

## Section 3 – Methods for Risk Financing

**Deductible Option Analysis** – a process used to determine the costs and benefits of various deductible levels in an insurance program

**Standard Premium** – determined on the basis of authorized rates, any experience rating modification, applicable loss constants and minimum premiums; it specifically excludes premium discounts and expense constants

**Basic Premium** – usually a percentage of the standard premium, often determined by multiplying the standard premium by a basic premium factor; it provides for insurance carrier expenses, including loss control and commission, profit, contingencies, and an adjustment for limiting the retro premium between the minimum and the maximum retrospective premiums

**Deposit Premium** – the basic premium plus the full amount of the premium tax loading on the standard premium plus an escrow amount to provide for the initial payment of claims

**Loss Conversion Factor** – a factor used to cover claim adjustment expenses and the cost of the insurer's or third-party claim administrator's services

**Tax Multiplier** – a factor applied to an insurance premium to cover licenses, fees, assessments, and premium taxes the insurance carrier must pay on the premium collected; it may also include an amount to subsidize residual market mechanisms or assigned risk markets

**Loss Limit** – the maximum amount of any one loss included in the retrospective rating plan; in effect, this lessens the impact of a severe loss on the retro premium and reduces variability of the loss sensitive retro premium

**Nonsubject Premium** – a premium charge that is not a part of the retrospective rating formula

**Indicated Retro Premium** – the amount of premium calculated for any one period using the retro formula

**Retro Adjustment** – the amount of additional premium or return premium for each successive period determined by comparing the current period's indicated retro premium to the preceding period's retro premium (either the deposit premium after audit or the indicated retro premium for subsequent periods); retro adjustments are made annually until all losses are closed, either by payment or capitation

**Capitation** – the process by which the insured and insurer agree to the closed value of open claims for purposes of the retro calculation prior to their natural development