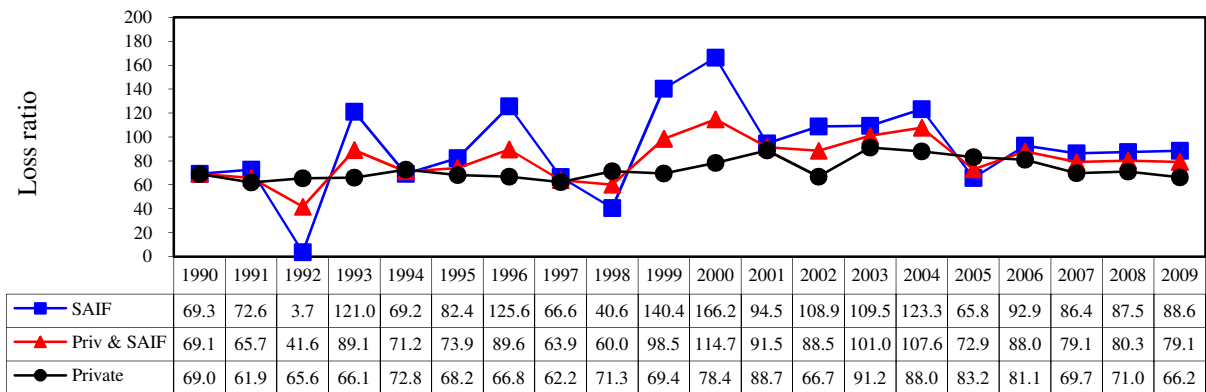


## Loss Ratio

Generally, loss ratios are calculated by dividing some measure of losses (or claims costs) by some measure of premium. Claims costs are comprised of indemnity payments such as time loss, temporary and permanent disability, and medical payments. Premium is the consideration paid by an employer to insurers for protection against the risk of financial loss arising from a workers' compensation claim. The loss ratios displayed in Appendix Tables 1a and 1b show insurer-specific calendar year incurred loss ratios, which measure the relationship of direct losses incurred (column f) to direct premiums earned (column c) as reported on the Annual Statements submitted to the National Association of Insurance Commissioners (NAIC). This particularly defined loss ratio is monitored because it imparts summary information about the results of an insurer's calendar year operations.

**Figure 2. Average loss ratios for private insurers & SAIF Corporation, 1990-2009**



Source: Research & Analysis Section, Oregon Department of Consumer & Business Services, Last updated 5/2010

The rich information content of the calendar year incurred loss ratio (CYLIR) can be better appreciated by examining a detailed definition of the measure expressed by the following formula:

$$\text{CYILR} = \text{calendar year direct incurred losses (CYDIL)} / \text{calendar year earned premium (CYEP)}$$

Where,

$$\text{CYDIL} = \text{calendar year paid losses} + \text{change in outstanding case reserves} + \text{change in incurred but not yet reported (IBNR) losses}$$

$$\text{CYEP} = \text{premium earned in the calendar year}$$

Calendar year paid losses include amounts paid in the current year for claims arising from coverage in prior years but exclude amounts which will be paid in future years for claims arising from the current year. Outstanding case reserves are estimates by claims examiners of the remaining amount required to settle or close outstanding, known claims based upon the

knowledge of the claims at a particular date. IBNR losses are estimates of the costs for claims that are expected to emerge in the future but not yet reported and for the ultimate deficiencies and redundancies of known claims.

Other events, such as reform legislation and major court decisions, can have substantial effects on incurred loss ratios. For example, SAIF had a low loss ratio in 1992 due to a substantial downward revision in prior accident years' outstanding reserves and IBNR arising from the reform legislation of Senate Bill 1197. Conversely, SAIF's high 1999 loss ratio was a reflection, in part, of a Court of Appeals decision that year. In *Johansen v. SAIF Corp.*, the court ruled that a claim for a new medical condition could be brought at any time and is not limited by the time frames for reclassifying claims or aggravations.

It should be noted that for any given insurer, calendar year direct incurred loss ratios can vary from year to year. In Figure 2, only SAIF's loss ratio is shown individually. If other insurers were similarly displayed, substantial variation in their loss ratios would be seen.