POSSIBLE CONSIDERATIONS FOR CHANGE TO THE WORKERS COMPENSATION TEST AUDIT RULES.
ITEMS FOR DISCUSSION AND TO ENCOURAGE THOUGHT:

OAR 836-043-0125 thru 0165 including exhibit 1 of OAR 836-043-0130

Proposed Exhibit 1 changes:

1. Simplify the error rate calculation:

   - The current rule uses a credibility formula to calculate the test audit error rate based on the insurer's actual error and the statewide error rate. The credibility value is calculated as N/(N+100), where N is the number of test audits performed and 100 is the credibility constant. DFR calculated the empirical credibility value (often denoted as the k value for Buhlmann credibility). based on the test audits performed from 2011 to present. The empirical credibility value is approximately 38, and new test audit data may have a different indicated value. This approach requires periodic updating of the formula value.

   - Our proposal is to determine the test audit error rate based on a fixed weighted average error rate: the test audit error rate would be calculated as follows:

   - The sum of 0.50 of the insurers error rate and 0.50 of the statewide test audit error rate.

2. Decrease the number premium size ranges in table in Exhibit 1.

   - The current table has the following premium size ranges:

   Less than $2500, 2501-5000, 5001-10,000, 10,001-25,000, 25,001-50,000, 50,001-100,000, 100,001-250,000, 250,001-500,000, 500,001-750,000, 750,000-1,000,000, greater than $1,000,000.

   Consider fewer groups, one possible example is:

   - Less than $2500, 2501-5,000, 5001-25,000, 25,000-100,000, 100,000-500,000, greater than $500,000.

3. Increase the test audit rate by a certain amount (e.g. 50% or 100%) for employers that are in groups identified by the Director (Insurance Commissioner) as more likely to benefit from a test audit. The overall test audit rate for insurer would not be affected.

Proposed Rule Changes

- Revise OAR 836-043-0130(3) to include additional employers that would not be subject to test audits.

- Exclude employers who have a policy with a large risk alternative rating option under OAR 836-042-0105(5). Another option is to exclude all eligible employers (even those with guarantee cost policies) under OAR 836-042-0105(3).

- Reduce the test audits performed for small employers (e.g. those with less than $2500 in premium) or consider removing the test audit requirement for small employers.

- Revise OAR 836-043-0130(3)(b) to five years instead of four.

- Add a section to OAR 836-043-0130(3) to state that the director may increase the test audits for policies that have risk factors identified by the director. These may include specific classification codes, industry groups, employers who have changed insurers frequently. The Director will inform the bureau of any risk factors that are identified and develop a timeline to implement increased test auditing. This proposal is an attempt to incorporate a risk based approach.

As a matter of consideration the proposals recognize these features of the workers' compensation system:

- Employers with more than $500,000 in standard premium are eligible for large risk alternative rating programs.

- A test audit error is defined as a difference that is both greater than 2% and more than $500.

- A test audit can add significant costs to smaller employers.