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Pitfalls of the Current Experience Rating Plan: Reply

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The essential concerns of Gillam regarding our article seem to be two-fold: First, the National Council on Compensation Insurance (NCCI) has been addressing elements of the nature discussed in the article and is incorporating ongoing improvements to the plan on an evolutionary basis. Second, schedule rating, underwriting selection, and competitive rating plans may be viable supplements to adjust for any continuing inadequacies of the experience rating plan.

With respect to the first concern, we applaud the NCCI's responsiveness to needed changes. Some of the problems outlined in our article have been alleviated to varying extents by ongoing improvements to the plan. It would be extremely beneficial if all rating organizations were committed to quick and appropriate response to inequities within any rating plan. To the extent that the NCCI is so committed on an ongoing basis, it could serve as a model to other such organizations.

We would, however, point out that the problems identified within the article were not hypothetical examples but real-world. Each of the companies (from which the examples were derived) suffered what was believed to be an inequity resulting from nonresponsive treatment under the experience rating plan.

With respect to the second concern, we do not agree with Gillam's suggestion that inadequacies in the experience rating plan can necessarily be corrected through schedule rating, underwriting selection, and competitive rating plans. It is our belief that schedule credits and debits are not actuarially determined; nor are many company underwriters technically capable of correcting pitfalls of the complex experience rating plan with broad-brush applications of credits or debits. Furthermore, the normal pressure for the use of price competition through credits, dividend plans, deviations, and loss-sensitive rating plans is often sales-driven. Use of these tools by an underwriter under such pressure could prove inappropriate. And, once these pricing adjustments are set in motion on a judgment basis, their use may be perpetuated despite changes in underlying exposure.

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