WAC 296-17-31029 Insurance principles. (1) What insurance principles does the department of labor and industries use when a new classification is developed? Those principles are broken down into four major components as follows:

- Administration
- Equity
- Homogeneity
- Safety

A detailed explanation of these principles can be found in subsection (2) of this section.

(2) What are these principles?

- **Administration:** Recordkeeping requirements must be simple and easy to follow. If our classification system imposed burdensome recordkeeping requirements, most employers would find it difficult to comply. Resolving complaints related to burdensome recordkeeping requirements would be in nobody's interest. The premium rate for your basic classification is based on the average exposure to hazard of all your workers. If our classification system were based upon individual occupations, you would pay a lower rate for your workers whose duties are considered low hazard, but you would pay a higher rate for your workers who have duties that expose them to a greater hazard. The total premium you pay would not be decreased; it would only be redistributed and would require more recordkeeping. Having one basic classification assigned to cover all the operations makes recordkeeping and reporting easier for you.
• **Statistical credibility or equity:** By monitoring our classification plan, we ensure that enough hours are reported in each classification to provide a meaningful statistical base. A large enough statistical base helps avoid sudden large increases or decreases in rates and keeps them at the lowest possible level. We refer to this as statistical credibility. Classifications must also be responsive to change if equity and fairness are to be achieved. Our classification plan is in a constant state of evolution. In the early 1970s we had approximately 45 classifications. Today we have over 300 main classifications and approximately 1,000 subclassification codes to track losses. In some industries, the evolution is gradual, and no change to the classification itself is needed. We recognize that the wording used to describe a classification may not have kept up with changes in an industry. However, as the industry conditions evolve because of modern equipment, new processes or materials, or changes in employment laws and safety standards, so does the experience upon which the rate is based. In other words, the changes in the experience which are used to develop premium rates reflect new developments in processes, equipment, and technology even though the wording in the classification is unchanged. We strive to keep our classification language current. Although it would be easy to just change the classification wording as we encounter changes in an industry, Washington law requires that we conduct public hearings before we make official changes to the rule. We do this as a public safeguard and to involve business in the change process. As technologies change or new industries develop, we receive requests from industry representatives for new classifications or for determination of proper classification assignments for the new processes. We will evaluate the request and determine if there is a large enough group of employers to justify a new classification. Any classification must produce enough premium to cover losses. In addition, as specific industries become obsolete or certain processes are no longer in use we will discontinue the classifications that covered them.

• **Homogeneity:** Although it is rare that any two businesses are identical, our classification plan recognizes that similar businesses have similar exposures to occupational injury and disease. Employers with similar operations and exposures are grouped together so each classification includes common exposures and carries a rate that reflects those exposures. This method of grouping homogenous risks ensures that the overall cost of the workers' compensation system is distributed fairly among the businesses we insure. Classifications must also be mutually exclusive. Our classifications are clearly defined so that each type of business or industry fits in only one basic classification.
• **Workplace safety and accident prevention:** By classifying employers by the nature of their business, each industry can take responsibility for controlling its own workers' compensation costs. Employers may belong to a trade association, which usually offers safety or risk management services. If such services result in fewer and less costly accidents, that improved experience will tend to lower the base rates for that industry. If our classification system were based upon the occupations or duties of employees, the success of a single industry's safety or risk management program would have little impact on its premium costs.

  **Example:** Many retail grocery stores employ meat cutters. If grocery stores wanted to reduce the frequency of injury to their meat cutters they could develop a safety plan that focused on proper meat handling, lifting, and cutting. Assuming the safety program was successful and reduced the cost associated with meat cutter claims, the rate for grocery stores would go down. If, on the other hand, all meat cutters, such as those who work for restaurants, grocery stores, or slaughter houses, reported in a single meat cutter classification, it is doubtful that the grocery stores' safety program would have any impact on the premium rates since grocery stores' meat cutters would represent only a small portion of a meat cutter classification.