 or the total standard contributions from **BOX B** of members approved for safety group discount.
- M. NET-OF-SAFETY-GROUP MULTIPLIER (0.####) M. _____
- $M = 0.05 * L / B$
- N. SAFETY COMMITTEE CREDITS (as positive amount in dollars) N. _____
- $N = (J + G - F) * M$
- O. SELECTED/PROPOSED CONTRIBUTION TO BE COLLECTED NET OF SAFETY COMMITTEE CREDITS (in dollars) O. _____
- $O = J - N$
 - Total "Estimated Annual Contribution" from LIBC-350 forms that are submitted might exceed **Box O** (e.g., due to LIBC-350 "Other Charges").
 - Was an actuary report used to confirm the amount entered in **BOX O** as sufficient? Yes No
 If yes, provide a copy of the actuary report and have the actuary complete the actuary's certification below

FUND VERIFICATION

The Fund verifies that the facts set forth in this worksheet, including any rider exhibits or addendum, herewith, are true and correct and that this verification is made subject to Section 4904 of the Crime Code, 18 Pa. C.S.A. § 4904, relating to unsworn falsification to authorities.

Signature of fund officer responsible for the filing _____

Date

MM	DD	YYYY			

Type or print name and title _____

ACTUARY'S CERTIFICATION

If an actuary report confirms the amount entered in **BOX O** as sufficient, does the actuary certify (based upon the data and other relevant information provided to the actuary) that the selected contribution amount in **BOX O** represent an amount that is appropriate (with projected losses and allocated loss adjustment expenses at the 75 percent confidence level) both in terms of expected experience for the upcoming fund year and in light of any deficits for previous years? Yes No

Signature of actuary _____

Type or print name _____

Professional credentials (i.e., letters): _____

Firm: _____

Telephone: _____

Fax: _____

Email address: _____

**EXPENSE LOSS COSTS MULTIPLIER WORKSHEET FOR GROUP SELF-INSURANCE FUND
USING RATING ORGANIZATION LOSS COSTS**

EXPENSE EXHIBITS AND INSTRUCTIONS FOR COMPLETING BOXES D AND E OF THE WORKSHEET

INSTRUCTIONS

The following exhibits are used to calculate a group self-insurance fund's projected annual adjusted variable expenses and adjusted fixed expenses for inclusion in the submission of its LOSS COST MULTIPLIER WORKSHEET (LIBC-351). THESE EXHIBITS ARE FOR USE BY FUNDS **USING RATING ORGANIZATION APPROVED LOSS COSTS**.

- The Fund must make a complete and realistic determination of all its projected costs of operation for the upcoming fund year including all allocated and unallocated loss adjustment expenses and all other expenses not included in the rating organization loss costs.
- The Fund's administrator should consider adding margins to the projected expenses over and above the best estimate as a source of risk stabilization funding in order to avoid the possibility of deficits. Any unused expense margin would be a source of future surplus.
- The projected expenses should be sorted on the attached exhibits by type of expense into two categories:
 - **VARIABLE EXPENSES** – For the purposes of these exhibits, VARIABLE EXPENSES are more dependent upon size of exposure, losses, number of claims and collected premium as is, for example, loss adjustment expenses.
 - **FIXED EXPENSES** – For the purposes of these exhibits, FIXED EXPENSES are less dependent upon the exposure and are considered overhead.

It is conceivable that what is defined as a VARIABLE EXPENSE in one fund year is redefined as a FIXED EXPENSE in a subsequent year due to contractual considerations or changes in pricing methodologies.

- The only negative expense allowed is any expense constant (a pricing mechanism not used by most funds) that was charged on a member by member basis, as described in the EXPENSE EXHIBIT form.
 - **Investment income** is not allowed to be taken as a negative expense.
- An approximation of assessments **must** be included on an incurred basis as a variable expense.
 - This is typically 3 percent of loss costs.
 - The cost of assessments is no longer included in the rating organization approved loss costs.

In Part 3 of this Exhibit, all expenses must be listed as they were originally projected by the fund for use in the two previous fund years – PRIOR AND SECOND PRIOR.

- **PRIOR FUND YEAR** – is the fund year immediately preceding the current fund year;
- **SECOND PRIOR FUND YEAR** – the fund year immediately preceding the PRIOR FUND YEAR.
 - COLUMN I –
 - List the **actual expenses** as they were incurred during the course of the fund year.
 - Includes both anticipated and unanticipated actual expenses.
 - COLUMN II –
 - List all projected expenses as originally reported to the bureau with any trend assumption by the fund, both realized and unrealized projected expenses, adjusted to the same payroll basis (per \$100 of payroll) as the actual expenses, preferably consistent with the year end financial audit.

The amount in **Part 3, Line E** **must** be compared to 1.0. The greater of the two is the VARIANCE ADJUSTMENT FACTOR which **must** be multiplied by the amounts in **PARTS 1** and **2** in the column entitled, "PROJECTED EXPENSES" to obtain the "ADJUSTED PROJECTED EXPENSES" amounts.

The VARIANCE ADJUSTMENT FACTOR will remain 1.0 while the fund maintains a history of conservatively projected expenses in comparison to their actual incurred expenses. This can be ensured by trending expenses to the midpoint of the fund year at an appropriate trend rate and by adding margins to accommodate expense fluctuation.

EXPENSE EXHIBITS – PART 1

- A. List VARIABLE EXPENSE ELEMENTS, including excess insurance costs, and the projected expenses for the upcoming fund year on lines 1 through 15.
- Projected Expenses are the best estimate of trended expenses for the upcoming fund year on the assumed payroll basis.
 - Adjusted Projected Expense is Projected Expenses multiplied by the Variance Adjustment Factor from **Part 3, Line E**.

VARIABLE PROJECTED EXPENSES

ADJUSTED PROJECTED EXPENSES

1.	_____	_____	_____
2.	_____	_____	_____
3.	_____	_____	_____
4.	_____	_____	_____
5.	_____	_____	_____
6.	_____	_____	_____
7.	_____	_____	_____
8.	_____	_____	_____
9.	_____	_____	_____
10.	_____	_____	_____
11.	_____	_____	_____
12.	_____	_____	_____
13.	_____	_____	_____
14.	_____	_____	_____
15.	_____	_____	_____

B. SUM of 1 through 15 _____

C. AMOUNT OF ASSESSMENT (3.0 percent) of standard contribution, Box B of LOSS COST MULTIPLIER WORKSHEETS _____

EXPENSE EXHIBITS – PART 1

D. AMOUNT OF ADJUSTED PROJECTED EXCESS INSURANCE PREMIUM..... _____

E. LINE B PLUS LINE C MINUS LINE D..... _____

- Line E is entered into Box D of the LOSS COST MULTIPLIER WORKSHEET

EXPENSE EXHIBITS – PART 2

A. List FIXED EXPENSE ELEMENTS, and the projected expenses for the upcoming fund year.

- Projected Expenses are the best estimate of trended expenses for the upcoming fund year on the assumed payroll basis.
- Adjusted Projected Expense is Projected Expenses multiplied by the Variance Adjustment Factor from Part 3, Line E.

PROJECTED FIXED EXPENSES

ADJUSTED PROJECTED EXPENSES

1.	_____	_____	_____
2.	_____	_____	_____
3.	_____	_____	_____
4.	_____	_____	_____
5.	_____	_____	_____
6.	_____	_____	_____

PROJECTED FIXED EXPENSES

ADJUSTED PROJECTED EXPENSES

7.			
8.			
9.			
10.			
11.			
12.			
13.			
14.			
15.			

- B. SUM of 1 through 15
- C. Amount of expense constant – if any
- D. **Line B** minus **Line C** – **Line D** is entered into **Box E** of the LOSS COST MULTIPLIER SHEET

EXPENSE EXHIBITS – PART 3

- A. List all **prior FUND YEAR VARIABLE AND FIXED EXPENSES**, (exclusive of dividends, deficit funding assessments and surplus contributions).
 - List actual expenses in COLUMN I that were incurred in the course of the prior fund year.
 - List projected expenses in COLUMN II that were used in the calculation of the prior fund year’s funding level.
 - Include trend but exclude the ACTUAL ADJUSTMENT, as calculated below.
 - Both ACTUAL AND PROJECTED EXPENSES **must** be on the same payroll basis for the purposes of **Part 3A**.
 - The expense provision for Pennsylvania workers’ compensation assessments may be excluded from the variance calculation, at the option of the fund.

	<u>COLUMN I</u> ACTUAL INCURRED PRIOR FUND YR	<u>COLUMN II</u> PROJECTED PRIOR FUND YR	<u>COLUMN III</u> VARIANCE I / II
1.			
2.			
3.			
4.			
5.			
6.			
7.			
8.			
9.			
10.			
11.			
12.			

	<u>COLUMN I</u>	<u>COLUMN II</u>	<u>COLUMN III</u>
	ACTUAL INCURRED PRIOR FUND YR	PROJECTED PRIOR FUND YR	VARIANCE I / II

13.			
14.			
15.			
16.			
17.			
18.			
19.			
20.			
	<u>PRIOR FUND YEAR TOTALS</u>		

EXPENSE EXHIBITS – PART 3B

- B. PRIOR FUND YEAR VARIANCE
- Column I total divided by Column II total
- C. List all SECOND PRIOR FUND YEAR VARIABLE AND FIXED EXPENSES (exclusive of dividends, assessments and surplus contributions).
- List **actual** expenses in COLUMN I that were incurred in the course of the second prior fund year.
 - List **projected** expenses in COLUMN II that were used in the calculation of the second prior fund year’s funding level.
 - Include trend, but exclude the ACTUAL ADJUSTMENT, as calculated below.
 - **Both** ACTUAL and PROJECTED EXPENSES **must** be on the same payroll basis for the purposes of **Part 3C**.

	<u>COLUMN I</u>	<u>COLUMN II</u>	<u>COLUMN III</u>
	ACTUAL SECOND PRIOR FUND YR	PROJECTED SECOND PRIOR FUND YR	VARIANCE I / II

1.			
2.			
3.			
4.			
5.			
6.			
7.			
8.			
9.			
10.			
11.			
12.			
13.			
14.			

	<u>COLUMN I</u>	<u>COLUMN II</u>	<u>COLUMN III</u>
	ACTUAL SECOND PRIOR FUND YR	PROJECTED SECOND PRIOR FUND YR	VARIANCE I / II

15.	_____	_____	_____
16.	_____	_____	_____
17.	_____	_____	_____
18.	_____	_____	_____
19.	_____	_____	_____
20.	_____	_____	_____

SECOND PRIOR FUND YEAR TOTALS..... _____

D. SECOND PRIOR FUND YEAR VARIANCE _____

- Column I total divided by Column II total

E. VARIANCE ADJUSTMENT FACTOR..... _____

- If there is a PRIOR FUND YEAR and a SECOND PRIOR FUND YEAR then E = (B + D) divided by 2 or 1.0, whichever is **greater**.
- If there is a PRIOR FUND YEAR but NO SECOND PRIOR FUND YEAR then E = B or 1.0, whichever is **greater**.
- If there is **NO** PRIOR FUND YEAR then E = 1.0

SAMPLE

Employer Information Services
717.772.3702

Claims Information Services
toll-free inside PA: 800.482.2383
local & outside PA: 717.772.4447

Hearing Impaired
PA Relay 7-1-1

Email
ra-li-bwc-helpline@pa.gov



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Equal Opportunity Employer/Program