State of Louisiana
Office of Risk Management
PREMIUM DEVELOPMENT PROCESS

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 exposure, depending upon the particular line of coverage. For example, the statewide premium for WC coverage is allocated 80% to claims and 20% to exposure, while the statewide premium for property coverage is allocated 20% to claims and 80% to exposure. See Appendix A for each line's ratio. If the statewide WC premium was $50 million, $40 million would be allocated to claims and $10 million would be allocated to exposure.

The allocation of the statewide claims premium and exposure premium for each line of coverage to individual state agencies is calculated on a 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 through a similar method. The agency's percentage of the total statewide exposure 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). See Appendix B for each line's primary exposure.

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 this same methodology.

For specialized lines of coverage, ORM's underwriting department develops the total premium amounts, which include a combination of SI and commercial premiums, for the following:
Wet marine hull & protection & indemnity
Aviation hull & liability
Equipment breakdown (boiler)
Cyber liability
Higher education student experiential learning Liability
Bridge property
These premiums are excluded from the CORA worksheet process.

Due to the timing and approvals required during fiscal year budgeting processes, 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 2021 actually come from claims incurred during fiscal years July 1, 2015 through June 30, 2019. The exposure values utilized for premiums billed for FY 2021 actually come from exposures reported to ORM for fiscal year 2019.

Depending upon whether an agency passes or fails its safety audit/compliance review, a 5% credit or penalty will be applied to the SI lines of coverage only (excluding medical malpractice coverage). 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 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 premium, and the statewide excess property premium is $50 million, its excess property premium would be $10 million. Excess equipment breakdown premiums are determined using the same methodology. No safety credits or penalties apply to excess property and excess equipment breakdown premiums.

APPENDIX A - Experience/Exposure Split by Line of Coverage

	Experience%	Exposure%
Workers' Compensation	**80%**	**20%**
General Liability	**70%**	**30%**
Automobile Liability	**70%**	**30%**
Auto Physical Damage	**70%**	**30%**
Equipment Breakdown (Boiler & Machinery)	**35%**	**65%**
Property	**20%**	**80%**
Bonds	**50%**	**50%**
Crime	**0%**	**100%**
Medical Malpractice	**70%**	**30%**
Road & Bridge**	**100%**	**0%**

**** Premiums not billed**

APPENDIX B - Exposure Items by Line of Coverage

Workers' Compensation	**Annual Gross Payroll**
General Liability	**Total Compensation - Annual Gross Payroll + # of outside board members (4th qtr.) X $15,000**
Automobile Liability	**Total Mileage – Total annual public vehicle miles + 5% of total annual private vehicle miles**
Auto Physical Damage	**# of licensed state vehicles reported for 4th quarter**
Equipment Breakdown (Boiler & Machinery)	**Total Boiler Value (calculated 8.5% of replacement cost of buildings with mechanical equipment)**
Property	**Total Property Values (TIV)**
Bonds	**# of FTE's for 4th quarter (# FT EE's + .5PT EE's), + # of outside board members for 4th quarter**
Crime	**Peak $ Exposure for 4th quarter**
Medical Malpractice	**Total Med Mal Contacts – available upon request**
Road & Bridge Hazard Liability (DOTD only)**	**None**

**** Premiums not billled**