CONTINGENCY LOADING— NEW YORK WORKMEN'S COMPENSATION INSURANCE

BY

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The purpose of this paper is to outline the changes which were introduced this year in the method of determining the contingency loading for workmen's compensation insurance in New York State. A detailed explanation of the revised procedure will be of interest to those who wish to keep up-to-date on the ratemaking formula.

Because of recurring underwriting losses in the compensation insurance business, the ratemaking program was revised in 1934 to include provision for a contingency loading in the rate structure. The purpose of the contingency loading is to ensure that, over a period of years, there will be neither an underwriting loss nor an underwriting profit on the business of each state.

Papers* presented by Mr. Leon S. Senior and Mr. Francis S. Perryman at the November 24, 1933 meeting of the Society outlined new ideas as respects ratemaking procedure, and these suggestions played a part in the development of the program finally adopted. A complete outline of the 1934 compensation ratemaking program is given in pages 383-388 of the Current Notes section of Volume XX of the *Proceedings.*

New York was the first state to give consideration to amending the ratemaking program to include provision for a contingency loading. At the May 23, 1934 meeting of the Governing Committee of the Compensation Insurance Rating Board, a resolution was adopted which included the following section dealing with the contingency loading:

"(2) In accordance with the principle that rates shall be adequate and reasonable to meet all losses over a period of years, rates as finally calculated shall contain a basic contingency loading of 2.5 points which shall vary according to the following conditions:

(a) Beginning with calendar year 1933 and including all subsequent calendar years, a record shall be kept of

* "A Realistic Plan for Determining Compensation Insurance Rate Levels" and "Rate Levels for Workmen's Compensation Premiums" respectively.

the accumulated profit or loss resulting from a realized loss ratio less than or greater than the permissible.

(b) The basic contingency loading of 2.5 points shall vary (rounded off to the nearest half point) with the accumulated profit or loss thus determined from a minimum of zero when the accumulated profit is equal to 2.5% of the earned premium of the latest *calendar* year, to a maximum of 5.0 points when the accumulated loss is equal to 2.5% or more of the earned premium of the latest *calendar* year."

The Superintendent of Insurance gave approval to this provision effective with the July 1, 1934 rate revision.

A similar resolution as respects the contingency loading provision was adopted at the December 1934 meeting of the National Convention of Insurance Commissioners. There was added to this resolution, however, the following paragraph which indicated that the results produced should be subjected to review after a reasonable time:

> "It is expected that the accumulation shall not continue indefinitely and that it shall be terminated as to old balances after a reasonable period, viz. 5 years."

The ratemaking program approved for the July 1, 1934 New York rate revision was employed at the annual rate revisions thereafter through July 1, 1938. A contingency loading of 5.0 points was required at each revision date on the basis of the following experience compiled from the Casualty Experience Exhibit:

TABLE 1

NEW YORK

EXHIBIT OF CALENDAR YEAR UNDERWRITING RESULTS FOR COMPUTATION OF CONTINGENCY LOADING

Cal. Year	Earned Premium	Portion Available for Losses 60% × (2)	Incurred Losses	Underwriting Profit (+) or Loss (−): Amount (3) − (4)	Underwriting Profit (+) or Loss (−): % of Cal. Yr. Earned Prem. (5) ÷ (2)	Cumulative Profit (+) or Loss (−): Amount	Cumulative Profit (+) or Loss (−): % of Cal. Yr. Earned Prem. (7) ÷ (2)	Indicated Contingency Loading: Points	Indicated Contingency Loading: Rate Revision Date
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
1933	$39,456,267	$23,673,760	$27,889,409	−$4,215,649	−10.7%	−$4,215,649	−10.7%	5.0	7-1-34
1934	46,111,249	27,666,749	31,087,142	− 3,420,393	− 7.4	− 7,636,042	−16.6	5.0	7-1-35
1935	57,203,959	34,322,375	36,702,072	− 2,379,697	− 4.2	−10,015,739	−17.5	5.0	7-1-36
1936	68,132,814	40,879,689	41,984,901	− 1,105,212	− 1.6	−11,120,951	−16.3	5.0	7-1-37
1937	80,853,743	48,512,246	47,629,184	+ 883,062	+ 1.1	−10,237,889	−12.7	5.0	7-1-38

In approving the July 1, 1938 rate revision, the Superintendent of Insurance specified that a careful study should be made of the general ratemaking procedure with respect to the desirability of tapering off the effects of the contingency factor but preserving, however, the general purpose of the plan. Such a survey would be in accordance with the tacit understanding at the time the program was adopted by the National Convention that the method would be reviewed after a period of five years to determine whether any change should be made in the manner of calculating the contingency loading.

In the ensuing study made by the New York Board, consideration was given to the following important phases of this problem:

(1) Whether it is logical to terminate old balances after a reasonable period of years.

(2) An amendment of the method which would base the calculation of the calendar year underwriting profit or loss on the experience of only a limited period of recent policy years as, for example, the latest five or seven.

(3) The effect of interest reserves established by certain carriers.

(4) The effect of interest discount for tabular cases. (Tabular cases are long term cases for which the outstanding losses are evaluated by means of tables such as those contained in Special Bulletin 190 published by the New York Department of Labor. Such tables incorporate the elements of interest, mortality and remarriage in accordance with actuarial formulas.)

(5) The permissible loss ratio to be employed in computing the underwriting profit or loss.

Each of these items was analyzed as follows:

(1) *Whether It Is Logical to Terminate Old Balances after a Reasonable Period of Years*

The principle underlying the contingency loading is that the rates shall be adequate and reasonable to meet all losses over a period of years. The purpose has been to provide an adequate rate level since calendar year 1933. The substantial underwriting losses incurred by the carriers prior to 1933 are to be disregarded. Beginning with 1933, however, it is the intent that the provision for losses in the rate structure over a period of years shall equal the incurred losses.

To modify the contingency formula to provide for the termination of old balances would destroy the underlying principle of the contingency loading. Furthermore, whereas supervising authorities and policyholders might not object to the termination of old balances where a loss was shown, it is almost certain that they would object to the elimination of old balances which showed a profit for the older calendar years.

It was concluded that it would be unsound to modify the contingency loading formula in this manner, since such a change would be impracticable in application and would tend to destroy the basic principle of the contingency loading.

(2) *An Amendment of the Method Which Would Base the Calculation of the Calendar Year Underwriting Profit or Loss on the Experience of Only a Limited Period of Recent Policy Years as, for Example, the Latest Five or Seven*

Consideration was given to using the experience of a limited number of recent policy years to determine the underwriting result for each calendar year, thereby excluding the effect of the developments for the older policy years. It was thought that this modification might be a practical way of eliminating the effect of the periodic revaluation of tabular cases. There was also the question as to whether it is desirable to permit developments in the claims of old policy years such as 1914, 1915, etc., to influence the underwriting results in view of the fact that the revised program did not become effective until July 1, 1934.

A test was made of the effect on the contingency loading of excluding the experience developments for policy years older than the latest five in each calendar year. This test was limited to the use of the data for only the latest five policy years in each calendar year because that period represents the maximum number of policy years for which such information is segregated in the Casualty Experience Exhibit and not because the use of a five year period has any particular significance. This test developed the following results as compared with the method which has served as the basis for the determination of the contingency loading:

TABLE 2

NEW YORK

Test Calculation of Calendar Year Underwriting Results Based on Transactions for Latest Five Policy Years Only

Calendar Year	Earned Premium	Portion Available for Losses 60% × (2)	Incurred Losses	Underwriting Profit (+) or Loss (−)		Cumulative Profit (+) or Loss (−)		Indicated Loading Contingency	
				Amount (3 − (4)	% of Cal. Yr. Earned Prem. (5) ÷ (2)	Amount	% of Cal. Yr. Earned Prem. (7) ÷ (2)	Points	Rate Revision Date
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
1933	$39,472,464	$23,683,478	$25,942,872	−$2,259,394	−5.7%	−$2,259,394	−5.7%	5.0	7-1-34
1934	46,107,503	27,664,501	28,528,641	− 864,140	−1.9	− 3,123,534	−6.8	5.0	7-1-35
1935	57,187,628	34,312,577	33,222,560	+ 1,090,017	+1.9	− 2,033,517	−3.6	5.0	7-1-36
1936	68,106,958	40,864,175	38,956,868	+ 1,907,307	+2.8	− 126,210	−0.2	2.5	7-1-37
1937	80,835,091	48,501,054	44,041,031	+ 4,460,023	+5.5	+ 4,333,813	+5.4	0.0	7-1-38

TABLE 3

NEW YORK

COMPARISON OF CALENDAR YEAR TOTAL INCURRED LOSSES WITH INCURRED LOSSES FOR LATEST FIVE POLICY YEARS

Calendar Year	Total Calendar Year Incurred Losses	Calendar Year Incurred Losses for Latest 5 Policy Years	Calendar Year Incurred Losses for Prior Policy Years (2) — (3)
(1)	(2)	(3)	(4)
1933	$27,889,409	$25,942,872	$1,946,537
1934	31,087,142	28,528,641	2,558,501
1935	36,702,072	33,222,560	3,479,512
1936	41,984,901	38,956,868	3,028,033
1937	47,629,184	44,041,031	3,588,153

The exclusion of the data for the policy years prior to the latest five in each calendar year would have the effect of developing an indicated *profit* of $4,333,813 for calendar years 1933-1937 combined as compared with the *loss* of $10,237,889 developed by the existing method. This is an improvement of $14,571,702 in the indicated underwriting results. Unquestionably, however, this adjustment has the effect of excluding substantial loss developments, reflecting a change in the status of claims and reopened cases, and does not solely represent interest earnings on loss reserves.

It is illogical to exclude the effect of such actual loss developments because otherwise they will not be reflected in the rate structure. The rate level in New York is based on the indications of the experience for the latest completed policy year, developed to sixty months by means of factors derived from the experience of preceding policy years. Only in the calculation of the calendar year underwriting profit or loss is any subsequent development of the experience beyond sixty months taken into account.

It was concluded that it would be unsound to limit the underwriting profit or loss calculation to the experience of only the more recent policy years.

(3) *The Effect of Interest Reserves Established by Certain Carriers*

Certain carriers have included an interest reserve in the Casualty Experience Exhibit in order to eliminate all interest discount from their claim reserves for long term cases normally valued on a tabular basis. By this procedure, these carriers have not taken credit for interest discount on long term cases. In effect, this means that the reserves for such cases reflect only the mortality and remarriage discount elements and exclude the effect of interest discount in determining the present value of outstanding long term cases.

It is inconsistent with the New York ratemaking procedure to consider such special interest reserves to represent incurred losses and the Actuarial Committee of the Board ruled that the specific interest reserve developments should be excluded from the incurred losses reported in the Casualty Experience Exhibit in the determination of the calendar year underwriting profit or loss. The accumulation of such developments for calendar years 1933-1938 amounted to $657,916 to be deducted from the incurred losses reported for these calendar years.

(4) *The Effect of Interest Discount for Tabular Cases*

New York has a very liberal compensation law under which benefits are payable for long periods to dependents in the case of fatal accidents and to injured employees suffering serious permanent disabilities. The New York ratemaking procedure provides that the rate level, other than the contingency element, shall be based on the loss experience developed to sixty months. At that stage, the incurred losses are equal to the paid losses to that date plus the outstanding losses as of that date. It is contemplated that the present value of tabular cases shall be determined by using an interest discount rate of 3.5% for cases with date of accident prior to July 1, 1939.

The periodic revaluation of tabular cases beyond sixty months development for a policy year has the effect of increasing the incurred losses reported in the Casualty Experience Exhibit. This occurs because the table rate of interest earnings must be realized on the loss reserve in order to provide an adequate amount to meet the current loss payments on such cases and still maintain an adequate reserve on a present value basis for future payments. The tendency of the incurred losses for the older policy years to increase is illustrated by the development of the incurred loss for the following permanent total claim:

TABLE 4

NEW YORK

ILLUSTRATION OF DEVELOPMENT OF INCURRED COMPENSATION LOSS FOR A PERMANENT TOTAL CLAIM

Assumptions: (1) July 1, 1934 date of accident in policy year 1934.
(2) $30 weekly wages; $20 weekly compensation benefit.
(3) Date of birth December 31, 1894.

Valuation Date	No. of Months Development of Policy Year	Compensation Loss			Increase in Incurred Loss	3.5% × Mean o/s Loss Reserve
		Paid	o/s	Incurred (3) + (4)		
(1)	(2)	(3)	(4)	(5)	(6)	(7)
12-31-34	12	$ 520	$19,058	$19,578	..	..
12-31-35	24	1,560	18,797	20,357	$779	..
12-31-36	36	2,600	18,530	21,130	773	..
12-31-37	48	3,640	18,254	21,894	764	..
12-31-38	60	4,680	17,971	22,651	757	..
12-31-39	72	5,720	17,680	23,400	749	$624
12-31-40	84	6,760	17,383	24,143	743	614
12-31-41	96	7,800	17,077	24,877	734	603
12-31-42	108	8,840	16,764	25,604	727	592
12-31-43	120	9,880	16,443	26,323	719	581

Since the New York ratemaking procedure contemplates that, in determining the rate level incurred loss experience, the loss payments made on tabular cases after sixty months development of a policy year shall be discounted for interest from the expected date of payment to the date representing sixty months development of a policy year, it was concluded that the calendar year results used in computing the underwriting profit or loss should be modified to eliminate the increase in the incurred losses beyond sixty months development of a policy year which results solely from the effect of the interest discount element. This adjustment eliminates the accretions to the incurred losses which result in this manner from the periodic revaluation of tabular cases for those policy years developed beyond sixty months. This adjustment was determined from a special call which was issued requesting the carriers to segregate the outstanding losses reported in the Casualty Experience Exhibit for policy years developed beyond sixty months to the following two subdivisions:

(a) Outstanding losses valued without credit for interest discount.

(b) Outstanding losses valued with credit for interest discount.

This special call developed the following results:

TABLE 5

NEW YORK

SEGREGATION OF TOTAL OUTSTANDING LOSSES (EXCLUDING INTEREST DISCOUNT RESERVES) FOR POLICY YEARS PRIOR TO LATEST FIVE

Data for Carriers Responding to Special Call

Year Ending	Policy Years	Outstanding Losses Valued without Credit for Interest Discount	Outstanding Losses Valued with Credit for Interest Discount	Total (3) + (4)	Ratio (4)÷(5)
(1)	(2)	(3)	(4)	(5)	(6)
12-31-32	1914-28	$2,594,825	$25,002,432	$27,597,257	90.6%
12-31-33	1914-28	1,848,204	24,108,280	25,956,484	92.9
12-31-33	1914-29	2,715,265	28,026,515	30,741,780	91.2
12-31-34	1914-29	2,441,684	28,748,892	31,190,576	92.2
12-31-34	1914-30	3,505,787	32,464,322	35,970,109	90.3
12-31-35	1914-30	2,590,801	33,543,729	36,134,530	92.8
12-31-35	1914-31	3,656,663	37,631,610	41,288,273	91.1
12-31-36	1914-31	3,164,468	39,387,419	42,551,887	92.6
12-31-36	1914-32	4,114,165	42,215,865	46,330,030	91.1
12-31-37	1914-32	4,066,738	40,948,088	45,014,826	91.0
12-31-37	1914-33	5,636,065	45,796,635	51,432,700	89.0
12-31-38	1914-33	4,272,930	42,972,305	47,245,235	91.0
Selected Ratio		..	..	..	90%

It is indicated that approximately 90% of the total outstanding losses reported in the Casualty Experience Exhibit for policy years developed beyond sixty months represents the portion valued with credit for interest discount. In the following exhibit, this ratio was employed for each calendar year to determine the mean outstanding loss reserve for cases valued with credit for interest discount for policy years developed beyond sixty months. The adjustment by calendar year to reflect the effect of interest discount was calculated by taking 3.5% of this mean loss reserve.

TABLE 6

NEW YORK

ADJUSTMENT FOR INTEREST DISCOUNT ON OUTSTANDING LOSSES VALUED ON A PRESENT VALUE BASIS FOR POLICY YEARS DEVELOPED BEYOND 60 MONTHS

Data for All Carriers

Calendar Year	Total Outstanding Losses (Excl. Interest Discount Reserves) Policy Years Prior to Latest Five: As of Year End	Total Outstanding Losses (Excl. Interest Discount Reserves) Policy Years Prior to Latest Five: As of Preceding Year End	Ratio Representing Portion Valued with Credit for Int. Discount	Estimated Average o/s Losses Valued with Credit for Interest Discount $(4) \times \frac{(2)+(3)}{2}$	Adjustment for Int. Discount on o/s Losses Valued on a Present Value Basis for Policy Years Developed Beyond 60 Months 3.5% × (5)
(1)	(2)	(3)	(4)	(5)	(6)
1933	$35,149,918	$37,419,739	.90	$32,656,346	$1,142,972
1934	38,051,424	41,480,436	.90	35,789,337	1,252,627
1935	42,972,261	44,784,874	.90	39,490,711	1,382,175
1936	46,458,142	48,681,785	.90	42,812,967	1,498,454
1937	48,997,513	50,664,997	.90	44,848,130	1,569,685
1938	49,690,500	54,473,853	.90	46,873,959	1,640,589
TOTAL	..	..	..	..	$8,486,502

In time, the effect of this adjustment may not be so substantial because since July 1, 1935 it has been required by the New York Compensation Law that the present value of awards made for death and certain permanent disability claims shall be paid into the Aggregate Trust Fund by the stock and mutual insurance companies.

It may be contended that the interest rate of 3.5% used in this calculation is too high in view of current interest earnings. The answer to this argument is that the interest rate used in this calculation is that used in the tables employed to determine the present value of outstanding losses. For tabular cases with date of accident after July 1, 1939, an interest discount rate of 3% will be applicable since that rate is now specified in the Compensation Law.

(5) *Permissible Loss Ratio to Be Employed in Computing Underwriting Profit or Loss*

A permissible loss ratio of 60% has previously been used in the calculation of the calendar year underwriting profit or loss for

New York. This is the correct permissible loss ratio for premiums earned prior to July 1, 1935 because the earned premiums shown in the Casualty Experience Exhibit include those earned from the application of loss and expense constants. At the July 1, 1935 rate revision, however, a factor of 1.012 was included in the rate structure effective on outstanding as well as on new and renewal business in order to include provision in the rate structure for the tax payments to the Security Funds established under the Compensation Law. Premiums earned since July 1, 1935 should, therefore, first be divided by this factor of 1.012 before using a permissible loss ratio of 60% to calculate the underwriting profit or loss.

This change was adopted in order to make the procedure consistent with the ratemaking formula.

Computation of Underwriting Result for Calendar Years 1933-1938 Combined at July 1, 1939 Rate Revision

Table 7 shows the incorporation of the following three amendments in the computation of the accumulated profit or loss for calendar years 1933-1938 combined:

(1) Exclusion of the Security Funds factor of 1.012 from premiums earned subsequent to July 1, 1935.

(2) Exclusion of interest reserve developments from incurred losses.

(3) Adjustment for effect of interest discount on tabular cases of policy years developed beyond sixty months in each calendar year.

TABLE 7

NEW YORK

EXHIBIT OF CALENDAR YEAR UNDERWRITING RESULTS FOR COMPUTATION OF CONTINGENCY LOADING

Based on Part 4 of the Casualty Experience Exhibit

Cal. Year	Earned Premium*	Earned Prem. excl. Security Funds Factor (2) ÷ **	Incurred Losses	Cal. Year Profit (+) or Loss (—) 60% × (3) — (4)	Interest Reserve Develop-ments	Adjustment for Interest Discount	Adjusted Cal. Year Profit (+) or Loss (—) (5) + (6) + (7)	Cumulative Adjusted Profit (+) or Loss (—)	
								Amount	% of Cal. Yr. Earned Prem. (9) ÷ (2)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
1933	$ 39,456,267	$ 39,456,267	$ 27,889,409	—$4,215,649	$ ..	$1,142,972	—$3,072,677	—$3,072,677	—7.8%
1934	46,111,249	46,111,249	31,087,142	— 3,420,392	+ 668,263	1,252,627	— 1,499,502	— 4,572,179	—9.9
1935	57,203,959	56,862,782	36,702,072	— 2,584,403	+ 177,156	1,382,175	— 1,025,072	— 5,597,251	—9.8
1936	68,132,814	67,324,915	41,984,901	— 1,589,952	— 53,334	1,498,454	— 144,832	— 5,742,083	—8.4
1937	80,853,743	79,895,003	47,629,184	+ 307,818	— 68,827	1,569,685	+ 1,808,676	— 3,933,407	—4.9
1938	78,205,538	77,278,200	40,821,292	+ 5,545,628	— 65,342	1,640,589	+ 7,120,875	+ 3,187,468	+4.1
TOTAL	$369,963,570	$366,928,416	$226,114,000	—$5,956,950	+$657,916	$8,486,502	+$3,187,468	..	..

NOTES: * Standard premium basis. State Fund premiums adjusted to Board level.
** Factor of 1.000 for calendar years 1933 and 1934.
Factor of 1.006 for calendar year 1935.
Factor of 1.012 for calendar years 1936, 1937 and 1938.

The effect of these three amendments is summarized in the following exhibit:

ITEM	Underwriting Profit (+) or Loss (−)
Original Method (Calendar Years 1933-1938)	−$4,135,858
Adjustment for Security Funds Factor............	− 1,821,092
Adjustment for Interest Reserves	+ 657,916
Adjustment for Interest Discount	+ 8,486,502
TOTAL	+$3,187,468

If the original method of determining the contingency loading had been followed at the July 1, 1939 rate revision, an underwriting *loss* of $4,135,858 would have been developed, requiring the continuance of the full five points contingency loading. After including the three adjustments introduced, an accumulated *profit* of $3,187,468 is indicated for calendar years 1933-1938 combined.

It should be pointed out that if these modifications had been in effect since the contingency loading was introduced at the July 1, 1934 rate revision, a contingency loading of five points would have been indicated at all rate revisions prior to July 1, 1939. This is likewise the contingency loading which was determined by the previous method and adopted at the annual rate revisions from July 1, 1934 through July 1, 1938.

Amendment of Contingency Loading Resolution

In addition to the foregoing study and amendment of the method of determining the contingency loading, consideration was given to the manner of its application in the rate structure. The Actuarial Committee concluded that from the standpoint of sound business practice it is not desirable to permit the rate structure to be affected by so much as 9% at any rate revision, which results under the original formula when the contingency loading changes from its minimum to its maximum value, or vice versa. This conclusion concurs with the view advanced by the Superintendent of Insurance at the time of the July 1, 1938 rate revision that consideration should be given to tapering off the effect of the contingency factor but preserving, however, the general purpose of the plan. Recognizing the merit in the idea of tempering the effect of the contingency loading so as not to produce too radical a fluctuation in the rate structure on account of this element, the Governing Committee upon the recommendation of the Actuarial Committee modified its original resolution on the contingency loading as follows:

"(2) In accordance with the principle that rates shall be adequate and reasonable to meet all losses over a period of years, rates as finally calculated shall contain a basic contingency loading of 2.5 points which shall vary according to the following conditions:

(a) Beginning with calendar year 1933 and including all subsequent calendar years, a record shall be kept of the accumulated profit or loss resulting from a realized loss ratio less than or greater than the permissible.

(b) The basic contingency loading of 2.5 points shall vary (rounded off to the nearest half point) with the accumulated profit or loss thus determined from a minimum of zero when the accumulated profit is equal to 2.5% of the earned premium of the latest *calendar* year, to a maximum of 5.0 points when the accumulated loss is equal to 2.5% or more of the earned premium of the latest *calendar year; provided, however, that the contingency loading shall not differ by more than 2.5 points from the contingency loading in the preceding rate revision.*"

This amendment of the contingency loading resolution is a further step in the direction of introducing stabilizing elements in the ratemaking process. The contingency loading tends to slow down rate decreases when there have been underwriting losses in the past and to slow down rate increases when there have been underwriting gains in past years.

The Superintendent of Insurance gave approval to this revised method of determining the contingency loading to apply in New York at the July 1, 1939 and subsequent rate revisions. A contingency loading of 2.5 points was therefore included in the revised rates effective July 1, 1939. This is midway between the contingency loading of 5.0 points which would have been required by the original method of computation and the contingency loading of zero points which would have been indicated by the revised method of computation if the resolution governing the application of this element had not been amended to introduce the concept of tempering the effect of the contingency loading.

Possible Precedent for Other States

Because the compensation laws of most other states do not have such liberal benefit provisions necessitating the establishment of substantial reserves for long term cases on a tabular basis, there is probably no comparable problem elsewhere as respects giving recognition in the calendar year underwriting profit or loss calculation to the effect of interest reserves and interest discount. Likewise, only a few states have established Security Funds, thereby requiring an adjustment in the permissible loss ratio in recognition of the additional tax payments to the state. The adjustments adopted for these items this year in New York may therefore have only limited application elsewhere.

It is quite likely, however, that the proposal to terminate old balances may arise for consideration in other states. It is impossible to introduce such a change in the contingency loading calculation without destroying the underlying principle of the program

Consideration may also be given elsewhere to the desirability of modifying the original program so as to provide for tempering the effect of the contingency loading in a manner similar to that adopted in New York this year. The action taken in New York introduces a stabilizing element in the ratemaking procedure. This is a step in the right direction since it lessens the possibility of serious disturbance to the business as the result of violent fluctuation in the rates from one revision date to the next.