



Cost Allocation Methodology Policy

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COST ALLOCATION METHODOLOGY POLICY

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In general, contributions and/or premiums are calculated based on each member's exposure (e.g. payroll, total insured values, number of employees) and experience (losses).

LIABILITY

Administrative Expense Allocation

The Board approves allocation of administrative expenses to individual programs. Certain direct administrative expenses (e.g. claims staff, property appraisals) are charged solely to the program they benefit. The remaining administrative expenses including personnel, risk control, meeting and conference, professional services, and other operational costs are allocated to the programs based upon an allocation formula. The allocation ensures the programs share in the administrative costs of running them.

Administrative expenses are allocated to each program (see historical administrative expense table). Then the administrative expense is allocated to the members:

1) 25% fixed cost per member, and 2) 75% based on the members' pro rata share of payroll, capped at \$20 million. Optional services are charged directly to the members who participate in the services.

Program Expense Allocation

Third-party claims administrator (TPA) fees are allocated to members as follows:

1) Minimum fixed fee of \$500, and 2) the remainder based on each members' three-year average of open claims, measured as of June 30th.

Other program expenditures are allocated to members based on their pro rata share of payroll (capped at \$20 million).

Pool Funding Allocation

PERMA generally allocates liability pool funding based upon payroll and losses. The funding allocation formula:

- 1) Assigns each member to a risk group.
- 2) Calculates each member's five-year loss rate, with losses capped at \$100,000.
- 3) Determines each member's actual loss rate by dividing historical losses by the member's corresponding calendar year payroll.
 - a. Members with no payroll are assigned a minimum \$200,000 payroll.
- 4) Determines the expected loss rate for each risk group by summing for each group the same losses and payroll as in steps 2 and 3. Groups with low payroll volume are credibility weighted with the pool's overall rate.



- 5) Calculates credibility using the same payroll as in step 2 combined with a full credibility standard. Credibility is subject to a minimum of 10% and a maximum of 75%. Annual changes to the ex-mod are limited to +/-20% cap.
- 6) Calculates an ex-mod by credibility weighting a member's actual loss rate with the expected loss rate for its risk group.
- 7) A Member's funding allocation is $\text{Pool Rate} \times \text{Projected Payroll for Upcoming Program Year} \times \text{Ex-mod}$.
 - a. The projected payroll is modified by a member retained limit adjustment factor to recognize that each member attaches to the pool at a different point.
- 8) An off-balance factor is applied to the initial funding amounts to ensure that the amount collected is revenue neutral.
- 9) Separates the funding allocation into the portion below and above the member's MRL.

Excess Premium Allocation

The excess insurance premium or contribution is allocated by a separate ex-mod calculated by the actuary. The ex-mod is based upon payroll and losses, uses ten years of claim history, contemplates claims in excess of \$100,000, and is capped to a +/-20% change each year.

Member Trust Accounts

The member trust account contributions are calculated in accordance with the [Member Trust Fund Policy](#).

WORKERS' COMPENSATION

Administrative Expense Allocation

The Board approves allocation of administrative expenses to individual programs. Certain direct administrative expenses (e.g. claims staff, property appraisals) are charged solely to the program they benefit. The administrative expense is allocated to the members based on: 1) \$1,000 fixed cost per member, and 2) the remaining expenses allocated based on each members' pro rata share of payroll, capped at \$20 million.



Program Expense Allocation

Third-party claims administrator (TPA) fees are allocated to members based on each members' three-year average of open claims, measured as of June 30th.

The Department of Industrial Relations Self-Insurance Plans (DIR) Assessment is allocated to members using a three-year average of indemnity payments as reported by the TPA.

Other program expenditures are allocated based on the members' pro rata share of payroll, capped at \$20 million.

Pool Funding Allocation

PERMA generally allocates pool funding based upon payroll and losses. The funding allocation formula:

- 1) Assigns each member to a risk group.
- 2) Calculates each member's five-year loss rate, with losses capped at \$100,000.
- 3) Determines each member's actual loss rate by dividing historical losses by the member's corresponding calendar year payroll.
- 4) Determines the expected loss rate for each risk group by summing for each group the same losses and payroll as in steps 2 and 3. Groups with low payroll volume are credibility weighted with the pool's overall rate.
- 5) Calculates credibility using the same payroll as in step 2 combined with a full credibility standard. Credibility is subject to a minimum of 10% and a maximum of 75%. Annual changes to the ex-mod are limited to +/-20% cap.
- 6) Calculates an ex-mod by credibility weighting a member's actual loss rate with the expected loss rate for its risk group.
- 7) A Member's funding allocation is Pool Rate x Projected Payroll for Upcoming Program Year x Ex-mod.
 - a. The projected payroll is modified by a member retained limit adjustment factor to recognize that each member attaches to the pool at a different point.
- 8) An off-balance factor is applied to the initial funding amounts to ensure that the amount collected is revenue neutral.
- 9) Separates the funding allocation into the portion below and above the member's MRL.



Excess Premium Allocation

Excess insurance premium/contributions are allocated by a separate ex-mod calculated by the actuary. The ex-mod is based upon payroll and losses, uses ten years of claim history, contemplates claims in excess of \$100,000, and is capped to a +/-20% change each year.

Member Trust Accounts

The member trust account contributions are calculated in accordance with the [Member Trust Fund Policy](#).

AUTO PHYSICAL DAMAGE (APD) & PROPERTY

Total Insured Value (TIV)

The vehicle and property schedules, which include total insured values, are updated by the members and maintained by the broker. For APD, the TIV schedule is filtered to exclude watercraft, mobile equipment, contractor's equipment, trailers, and tractors. The TIV schedules are provided to the actuaries for use in the funding study.

Administrative and Program Expense Allocation

The Board approves allocation of administrative expenses to individual programs. Certain direct administrative expenses (e.g. claims staff, property appraisals) are charged solely to the program they benefit. The administrative and program expenses are then allocated based on the members' pro rata share of TIV.

Pool Funding Allocation

The actuary calculates the funding necessary for the pooled self-insured layer each year and the Board approves a confidence level and discount factor. PERMA funds the layer from the member retention to the pool's limit in both programs. Deductible funding amounts for members is calculated by taking each member's TIV times the actuarial determined rates per \$100 of TIV.



Insurance Premium Allocation

The excess insurance premiums for APD and Property are allocated based on the members pro rata share of TIV.

EPL, CYBER, CRIME, & ADWRP

Administrative Expense Allocation

The Board approves allocation of administrative expenses to individual programs. Certain direct administrative expenses (e.g. claims staff, property appraisals) are charged solely to the program they benefit. The administrative expenses are allocated as follows:

- Employment Practices Liability (ERMA) - members pro rata share of ERMA premium contributions
- Cyber – divided evenly to all members.
- Crime – divided evenly to all members.
- ADWRP – no allocation of administrative expenses at this time

Insurance Premium Allocation

The insurance premiums are calculated/allocated as follows:

- Employment Practices Liability (ERMA) - ERMA calculates and provides individual member contributions based upon payroll and losses
- Cyber – PRISM calculates and provides individual member premiums based upon total operating budget and losses
- Crime – APIP calculates and provides individual member premiums based upon total number of full-time equivalents and losses
- ADWRP – allocated based on the members' pro rata share of Property TIV and a fixed amount of \$100.



HISTORICAL ALLOCATIONS

Admin Expense Allocation

Fiscal Year	General Liability	Workers' Compensation	APD	Property	EPL	Cyber	Crime	ADWRP
2017-18	95%	5%	0%	0%	0%	0%	0%	0%
2018-19	95%	5%	0%	0%	0%	0%	0%	0%
2019-20	95%	5%	0%	0%	0%	0%	0%	0%
2020-21	95%	5%	0%	0%	0%	0%	0%	0%
2021-22	90%	10%	0%	0%	0%	0%	0%	0%
2022-23	70%	15%	4%	5%	5%	0.75%	0.25%	0%
2023-24	70%	15%	4%	5%	5%	0.75%	0.25%	0%
2024-25	60%	25%	4%	5%	5%	0.75%	0.25%	0%

For prior years, check historical records.

Program Funding

Fiscal Year	<u>General Liability</u>		<u>Workers' Compensation</u>		<u>APD</u>		<u>Property</u>	
	Confidence Level	Discount Rate	Confidence Level	Discount Rate	Confidence Level	Discount Rate	Confidence Level	Discount Rate
2017-18	65%	0%	80%	0%	N/A	0%	N/A	0%
2018-19	65%	0%	80%	0%	N/A	0%	N/A	0%
2019-20	72.50%	0%	80%	0%	N/A	0%	N/A	0%
2020-21	76.25%	0%	80%	0%	N/A	0%	N/A	0%
2021-22	80%	0%	80%	0%	80%	0%	80%	0%
2022-23	80%	0%	80%	0%	80%	0%	80%	0%
2023-24	80%	0%	80%	0%	80%	0%	80%	0%
2024-25	80%	0%	80%	0%	80%	0%	80%	0%

For prior years, check historical records.