



October 1, 2011

**Circular 2011-06**

**To: All ICRB Members**

**Re: PROPOSED January 1, 2012 Advisory Rate Filing**

**Summary**

On October 1, 2011 the ICRB submitted the proposed filing to the Indiana Department of Insurance (IDOI) via the NAIC SERFF e-file system. The filing proposes an increase:

- of 2.3 % to the loss costs;
- of 2.6% in overall premium level, and;
- of 2.6% in overall rate level.

This overall premium level increase follows last year's increase of 1.7%.

**Components**

The attached exhibit provides a summary of the proposed rate filing components:

- ✓ Overall premium, loss costs, and rate level changes
- ✓ Components of premium level change
- ✓ Average change by industry group
- ✓ Implied loss cost multiplier
- ✓ Indemnity and medical loss ratios
- ✓ Target cost ratio
- ✓ Medical/indemnity split
- ✓ Executive officer, sole proprietor, partner, LLC member payroll limits
- ✓ Expense constant

**Payroll Rules Change**

This filing proposes a change to the executive officer, sole proprietor, partner, and LLC member payroll limits. First, the filing proposes to base payroll limits from the latest available U.S. Department of Labor (USDOL) Bureau of Labor Statistics (BLS) Occupational Employment Statistics Quarterly Census of Employment and Wages (QCEW) State Average Weekly Wage (SAWW).

Last year's filing used the statutory maximum weekly wage as a base point and applied a three year transition program to increase the executive officer minimum amount. We propose a switch to the QCEW SAWW as it provides a well-defined basis for the calculations of the minimum and maximum values, and is consistent with the approach used in many states where the SAWW is the basis for the calculations. The SAWW is available on the website of the Indiana Department of Workforce Development "[Hoosiers by the Numbers.](#)"

At the time the proposed filing was prepared in mid-September, the Indiana "Total Private" Average Weekly Wage was \$754.

This filing proposes to establish the minimum payroll limit at 85% of the average weekly wage, or \$650 ( $\$754 \times 0.85 = \$641$ , rounded to the nearest 50).

This filing proposes to establish the maximum payroll limit at 4 times the average weekly wage, or \$3,000 ( $\$754 \times 4 = \$3,016$ , rounded to the nearest 100).

Second, this filing proposes to eliminate the fixed payroll amount for sole proprietors, partners, and LLC members. These business owners who elect to be covered by workers compensation insurance will be treated the same as an executive officer for premium determination purposes and are subject to the same maximum and minimum payroll limitations listed on the Miscellaneous Values Pages. If the records of a business do not adequately show payroll amount(s) for its owner(s), then the carrier would apply the minimum payroll amount in auditing that policy.

This change provides consistent rule treatment for all business owners. An analysis of other states' rules showed that eight other states, comprising 41% of total workers compensation premium in the country, treat executive officers, sole proprietors, partners, LLC members the same as regards payroll rules.

The proposed payroll rule amounts supersede Item B-1420 and the Indiana Executive Officer Minimum Payroll Transition Program (reference ICRB Circular 2010-13 dated December 20, 2010).

#### Summary of Payroll Amounts

Owner	Status	Charge	1/1/2010	1/1/2011	1/1/2012
Sole Proprietor, Partner, LLC member	exclude, can opt in	Fixed (prior to 2012)	\$ 49,800	\$ 50,700	min/max same as officer
Executive Officer	include (sole corp officer can opt out)	Min Annual	\$ 18,980	\$ 30,420	\$ 33,800
		Max Annual	\$ 150,800	\$ 202,800	\$ 156,000
		Min Week	\$ 365	\$ 585	\$ 650
		Max Week	\$ 2,900	\$ 3,900	\$ 3,000

#### More Information

The ICRB website contains this information as well as the proposed rate pages and rate filing document. Go to [www.icrb.net](http://www.icrb.net) and click on the "Rates" tab.

Sincerely,



Ronald W. Cooper, CWCP  
President

**Indiana Workers Compensation  
PROPOSED Advisory Rate Filing Effective 1/1/2012  
Summary**

<b>Overall Premium Level Change</b>	<i>Percent</i> 2.6%
-------------------------------------	------------------------

*Formula: (1+0.032)\*(1-0.009)\*(1+0.003)-1*

<b>Overall Rate Level Change</b>	2.6%
----------------------------------	------

*Formula: (1+0.032)\*(1-0.009)\*(1+0.003)\*(1+0.000)-1*

<b>Components of Change</b>	
Experience, Trend, & Benefits	3.2%
Loss Based Expenses	-0.9%
<b>Loss Costs Change</b>	<b>2.3%</b>
Other Expenses & Taxes	0.3%
<b>Premium Level Change</b>	<b>2.6%</b>
Change in Expense Constant Offset	0.0%
<b>Rate Level Change</b>	<b>2.6%</b>

<b>Average Change by Industry Group</b>	<i>Avg Rate</i>	<i>Percent Rate Level</i>	<i>Range of Swing Limits from Previous Rates</i>
Manufacturing		0.4%	+25 to -25%
Contracting		2.4%	+27 to -23%
Office		5.3%	+30 to -20%
Goods & Services		3.1%	+28 to -22%
Miscellaneous		3.2%	+28 to -22%
<b>All</b>		<b>2.6%</b>	

source: Tech Supplement Summary and Appendix B-II(5)

<b>Other Changes</b>	
Implied Loss Cost Multiplier (LCM):	1.357 (1 / Target Cost Ratio)
Executive officer weekly payroll:	
	Minimum increased from \$585 to \$650 (\$33,800 annually)
	Maximum decreased from \$3,900 to \$3,000 (\$156,000 annually)
	<i>Note: Amounts based on USDOL BLS QCEW SAWW*</i>
Sole proprietor, partner, LLC member who elect coverage:	
	fixed annual payroll of \$50,700 changed to min/max same as executive officer
Expense Constant the same at \$250	
Medical/Indemnity split: 74%/26%	
source: Filing, p. 5. Also see Tech Supp Exhibits I-A & I-B, lines 15 & 27 avg, 2009 & 2008 policy years, and Exhibit I-C, line 1; developed to ultimate & projected to midpoint of policy year 2012	

<b>Loss Ratios</b>	<b>Indemnity</b>	<b>Medical</b>	<b>Total</b>
	17%	46%	63%
policy year 2008 developed to ultimate at designated stat reporting level			
sources: Filing, pages 9, 12; Tech Supp Appendix A-III, Section A, 2009 year			

<b>Target Cost Ratio</b>	<b>73.7%</b>
Overhead	26.3%
<b>Total</b>	<b>100.0%</b>
The target cost ratio is the portion of premium that funds loss and loss adjustment expense (LAE). The complement of that is for funding overhead provisions: production expenses, general expenses, taxes, and profit & contingencies.	

source: Tech Supp Exhibit II-A, line 7

- \* **Payroll Rules** for 2012: advisory rate filing amounts supersede Item B-1420 and Indiana Executive Officer Minimum Payroll Transition Program.
- Statewide Average Weekly Wage (SAWW) for executive officers, sole proprietors, partners, and LLC members based on latest available U.S. Department of Labor (USDOL) Bureau of Labor Statistics (BLS) Occupational Employment Statistics Quarterly Census of Employment and Wages (QCEW) State Average Weekly Wage (SAWW) = \$754
  - Annual *fixed* payroll determination for partners, sole proprietors, and LLC members is eliminated. These business owners treated same as executive officer for premium determination purposes and subject to same maximum and minimum payroll limitations as shown in Basic Manual Appendix F and this filing Miscellaneous Values Pages.
  - Minimum equal to 85% of the SAWW (754 x 0.85 = 641) rounded to nearest 50 = \$650
  - Maximum equal to 4 times the SAWW (754 x 4 = 3,016) rounded to nearest 100 = \$3,000