

FY 2026 AND 2027 AGENCY PREMIUMS

Workers' Compensation Self-Insurance Fund

June 4, 2025

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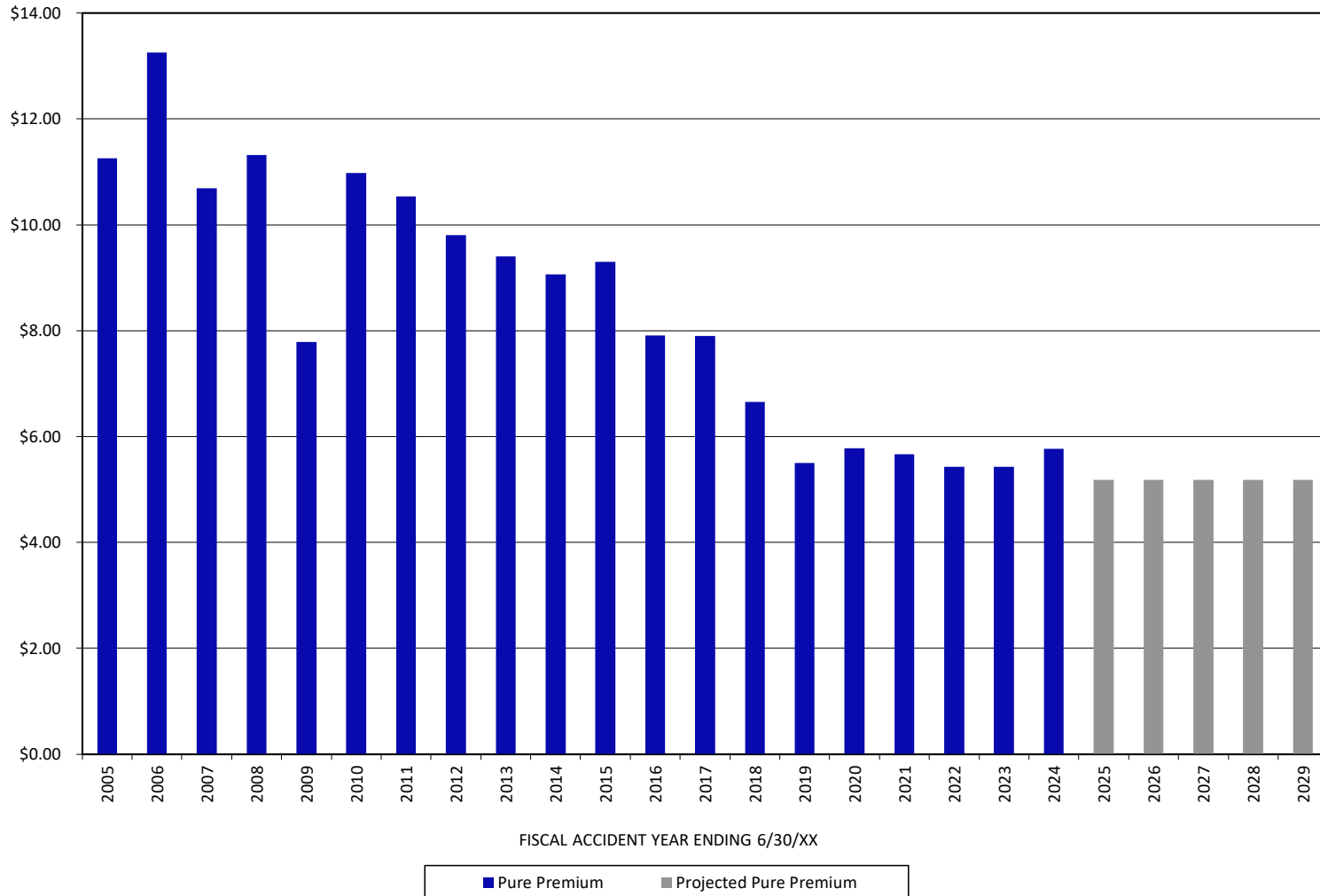
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PRESENTATION OVERVIEW

- Overview of the Commonwealth's Workers' Compensation Experience
- Overall Recommended FY 2026 and FY 2027 Workers' Compensation Premiums
- Individual Agency FY 2026 and FY 2027 Premium Calculations
- Settlement Project
- This document represents a summary of our full report titled "FY 2026 and 2027 Workers' Compensation Premium Allocation" dated September 13, 2024. The considerations and limitations outlined in the full report also apply to this document.

OVERALL COMMONWEALTH EXPERIENCE PURE PREMIUMS

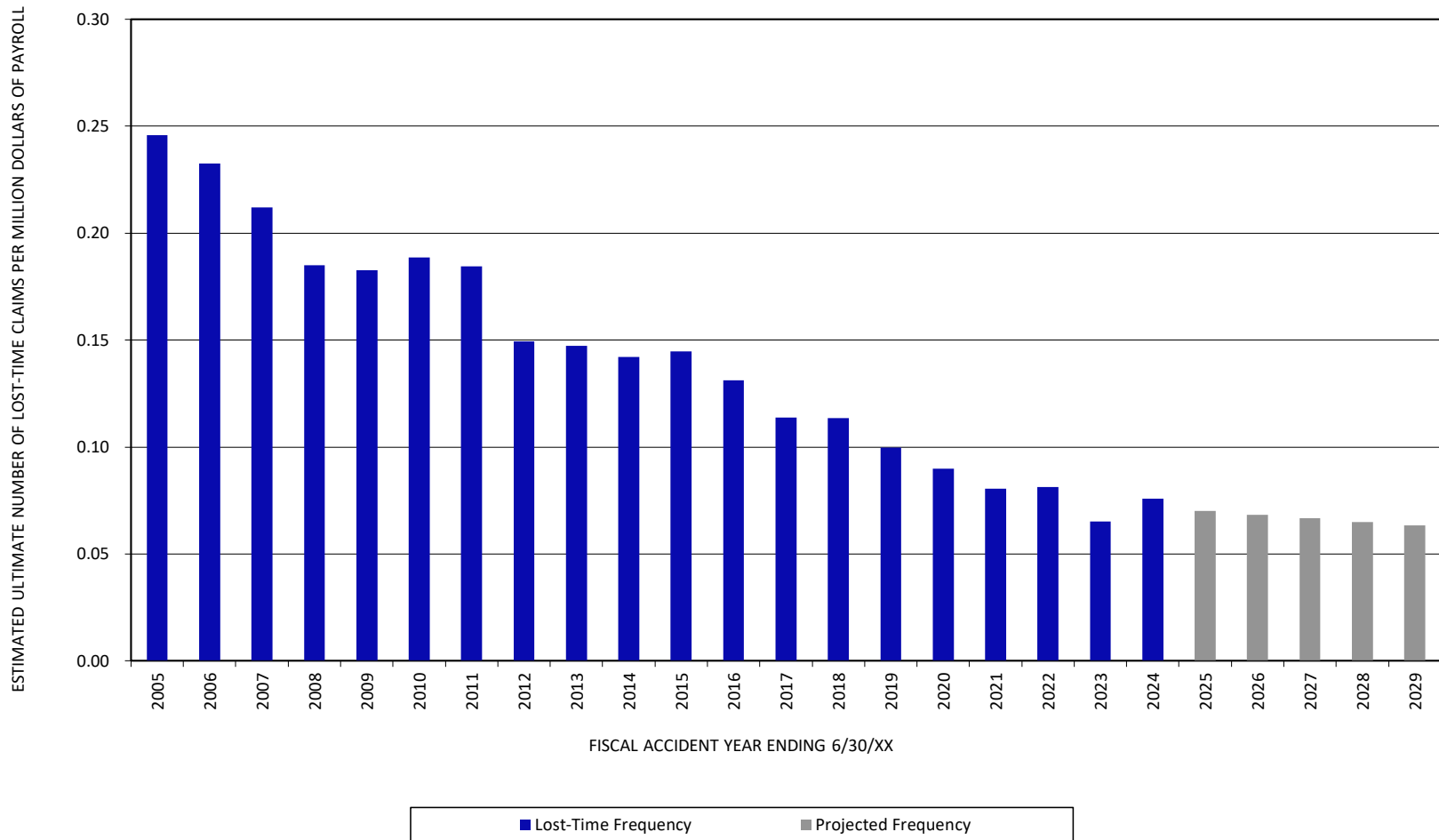
ESTIMATED PURE PREMIUMS BY FISCAL ACCIDENT YEAR
PURE PREMIUM = ESTIMATED ULTIMATE LOSS PER THOUSAND DOLLARS OF PAYROLL



OVERALL COMMONWEALTH EXPERIENCE

Claim Frequency

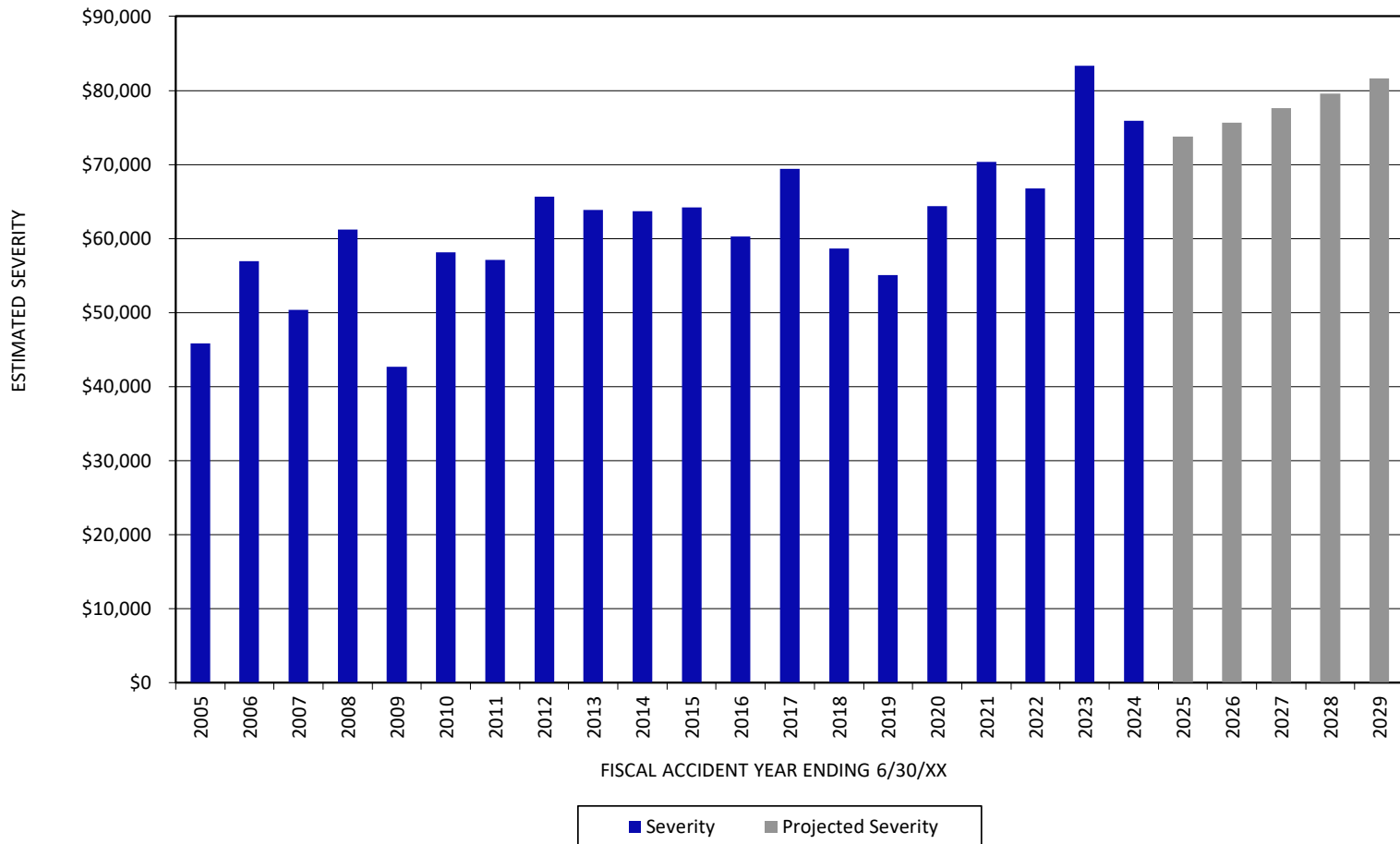
ESTIMATED LOST TIME CLAIM FREQUENCY BY FISCAL ACCIDENT YEAR
CLAIM FREQUENCY = ESTIMATED ULTIMATE NUMBER OF CLAIMS PER MILLION DOLLARS OF PAYROLL



OVERALL COMMONWEALTH EXPERIENCE

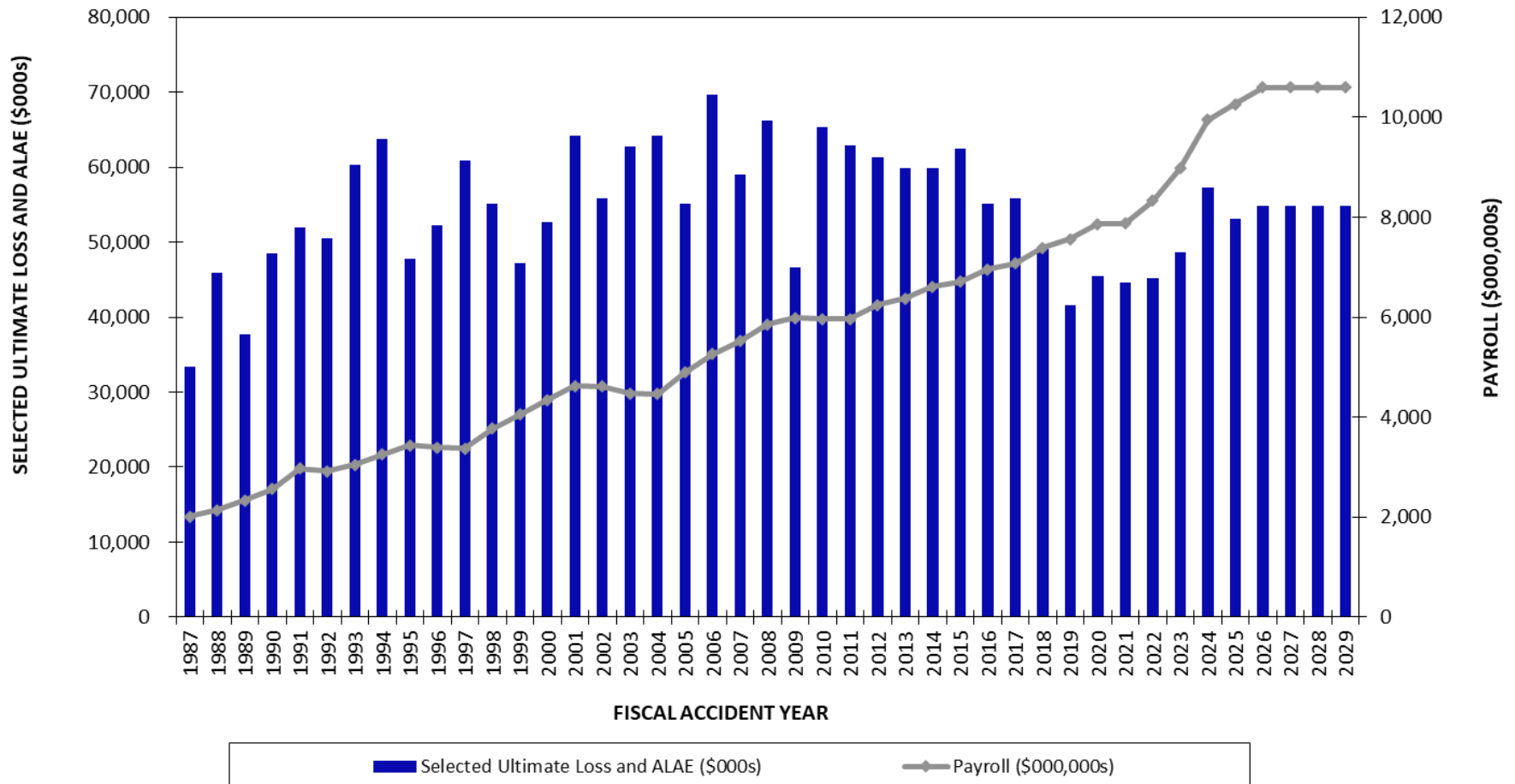
Claim Severity

ESTIMATED CLAIM SEVERITY PER LOST TIME CLAIM BY FISCAL ACCIDENT YEAR
CLAIM SEVERITY = ESTIMATED ULTIMATE LOSS PER LOST TIME CLAIM



OVERALL COMMONWEALTH EXPERIENCE

Payroll and Losses



OVERALL COMMONWEALTH EXPERIENCE

Medical Cost Inflation Index

CALENDAR YEAR	CPI - ALL MEDICAL CARE	PERCENT CHANGE	CPI MEDICAL CARE SERVICES	PERCENT CHANGE
1987	130.1		130.0	
1988	138.6	6.5%	138.3	6.4%
1989	149.3	7.7%	148.9	7.7%
1990	162.8	9.0%	162.7	9.3%
1991	177.0	8.7%	177.1	8.9%
1992	190.1	7.4%	190.5	7.6%
1993	201.4	5.9%	202.9	6.5%
1994	211.0	4.8%	213.4	5.2%
1995	220.5	4.5%	224.2	5.1%
1996	228.2	3.5%	232.4	3.7%
1997	234.6	2.8%	239.1	2.9%
1998	242.1	3.2%	246.8	3.2%
1999	250.6	3.5%	255.1	3.4%
2000	260.8	4.1%	266.0	4.3%
2001	272.8	4.6%	278.8	4.8%
2002	285.6	4.7%	292.9	5.1%
2003	297.1	4.0%	306.0	4.5%
2004	310.1	4.4%	321.3	5.0%
2005	323.2	4.2%	336.7	4.8%
2006	336.2	4.0%	350.6	4.1%
2007	351.1	4.4%	369.3	5.3%
2008	364.1	3.7%	384.9	4.2%
2009	375.6	3.2%	397.3	3.2%
2010	388.4	3.4%	411.2	3.5%
2011	400.3	3.0%	423.8	3.1%
2012	414.9	3.7%	440.3	3.9%
2013	425.1	2.5%	454.0	3.1%
2014	435.3	2.4%	464.8	2.4%
2015	446.8	2.6%	476.2	2.4%
2016	463.7	3.8%	494.8	3.9%
2017	475.3	2.5%	506.8	2.4%
2018	484.7	2.0%	517.8	2.2%
2019	498.4	2.8%	536.1	3.5%
2020	518.9	4.1%	562.6	4.9%
2021	525.3	1.2%	573.1	1.9%
2022	546.6	4.1%	597.7	4.3%
2023	549.1	0.5%	595.6	-0.3%
2024	560.9	2.2%	609.0	2.2%
Trend 1987-2023		3.9%		4.2%
Trend 1994-2023		3.5%		3.7%
Trend 2004-2023		3.0%		3.3%

OVERALL RECOMMENDED COMMONWEALTH PREMIUMS

Accounting Projections – Pay As You Go (Cash Flow) Premiums

		FISCAL YEARS ENDING			
		<u>2024</u>	<u>2025</u>	<u>2026</u>	<u>2027</u>
1.	FUND BALANCE (BEGINNING OF YEAR)	86,832	79,682	75,195	75,195
2.	PREMIUM	68,979	58,530	63,676	64,311
3.	NET CASH TRANSFERRED OUT	12,728	0	0	0
	TRANSFER OF RESERVE	0	0	0	0
	TRANSFER FROM W/C	0	0	0	0
4.	LOSS PAYMENTS	49,410	48,909	49,581	50,229
	4a. PAYMENTS ON CURRENT ACCIDENT YEAR	10,261	8,320	8,593	8,593
	4b. PAYMENTS ON ALL PRIOR ACCIDENT YEARS	39,149	40,590	40,988	41,635
5.	PROGRAM EXPENSES	17,189	16,621	16,621	16,621
6.	ADMINISTRATIVE EXPENSES	1,643	1,671	1,671	1,671
7.	INVESTMENT INCOME	4,840	4,184	4,197	4,210
8.	FUND BALANCE (END OF YEAR)	79,682	75,195	75,195	75,195
<u>REQUIRED RESERVE</u>					
9.	UNDISCOUNTED	493,951	498,136	503,395	508,007
10.	DISCOUNTED	316,603	319,443	323,029	326,099
<u>FUND POSITION</u>					
11.	UNDISCOUNTED	(414,269)	(422,941)	(428,200)	(432,812)
12.	DISCOUNTED	(236,921)	(244,248)	(247,834)	(250,904)

Notes: All dollars are in thousands.

OVERALL RECOMMENDED COMMONWEALTH PREMIUMS

Components of Required Cash Flow Premiums

	<u>FY 2026</u>	<u>FY 2027</u>
Loss Payments	49,581	50,229
Plus Program and Administrative Expenses	18,292	18,292
Less Investment Income	4,197	4,210
Equals Total Required Premium	63,676	64,311

(All Dollars are in \$000s)

INDIVIDUAL AGENCY PREMIUM CALCULATIONS

Considerations in Determining Agency Premiums

- ⇒ **Exposures (measured as payroll by NCCI job class)**
- ⇒ **Historical Loss Experience**
 - ♦ **Experience Period is FY 2021 through FY 2023**
- ⇒ **Stability and Risk Sharing**

INDIVIDUAL AGENCY PREMIUM CALCULATIONS

About NCCI

- ⇒ National Council on Compensation Insurance (NCCI) – a national workers' compensation statistical rating bureau
- ⇒ Collects loss and payroll data from insured and private self-insured entities for majority of states
- ⇒ For most states, including Virginia, analyze the collected loss and payroll data and publish “loss costs”, which represent ultimate losses per \$100 of payroll by job class code
- ⇒ Examples of job class codes:
 - 8810 – Clerical office employees
 - 7720 – Police officers and drivers
 - 7383 – College - all employees other than professional or clerical
 - 8833 – Hospital – professional employees

INDIVIDUAL AGENCY PREMIUM CALCULATIONS

General Agency Premium Determination Formula

Agency Estimated Benchmark Premium

x Commonwealth Total Required Premium

Commonwealth Total Estimated Benchmark Premium

INDIVIDUAL AGENCY PREMIUM CALCULATIONS

Estimated Benchmark Premiums

Estimated Benchmark Premium =

Estimated Manual Losses

X

Agency Experience Modification Factor

X

Loading for Insurance Company Expenses and Profit

INDIVIDUAL AGENCY PREMIUM CALCULATIONS

Example of FY 2026 Manual Loss Calculation

Sample Agency Estimated Manual Losses			
NCCI Class (1)	NCCI Virginia Loss Cost (2)	Agency FY 2026 Payroll (3)	FY 2026 Manual Losses (4)
8810	0.04	200,000	80
8868	0.16	700,000	1,120
9101	1.36	100,000	1,360
Total		1,000,000	2,560
Notes: (2) Loss Cost represents ultimate loss per hundred dollars of payroll (4) = (2) x (3) / 100			

INDIVIDUAL AGENCY PREMIUM CALCULATIONS

Experience Modification Factors

$$\text{Experience Modification Factor} = \frac{A_p + [W \times A_e] + [(1-W) \times E_e] + B}{E + B}$$

- Formula is published by NCCI
- Measures relationship between loss of an individual insured relative to the average for the class of insureds
- Assumes historical relationship of insured's losses to class averages is predictor of future relationship of insured's losses to class averages (3 year experience period is FY 2021 to FY 2023)
- Factor of 1.15 indicates that insured's losses are expected to be 15% higher than class average
- Factor of 0.90 indicates that insured's losses are expected to be 10% lower than class average
- A and E represent actual and expected losses (subscript p refers to primary losses and subscript e refers to excess losses); W and B vary with size of insured

INDIVIDUAL AGENCY PREMIUM CALCULATIONS

Sample Agency's Estimated Benchmark Premium

Sample Agency Estimated Commercial Premium	
Estimated FY 2026 Manual Losses	2,560
times	X
Sample Agency Experience Modification Factor	0.95
times	X
Loading for Insurance Company Expenses and Profit	1.333
equals	=
Estimated 2026 Benchmark Premium	3,242

Note: The expense and profit loading is shown to illustrate estimated benchmark premiums -- it does not affect the allocation procedure.

INDIVIDUAL AGENCY PREMIUM CALCULATIONS

Stability Considerations - Credibility

- ⇒ Experience Modification Factor reflects “credibility” of agency’s historical experience by:
 - ★ Considering the size of the agency (W and B factors), and
 - ★ Limiting the dollars on any one loss to \$205,000 in the formula

SETTLEMENT PROJECT

Overview

- Item 81 F.3 of Chapter 2, 2018 Special Session 1, Virginia Acts of Assembly provides for Working Capital Advances of up to \$20 million to settle certain workers' compensation claims and requires DHRM to pay back the working capital advance from annual premiums over a seven-year period.
- The Commonwealth determined that the cost avoidance associated with accelerated closure of these settled claims should accrue to the individual agencies whose claims have been settled and that each individual affected agency should bear the cost of the repayment of the settlement costs over the indicated seven-year period.
- The first year of the working capital advance repayment occurred in FY 2019 for claims settled in FY 2017. The following table summarizes the results to-date of the settlement project:

Settlement Year	# of Claims	Total \$ Settlements	Cost Avoidance	Payback Period
FY 2017	62	\$4,889,899	\$14,726,445	2019-2025
FY 2018	42	\$3,569,370	\$8,794,562	2020-2026
FY 2019	39	\$3,576,463	\$13,363,769	2021-2027
FY 2020	49	\$4,140,500	\$13,840,065	2022-2028
FY 2021	45	\$3,896,000	\$11,224,660	2023-2029
FY 2022	25	\$1,827,000	\$5,000,690	2024-2030
FY 2023	11	\$1,260,000	\$2,984,075	2025-2031
FY 2024	8	\$950,000	\$1,551,361	2026-2032
Total	281	\$24,109,232	\$71,485,626	

SETTLEMENT PROJECT

Premium Methodology

- Initially, the total premium allocated to individual agencies includes the FY 2026 or FY 2027 cost avoidance amount. This represents the total required premium if the settlements had not occurred.
- The cost avoidance amounts specific to the individual agencies are deducted from those agencies' preliminary premiums to arrive at the final premiums.
- Additionally, these individual agencies are charged $1/7^{\text{th}}$ of their FY 2018 through FY 2024 settlement amounts in FY 2025 and FY 2027, reflecting the 7 year payback periods.

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