
K. EXPLANATION OF DIFFERENCES BETWEEN TYPES OF EXCESS LOSS FACTORS

1. Types of Excess Loss Factors

Excess loss factors are used in retrospective rating when an employer elects to limit the amount of incurred losses to be included in the retrospective rating premium. The charge for this loss limitation is called excess loss premium. The excess loss factors for New York are located in Table E of the Tables of Retrospective Rating Values of this Plan.

- **Excess Loss Factors (ELF)** are provided for states where NCCI files and publishes full rates. ELFs do not take into account the inclusion of Allocated Loss Adjustment Expense (ALAE) as part of incurred losses.

Excess loss factors represent the expected losses above a given limit (excess losses) relative to full standard premium (including expenses).

$$\text{ELF} = \frac{\text{Excess Losses}}{\text{Standard Premium}}$$

Refer to the NCCI Retrospective Rating Plan Manual for the application of these factors.

- **Excess Loss and Allocated Loss Adjustment Expense Factors (ELAEF)** apply when the definition of loss is redefined to include Allocated Loss Adjustment Expense. These factors are provided for states where NCCI files and publishes full rates.

Excess Loss and Allocated Loss Adjustment Expense Factors represent the expected amount of losses and allocated loss adjustment expenses above a given limit (excess losses including ALAE) relative to full standard premium (including expenses). These optional values are provided for some full rate states, but not all.

$$\text{ELAEF} = \frac{\text{Excess Losses and Allocated Loss Adjustment Expenses}}{\text{Standard Premium}}$$

Refer to the NCCI Retrospective Rating Plan Manual for the application of these factors.

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Excess Loss Pure Premium Factors (ELPPF) are provided for New York in this Plan. ELPPFs for states where NCCI publishes loss costs rather than full rates are provided in NCCI's Retrospective Rating Plan Manual. ELPPFs do not take into account the inclusion of ALAE as part of incurred losses. Carriers are required to convert Excess Loss Pure Premium Factors to Excess Loss Factors to Excess Loss Factors. Refer to Rule 1(B)(2)(e) of this Plan for the formula used to convert ELPPFs to ELFs.

Excess Loss Pure Premium Factors represent the expected amount of losses above a given limit (excess losses) relative to the loss cost portion of the premium.

$$\text{ELPPF} = \frac{\text{Excess Losses}}{\text{Lost Cost Premium}}$$

- **Excess Loss and Allocated Loss Adjustment Expense Pure Premium Factors (ELAEPPF)** are provided when the definition of loss is redefined to include Allocated Loss Adjustment Expense. These factors are provided for New York in this Plan and in the NCCI Retrospective Rating Plan Manual for those states where NCCI publishes loss costs rather than full rates.

Excess Loss and Allocated Loss Adjustment Expense Pure Premium Factors represent the expected amount of losses and allocated loss adjustment above a given limit (excess losses including (ALAE) relative to the loss cost of the premium.

$$\text{ELAEPPF} = \frac{\text{Excess Losses and Allocated Loss Adjustment Expenses}}{\text{Loss Cost Premium}}$$

2.

Excess Loss Premium Calculation Example

In New York, the Rating Board files Excess Loss Pure Premium Factors. The Excess Loss Pure Premium Factors must be converted to Excess Loss Factors using the carrier's expense provisions, as applicable.

Term Definition

Excess Loss Pure Premium Factor	ELPPF	.360
Expected Loss Ratio	ELR	.648
Loss Adjustment Expense	LAE	.188
Excess Loss Factor	ELF	.277

Conversion of ELPPF to ELF based on the formula below:

$(\text{ELPPF} \times \text{ELR}) \times (1 + \text{LAE}^{**})$
$(.360 \times .648) \times (1 + .188)$
$(.233) \times 1.188$
$\text{ELF} = .277$

**The Loss Adjustment Expense % is obtained from the Rating Board's loss cost filing that is

effective one year prior to the effective date of the ELPPFs. For example, you would use the 10/1/10 ELPPFs in conjunction with an LAE% from the 10/1/09 loss cost filing. (This is necessary because it is prior approved LAE% that is used in the calculation of the latest ELPPFs).