A BRIEF EXPLANATION OF PREMIUM DEVELOPMENT

Premium development for Self-Insured (SI) lines of coverage begins with determining the actuarially developed statewide premium for each line of coverage. Then, a portion of each statewide premium is allocated to claims and to exposures, depending upon the particular line of coverage. For example, the statewide premium for WC coverage is allocated 80% to claims and 20% to exposures, while the statewide premium for property coverage is allocated 20% to claims and 80% to exposures. If the statewide WC premium was $50 million, $40 million would be allocated to claims and $10 million would be allocated to exposures.

The allocation of the statewide claims premium and exposure premium for each line of coverage to individual state agencies is calculated on the CORA (Cost of Risk Allocation) worksheet.

Each agency's percentage of the statewide loss-limited adjusted claims over a 5 year period is multiplied by the statewide claims premium to arrive at its claims premium. For instance, using the above premium amounts, if an agency had $5 million of loss-limited WC claims for the 5 year period and the statewide WC loss-limited claims for that same period totaled $50 million, the agency's WC claims premium would be $4 million (10% of the statewide claims premiums).

Each agency's exposure premium is calculated in a similar method. The agency's percentage of the total statewide exposures for the fiscal year is multiplied by the statewide exposure premium. For instance, if the agency's total payroll for the fiscal year is $50 million (payroll is the exposure for WC) and the total statewide payroll is $1 billion, the agency's WC exposure premium would be $500,000 (5% of the statewide WC exposure premium of $10 million).

Adding the WC claims premium of $4 million together with the exposure premium of $500,000 equals the total WC premium of $4.5 million for the sample agency. Each line of coverage is calculated using the same method shown above.

The SI premiums by line for each billed agency from the CORA worksheet are transferred to an Excel spreadsheet. Then, ORM calculates the "Cash Needs" premiums (or usually the budgeted premiums) for each line of coverage by multiplying the CORA recommended premiums for each SI line of coverage by a constant percentage, determined by adjusting recommended premiums for surplus/deficit amounts and excluding road hazard premium amounts.

ORM's underwriting department develops the commercial premium amounts for Wet Marine coverage, along with commercial coverages for the Superdome/Arena, as well as the total excess property and boiler premium amounts. SI Aviation and Bridge Property premiums are also developed by the underwriting department. These premiums are excluded from the CORA worksheet process. They are added in with the SI premiums for the CORA worksheet on the Excel spreadsheet.

There is a 2 year lag from when claims and exposures are reported to/collected by ORM from agencies and when the premiums for those claims/exposures are actually invoiced. For instance, the claims for premiums billed for FY 2013 actually come from claims incurred during fiscal years 2007 through 2011 (starting 7/1/2006 through 6/30/2011); the exposures for premiums billed in/for FY 2013 actually come from exposures reported to ORM for fiscal year 2011.

Depending upon whether the agency passes or fails its safety audit/compilation, a 5% credit or penalty will be applied to the SI (self-insured) lines of coverage (with med mal coverage excluded from a credit or penalty). Any commercial premiums do not receive a safety credit or penalty.

Excess Property premiums charged each agency are based upon each agency's percentage of the statewide SI (self-insured) Property premium multiplied by the total statewide excess property premium. For instance, if an agency's SI property premium is 20% of the total statewide SI property premiums, and the statewide excess property premium is $50 million, its excess property premium would be $10 million. Excess Boiler premiums are determined in the same way. No safety credits or penalties apply to excess property and excess boiler premiums.