

Premium Formula

For Policies with less than 2 years 9 months and more than 3 months' history

The table below is an example of how the revised premium formula will apply for policies with less than 2 years 9 months history. The example is where the initial period of insurance is for a new policy with no previous history. In the event that a new policy is initiated where there is previous claims and wages history, then the existing predecessor rules apply.

TABLE A	
	Premium Formula To Apply
Initial period of insurance	The respective industry category rate to be applied.
Second period of insurance	<p>If there is less than three months history</p> <p>The respective industry category rate to be applied</p> <p>If there is three months or more history policy is experience rated</p> <p>Premium Rate = Prior rate x (1 – 0.33 sizing factor%) + experience rate x 0.33 sizing factor)</p> <p>Prior Rate = (Last years rate x scheme rate) / Previous scheme rate</p> <p>Experience Rate = (Total Inc Yr1 x Actuarial factor Yr1) / Sum of wages.</p> <p>Sizing factor = (wages x scheme rate) / ((wages x scheme rate) +\$250,000)</p>
Third period of insurance	<p>If there is less than fifteen months history</p> <p>Premium Rate = Prior rate x (1 – 0.33 sizing factor%) + experience rate x 0.33 sizing factor)</p> <p>Prior Rate = (Last years rate x scheme rate) / Previous scheme rate</p> <p>Experience Rate = (Total Inc Yr1 x Actuarial factor Yr1) / Sum of wages.</p> <p>Sizing factor = (wages x scheme rate) / ((wages x scheme rate) +\$250,000)</p> <p>If there is fifteen months or more history</p> <p>Premium Rate = Prior rate x (1 – 0.66 sizing factor%) + experience rate x 0.66 sizing factor)</p> <p>Prior Rate = (Last years rate x scheme rate) / Previous scheme rate</p> <p>Experience Rate = (Total Inc Yr1 x Actuarial factor Yr1) + (Total Inc Yr2 x Actuarial factor Yr2) / Sum of wages.</p> <p>Sizing factor = (wages x scheme rate) / ((wages x scheme rate) +\$250,000)</p>
Fourth period of insurance	<p>If less than 2 years 9 months history</p> <p>Premium Rate = Prior rate x (1 – 0.66 sizing factor%) + experience rate x 0.66 sizing factor)</p> <p>Prior Rate = (Last years rate x scheme rate) / Previous scheme rate</p> <p>Experience Rate = (Total Inc Yr1 x Actuarial factor Yr1) + (Total Inc Yr2 x Actuarial factor Yr 2) / Sum of wages.</p> <p>Sizing factor = (wages x scheme rate) / ((wages x scheme rate) +\$250,000)</p> <p>If 2 years 9 months history or more</p> <p>The existing premium formulae will apply.</p>

PREMIUM RATING OF POLICIES WITH 2 YEARS & 9 MONTHS OR MORE EXPERIENCE

Premium Rating Formula

Step One

The current scheme rate is calculated by CMI's consulting actuary based on the average increase in the overall scheme costs over the past policy year.

Step Two

$$\text{Prior Rate} = \frac{\text{Last Years Rate} \times \text{Scheme Rate}}{\text{Previous Scheme Rate}}$$

Step Three

$$\text{Experience Rate} = \frac{\text{Total Incurred } 07/08 \times \text{Actuarial Factor } 07/08 + \text{Total Incurred } 08/09 \times \text{Actuarial Factor } 08/09 + \text{Total Incurred } 09/10^* \times \text{Actuarial Factor } 09/10}{\text{Sum of Wages}}$$

Step Four

$$\text{Sizing Factor} = \frac{\text{Wages} \times \text{Scheme Rate}}{\text{Wages} \times \text{Scheme Rate} + \$250,000}$$

$$\text{Premium Rate} = \text{Prior Rate} \times (1 - \text{sizing factor } \%) + \text{Experience rate} \times (\text{sizing factor } \%)$$

* 2009/2010 only 9 months period to 31 March 2010

The minimum rate is 0.8%.

1. Last Years Rate

The starting point for the premium formula is the rate an employer was charged for the previous renewal period.

2. Current Scheme Rate

The current scheme rate is calculated based on the average increase in the costs of the overall scheme in the previous policy year. The scheme rate is approved each year by the Coal Mines Insurance Board.

3. Prior Rate

An adjustment percentage is then applied to the previous rate for the overall change in the CMI scheme. The previous rate is modified by the current scheme rate to produce the 'prior rate'.

4. Experience Rate

An experience rate is calculated using the actuarial factor, the total incurred cost of claims lodged in the last 2 years and 9 months (based on claims where the **injury date** was **in the last 2 years and 9 months**) and the wages for the last 2 years and 9 months.

5. Category Rate

Each policyholder is allocated to a category. The category rates are calculated by CMI's consulting actuary. The category rate will only be used for policies with less than 3 months experience.

6. **Employer Sizing Factor**

The sizing factor for each employer is calculated by CMI's consulting actuary to determine the proportion of the employer's premium based on their individual experience and their prior rate. The factor applied is higher for an employer with a larger payroll than for a smaller employer. This protects smaller employers from one-off large premium fluctuations. Smaller employers are therefore rated more closely towards the prior rate experience.

7. **Actuarial Factor**

An actuarial factor is used in calculating the experience rate. Each year's actuarial factor is calculated by CMI's consulting actuary and covers unfunded liabilities, such as claims with injury dates older than 2 years and 9 months, incurred but not reported claims (IBNR) and incurred but not enough reserved claims (IBNER). It also allows for a prudential margin to be collected and ensures solvency of the scheme

8. **Total Incurred Claim costs used in the experience premium formula**

The claims experience amount used in the premium calculation formula is all actual claim payments plus the outstanding estimate for claims with a date of injury in the last 2 years and 9 months. Total incurred for a single claim is capped at \$500,000.

The claims amount includes all payments made by CMI as well as the outstanding claim estimate for claims with an injury date in the last 2 years and 9 months. Journey and recess claims are included in the claims amount unlike in the NSW WorkCover scheme.

The cost of claims does not include the amount of any entitlement of CMI to an input tax credit, or decreasing adjustment under the New Tax System (Goods and Services Tax) Act 1999.

Recoveries are only taken into account if the third party has acknowledged that there will be a recovery of claim costs. An estimate for the potential recovery will be entered against the claim.

CMI will only consider a review of the total incurred costs in the insurance premium calculation in cases where a policyholder can prove that the injured worker was not their employee or was covered under another policy.

9. **Total Incurred Claim costs used in the experience premium formula**

The claims experience **applies for all succession of the employer's business**, such as when a business takes over an existing business, changes name or expands. Business entities or payrolls are not able to split to avoid their claims experience in future business operations. Any apportionment of claims experience for earlier claims between employers is a matter for CMI to assess and determine the position and will depend on the circumstances of the claim being made on the later employer.