

**PRICING ANALYSIS  
FOR THE OHI WORKERS'  
COMPENSATION TRUST  
FOR FUND YEAR  
EFFECTIVE JANUARY 1, 2006**

Prepared for:

Board of Trustees &  
David I. Harvey, Ph. D., Administrator  
OHI Workers' Compensation Trust

Prepared by:

Milliman, Inc.

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A MILLIMAN GLOBAL FIRM



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April 25, 2006

Board of Trustees &  
David I. Harvey, Ph.D.  
Administrator  
OHI Workers' Compensation Trust  
357 Bay Road, Suite 4  
Queensbury, NY 12804



Dear David and Board Members:

Milliman, Inc. has completed its work related to the adequacy of the proposed premium funding levels for the ninth fund year for the OHI Workers' Compensation Trust (hereafter referred to as "OHIWCT" or "the Trust"). This report discusses our conclusions, the data underlying our work and our analysis.

In summary, we believe the proposed rate structure produces an expected loss and allocated loss expense ratio of 38.0% for the ninth fund year effective January 1, 2006. Based on an expected expense ratio (including excess insurance costs) of 58%, the expected combined ratio is 96%. Further, based on a total premium of \$1,800,000 and a per occurrence retention of \$400,000, we estimate that there is a 74% confidence level that the ninth fund year will not result in an underwriting loss (i.e., a combined ratio of 100.0% or less).

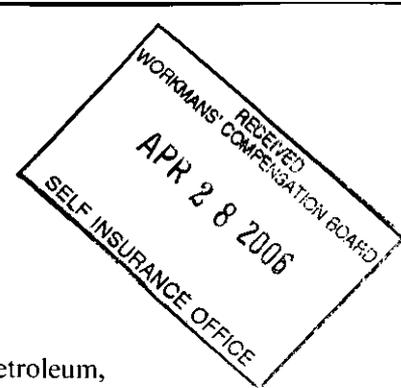
Please feel free to call us if you have any questions or would like any clarification.

Sincerely,

Derek A. Jones, FCAS

Robert J. Meyer, FCAS

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## **Introduction and Background**

The OHI Workers' Compensation Trust is comprised of employers in the heat, petroleum, gasoline, plumbing, auto (including auto dealers and repair shops), and home supply and related industries. These businesses service both residential and commercial clientele.

In response to the increasing cost of workers' compensation insurance, the OHI Workers' Compensation Trust (OHIWCT) was formed on October 21, 1997. Through OHIWCT, the members self-insure their collective workers compensation costs. OHI retained the services of Cody Management Services, Inc. (CMS) to assist them in their efforts to develop the OHIWCT and to administer the operations of the OHIWCT on an ongoing basis. OHIWCT began self-insurance operations on January 1, 1998 with 16 Founding Members; 3 Charter Members joined subsequent to January 1, 1998. In the 2005 fund year, the Trust has more than 100 members.

CMS considered several rating scenarios for OHIWCT and selected one in which fund year 2006 rates for OHIWCT members would be equal to the 2005 rates. Members that renew effective January 1, 2006 will continue to receive a 1% rate reduction. There will be the continued application of a 2% Founding Members discount and a 1% Charter Members discount. OHIWCT debits/credits of up to 15% may be applied to both existing and new accounts. Except for Founding and Charter Members, whose original debits may exceed 15% and which may be retained at their original levels or increased or decreased as determined from an underwriting perspective, CMS determined that the 2006 rates are achieved by the following process:

New York Compensation Insurance Rating Board (NYCIRB) rates effective October 1, 1999  $\times$  88% (i.e., a 12% reduction)

While new experience modifications are calculated reflecting each member's loss history, OHIWCT utilizes debit/credit caps to achieve either an aggregate revenue-neutral outcome or a revenue-enhancing outcome arising from the new experience modifiers.

Milliman was retained by CMS on behalf of OHIWCT to analyze the adequacy of the rates OHIWCT has proposed to charge during 2006. This report discusses our findings.

## **Conclusions**

Based on our work, we estimate OHIWCT's expected loss and allocated loss adjustment expense (ALAE) ratio for fund year 2006 will be 38% based on rates that are 12% below the October 1, 1999 NYCIRB rates. Based on an expected expense ratio of 58%, our analysis finds that OHIWCT's proposed rate structure would generate sufficient premium

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to fund the benefits to injured workers, all administrative expenses and return an underwriting profit to OHIWCT of 4%.

Assuming a total premium of \$1,800,000 and a per occurrence retention of \$400,000, we estimate that at a 74% confidence level, the ninth fund year will not produce an underwriting loss. A 0% underwriting loss (i.e., combined ratio equal to 100%) equates to a 42% loss and ALAE ratio. This should be interpreted to mean that, based on rates that are 12% below the NYCIRB rates effective October 1, 1999, it can be expected that the loss and ALAE ratio will be 42% or less 74% of the time. Conversely, there is a 26% chance that actual results will exceed a 42% loss and ALAE ratio.

The table below illustrates the impact that an increase in the total premium collected would have on the confidence level associated with a 0% underwriting loss (combined ratio = 100%) and a \$400,000 per occurrence retention.

*Confidence Level of a 100% Combined Ratio or Less*

Retention	Premium		
	\$1,700,000	\$1,800,000	\$1,900,000
\$400,000	73%	74%	75%

**Data**

Our analysis is based on the following data:

- (1) Premium and loss data for fund years 1998 through 2005 at historical September 30 evaluations.
- (2) Audited payroll for policy years 1998-2004 by employer and by classification code and initial estimates of total 2005 payroll underlying OHIWCT's 2005 premium calculations for current members.
- (3) NYCIRB rates effective October 1, 1999 and rate change assumptions provided by CMS.
- (4) Incurred loss development factors for New York from the 2005 edition of the NCCI Annual Statistical Bulletin and the NYCIRB rate filing effective October 1, 2005.
- (5) Average annual trend in New York wages from the 2003 edition of the United States Statistical Abstract and from the October 1, 2005 NYCIRB rate filing.

Items (1) and (2) were provided to us by CMS.

## **Approach**

The scope of our work was to estimate, from an actuarial standpoint, whether or not the premium revenue generated by rates that are 12% below the October 1, 1999 NYCIRB rates will be adequate to fund the expected loss costs and administrative costs for OHIWCT's 2006 fund year. In addition, the premium should be large enough to provide some margin for a contingency reserve.

Using loss & ALAE and payroll data for fund years 1998-2005 for the OHIWCT members, we estimated the loss and ALAE ratio for fund year 2006. The following adjustments were made to the historical data in order to estimate the fund year 2006 loss and ALAE ratio:

1. Incurred loss and ALAE amounts were developed to an ultimate basis.
2. Ultimate loss and ALAE amounts were trended to estimated cost levels for 2006.
3. Premiums at the proposed OHIWCT rates were trended to estimated wage levels for 2006.

Our estimate of the ratio of ultimate loss and ALAE costs to premium for fund year 2006 is 38%.

## **Explanation of Exhibits**

### **Exhibit 1**

*This exhibit summarizes our estimate of the 38% loss and ALAE ratio.*

Column (2) shows the premium level that would have been generated for each of fund years 1998 through 2005 if the proposed rates (12% below the October 1, 1999 NYCIRB rates) were used.

Columns (3), (4) and (5) further adjust the premiums in column (2) by modifying the underlying payrolls to expected wage levels for 2006. We selected an average annual wage trend factor of 3.0% based on our review of data contained in the United States

Statistical Abstract for the state of New York and from the NYCIRB's October 1, 2005 rate filing.

Column (6) is the case incurred loss and ALAE data.

Column (7) is an estimate of the ultimate incurred loss and ALAE costs. It includes both the known case incurred loss and ALAE data from column (6) and an estimate of the incurred but not reported (IBNR) losses.

Column (8) modifies the ultimate incurred loss and ALAE amounts in column (7) by adjusting them to the level of loss costs anticipated during fund year 2006 as shown in column (9). The average annual loss trend factor of 5.0% is based on our estimate of recent workers compensation trend indications.

Column (10) shows an estimate of the loss and ALAE ratio for fund years 1998 - 2005 at the proposed rates, projected 2006 wage levels and projected 2006 loss cost levels.

Column (11) shows the selected weights given to each policy year used in determining the selected loss and ALAE ratio for fund year 2006. It is appropriate to give greater weight to more recent data since it better reflects current conditions. The "TOTAL" row shows the weighted average of loss and ALAE ratios in column (10).

Column (12) shows the weighted average loss and ALAE ratio from column (11), adjusted to reflect an average member discount of approximately 3% for Founding or Charter Membership, rate renewal and posting financial security.

## **Exhibit 2**

*This exhibit summarizes the estimated unpaid loss discounted to present value as of December 31, 2005.*

We reflected the impact of the time value of money by discounting the estimated unpaid loss and ALAE as of December 31, 2005 to present value based on an interest rate of 4%. Sheet 1 shows the application of present value discount factors to the undiscounted estimate of unpaid loss and ALAE.

Sheet 2 shows the estimated factors to discount unpaid loss and ALAE amounts to present value. The payment pattern that underlies these discount factors was based on paid indemnity and medical loss data from the NYCIRB with an adjustment to reflect that the OHIWCT has historically paid claims faster than the industry average for New York.

The interest rate used to discount future payments was selected by CMS. We express no opinion as to the reasonableness of this rate.

### **Exhibit 3**

*This exhibit summarizes our range of estimates of ultimate loss and ALAE, the resulting estimated unpaid amounts as of 12/31/05, and ultimate loss and ALAE ratios*

Column (2) summarizes the total loss and ALAE paid as of December 31, 2005. This is subtracted from the estimated ultimate loss and ALAE amounts in columns (3) – (5) to produce our range of reserve estimates in columns (6) – (8).

Columns (3) – (5) show our low, best, and high estimates of the ultimate loss and ALAE. The best estimate shown in column (4) is from Sheet 2 of this exhibit. Columns (3) and (5) are selected judgmentally based on optimistic and pessimistic assumptions that we believe to be reasonable.

Columns (10) – (12) show the low, best, and high estimates of the ultimate loss and ALAE ratio implied by our estimated ultimate loss and ALAE amounts in columns (3) – (5).

### **Exhibit 4**

*This exhibit provides the calculations that underlie column (2) from Exhibit 1.*

Columns (2) – (8) show the actual audited payroll figures by classification for all OHIWCT members. The data in these columns were recorded here from exhibits prepared by CMS for each OHIWCT member. The payroll from those exhibits sum to the totals as shown. The amounts for 2005, for which the audit has not been completed, are annualized estimates provided by CMS.

Column (9) shows OHIWCT's proposed rates for fund year 2006, which are equal to approximately 88% of the NYCIRB rates effective October 1, 1999.

Columns (10) – (17) show the products of the adjusted payrolls by classification in columns (1) – (8) and the proposed rates in column (9). These products represent historical premium amounts adjusted to the proposed 2006 rate level. The total amounts in these columns are also shown in column (2) of Exhibit 1.

## **Exhibit 5**

*This exhibit shows the "Cape Cod" methodology used to produce indications of ultimate loss and ALAE.*

The Cape Cod method is a common actuarial approach that estimates unpaid or unreported loss and ALAE based on an a priori expected loss estimate and the expected percentage of ultimate loss and ALAE that is currently unpaid or unreported. This is a generally accepted actuarial approach for estimating ultimate losses when loss experience is immature or volume is low; both of these issues affect OHIWCT. We would be happy to provide additional details about this method.

## **Exhibit 6**

*This exhibit shows the source of the loss development factors used in Exhibits 3 and 5.*

The incurred loss and ALAE development pattern used in this analysis is based on a review of statewide (New York only) industry loss development as reported in the 2005 edition of the NCCI's Annual Statistical Bulletin and the NYCIRB rate filing effective October 1, 2005. (The NCCI obtains this information from the NYCIRB.) The industry data excludes ALAE data, but the omission of this data should have only a minor effect on the incurred loss development pattern. We developed a combined indemnity and medical development pattern using separate reporting patterns weighted 65% (indemnity) and 35% (medical).

Sheet 2 of this exhibit shows the percent change in the valuation of incurred medical losses from one calendar year to the next. For example, accident year 1994 incurred medical losses valued as of December 31, 1995 (24 months) are 21.7% larger than accident year 1994 incurred medical losses valued as of December 31, 1994 (12 months). The loss development factor is, therefore, expressed as 1.217. By looking at the loss development factors within a column, one can see several historical loss development factors that represent similar aging of the claims as they mature. Sheet 3 shows the development pattern for indemnity losses.

In each column, there are five historical factors shown. The two-year average factor and the five-year average factor are also shown. For both medical and indemnity, we selected the average of the latest five years. The cumulative products of the selected factors beginning with the tail factor at 96 months become the selected loss development factors to an ultimate loss level.

On Sheet 1 of Exhibit 6, we calculate the weighted average of the two development patterns to determine a development pattern for medical and indemnity loss combined.

These loss development factors are interpolated to account for the various ages in months of the reported incurred losses and are used on line (3) on Exhibit 2.

#### **Exhibit 7**

*This exhibit shows the proposed OHIWCT rates for 2006 for prospective and current members.*

Column (1) shows the various employee classification codes for OHIWCT members.

Column (2) shows the NYCIRB workers compensation rate per \$100 of payroll effective October 1, 1999 for each of the classes in column (1).

Column (3) shows the proposed OHIWCT rate per \$100 of payroll for prospective members. This is calculated as 88% of (i.e., 12% below) the NYCIRB rates shown in column (2).

Column (4) shows the proposed OHIWCT rate per \$100 of payroll for current members that renew effective January 1, 2006. This is based on the proposed OHIWCT rates shown in column (3) and an additional 1% renewal rate credit.

#### **Potential Areas of Uncertainty in Our Analysis**

There are several assumptions underlying our work that have potential to either overestimate or underestimate the fund year 2006 loss and ALAE ratio. The following two assumptions have potential to overestimate the loss and ALAE ratio.

##### *1. Incurred Loss Development Factor from 96 Months*

Exhibit 6 shows the industry loss experience in the development of incurred losses from 96 months to their ultimate reported values. Over the most recently available ten years, this factor has ranged from 1.052 to 1.180 for indemnity and from 1.091 to 1.251 for medical. When insurers report loss data to the NYCIRB, they are permitted to report losses on a discounted basis to reflect the time value of money for lifetime annuity claims such as permanent total cases or fatal cases involving weekly benefits to widows and children. As these cases move from the reserve status to the payment status, the amount of discount that underlies the case reserves is unwound, which creates artificially higher loss development factors.

The impact of this overstatement is expected to be minimal, however, since permanent total claims represent a small portion (approximately 3% in New York)

of the total ultimate losses. Further, many insurers report the undiscounted case reserve, rather than the discounted value, amounts on these claims.

## *2. Incurred Loss Development Factors in General*

As stated above, the selected incurred loss development factors are based on NYCIRB data. Since the loss data underlying these development factors are prior to the limiting effect of excess of loss reinsurance, it includes the development of losses above OHIWCT's expected per occurrence retention of \$400,000. Loss development factors from incurred loss data which had individual claim amounts capped at \$400,000 per occurrence would be lower, albeit by a relatively small amount, than those used in this analysis.

The following three assumptions have potential to either overestimate or underestimate the loss and ALAE ratio.

### *1. Incurred Loss and ALAE Development Pattern*

The selected incurred loss and ALAE development pattern is based on statewide New York data representing a broad spectrum of employment activity. This pattern may or may not be representative of the expected incurred loss and ALAE development of the OHIWCT.

### *2. Annual Wage Trend*

The annual wage trend of 3.0% is based on changes in the aggregate level of statewide New York wages. This annual wage trend may or may not be representative of the expected annual wage trend of the OHIWCT.

### *3. Annual Loss Trend*

The annual loss trend of 5.0% is based on our estimate of the annual trend in workers compensation costs given the recent positive effects of managed care efforts and return to work guidelines that are commonplace on the medical side. This annual loss trend may or may not be representative of the expected annual loss cost trend of the OHIWCT.

## **Confidence Level**

The confidence level we attach to these results, based on a total premium of \$1,800,000 and a per occurrence retention of \$400,000, is 74%. As stated earlier, this suggests that while our expected loss and ALAE ratio is 38%, the actual loss and ALAE ratio should be

42% or less (i.e., no underwriting loss) approximately 74% of the time. The confidence level may change if either the total premium or the retention changes, as shown earlier in the table in the "Conclusions" section.

We relied on a Monte Carlo simulation technique to model the distribution of the aggregate expected losses. A more technical description of the assumptions and mathematics underlying this technique can be provided, if desired.

### **Limitations**

We based our results on generally accepted actuarial procedures and reasonable judgments. Our results reflect assumptions regarding loss development, loss trend and wage trend. Projections of expected loss ratios, however, are inherently uncertain and actual results are likely to vary, perhaps materially, from our estimates. This is particularly true for small insurance programs where actual results tend to vary considerably from year to year.

We have produced a range of reasonable reserve estimates, defined by a low and high estimate, and a best estimate within this range. The range of estimates has been produced by alternative sets of assumptions that we consider to be reasonable based on information available to us. It should be understood that this range does not in any way represent the "lowest" or "highest" reserve estimates. Instead, the range should be interpreted as a range of reasonable outcomes that can be expected given current information. There is no guarantee that all possible outcomes are contained within this range.

In performing this analysis we have relied on data and other information provided to us by CMS. We have not audited or verified this data and information. If the underlying data or information is inaccurate or incomplete, our analysis may likewise be inaccurate or incomplete.

The current and future financial position of the OHIWCT is the responsibility of OHIWCT and not Milliman.

### **Distribution and Use**

This report is intended for the internal use of the OHIWCT, CMS, the accounting firm of Fuller & La Fiura, the law firm of Matte & Nenninger, the New York State Workers' Compensation Board and the New York State Insurance Department. No other distribution or use is authorized without prior written consent of Milliman. In the event that distribution of the report is authorized, it may be copied only in its entirety and any

party receiving this report must be informed that we are available to answer questions and provide clarification. This report may not be filed with the SEC or other securities regulatory bodies.

Milliman does not intend to benefit any third party recipient of its work product including the auditor, and does not intend to create any legal duty from Milliman even if Milliman consents to the release of its work product. In the event that any audit reveals any error or inaccuracy in the data underlying this report, Milliman requests that the auditor notify Milliman as soon as possible.

**OII Workers' Compensation Trust**  
Loss Ratio Projection for Fund Year 2006

(1) Fund Year	(2) Premium at Proposed Rates	(3) Annual Wage Trend Factor	(4) Trend Period in Years	(5) Premium at Proposed Rates and 2006 Wage Level
1998	\$234,556	1.030	8	\$297,129
1999	334,957	1.030	7	411,955
2000	352,413	1.030	6	420,800
2001	639,547	1.030	5	741,411
2002	788,199	1.030	4	887,125
2003	967,708	1.030	3	1,057,440
2004	1,474,910	1.030	2	1,564,732
2005	1,683,186	1.030	1	1,733,682
Total	\$6,475,476			\$7,114,272

(1) Fund Year	(6) Case Incurred Loss & ALAE	(7) Ultimate Incurred Loss & ALAE	(8) Annual Loss Trend Factor	(9) Ultimate Incurred Loss & ALAE at 2006 Cost Level
1998	\$64,514	\$64,514	1.050	\$95,317
1999	79,162	79,162	1.050	111,389
2000	200,476	206,976	1.050	277,367
2001	307,254	322,254	1.050	411,286
2002	80,063	95,063	1.050	115,549
2003	240,960	268,142	1.050	310,407
2004	390,316	576,005	1.050	635,046
2005	315,290	509,298	1.050	534,763
Total	\$1,678,034	\$2,121,413		\$2,491,124

(1) Fund Year	(10) Loss & ALAE Ratio at 2006 Level	(11) Weights	(12) Selected Loss & ALAE Ratio
1998	32%	0.042	
1999	27%	0.058	
2000	66%	0.059	
2001	55%	0.104	
2002	13%	0.125	
2003	29%	0.149	
2004	41%	0.220	
2005	31%	0.244	
Total	35%	35%	38%

FOOTNOTES ON FOLLOWING PAGE

**OHI Workers' Compensation Trust**  
Loss Ratio Projection for Fund Year 2006

FOOTNOTES TO PRECEDING PAGE

- (2) From Exhibit 4
- (3) Selected by Milliman
- (4) Number of years to Fund Year 2006
- (5)  $= (2) \times [(3)^{(4)}]$
- (6) From Exhibit 3, Sheet 2
- (7) From Exhibit 3, Sheet 2
- (8) Selected by Milliman
- (9)  $= (7) \times [(8)^{(4)}]$
- (10)  $= (9) \div (5)$
- (11) Selected by Milliman
- (12) Weighted average from column (11) adjusted to include an additional 3% to account for members' average discount.

**OHI Workers' Compensation Trust**

Estimated Unpaid Loss & ALAE - Discounted to Present Value as of 12/31/05

(1)	(2)	(3)	(4)	(5)
Fund Year	Maturity as of 12/31/05	Factor to Discount to Present Value as of 12/31/05	Estimated Unpaid Loss & ALAE as of 12/31/05	
			Undiscounted	Discounted at 4%
1998	96	1.000	\$0	\$0
1999	84	0.981	0	0
2000	72	0.964	17,706	17,072
2001	60	0.951	94,450	89,790
2002	48	0.938	17,869	16,753
2003	36	0.926	66,920	61,965
2004	24	0.916	282,472	258,663
2005	12	0.907	355,345	322,440
Total			\$834,761	\$766,683

Notes

- (3) Based on Exhibit 2, Sheet 2
- (4) From Exhibit 3, Sheet 1.

**OHI Workers' Compensation Trust**  
Factors to Discount to Present Value

(1)  Months of Development (n)	(2)  Payment Pattern		(4)  Factor to Discount to Present Value from n Months from the Beginning of the Year at 4%
	Cumulative	Incremental	
	0	0.000	
12	0.145	0.145	90.7%
24	0.375	0.230	91.6%
36	0.551	0.176	92.6%
48	0.690	0.139	93.8%
60	0.799	0.109	95.1%
72	0.888	0.088	96.4%
84	0.951	0.064	98.1%
96	1.000	0.049	100.0%

Notes

(2), (3) Based on data from the New York Compensation Insurance Rating Board  
2004 Financial Call Data excluding large deductible experience.

**OHI Workers' Compensation Trust**  
Estimated Unpaid Loss and ALAE as of December 31, 2005

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
					(3) - (2)	(4) - (2)	(5) - (2)
Fund Year	Paid Loss & ALAE as of 12/31/05	Estimated Ultimate Loss & ALAE			Estimated Unpaid Loss & ALAE as of December 31, 2005		
		Low	Best	High	Low	Best	High
1998	\$64,514	\$64,514	\$64,514	\$64,514	\$0	\$0	\$0
1999	79,162	79,162	79,162	79,162	0	0	0
2000	189,270	202,877	206,976	210,886	13,607	17,706	21,616
2001	227,804	309,693	322,254	331,814	81,890	94,450	104,011
2002	77,194	85,679	95,063	104,039	8,485	17,869	26,845
2003	201,222	243,765	268,142	284,393	42,543	66,920	83,171
2004	293,533	556,253	576,005	692,226	262,720	282,472	398,693
2005	153,953	445,636	509,298	572,960	291,683	355,345	419,007
Total	\$1,286,651	\$1,987,580	\$2,121,413	\$2,339,994	\$700,929	\$834,761	\$1,053,343
	(9)	(10)	(11)	(12)			
		(3) ÷ (9)	(4) ÷ (9)	(5) ÷ (9)			
Fund Year	Earned Premium	Estimated Ultimate Loss & ALAE Ratio					
		Low	Best	High			
1998	\$220,347	29.3%	29.3%	29.3%			
1999	231,045	34.3%	34.3%	34.3%			
2000	266,944	76.0%	77.5%	79.0%			
2001	442,419	70.0%	72.8%	75.0%			
2002	611,995	14.0%	15.5%	17.0%			
2003	812,550	30.0%	33.0%	35.0%			
2004	1,236,118	45.0%	46.6%	56.0%			
2005	1,591,556	28.0%	32.0%	36.0%			
Total	\$5,412,974	36.7%	39.2%	43.2%			

Notes

- (2) Based on claim list provided by Cody Management
- (3), (5) Selected judgmentally based on column (4) and actual claim experience to date
- (9) From Exhibit 3, Sheet 2

**OIII Workers' Compensation Trust**  
Estimated Ultimate Loss & ALAE

	1998	1999	2000	2001	2002	2003	2004	2005
<u>Expected Loss Ratio (ELR)</u>								
(1A) Indemnity	0.21	0.21	0.21	0.33	0.43	0.31	0.24	0.24
(1B) Medical	0.11	0.11	0.11	0.16	0.22	0.16	0.13	0.11
(1C) Total ELR	0.32	0.32	0.32	0.49	0.65	0.47	0.37	0.35
(2) Earned Premium	220,347	231,045	266,944	442,419	611,995	812,550	1,236,118	1,591,556
<u>Loss Development Factor</u>								
(3A) Indemnity	1.070	1.104	1.146	1.220	1.352	1.621	2.268	4.263
(3B) Medical	1.105	1.126	1.158	1.210	1.280	1.403	1.639	2.389
<u>Estimated IBNR Loss &amp; ALAE</u>								
(4A) Indemnity = (1A) × (2) × [1.0 - 1/(3A)]	3,027	4,571	7,142	26,328	68,514	96,498	165,862	292,371
(4B) Medical = (1B) × (2) × [1.0 - 1/(3B)]	2,303	2,844	3,944	12,143	29,043	37,918	61,278	104,563
(4C) Total	5,330	7,415	11,086	38,470	97,558	134,417	227,140	396,935
(5) Case Incurred Loss & ALAE as of 12/31/05	64,514	79,162	200,476	307,254	80,063	240,960	390,316	315,290
(6) Indicated Ultimate Loss & ALAE								
BF Method = (4C) + (5)	69,844	86,577	211,562	345,724	177,620	375,377	617,455	712,225
Incurred Loss & ALAE Loss Ratio Cape Cod Method	73,878	95,711	221,115	354,460	153,378	359,223	628,098	675,095
Incurred Loss & ALAE Severity Cape Cod Method	77,350	102,962	222,270	359,121	141,266	336,208	576,005	687,041
(7) Selected Ultimate Loss & ALAE	64,514	79,162	206,976	322,254	95,063	268,142	576,005	509,298
(8) Ultimate Loss & ALAE Ratio = (7) ÷ (2)	29.3%	34.3%	77.5%	72.8%	15.5%	33.0%	46.6%	32.0%

Notes

- (1) Selected based on prior years' indicated loss & ALAE ratios.
- (2) Amounts for 2004 and prior reflect audited premium. 2005 estimate provided by Cody Management.
- (3) Based on Exhibit 6, Sheet 1
- (4) IBNR loss & ALAE is estimated based on the Bornhuetter-Ferguson method
- (5) Based on claim list provided by Cody Management
- (6) Loss Ratio Cape Cod and Severity Cape Cod Indications from Exhibit 5, Sheets 1 and 2, respectively
- (7) Selected judgmentally based on line (6) and discussions with Cody Management

**OHI Workers' Compensation Trust**  
Estimated Unpaid Assessments as of December 31, 2005

(1)	Estimated Ultimate Loss & ALAE	\$2,121,413
(2)	Estimated Ultimate Indemnity Loss as % of total	50%
(3)	Estimated Ultimate Indemnity Loss = (1) × (2)	\$1,060,706
(4)	Indemnity Loss Reported to WCB as of 12/31/05	\$526,198
(5)	Estimated Unreported Indemnity Loss as of 12/31/05 = (3) - (4)	\$534,508
(6)	Security Deposit as of 12/31/05	\$624,000
(7)	Estimated Assessment Rates	
	(7a) Loss-Based Assessments	41.1%
	(7b) Security-Based Assessment	0.4%
(8)	Estimated Unpaid Assessments	
	(8a) Loss-Based Assessments = (5) × (7a)	\$219,683
	(8b) Security-Based Assessment = (6) × (7b)	2,184
	(8c) Total	\$221,867
(9)	Factor to Discount Assessment to Present Value as of December 31, 2005	
	(9a) Loss-Based Assessments	88.9%
	(9b) Security-Based Assessment	100.0%
(10)	Estimated Unpaid Assessments Discounted at 4%	
	(10a) Loss-Based Assessments = (5) × (7a)	\$195,317
	(10b) Security-Based Assessment = (6) × (7b)	2,184
	(10c) Total	\$197,501

Notes

- (1) From Exhibit 3, Sheet 1.
- (2) Selected judgmentally based on OHI Workers' Compensation Trust claim data
- (6) Based on information provided by Cody Management
- (7a) Based on NYCIRB rate filing effective 10/1/05
- (7b) Based on Section 50-5 assessment notice

OHI Workers' Compensation Trust  
 Estimated Historical Premium at Proposed Rates

Class Code	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)
	Actual Payroll								Proposed OHIWCT Rate	Manual Premium at Proposed Rates							
	2005	2004	2003	2002	2001	2000	1999	1998		2005	2004	2003	2002	2001	2000	1999	1998
3620	\$1,035,199	\$696,185	\$228,936	\$0	\$0	\$0	\$0	\$0	\$8.12	\$84,058	\$56,530	\$18,590	\$0	\$0	\$0	\$0	\$0
3632	456,750	355,532	0	0	0	0	0	0	4.39	20,051	15,608	0	0	0	0	0	0
3724	255,587	248,690	134,081	158,300	158,311	43,400	0	0	8.40	21,469	20,890	11,263	13,297	13,298	3,646	0	0
3726	123,334	224,152	178,193	0	0	0	0	0	13.82	17,045	30,978	24,626	0	0	0	0	0
3737	541,259	486,140	396,470	59,500	279,352	23,549	0	0	5.41	29,282	26,300	21,449	3,219	15,113	1,274	0	0
4000	15,286	0	0	0	0	0	0	0	7.48	1,143	0	0	0	0	0	0	0
5183	2,038,504	1,574,891	1,230,042	1,015,186	276,815	63,000	0	0	7.47	152,276	117,644	91,884	75,834	20,678	4,706	0	0
5190	100,214	5,192	0	0	0	0	0	0	5.96	5,973	309	0	0	0	0	0	0
5193	2,235,154	2,191,918	1,812,209	1,570,869	2,177,468	1,304,701	1,596,048	1,114,455	11.23	251,008	246,152	203,511	176,409	244,530	146,518	179,236	125,153
5221	0	0	0	16,500	0	46,200	0	0	13.32	0	0	0	2,198	0	6,154	0	0
5536	2,368,031	2,128,397	1,003,083	1,045,489	576,343	61,656	0	0	7.43	175,945	158,140	74,529	77,680	42,822	4,581	0	0
5645	0	0	0	0	0	0	0	158	13.10	0	0	0	0	0	0	0	21
6217	11,673	14,968	35,907	17,900	19,489	0	0	0	7.70	899	1,153	2,765	1,378	1,501	0	0	0
7219	1,633,168	1,699,436	1,193,089	1,226,292	1,008,450	118,500	53,603	0	9.57	156,294	162,636	114,179	117,356	96,509	11,340	5,130	0
7380	398,895	401,137	207,799	0	0	0	0	0	7.56	30,156	30,326	15,710	0	0	0	0	0
7998	136,010	123,943	127,197	144,560	25,100	21,900	21,200	20,800	2.53	3,441	3,136	3,218	3,657	635	554	536	526
8006	278,766	320,739	275,417	369,360	278,241	256,804	170,359	35,431	2.57	7,164	8,243	7,078	9,493	7,151	6,600	4,378	911
8017	86,275	71,076	80,638	131,000	99,135	0	0	0	1.93	1,665	1,372	1,556	2,528	1,913	0	0	0
8018	128,702	140,647	52,288	0	0	0	0	0	4.74	6,100	6,667	2,478	0	0	0	0	0
8043	0	44,059	48,082	44,400	31,433	0	0	0	1.66	0	731	798	737	522	0	0	0
8046	444,577	0	0	0	0	0	0	0	2.41	10,714	0	0	0	0	0	0	0
8111	2,510,865	1,420,407	362,681	13,872	0	0	0	0	4.77	119,768	67,753	17,300	662	0	0	0	0
8232	0	0	322,622	141,800	101,405	0	0	0	8.09	0	0	26,100	11,472	8,204	0	0	0
8292	51,765	53,504	48,117	53,054	0	0	0	0	6.78	3,510	3,628	3,262	3,597	0	0	0	0
8350	3,512,607	3,364,207	2,923,927	2,442,958	1,992,602	1,629,577	1,440,419	1,072,654	5.35	187,924	179,985	156,430	130,698	106,604	87,182	77,062	57,387
8353	1,506,357	1,495,023	1,343,341	1,414,463	732,306	621,600	703,350	494,558	6.30	94,901	94,187	84,630	89,111	46,135	39,161	44,311	31,157
8381	227,056	218,607	208,239	127,948	70,579	244,200	66,471	15,761	2.75	6,244	6,012	5,727	3,519	1,941	6,716	1,828	433
8382	284,200	148,330	0	0	0	0	0	0	2.13	6,053	3,159	0	0	0	0	0	0
8391	4,260,860	3,491,672	963,643	851,744	276,343	507,178	270,427	258,569	4.56	194,295	159,220	43,942	38,840	12,601	23,127	12,331	11,791
8742	2,458,112	1,761,403	775,869	599,474	359,565	166,450	277,231	69,342	0.62	15,240	10,921	4,810	3,717	2,229	1,032	1,719	430
8748	1,873,097	1,478,941	0	0	0	0	0	0	0.84	15,734	12,423	0	0	0	0	0	0
8809	5,149,744	3,894,957	2,795,032	2,193,892	1,895,631	1,394,821	1,063,588	891,978	0.40	20,599	15,580	11,180	8,776	7,583	5,579	4,254	3,568
8810	7,394,020	6,521,436	3,565,093	2,692,178	1,979,585	1,247,932	1,226,590	935,051	0.34	25,140	22,173	12,121	9,153	6,731	4,243	4,170	3,179
9026	172	0	0	0	0	0	0	0	4.19	7	0	0	0	0	0	0	0
9030	161,412	105,146	0	0	0	0	0	0	6.17	9,959	6,488	0	0	0	0	0	0
9079	282,170	168,956	264,474	132,750	63,460	0	0	0	2.62	7,393	4,427	6,929	3,478	1,663	0	0	0
9519	28,420	27,743	26,868	0	0	0	0	0	3.39	963	940	911	0	0	0	0	0
0006	12,180	18,983	11,547	22,000	18,760	0	0	0	6.32	770	1,200	730	1,390	1,186	0	0	0
	\$42,000,420	\$34,896,420	\$20,614,884	\$16,485,491	\$12,420,373	\$7,751,468	\$6,889,286	\$4,908,757		\$1,683,186	\$1,474,910	\$967,708	\$788,199	\$639,547	\$352,413	\$334,957	\$234,556

OHI Workers' Compensation Trust  
Incurred Loss & ALAE Loss Ratio Cape Cod

(1) Year	(2) Premium at Proposed Rates and 2005 Wage Level	(3) Loss Trend Index	(4) Exposure Base	(5) Portion of Ultimate Incurred & ALAE as of 9/30/2005	(6) Incurred & ALAE as of 9/30/2005	(7) Developed Loss to Exposure Ratio	(8) Expected Loss to Exposure Ratio	(9) A Priori Expected Ultimate Losses	(10) Expected IBNR Loss & ALAE	(11) Indicated Ultimate Losses
1998	288,474	1.407	405,913	0.930	64,514	0.171	0.331	134,211	9,364	73,878
1999	399,956	1.340	535,980	0.907	79,162	0.163	0.331	177,216	16,549	95,711
2000	408,543	1.276	521,416	0.880	200,476	0.437	0.331	172,401	20,640	221,115
2001	719,816	1.216	874,941	0.837	307,254	0.420	0.331	289,290	47,206	354,460
2002	861,286	1.158	997,046	0.778	80,063	0.103	0.331	329,663	73,315	153,378
2003	1,026,641	1.103	1,131,872	0.684	240,960	0.311	0.331	374,241	118,262	359,223
2004	1,519,157	1.050	1,595,115	0.549	390,316	0.446	0.331	527,408	237,783	628,098
2005	1,683,186	1.000	1,683,186	0.353	315,290	0.530	0.331	556,528	359,805	675,095
Total	6,907,061		7,745,469		1,678,034			2,560,958	882,924	2,560,958

Notes

- (2) From Exhibit 1, Sheet 1 brought to 2005 level
- (3) Selected judgmentally
- (4) = (2) × (3)
- (5) From Exhibit 6
- (6) Based on claim list provided by Cody Management
- (7) = (6) ÷ [(4) × (5)]  
Values which are boxed are used to calculate the values in (8).
- (8) Weighted average of (7) with weights equal to (4) × (5) × 1.0<sup>LAG</sup> where LAG = absolute value of difference in years.  
8 years included in Column (8) calculation.
- (9) = (4) × (8)
- (10) = (9) × [1.0 - (5)]
- (11) = (6) + (10)

**OHI Workers' Compensation Trust**  
Incurred Loss & ALAE Severity Cape Cod

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
Year	Ultimate Number of Reported Claims	Severity Index	Exposure Base	Portion of Ultimate Incurred & ALAE as of 9/30/2005	Incurred & ALAE as of 9/30/2005	Developed Loss to Exposure Ratio	Expected Loss to Exposure Ratio	Expected Ultimate Losses	Expected IBNR Loss & ALAE	Indicated Ultimate Losses
1998	11	1.407	15	0.930	64,514	4,481	11,886	183,979	12,836	77,350
1999	16	1.340	21	0.907	79,162	4,072	11,886	254,863	23,800	102,962
2000	12	1.276	15	0.880	200,476	14,870	11,886	182,045	21,794	222,270
2001	22	1.216	27	0.837	307,254	13,730	11,886	317,856	51,868	359,121
2002	20	1.158	23	0.778	80,063	4,447	11,886	275,200	61,203	141,266
2003	23	1.103	25	0.684	240,960	13,893	11,886	301,410	95,247	336,208
2004	33	1.050	35	0.549	390,316	20,513	11,886	411,864	185,689	576,005
2005	48	1.000	48	0.353	315,290	18,438	11,886	575,005	371,751	687,041
Total	185		211		1,678,034			2,502,222	824,188	2,502,222

Notes

- (2) Selected judgmentally
- (3) Selected judgmentally
- (4) = (2) × (3)
- (5) From Exhibit 6
- (6) Based on claim list provided by Cody Management
- (7) = (6) ÷ [(4) × (5)]
- Values which are boxed are used to calculate the values in (8).
- (8) Weighted average of (7) with weights equal to (4) × (5) × 1.0<sup>LAG</sup> where LAG = absolute value of difference in years. 8 years included in Column (8) calculation.
- (9) = (4) × (8)
- (10) = (9) × [1.0 - (5)]
- (11) = (6) + (10)

**OHI Workers' Compensation Trust**  
Loss Development Factors

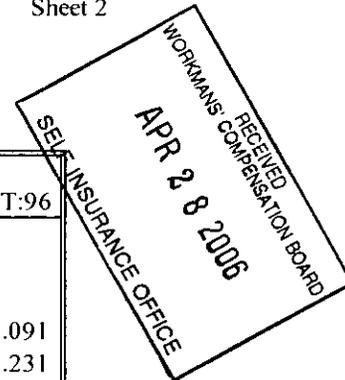
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Age	Medical *		Indemnity **		Weighted Average		Interpolated		
	LDF	% Reported	LDF	% Reported	% Reported	LDF	Maturity	% Reported	LDF
12	2.078	48.1%	3.512	28.5%	35.3%	2.829	12	35.3%	2.829
24	1.531	65.3%	2.028	49.3%	54.9%	1.821	24	54.9%	1.821
36	1.365	73.3%	1.520	65.8%	68.4%	1.462	36	68.4%	1.462
48	1.254	79.8%	1.304	76.7%	77.8%	1.286	48	77.8%	1.286
60	1.196	83.6%	1.195	83.7%	83.6%	1.195	60	83.7%	1.195
72	1.146	87.2%	1.131	88.4%	88.0%	1.136	72	88.0%	1.136
84	1.119	89.4%	1.095	91.3%	90.6%	1.103	84	90.7%	1.103
96	1.100	90.9%	1.063	94.1%	93.0%	1.075	96	93.0%	1.075
	Weight:	35.0%	Weight:	65.0%					

Notes

\* From Exhibit 6, Sheet 2

\*\* From Exhibit 6, Sheet 3

OHI Workers' Compensation Trust  
Case Incurred Loss Development\*  
Medical



Accident Year	Evaluation Months							
	24:12	36:24	48:36	60:48	72:60	84:72	96:84	ULT:96
1983								
1984								
1985								1.091
1986							1.016	1.231
1987						1.021	1.002	1.129
1988					1.008	0.989	1.013	1.187
1989				1.013	1.016	1.013	1.009	1.143
1990			1.030	1.023	1.019	1.017	1.003	1.251
1991		1.071	1.063	0.995	1.019	1.016	1.052	1.163
1992	1.258	1.054	1.029	1.041	1.018	1.035	1.010	1.121
1993	1.343	1.075	1.062	1.019	1.050	1.006	1.009	1.175
1994	1.217	1.113	1.070	1.020	1.011	1.013	1.000	1.131
1995	1.449	1.121	1.030	1.030	1.032	1.002	1.019	1.301
1996	1.303	1.098	1.033	1.032	1.048	1.040	1.021	1.344
1997	1.415	1.045	1.039	1.063	1.035	1.022	1.037	
1998	1.368	1.083	1.148	1.036	1.033	1.045		
1999	1.339	1.164	1.083	1.061	1.071			
2000	1.401	1.150	1.066	1.047				
2001	1.394	1.118	1.107					
2002	1.328	1.096						
2003	1.323							
	24:12	36:24	48:36	60:48	72:60	84:72	96:84	ULT:96
2 year avg.	1.326	1.107	1.087	1.054	1.052	1.034	1.029	1.323
5 year avg.	1.357	1.122	1.089	1.048	1.044	1.024	1.017	1.215
Selected **	1.357	1.122	1.089	1.048	1.044	1.024	1.017	1.100
Factor to Ultimate	2.078	1.531	1.365	1.254	1.196	1.146	1.119	1.100

Notes

- \* Statewide industry loss development from the New York Compensation Insurance Rating Board.
- \*\* See discussion in text of this report.

OHI Workers' Compensation Trust  
Case Incurred Loss Development\*  
Indemnity

Accident Year	Evaluation Months							
	24:12	36:24	48:36	60:48	72:60	84:72	96:84	ULT:96
1983								
1984								
1985								1.180
1986							1.015	1.096
1987						1.029	1.001	1.119
1988					1.050	1.020	1.021	1.114
1989				1.067	1.040	1.015	1.024	1.100
1990			1.093	1.078	1.037	1.024	1.021	1.111
1991		1.229	1.121	1.060	1.054	1.050	1.053	1.052
1992	1.597	1.265	1.101	1.086	1.052	1.038	1.017	1.080
1993	1.547	1.234	1.157	1.088	1.057	1.023	1.021	1.086
1994	1.441	1.306	1.167	1.069	1.034	1.024	1.019	1.128
1995	1.592	1.309	1.140	1.044	1.045	1.038	1.026	1.145
1996	1.482	1.237	1.096	1.071	1.065	1.047	1.011	1.157
1997	1.637	1.238	1.111	1.145	1.050	1.015	1.076	
1998	1.685	1.233	1.207	1.084	1.061	1.040		
1999	1.697	1.434	1.170	1.081	1.062			
2000	1.794	1.450	1.136	1.076				
2001	1.739	1.300	1.202					
2002	1.735	1.256						
2003	1.694							
	24:12	36:24	48:36	60:48	72:60	84:72	96:84	ULT:96
2 year avg.	1.715	1.278	1.169	1.079	1.062	1.028	1.044	1.151
5 year avg.	1.732	1.335	1.165	1.091	1.057	1.033	1.031	1.119
Selected **	1.732	1.335	1.165	1.091	1.057	1.033	1.031	1.063
Factor to Ultimate	3.512	2.028	1.520	1.304	1.195	1.131	1.095	1.063

Notes

- \* Statewide industry loss development from the New York Compensation Insurance Rating Board.
- \*\* See discussion in text of this report.

**OHI Workers' Compensation Trust**  
2006 Fund Year Rate Page

(1) Class Code	(2) NYCIRB Rates Eff. 10/1/99	(3) OHIWCT Proposed 2006 Fund Year Rates		(4)
		New Members	Renewal	
3620	\$9.23	\$8.12	\$8.03	
3632	4.99	4.39	4.34	
3724	9.55	8.40	8.31	
3726	15.71	13.82	13.67	
3737	6.15	5.41	5.35	
4000	8.50	7.48	7.40	
5183	8.49	7.47	7.39	
5190	6.77	5.96	5.89	
5193	12.76	11.23	11.10	
5221	15.14	13.32	13.17	
5536	8.44	7.43	7.34	
5645	14.89	13.10	12.95	
6217	8.75	7.70	7.61	
7219	10.87	9.57	9.46	
7380	8.59	7.56	7.47	
7998	2.88	2.53	2.51	
8006	2.92	2.57	2.54	
8017	2.19	1.93	1.91	
8018	5.39	4.74	4.69	
8043	1.89	1.66	1.64	
8046	2.74	2.41	2.38	
8111	5.42	4.77	4.72	
8232	9.19	8.09	8.00	
8292	7.71	6.78	6.71	
8350	6.08	5.35	5.29	
8353	7.16	6.30	6.23	
8381	3.13	2.75	2.72	
8382	2.42	2.13	2.11	
8391	5.18	4.56	4.51	
8742	0.71	0.62	0.62	
8748	0.95	0.84	0.83	
8809	0.45	0.40	0.39	
8810	0.39	0.34	0.34	
9026	4.76	4.19	4.14	
9030	7.01	6.17	6.10	
9079	2.98	2.62	2.59	
9519	3.85	3.39	3.35	
0006	7.18	6.32	6.25	

- (2) NYCIRB rates per \$100 of payroll, from NYCIRB rate filing effective 10/1/99.
- (3) Proposed OHIWCT rates per \$100 of payroll for new members. Equal to column (2), reduced by 12%.
- (4) Proposed OHIWCT rates per \$100 of payroll for members renewing 1/1/2006. Equal to column (2) reduced by 13% to reflect an additional 1% renewal credit.

