

Actuarial Report Guidance **Individual Workers' Compensation Self-Insured Employers**

Self-insured employers are required to provide an actuarial report certified by an independent qualified actuary every year. The independent actuarial report should provide an unpaid self-insured claims estimate based upon accepted actuarial standards of practice. Unpaid self-insured claims shall mean, for purposes of determining liabilities, all New York State (NYS) self-insured workers' compensation claims, including those incurred but not reported (IBNR), and the expenses associated therewith which the self-insurer is obliged to settle and adjust. Such unpaid self-insured claims must be determined on an actuarial basis. Unpaid self-insured claims may be variously referred to as claim liabilities, claim reserves, loss reserves or reserves for loss and allocated loss adjustment expenses (ALAE) in self-insurers' financial statements and actuarial reports.

The following items are intended to clarify this regulation and provide guidance to the self-insurer's administrator and retained actuary.

Actuarial Report - Certified by an Independent Actuary – A signed and dated actuarial report must be submitted by April 1st each year. The Board considers this report to be held to the same standard as a Statement of Actuarial Opinion and conform to the Casualty Actuarial Society Statement of Principles Regarding Property and Casualty Unpaid Claim Estimates. The Board recommends that the actuaries review all standards of practice published by the American Academy of Actuaries (AAA) Committee on Property and Liability Financial Reporting (COPLFR).

The actuarial report should be able to be evaluated as a standalone document. All of the key assumptions and methods used in the report should be documented so that they can be reviewed for reasonability. If the report relies on findings of a different report provided to the self-insurer, then that other report should also be provided to the Board. For example, if loss rates or loss development patterns are based on findings in a separate pricing report, then that pricing report should also be provided.

The actuarial report must include a Legal Disclosure clearly stating that one of the purposes of the report is to assist the Board in determining the security deposit required to self-insure in NYS. It must also authorize the Board to provide the report to a consulting actuary hired by the Board. In the event the report is determined to be defective, it is not exempt from being reported to the American Academy of Actuaries (AAA) and/or the Actuarial Board of Counseling and Discipline (ABCD).

Qualified Actuary - The self-insurer's actuary must be a member of the Casualty Actuarial Society and a member in good standing of the American Academy of Actuaries meeting the qualification standards to issue an actuarial opinion on workers' compensation reserves. In addition, the actuary must be independent and should not be an employee, principal or direct or indirect owner of the self-insurer. The actuary must be in compliance with the Casualty Actuarial Society's continuing education requirements.

Valuation Date - **Each report must include liabilities valued as of two dates.** One liability estimate is required to be valued as of the most recent past calendar year end. If the loss valuation date used for the analysis is not the calendar year end, then the actuary needs to provide backup for the projected paid and incurred losses to arrive at the corresponding calendar year losses. The other liability estimate is required to be projected as of the next calendar year end. For example, roll-forward liabilities as of 12/31/2024 must include 2024 accident year exposure. The roll-forward projected amount should net out potential payments in the projected year(s). Any large differences between these valuations should be adequately explained.

Claim Reserve Components - The self-insured claim liabilities estimated in the actuarial report should include loss and Allocated Loss Adjustment Expenses (ALAE). ALAE may be defined as Defense and Cost Containment Expenses (DCCE). This should **not** include Unallocated Loss Adjustment Expenses (ULAE). The Board will make a determination on a ULAE percentage with regards to the deposit calculation each year.

Data Quality Considerations - The actuarial report should disclose data inconsistencies and document whether these have impacted the actuary's ability to render an estimate and/or whether data issues have resulted in a risk of material adverse deviation.

Gross vs. Net Claims and Assets Recorded for Excess Receivables - The actuarial report should provide an estimate of both gross and net claims liabilities.

Variability - The "expected value" or mean estimate should be reported to the Board.

Net Present Value - The liabilities should be "undiscounted" meaning they do **not** reflect net present values or time value of money.

New York Specific Loss Development – Nationwide statistics indicate that New York workers' compensation loss development patterns are quite different than those in many other states. The actuarial report submitted to the New York WCB should provide development patterns that are appropriate for New York workers' compensation. One way to do this is to rely solely on New York loss development patterns. In some cases, it may be necessary to include non-New York experience because the New York-only historical experience is limited or not available. If the loss development factors are derived from experience that includes states other than New York, then the actuary may derive an adjustment factor to adjust the non-New York development patterns so that they are appropriate for New York. If no such adjustment is utilized, then the actuary needs to provide justification for the assumption that New York and non-New York development patterns are similar.

Claims Data - The actuarial report must provide the total number of reported, open, and closed claims.

Excess Insurance - Information including the name of the self-insurer, dates, self-insured retention amount and limit must be provided in the actuarial report, by year or policy period.

Exemptions – Self-insured employers may be exempt from providing actuarial reports if they have less than 20 open claims **and** less than \$1,000,000 in case reserves. To apply for this exemption, e-mail the Office of Self-Insurance by February 1st of each year. Exemption requests submitted after February 1st will **not** be reviewed or accepted and a signed and dated actuarial report must be submitted by April 1st to remain in compliance.

Reviews and Dispute Resolution - Various diagnostics will be performed to ensure the report meets the above stated requirements and assumptions are reasonable. At any time, the Board may utilize a hired actuarial consulting firm to consult and/or perform a more detailed review. If the consulting actuary hired by the Board determines that the liability estimated by the self-insured actuary is materially understated, the self-insurer and their actuary will be notified and given the opportunity to discuss the differences. If the actuaries are unable to resolve the differences between their findings, the Board has the authority to reject the report. If a rejection occurs, the self-insurer may either accept the findings of the Board's actuary or hire an alternative actuary to prepare another report.

Additional Data – In addition to an actuarial study, the Board requires additional data and reports to be submitted separately. This requirement includes but is not limited to the following:

- a. Excess Insurance binders: Provides the name of self-insurer, the specific retention amount, policy number and policy date. The policy must have a statutory limit.
- b. Payroll report: NYS WCB Form SI-6
- c. Audited Financial Statements
- d. The Board will also take into consideration the financial strength of the entity when determining security deposit requirements.