

SOME ASPECTS OF THE RETROSPECTIVE AND
SUPPLEMENTARY RATING PLANS

BY

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Both the retrospective and supplementary rating plans contemplate the adjustment of workmen's compensation premium rates for the risks so insured on the basis of experience of the assured for the period covered by the premium. The retrospective plan is akin to stop loss or aggregate excess coverage while the supplementary plan is comparable to deductible coverage. The obligation of the employer to provide security for his employees makes it necessary for the company in either case to stand responsible for the payment of the benefits provided in the Compensation Law unless the plans are to be restricted to those that qualify as self-insurers.

Most of the controversy that arose concerning the retrospective rating plan had to do with the propriety of departing from the customary standard of expense loading. In all probability this same subject will be the principal point of difference of opinion with respect to supplementary rating. Let us consider how infallible this standard has been.

Commissions, allocated claims expenses and premium taxes constitute the most important items of expense that may be segregated by lines of insurance but even in these cases the statistics do not show the actual disbursements on business of a particular state. Other important expense items such as general administration, field supervision, unallocated claims expense, inspections and miscellaneous taxes are charged against a line of insurance according to standards which vary by companies.

Local conditions, premium volume, adequacy of rate level, the nature and cost of company facilities and services all affect the question as to what constitutes necessary expense loadings. Until greater refinement and localization of costs is available it is necessary to exercise judgment as to probable differences.

The allowance for production costs in retrospective rating graduates downward, in comparison with the full allowance on a normal premium, as the size of a risk increases. The agents and brokers

are directly concerned with this feature of the plan but saw fit not to object to this adjustment. The extent of the contribution to be made by companies toward reducing the expense portion of the premiums written under this plan will probably be adjusted after a reasonable amount of experience has been had with it.

In supplementary rating the feature that appeals the most is the recognition of the principle that normal losses are more indicative of the characteristics of a particular risk and therefore constitute the element most susceptible to self-insurance treatment. Perhaps the adoption of reduced expense allowances in connection with the handling of normal losses and the adoption of an aggregate stop loss feature for normal losses will make the plan more attractive. Excess losses might be allowed some limited reflection in the adjusted premium.

A brief examination of the expenses of doing the business of compensation insurance shows considerable fluctuation in the ratios of these expenses to premiums from year to year. Country-wide results for stock companies show:

That production expenses incurred to direct premiums written dropped from 18.9% in 1932 to 17.2% in 1936.

General administration expenses incurred to earned premiums dropped 11.2% in 1932 to 8.8% in 1936.

Claim adjustment expenses dropped from 12.4% in 1932 to 9% in 1936.

Inspection and bureau expenses dropped from 3.6% in 1932 to 2.3% in 1936.

Taxes alone showed an increase rising from 2% in 1932 to 3.2% in 1936.

The total of these items shows a variation of 7.6% of earned premiums from a total of 48.1% in 1932 to 40.5% in 1936.

During that period premium volume rose 30% and the 1932 underwriting loss of 18% changed to a small underwriting profit for the year 1936.

On March 15, 1930 the then Superintendent of Insurance of the State of New York, Albert Conway, issued a decision in the matter of excess workmen's compensation coverage for self-insurers. The decision is a brief one and reads as follows:

“Employers who qualify as self-insurers frequently purchase insurance to protect themselves against excessive losses

resulting from the occurrence of a catastrophe. This form of coverage is legitimate, and reasonable provision should be made for furnishing it. The principal interest of the Insurance Department at this time is that the form of coverage made available should be catastrophe coverage and not a form to be used for competing unfairly with full coverage.

“I therefore rule that all forms of excess coverage, deductible average, stop loss or aggregate excess coverage, etc., other than full coverage or ex-medical coverage, applicable to risks within this State, whether issued by a reinsurance or a direct writing company, shall be submitted to me for approval before they may be used.”

The retrospective rating plan is not limited to those who qualify as self-insurers. A fair trial of the plan will disclose to what extent it serves a useful purpose and whether it develops conditions which require a remedy.