



**CSURMA AORMA**

**POLICY & PROCEDURE NO. L-8**

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<b>SUBJECT:</b>	<b>LIABILITY PROGRAM MEMBER ALLOCATION FORMULA</b>
<b>ADOPTED:</b>	<b>SEPTEMBER 8, 2016</b>
<b>EFFECTIVE:</b>	<b>SEPTEMBER 8, 2016</b>
<b>AMENDED:</b>	<b>MAY 4, 2017</b> <b>MAY 2, 2019</b>

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**POLICY:**

It shall be the policy of the CSURMA AORMA to determine each member’s allocation of the total liability program costs as outlined in the Liability Program Member Allocation Formula shown below:

**PROCEDURE:**

Annually, in September, the AORMA Committee will approve the Total Liability Program Costs for the upcoming fiscal year. In December, the AORMA Committee will accept the supplemental actuarial reports to be used as general guidelines within the Liability Program Member Allocation Formula:

1. Liability Rates
2. Liability Experience Modification Factors
3. Employment Practices Liability Indicated Deductible Credits

In December, the AORMA Committee will approve the following allocation criteria within the Liability Program Member Allocation Formula and will approve the final member allocation for the upcoming fiscal year:

1. Basic rates
2. Maximum premium for calculating the size credit
3. Maximum size credit percentage
4. Minimum and/or maximum excess premium and administrative costs
5. Maximum and minimum premium collar percentages
6. Minimum premium

**LIABILITY PROGRAM MEMBER ALLOCATION FORMULA:**

**Basic Rates:**

Four basic rates are included in the allocation formula for the following loss exposures:

Loss Exposure	Exposure Basis
Automobile Liability (AL)	Number of owned autos
Premises Liability (PL)	Total square footage owned, occupied, operated or maintained
Other Liability (OL)	Total expenditures for five years
Employment Practices Liability (EPL)	Total payroll

- The exposure basis for each loss exposure is multiplied separately by the corresponding approved basic rate and then added together. *Result – basic premium for pooled layer w/o size credit or loss rating.*

**\*\* Example \*\***

<b>1.</b>	<b>5</b>	*	<b>\$150</b>	=	<b>\$750</b>
	Number of owned autos		Per Auto		AL Basic premium
	<b>150,000</b>	*	<b>\$50</b>	=	<b>\$7,500</b>
	Square Footage		Per 1,000 of square footage		PL Basic premium
	<b>\$20,000,000</b>	*	<b>\$400</b>	=	<b>\$8,000</b>
	Expenditures		Per 1,000,000 of expenditures		OL Basic premium
	<b>\$5,000,000</b>	*	<b>\$1,200</b>	=	<b>\$6,000</b>
	Payroll		Per 1,000,000 of payroll		EPL Basic premium
			<b>Total</b>		<b>\$22,250</b>
					Basic premium for pooled layer w/o size credit or loss rating

**Size Credit:**

- Basic premium for pooled layer w/o size credit or loss rating is divided by the maximum premium for calculating size credit. *Result – percentage of basic premium for pooled layer compared to the maximum premium for calculating size credit.*
- Percentage of total basic premium compared to maximum premium for calculating size credit is multiplied by maximum size credit percentage. *Result – size credit percentage.*
- Basic premium for pooled layer w/o size credit or loss rating is multiplied by the size credit percentage. *Result – basic premium for pooled layer w/ size credit.*

**\*\* Example \*\***

<b>1.</b>	<b>\$22,250</b> Basic premium for pooled layer w/o size credit or loss rating	/	<b>\$65,000</b> Maximum premium for calculating size credit	=	<b>34%</b> % of basic premium for pooled layer compared to maximum premium for calculating size credit
<b>2.</b>	<b>34%</b> % of basic premium for pooled layer compared to maximum premium for calculating size credit	*	<b>20%</b> Maximum size percentage credit	=	<b>7%</b> Size credit percentage
<b>3.</b>	<b>\$22,250</b> Basic premium for pooled layer w/o size credit or loss rating	-	<b>7%</b> Size credit percentage	=	<b>\$20,693</b> Basic premium for pooled layer w/ size credit

**Loss Rating:**

1. Loss rating discount or surcharge (as calculated by actuary) is multiplied by the basic premium for pooled layer w/ size credit. *Result – Basic premium for pooled layer w/ size credit and loss rating.*

**\*\* Example \*\***

<b>1.</b>	<b>\$20,693</b> Basic premium for pooled layer w/ size credit	*	<b>.945</b> Loss rating discount or surcharge	=	<b>\$19,555</b> Basic premium for pooled layer w/ size credit and loss rating
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**Excess Premium:**

1. Each Member’s percentage of the total basic premium for pooled layer w/o size credit or loss rating is multiplied by the total excess premium. *Result – excess premium.*
2. The excess premium is capped if it exceeds the maximum excess premium. *Result – capped excess premium.*

**\*\* Example \*\***

<b>1.</b>	<b>\$22,250</b> Basic premium for pooled layer w/o size credit or loss rating	/	<b>\$1,718,405</b> Total program basic premium for pooled layer	=	<b>1.29%</b> Percentage of total program basic premium for pooled layer
	<b>1.29%</b> Percentage of total program basic premium for pooled layer	*	<b>\$1,230,000</b> Total program excess premium	=	<b>\$15,867</b> Excess premium
<b>2.</b>	<b>\$15,867</b> Excess premium	=/<	<b>\$85,000</b> Minimum excess premium	=	<b>\$15,867</b> Capped excess premium

**Administrative Costs:**

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1. Each Member’s percentage of the total basic premium for pooled layer w/o size credit or loss rating is multiplied by the total program administrative costs. *Result – administrative costs.*
2. The administrative costs are capped at either the minimum or maximum administrative costs. *Result - Capped administrative costs.*

<b>1.</b>	<b>\$22,250</b>	/	<b>\$1,718,405</b>	=	<b>1.29%</b>
	Basic premium for pooled layer w/o size credit or loss rating		Total program basic premium for pooled layer		Percentage of total program basic premium for pooled layer
	<b>1.29%</b>	*	<b>\$730,000</b>	=	<b>\$9,417</b>
	Percentage of total program basic premium for pooled layer		Total program excess premium		Administrative costs
<b>2.</b>	<b>\$9,417</b>	<	<b>\$60,000</b>	=	<b>\$9,417</b>
	Excess premium		Maximum administrative costs		Capped administrative costs
	<b>\$9,417</b>	>	<b>\$600</b>	=	<b>\$9,417</b>
	Excess premium		Minimum administrative costs		Capped administrative costs

**Final Premium w/o Collars:**

<b>1.</b>	<b>\$19,555</b>	+
	Basic premium for pooled layer w/ size credit and loss rating	
	<b>\$15,867</b>	+
	Capped excess premium	
	<b>\$9,417</b>	+
	Capped administrative costs	
	<b>\$44,874</b>	=
	Final premium w/o collars or deductible credits	

**Collared Premium:**

1. Prior year’s final premium w/o deductible credit is multiplied by the maximum collared percentage increase. *Result – maximum collared premium.*
2. Prior year’s final premium w/o deductible credit is multiplied by the maximum collared rate decrease. *Result – minimum collared premium.*
3. If the final premium w/o collars or deductible credits is less than the minimum collared premium, then the minimum collared premium will apply; if the final premium w/o collars or deductible credits is more than the maximum collared premium, then the maximum collared premium will apply.

**\*\* Example \*\***

<b>1.</b>	<b>\$35,000</b>	+	<b>10%</b>	=	<b>\$38,500</b>
	Prior year’s final premium w/o deductible credit		Maximum collared percentage increase		Maximum collared premium
<b>2.</b>	<b>\$35,000</b>	-	<b>10%</b>	=	<b>\$31,500</b>
	Prior year’s final premium w/o deductible credit		Maximum collared percentage decrease		Minimum collared premium



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<b>3.</b>	<b>\$44,874</b>	<b>&gt;</b>	<b>\$38,500</b>	<b>=</b>	<b>\$38,500</b>
	The maximum collared premium is used because final premium w/o collars or deductible credits is greater than the maximum collared premium				Final premium w/o deductible credits

**Minimum Premium:**

1. The final premium w/o deductible credits is compared to the approved minimum premium. The minimum premium is applied as appropriate.

**Employment Practices Liability Deductible:**

1. The EPL basic premium is reduced by the EPL deductible credits. The total savings is applied to the final premium w/o deductible credits.