account the general occupational classifications or industrial activities of the insured About 15 percent of the employers, paying about 85 percent of the premiums, are experience rated That is, their premiums are modified to reflect their loss experience in the past relative to others in the same class Also, the statistical reliability of that experience is taken into account, the larger the business, the more credible its experience Since employers with a small number of workers are likely to experience volatile changes in injury rates from year to year, only employers of large numbers are experience rated

Another factor in the premium setting procedure is that discounts are given according to the size of the risk, this is an advantage to large companies Their rates thus reflect the economies of scale which result from spreading certain fixed costs over a larger amount of premium Finally, large companies by retrospective rating may have their premiums adjusted at the end of a policy year to match their actual experience

Most insurers use rates developed by a rating bureau In some states, the rates developed by the bureau are mandatory, in others, advisory only Almost half the premiums are written on a participating basis Participating policyholders receive periodic dividends that reflect insurer experience and sometimes their own

Financing self-insured benefits

Firms that cover workmen's compensation risks through private insurance companies or state funds pay a premium in advance In contrast, self-insurers have several options for financing They may simply pay for liabilities as they are experienced, directly from operating funds, or they may provide some advance funding in one or more ways In those states requiring deposits of funds by self-insurers, part or all of the funding for outstanding liabilities is provided for in advance mandatorily Even if not required, a self-insurer may set aside reserves, or even formally insure its risk through a wholly owned subsidiary insurance company created for this purpose

Such advance funding prevents severe disruptions in cash flow from unforeseen loss experience or accumulated liabilities

Insurer administrative costs

One of the recurring issues in evaluating workmen's compensation is the financial efficiency of the insurance mechanism for providing benefits A major part of the issue is the comparison between private and state fund insurance

The premiums collected by private insurers are used not only to pay benefits but also for expenses associated with claims such as investigation and legal fees, for sales, supervision, and collection, for administration, for safety programs, and for taxes, licenses, and other mandatory fees as well as for earnings In 1970, stock insurers that do not pay dividends to policyholders had expenses totaling 31 percent of premiums earned, their underwriting gain was 5 percent of premiums paid For stock insurers that pay dividends to policyholders, the expense ratio was 25 percent, the underwriting gain, 14 percent Mutual insurers had an expense ratio of 24 percent and an underwriting gain of 13 percent The dividend-paying stocks and mutuals returned part of their underwriting gain to their policyholders In addition to their underwriting gains, these insurers had investment profits

State funds have much the same costs as private insurers with these exceptions lower (or no) taxes and fees to the state government, no margin for private profit, and lower selling costs Consequently, although the variation among individual funds is great, expenses have averaged less than 10 percent of total premiums paid, well below the ratio for private insurers Some state funds incur smaller expenses for administrative and legal services, which may be financed from other government funds On the other hand, state funds in some instances may insure greater proportions of high-risk companies than private carriers and incur proportionately heavier charges for benefits

Other administrative costs

Another aspect of financing workmen's compensation relates to the cost of supporting the public agency that administers the program The cost of operating the industrial commission (or other administering agency) is borne either by assessments upon insurers and self-insurers or through appropriations from public