

Report on the Newspaper Delivery Study

Excerpts from the WCIRB Classification and Rating Committee Minutes
May 17, 2022

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Newspaper Delivery Study

4312, Newspaper Delivery

7198(1), Parcel Delivery and Messenger Service Companies – including terminal employees and mechanics – no handling of bulk merchandise or freight

4304, Newspaper Publishing or Printing – all other employees – including drivers and their helpers

Executive Summary

Objectives

Employers assigned to Classification 4312, *Newspaper Delivery*, do not develop sufficient data to produce statistically credible advisory pure premium rates, which can result in undue volatility in the pure premium rates from year to year without significant change in the underlying exposure to workers' compensation losses. In addition, exposure in the newspaper delivery classification has been steadily declining since early 2000. Consistent with the WCIRB's practice of reviewing classifications with low statistical credibility, the WCIRB studied the business operations and payroll and claim experience of employers currently assigned to Classification 4312 to determine if the classification should continue to be a stand-alone classification or if some or all of the operations contemplated in the classification should be combined with operations in other classifications.

Findings

The key findings of this study include:

1. Classification 4312 applies to two distinct groups of employers performing newspaper delivery operations. The first group of employers includes those that perform delivery operations on a fee-basis for newspaper publishers and printers (referred to as "fee-based 4312 employers"), while the other group includes employers that publish or print newspapers and sell and deliver these newspaper(s) to customers (referred to as "newspaper publishing 4312 employers"). While both groups of employers engage in newspaper delivery, delivery is the primary business for fee-based 4312 employers and an incidental activity for newspaper publishing 4312 employers. These two groups of employers in Classification 4312 have dissimilar payroll and loss experience.
2. Fee-based 4312 employers have similar operations, long-term loss to payroll ratios and shares of claims involving motor vehicle injuries with employers assigned to Classification 7198(1), *Parcel Delivery and Messenger Service Companies*. Given that the reported payroll of newspaper delivery employers is declining in California, reclassifying newspaper delivery operations of fee-based 4312 employers to Classification 7198(1) would improve the statistical credibility and help stabilize the advisory pure premium rate for fee-based 4312 employers.
3. The WCIRB also analyzed the operations and loss and payroll experience of employers assigned to Classification 8745, *News Agents or Distributors of Magazines or Other Periodicals*, to evaluate whether this classification should be expanded to include fee-based 4312 employers. However, the operations and loss and payroll experience are dissimilar between fee-based 4312 employers and employers in Classification 8745.
4. Reclassifying newspaper delivery operations of fee-based 4312 employers to Classification 7198(1) would lead to a significant increase (+55.4%) in the classification relativity for fee-based 4312 employers. However, the increase in the classification relativity was based on the current selected loss to payroll ratio which does not fully reflect the recent increasing trend in this classification's loss to payroll ratio primarily due to its low credibility. In accordance with standard WCIRB classification ratemaking procedures, the year-to-year classification relativity change for fee-based 4312 employers will be limited to a 25% increase. There would be minimal impact (+0.1%) to employers currently assigned to Classification 7198(1).

5. The delivering of newspapers to customers for their personal use conducted by newspaper publishing 4312 employers is similar to the delivery of newspapers to wholesale distributors or retail locations, which is a General Inclusion¹ for employers assigned to Classification 4304, *Newspaper Publishing or Printing – all other employees*. A large share of newspaper publishing employers had payroll reported in both Classifications 4304 and 4312. Since most newspaper publishing employers deliver newspapers to customers for their personal use and to wholesale distributors or retail locations, it appears that both delivery operations normally prevail in the newspaper publishing industry, which is consistent with the inclusion of drivers as a General Inclusion and the Single Enterprise rule.² Some newspaper publishers may also use the same crew of employees to conduct both operations, which may create challenges for these employers to divide payroll between the two classifications. The loss and payroll experience for newspaper delivery operations of newspaper publishing 4312 employers is volatile due to the small amount of payroll reported. Given the similarity in operations, reclassifying newspaper delivery operations of newspaper publishing 4312 employers to Classification 4304 would improve the statistical credibility and help stabilize the advisory pure premium rate for the newspaper delivery operations of newspaper publishing 4312 employers.
6. Reclassifying newspaper delivery operations of newspaper publishing 4312 employers to Classification 4304 would lead to a significant increase (+51.2%) in the classification relativity for the newspaper delivery operations of newspaper publishing 4312 employers. However, the current selected loss to payroll ratio for Classification 4312 is not highly reflective of recent experience in the classification and may not be indicative of future experience of these employers. In accordance with standard WCIRB classification ratemaking procedures, the year-to-year classification relativity change for the newspaper delivery operations of newspaper publishing 4312 employers will be limited to a 25% increase. The impact to Classification 4304 is minimal (-0.1%).

Recommendations

Based on these findings, the WCIRB recommends:

1. Combining the loss and payroll experience of employers that deliver newspapers to customers for their personal use on a fee basis, assigned to Classification 4312, with Classification 7198(1), *Parcel Delivery and Messenger Service Companies*, for ratemaking purposes and limiting the advisory pure premium rate relativity change for constituents of Classification 4312 to 25% each year until the advisory pure premium rate for Classification 4312 better aligns with that of Classification 7198(1), at which time Classification 4312 would be eliminated and the fee-based 4312 employers assigned to Classification 7198(1).
2. Combining the loss and payroll experience of operations comprising the sale or delivery of newspapers to customers for their personal use by newspaper publishers or printers, assigned to Classification 4312, with Classification 4304, *Newspaper Publishing or Printing*, for ratemaking purposes and limiting the advisory pure premium rate relativity change for constituents of Classification 4312 to 25% each year until the advisory pure premium rate for Classification 4312 better aligns with that of Classification 4304, at which time Classification 4312 would be eliminated and the newspaper delivery operations of newspaper publishing 4312 employers assigned to Classification 4304.

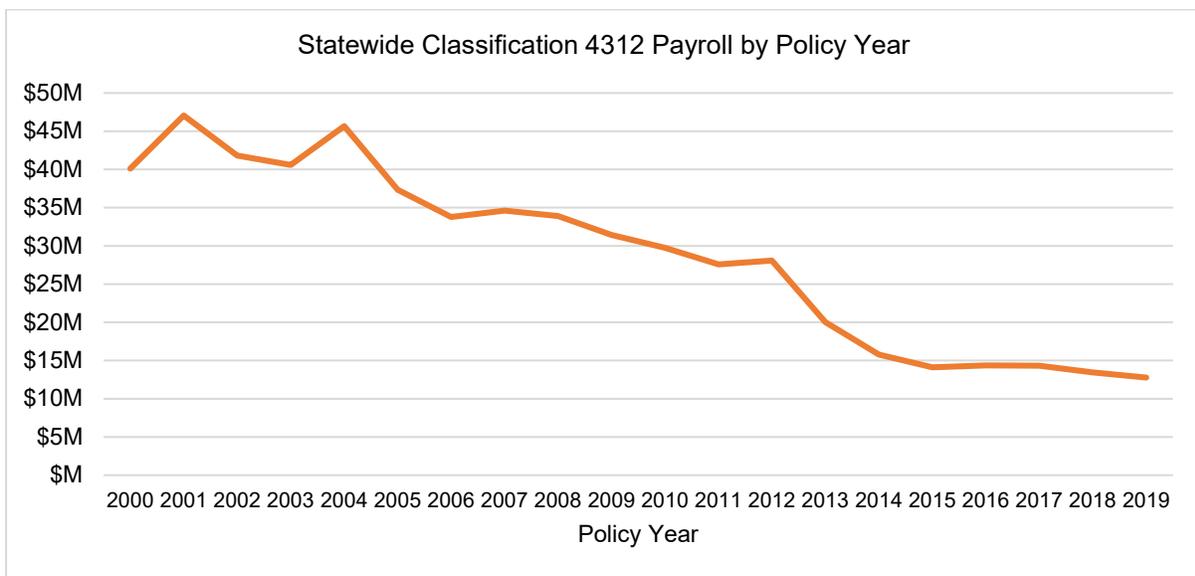
¹ "General inclusions shall not be separately classified, all other provisions contained herein notwithstanding." *California Workers' Compensation Uniform Statistical Reporting Plan—1995* (USRP), Part 3, *Standard Classification System*, Section III, *General Classification Procedures*, Rule 5, *General Inclusions*.

² "If the employer's business, conducted at one or more locations, consists of a single operation or a number of separate operations that normally prevail in the business described by a single classification, the entire exposure of the business shall be assigned to that single classification." USRP, Part 3, *Standard Classification System*, Section III, *General Classification Procedures*, Rule 2, *Single Enterprise*.

I. Introduction

Employers assigned to Classification 4312, *Newspaper Delivery*, do not develop sufficient data to produce statistically credible advisory pure premium rates, which can result in undue volatility in the pure premium rates from year to year without significant change in the underlying exposure to workers' compensation losses. The credibility of Classification 4312 is 0.38 for indemnity and 0.40 for medical. In addition, exposure in the newspaper delivery classification has been steadily declining since early 2000. Figure 1 shows that the payroll reported in Classification 4312 for policy year 2019 was only one-third of the payroll reported for policy year 2000. On average, payroll for only about 50 employers was reported in Classification 4312 annually between policy years 2015 and 2019 compared to more than 200 employers in policy year 2000. The reduction in newspaper delivery services is consistent with the trend in the industry of increasing use of digital newspapers.

Figure 1. Statewide Payroll for Classification 4312 between Policy Years (PYs) 2000 and 2019



Consistent with the WCIRB's practice of reviewing classifications with low statistical credibility, the WCIRB studied business operations and the payroll and claim experience of employers currently assigned to Classification 4312 to determine if the classification should continue to be a stand-alone classification or if some or all of the operations contemplated in the classification should be combined with operations in other classifications. In this regard, the WCIRB evaluated the scope of several classifications that have relatively similar operations to Classification 4312.

II. Analysis Approach

The WCIRB analyzed the business operations and payroll and claim experience of employers delivering newspapers using both qualitative and quantitative data from a variety of sources.

Classification Inspection Reports: The WCIRB reviewed the Classification Inspection Reports of employers with payroll reported in Classification 4312 to better understand the business operations of newspaper delivery employers and employee duties and responsibilities.

Industry Outreach: The WCIRB contacted members of the industry, including employers doing business in the newspaper delivery industry as well as insurers that underwrite significant components of this industry, to gain insight into the operational characteristics of newspaper delivery.

Unit Statistical Reports: The WCIRB analyzed the historical Unit Statistical Report (USR) data reported between policy years 2000 and 2019 for Classifications 4312, 4304, 7198 and 8745, including employers' payroll and loss experience and injury characteristics of claims. Data is from the latest USR report level. Losses were limited to \$500,000 per claim to minimize large swings in the loss to payroll ratios over time that are often seen in small classifications.

Other Jurisdictions: The WCIRB reviewed the newspaper delivery classification procedures in other jurisdictions³ to understand how other jurisdictions classify newspaper delivery operations.

Similar Classifications: Using the same data sources and methodology used in the review of Classification 4312, the WCIRB reviewed several classifications that have relatively similar operations to newspaper delivery, including those related to parcel delivery and newspaper delivery to retailers.

Classification Relativity Data: Classification relativities submitted as part of the WCIRB's September 1, 2021 Regulatory Filing were used to analyze the impact of the potential reclassification of Classification 4312 employers on both the employers that are recommended to be included in other existing classifications and the employers whose operations are currently assigned to the destination classifications.

III. Analysis Results

1. Two Groups of Employers in Classification 4312: Fee-Based 4312 Employers and Newspaper Publishing 4312 Employers

Classification 4312 applies to employers engaged in the sale or delivery of newspapers to customers for their personal use and not for resale. Operations contemplated within Classification 4312 include receiving printed materials such as newspaper and inserts; bundling, folding, banding or bagging the materials; and loading and delivering materials to customers. Two groups of employers are assignable to Classification 4312: one includes employers that conduct these delivery operations on a fee basis⁴ for newspaper publishers or printers (referred to as "fee-based 4312 employers") and the other includes newspaper publishers or printers that conduct these delivery operations in connection with their own publishing or printing operations (referred to as "newspaper publishing 4312 employers"). Although the newspaper delivery operations of these two groups of employers are generally similar, the newspaper publishing 4312 employers conduct delivery in support of their core newspaper publishing or printing business, while the fee-based 4312 employers conduct newspaper delivery as their core business. Detailed analysis of the operations performed by newspaper publishing 4312 employers is summarized below.

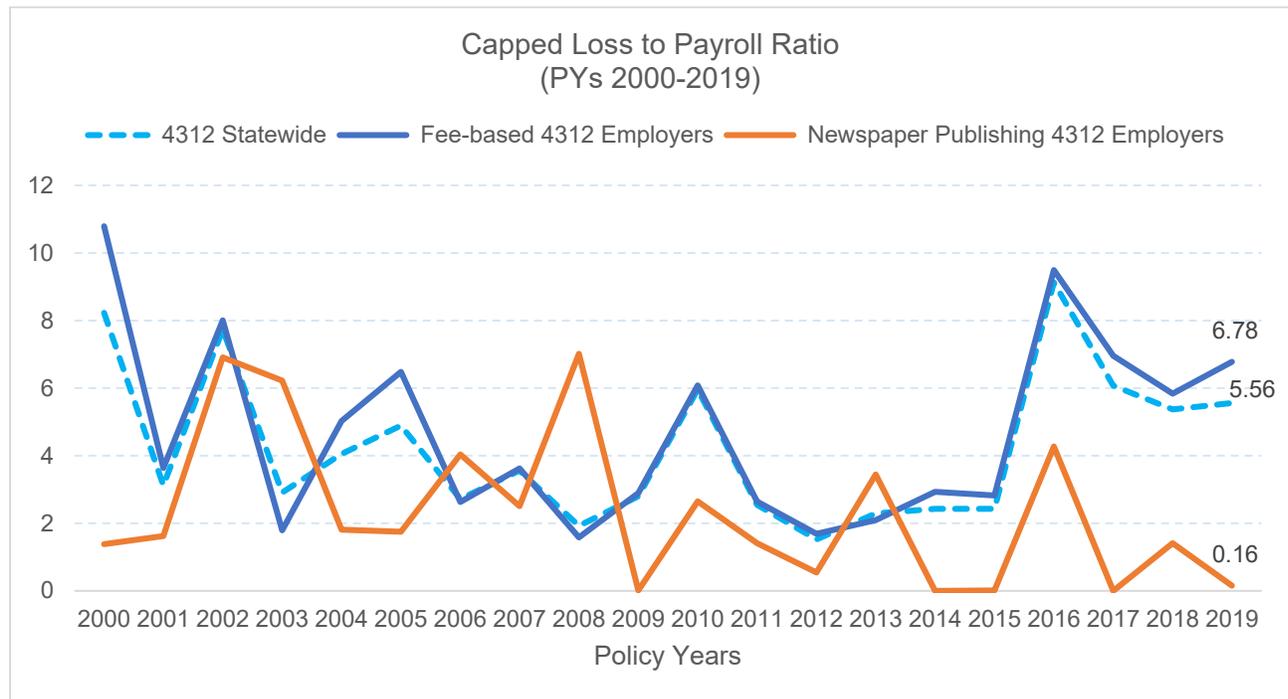
Between policy years 2015 and 2019, fee-based 4312 employers had about 88% of the reported statewide Classification 4312 payroll and newspaper publishing 4312 employers had only a small proportion of the reported statewide Classification 4312 payroll (12%).⁵ Therefore, the statewide Classification 4312 loss to payroll ratios are dominated by fee-based 4312 employers for which loss to payroll ratios are generally higher than those for newspaper publishing 4312 employers, as shown in Figure 2.

³ Jurisdictions reviewed include NCCI states, Massachusetts, Michigan, Minnesota, New York, North Carolina and Wisconsin.

⁴ Based on a review of WCIRB inspection reports and industry outreach, employers that conduct delivery operations on a fee basis for newspaper publishers or printers do not purchase newspapers from the publishers or printers and are paid a 'per copy fee' for delivery services. The fee-based delivery employers are not engaged in newspaper sales operations.

⁵ For data analysis purposes, newspaper publishing 4312 employers are defined as newspaper publishers or printers with payroll reported in Classifications 4312, 4304 and/or 8818. The rest of the employers in Classification 4312 are defined as fee-based 4312 employers.

Figure 2. Historical Loss to Payroll Ratios Comparing Fee-Based 4312 Employers and Newspaper Publishing 4312 Employers



In summary, newspaper delivery operations assigned to Classification 4312 include two distinct groups of employers: fee-based 4312 employers and newspaper publishing 4312 employers. The loss experience for the two segments of employers is dissimilar, partly driven by relatively low payroll reported for newspaper publishing 4312 employers. Given that both groups of employers have low statistical credibility and are relatively dissimilar, the WCIRB explored the potential of reclassifying the two groups of 4312 employers separately to other existing classifications.

2. Potential Reclassification of Newspaper Delivery Operations of Fee-Based 4312 Employers

Based on the potential similarity of the core operations, the WCIRB identified the following two classifications for potential combination with the newspaper delivery operations of fee-based 4312 employers:

- 7198(1), *Parcel Delivery and Messenger Service Companies – including terminal employees and mechanics – no handling of bulk merchandise or freight*
- 8745, *News Agents or Distributors of Magazines or Other Periodicals – not retail dealers – including Outside Salespersons*
- **Newspaper Delivery Operations of Fee-Based 4312 Employers and Parcel Delivery Operations Assigned to Classification 7198(1)**

Classification 7198(1) applies to employers engaged in the delivery of lightweight parcels on a fee basis if certain weight restrictions are met and app-based on-demand Delivery Network Companies (DNC) that deliver restaurant meals, groceries or various store merchandise. Operations contemplated within Classification 7198(1) include picking up parcels at a pre-determined location and delivering to customer locations. Both fee-based 4312 employers and lightweight parcel delivery employers assigned to Classification 7198(1) perform fee-based delivery and deliver lightweight items (newspapers or parcels) to customers. The delivery operations in both classifications also include multiple delivery route stops and the regular use of automobiles to conduct deliveries.

- **Newspaper Delivery Operations of Fee-Based 4312 Employers and Wholesale Newspaper Distribution Operations Assigned to Classification 8745**

Classification 8745 applies to employers engaged in the wholesale distribution of newspapers, magazines or periodicals to other concerns for resale purposes. Both fee-based 4312 employers and employers assigned to Classification 8745 deliver printed newspapers received from newspaper publishers or printers.

However, there are some key differences in operations between the fee-based 4312 employers and employers assigned to Classification 8745. First, fee-based 4312 employers typically make multiple stops on their delivery routes and deliver to residences, while employers assigned to Classification 8745 deliver to either retail locations or to fee-based 4312 employers, likely with fewer stops. These distinctions in delivery routes and frequency of stops could potentially lead to different levels of risk exposure to, for example, motor vehicle injuries. Second, fee-based 4312 employers often use automobiles on their delivery routes, while employers assigned to Classification 8745 use delivery vans or trucks and may also use hoists, lifts or jacks in their warehouses. In addition, the delivery operations contemplated within Classification 8745 may include lifting large, heavy bundles of newspapers to their destinations, while fee-based 4312 employers usually deliver individual newspapers to residential customers. Lastly, Classification 8745 includes outside salespersons, while Classification 4312 does not. Assigning fee-based 4312 employers to Classification 8745 would also require including their outside sales employees in 8745.

In summary, newspaper delivery operations of fee-based 4312 employers and parcel delivery operations assigned to Classification 7198(1) share similar operations, including delivery of lightweight products and delivery routes with multiple stops. Newspaper delivery operations of fee-based 4312 employers and wholesale newspaper distribution operations assigned to Classification 8745 are less comparable as wholesale newspaper distribution includes more heavy lifting, different delivery routes with fewer stops and outside salespersons.

- **Comparison of Payroll and Claim Experience for Newspaper Delivery Operations of Fee-Based 4312 Employers and Parcel Delivery Operations Assigned to Classification 7198(1)**

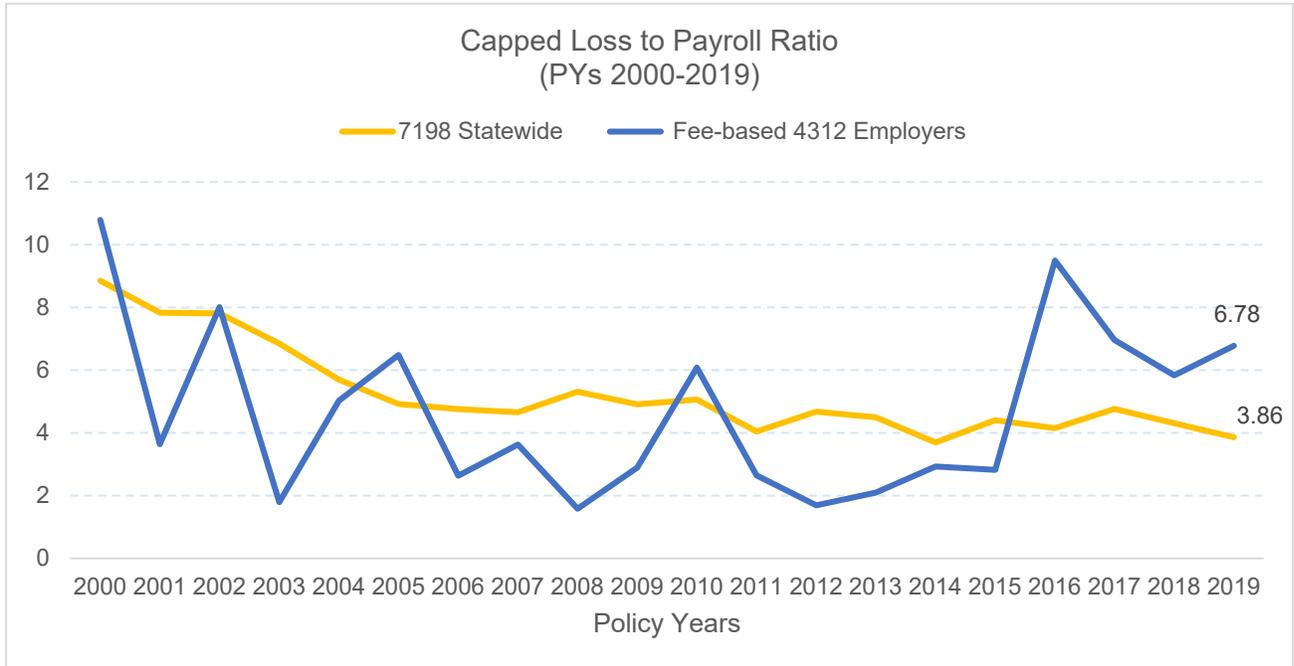
In addition to operational characteristics, the WCIRB compared the loss and payroll experience of newspaper delivery operations of fee-based 4312 employers to those of parcel delivery operations assigned to Classification 7198.⁶ As shown in Figure 3, the historical loss to payroll ratios for newspaper delivery of fee-based 4312 employers are similar to those for Classification 7198, except that the fee-based newspaper delivery operations had more volatile loss to payroll ratios largely due to the smaller and declining newspaper industry (Figure 1) and a propensity for occasional large claims. The historical loss to payroll ratios for Classification 7198 are more stable as Classification 7198 is fully credible with increasing payroll in recent years due to a growing demand for parcel delivery.

The WCIRB also analyzed long-term weighted average loss to payroll ratios. The 20-year weighted average loss to payroll ratio between policy years 2000 and 2019 for fee-based 4312 employers (\$4.5 per \$100 of payroll) was relatively close to that for parcel delivery employers (\$5.0 per \$100 of payroll). The weighted average loss to payroll ratio for the latest five policy years for fee-based 4312 employers was higher (\$6.4 per \$100 of payroll), driven by several large claims involving major permanent partial disability and low payroll. Despite higher loss to payroll ratios for the last five years, the September 1, 2021 classification relativity and advisory pure premium rate for Classification 4312 were lower than those of Classification 7198. However, the classification relativity for 4312 is not highly responsive to the recent

⁶ The majority of employers in Classification 7198 are assigned to 7198(1) based on the suffix information reported in the USR data. Therefore, Classification 7198(1) is analyzed based on the statewide data.

experience in the classification due to 4312's low statistical credibility and the 25% limitation applied to its September 1, 2021 classification relativity.⁷

Figure 3. Historical Loss to Payroll Ratios Comparing Fee-Based 4312 Employers and Classification 7198 Employers



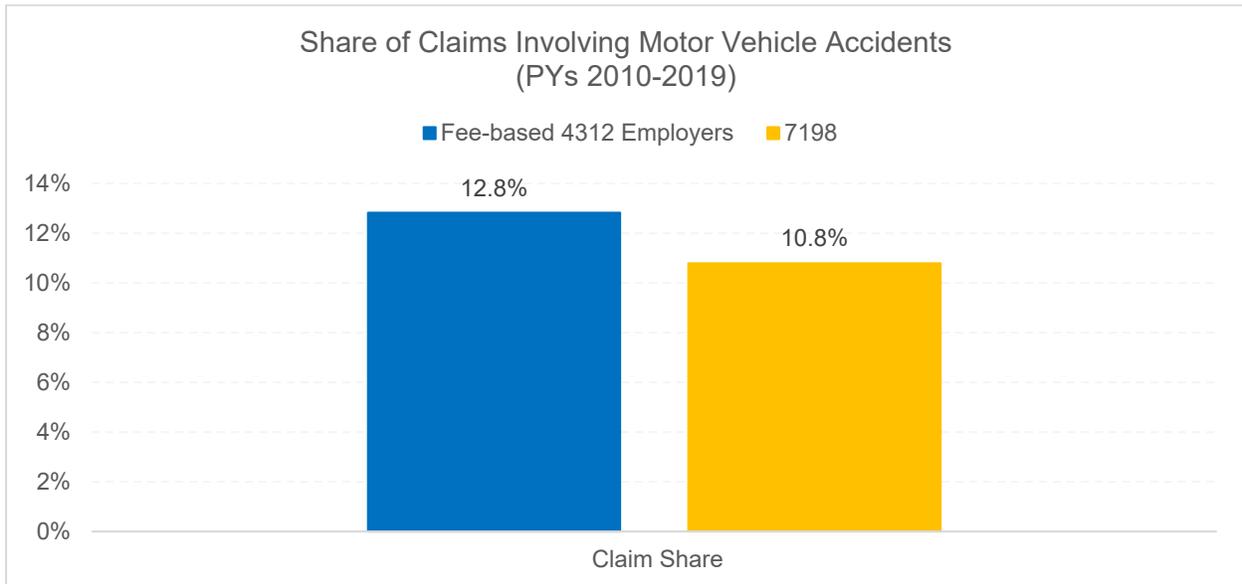
| Loss to Payroll Ratio (00s) ⁸ | Classification 7198 | Fee-Based 4312 Employers |
|--|---------------------|--------------------------|
| 20-year (PYs 2000-2019) | 5.0 | 4.5 |
| 5-year (PYs 2015-2019) | 4.3 | 6.4 |

Motor vehicle accidents are a unique risk exposure for delivery drivers and the possibility of very severe claims can potentially be a cost driver for workers' compensation losses. The share of claims involving motor vehicle accidents for fee-based 4312 employers and Classification 7198 parcel delivery employers are relatively consistent, indicating similar levels of motor vehicle risk exposure between the two operations (Figure 4).

⁷ The selected loss to payroll ratio for Classification 4312 was 3.677 after applying the standard 25% change limitation, which is much lower than the selected loss to payroll ratio (4.107) without applying the 25% change limitation. The application of the 25% change limitation was to address the low credibility issue and weigh heavily on the expected loss to payroll ratio. Therefore, the limited selected loss to payroll ratio for Classification 4312 does not fully reflect the loss experience of operations in Classification 4312.

⁸ The weighted average loss to payroll ratio was calculated using the aggregate losses over the policy period specified divided by the aggregate payroll during the same period.

Figure 4. Share of Claims Involving Motor Vehicle Accidents for Fee-Based 4312 Employers and Classification 7198 Employers⁹ for Policy Years 2010 to 2019



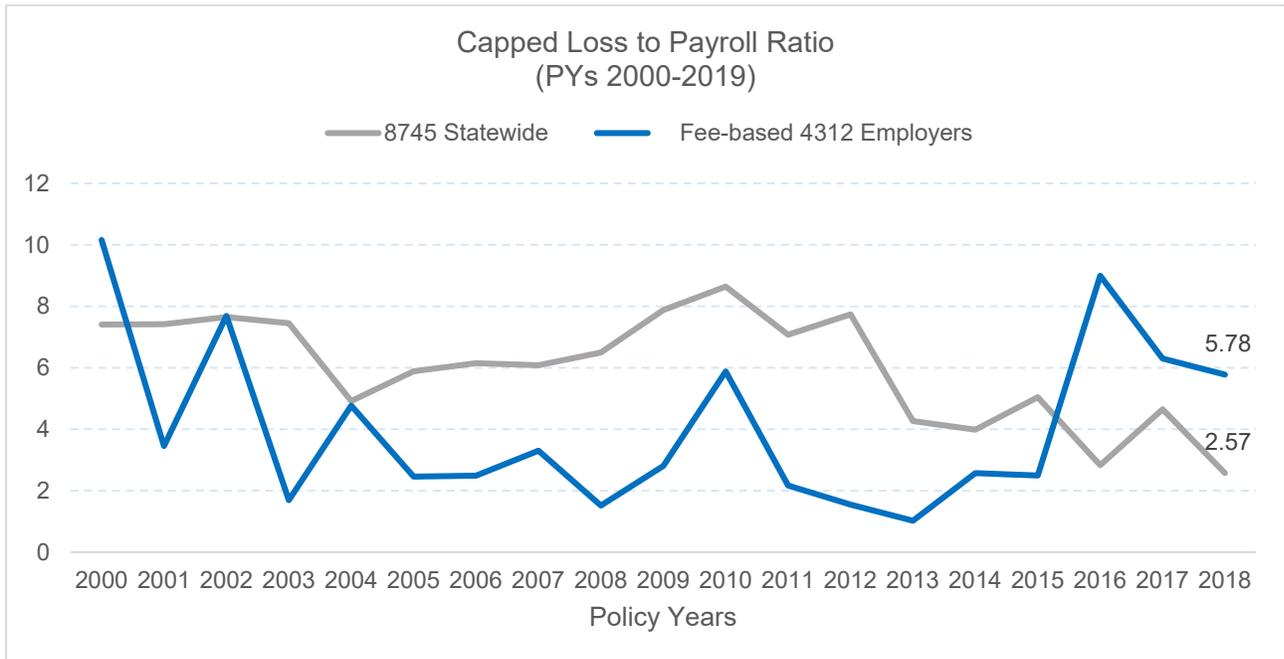
- **Comparison of Payroll and Claim Experience for Newspaper Delivery Operations of Fee-Based 4312 Employers and Newspaper Wholesale Distribution Operations Assigned to Classification 8745**

The WCIRB also compared the loss and payroll experience of fee-based 4312 employers to those of newspaper wholesale distribution employers assigned to Classification 8745. The historical loss to payroll ratios for Classification 8745 were generally higher than those of fee-based 4312 employers¹⁰ prior to policy year 2016, while the loss to payroll ratios for 8745 were much lower for the most recent four policy years (Figure 5). The long-term weighted average loss to payroll ratio for policy years 2000 through 2019 for employers assigned to Classification 8745 was 63% higher than that for fee-based 4312 employers. However, the weighted average loss to payroll ratio for the latest five policy years for Classification 8745 was 38% lower than that for fee-based 4312 employers, due to low payroll and several large claims involving major permanent partial disability reported for the fee-based 4312 employers.

⁹ Share of claims involving motor vehicle accidents for Classification 7198 excludes one large employer that dominated the share of claims by causes of injury.

¹⁰ Loss and payroll experience in Classification 8742, *Salespersons – Outside*, of fee-based 4312 employers are included in Classification 4312 for comparison purposes as outside sales operations are included in the scope of Classification 8745.

Figure 5. Historical Loss to Payroll Ratios Comparing Fee-Based 4312 Employers and Classification 8745 Employers



| Loss to Payroll Ratio (00s) ¹¹ | Classification 8745 | Fee-Based 4312 Employers |
|---|---------------------|--------------------------|
| 20-year (PYs 2000-2019) | 6.2 | 3.8 |
| 5-year (PYs 2015-2019) | 3.7 | 6.0 |

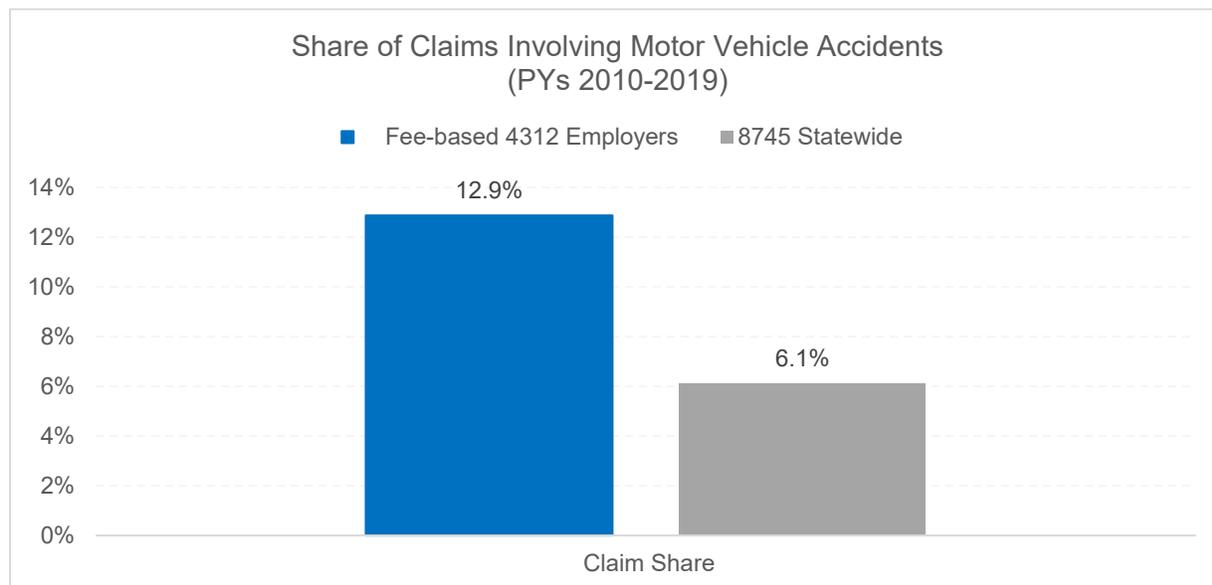
In addition, Classification 8745 is a low credibility classification¹² with declining payroll due to the decreased demand for the sale and delivery of physical newspapers. Payroll reported for employers assigned to Classification 8745 declined by almost 60% in policy year 2019 relative to policy year 2000. It is unclear whether the newspaper industry will continue to decline. Including fee-based 4312 employers in Classification 8745 would not largely improve the statistical credibility for fee-based 4312 employers.

As shown in Figure 6, the share of claims involving motor vehicle accidents for fee-based 4312 employers is more than double that for wholesale newspaper distributors. Hence, fee-based 4312 employers likely have more risk exposure to motor vehicle accidents and a propensity for large claims. The higher motor vehicle risk exposure for fee-based 4312 employers is likely related to their delivery process, which includes more stops in residential areas than the delivery operations assigned to Classification 8745.

¹¹ The weighted average loss to payroll ratio was calculated using the aggregate losses over the policy period specified divided by the aggregate payroll during the same period.

¹² The indemnity credibility of Classification 8745 is 0.61 and the medical credibility is 0.57.

Figure 6. Share of Claims Involving Motor Vehicle Accidents for Fee-Based 4312 Employers and Classification 8745 Employers for Policy Years 2010 to 2019



In summary, fee-based 4312 employers share more similar business operations and loss experience with the employers assigned to Classification 7198(1) than the employers assigned to Classification 8745. Fee-based 4312 employers also share more similar risk exposure to motor vehicle injuries with employers assigned to Classification 7198(1). Lastly, since Classification 7198 is fully credible and Classification 8745 has low credibility, including the experience of fee-based 4312 employers in Classification 7198(1) would largely improve the statistical credibility of fee-based 4312 employers' experience. Therefore, the WCIRB recommends amending Classification 7198(1) to include newspaper delivery operations performed on a fee-basis currently assigned to Classification 4312.¹³ The impact of this recommendation on employers currently assigned to Classifications 4312 and 7198 is shown in the Impact Analysis Section of this report.

3. Potential Reclassification of the Newspaper Delivery Operations of Newspaper Publishing 4312 Employers

The WCIRB reviewed Classification 4304, *Newspaper Publishing or Printing – all other employees – including drivers and their helpers*, to determine whether this classification should be expanded to include the newspaper delivery operations of newspaper publishing 4312 employers.

- **Newspaper Delivery Operations of Newspaper Publishing 4312 Employers Compared to Those of Classification 4304**

Classification 4304 applies to the publishing or printing of newspapers and other similar items and includes delivery of newspapers to customers for resale purposes as a General Inclusion. Operations contemplated within Classification 4304 include loading paper, ink and printing plates; bundling, folding, banding and/or bagging the materials; and loading and delivering materials to customers for resale purposes. This classification also applies to newspaper publishers that assemble, bundle, label or distribute newspapers that are printed by other employers. If the newspaper publisher also retains

¹³ As discussed later in this report, the WCIRB is recommending limiting the classification relativity change in Classification 4312 to 25%. As a result, the WCIRB is recommending that the amendments to Classification 7198(1) and the elimination of Classification 4312 be deferred until such time as the selected classification relativity for Classification 4312 is better aligned to that of Classification 7198.

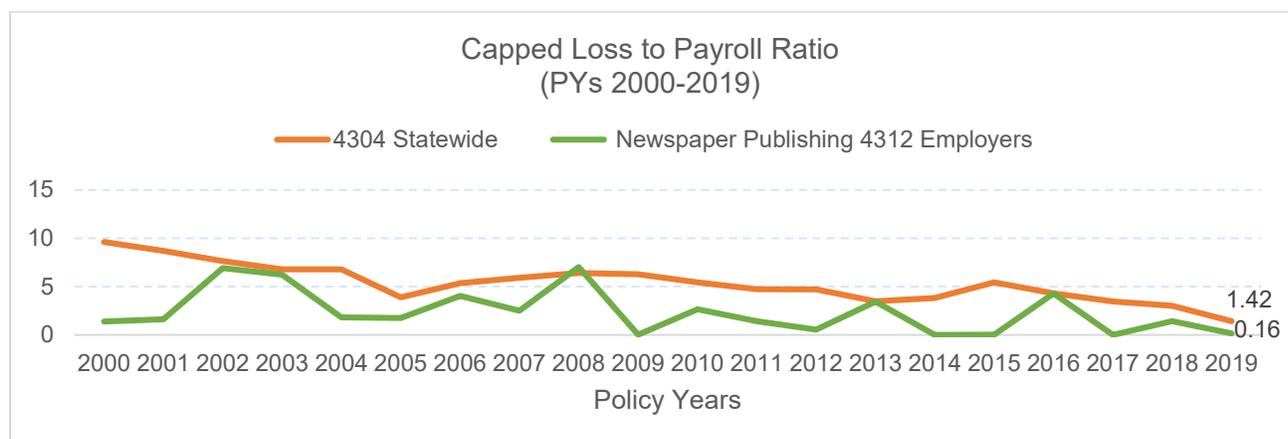
employees to deliver the publisher's newspapers to customers for their personal use, then such delivery operations are required to be separately classified to 4312.

A large share (approximately 50%) of newspaper publishing or printing employers had payroll reported in both Classifications 4312 and 4304 between policy years 2015 and 2019. Some of these employers may use the same crew of employees to deliver newspapers to both customers for their personal use (required to be separately classified to 4312) and retail locations for resale (assigned to Classification 4304). If the same group of employees performs both operations, employers must maintain separate payroll records for employees engaged in operations assigned to Classifications 4312 and 4304 based on the Division of Single Employee's Payroll rule.¹⁴ If separate payroll records are not maintained, all payroll for these employees must be assigned to the classification with the higher advisory pure premium rate. Combining newspaper delivery operations of newspaper publishing 4312 employers with Classification 4304 would eliminate the need for employers to administer the payroll division rule and therefore eliminate the risk of misclassification of payroll and claims between Classifications 4304 and 4312.

- Payroll and Claim Experience of Newspaper Delivery Operations of Newspaper Publishing 4312 Employers Compared to Those Assigned to Classification 4304**

In addition to operational characteristics, the WCIRB compared the loss and payroll experience of newspaper delivery operations of newspaper publishing 4312 employers to those of employers assigned to Classification 4304. The historical loss to payroll ratios for newspaper delivery operations of newspaper publishing 4312 employers were generally lower than those of employers assigned to Classification 4304, but the 4312 ratios were extremely volatile due to the small share of payroll generated by newspaper delivery operations of newspaper publishing 4312 employers (12%) (Figure 7). In policy year 2019, only 9 out of 40 employers assigned to Classification 4312 were newspaper publishers. In addition, on average, only one claim per year was reported for newspaper publishing 4312 employers between policy years 2015 and 2019. Therefore, the loss to payroll ratios for the 4312 delivery operations of these newspaper publishers are not statistically credible and may not be indicative of the loss experience likely to emerge for these employers in the future.

Figure 7. Historical Loss to Payroll Ratios Comparing Newspaper Delivery Operations of Newspaper Publishing 4312 Employers and Classification 4304 Employers



In summary, the business operations of newspaper publishing or printing employers delivering newspapers to customers for their personal use assigned to Classification 4312 are similar to the delivery of newspapers to wholesale distributors or retail locations assigned to Classification 4304. While the

¹⁴ “[T]he remuneration of any one employee may be divided between two or more classifications, provided the employer has maintained complete and accurate records supported by original timecards or time book entries which show separately, both by individual employee and in summary by operations performed, the remuneration earned by such employee”. USRP, Part 3, *Standard Classification System*, Section V, *Payroll – Remuneration*, Rule 3, *Division of Single Employee’s Payroll*.

comparison of loss to payroll ratios between the two operations yields limited information due to very limited experience for newspaper delivery operations of newspaper publishing 4312 employers, a large share of newspaper publishing employers perform both operations and payroll is reported for these employers in both Classifications 4304 and 4312. Combining newspaper publisher delivery operations assigned to Classification 4312 with Classification 4304 will also reduce the administrative burden of dividing payroll for the same group of employees between the two classifications and will also be consistent with the Single Enterprise and General Inclusions rules, since most newspaper publishing employers deliver newspapers to customers for their personal use and to wholesale distributors or retail locations. Therefore, the WCIRB recommends amending Classification 4304 to include newspaper delivery operations of newspaper publishing or printing employers currently assigned to Classification 4312.¹⁵ The impact of this recommendation on employers currently assigned to Classifications 4312 and 4304 is shown in the Impact Analysis Section of this report.

IV. Impact Analysis

The WCIRB evaluated the impact of reclassifying fee-based 4312 employers to Classification 7198 and reclassifying newspaper delivery operations of newspaper publishing 4312 employers to Classification 4304. Classification relativities for Classifications 4312, 7198 and 4304 are included in Appendix III.

1. Impact on Employers in Classification 7198

Table 1 shows that the selected loss to payroll ratio for Classification 7198 would increase by only 0.1% after the inclusion of fee-based 4312 employers.

Table 1. Changes in the Selected (Unlimited) Loss to Payroll Ratio for Classification 7198 Under WCIRB Recommendation

| Classification 7198 (A) | Classification 7198 and Fee-Based 4312 Employers Combined (B) | % Difference (B/A-1) |
|-------------------------|---|----------------------|
| 5.709 | 5.715 | +0.1% |

2. Impact on Fee-Based 4312 Employers

The WCIRB also analyzed the impact on fee-based 4312 employers. As shown in Table 2, the selected loss to payroll ratio for fee-based 4312 employers would increase by 55.4% under the recommendation. However, the adjusted loss to payroll ratio for Classification 4312, based on the actual experience of the latest five policy years, was higher than that for Classification 7198, which is reflective of a significant increase in 4312's loss to payroll ratio in recent years (Table 1 in Appendix III). Due to 4312's low statistical credibility and the 25% limitation on classification relativity increases applied to this classification in the September 1, 2021 Regulatory Filing, 4312's recent experience is not heavily reflected in its current selected loss to payroll ratio. As a result, the selected loss to payroll ratio for Classification 4312 used in the impact analysis may not be highly reflective of the future loss experience expected in this classification.

To reduce the impact of the recommendation on the fee-based 4312 employers, the WCIRB recommends applying the standard 25% limitation to the year-to-year relativity change for the fee-based 4312 employers and maintaining Classification 4312 until such time as the selected Classification 4312 relativity is better aligned with that of Classification 7198.

¹⁵ As discussed later in this report, the WCIRB is recommending limiting the classification relativity change in Classification 4312 to 25%. As a result, the WCIRB is recommending that the amendments to Classification 4304 and the elimination of Classification 4312 be deferred until such time as the selected classification relativity for Classification 4312 is better aligned to that of Classification 4304.

Table 2. Changes in the Selected (Unlimited) Loss to Payroll Ratio for Fee-Based 4312 Employers Under WCIRB Recommendation

| Classification 4312 (A) | Classification 7198 and Fee-Based 4312 Employers Combined (B) | % Difference (B/A-1) |
|--------------------------------|--|-----------------------------|
| 3.677 | 5.715 | +55.4% |

While the advisory pure premium rate applicable to fee-based 4312 employers will increase with this recommendation, for experience rated employers, some of the increase will be offset by lower experience modifications. The WCIRB calculated the retrospective 2021 experience modifications¹⁶ for fee-based 4312 employers that had payroll reported in Classification 4312 in policy year 2019 and were eligible for experience rating. The calculation indicates that the 2021 experience modifications for these employers would be, on average, 13% lower if their 4312 experience had been assigned to Classification 7198.

3. Impact on Employers in Classification 4304

Table 3 shows that the selected loss to payroll ratio for Classification 4304 would be slightly reduced (-0.1%) after the inclusion of newspaper delivery operations of newspaper publishing 4312 employers.

Table 3. Changes in the Selected (Unlimited) Loss to Payroll Ratio for Classification 4304 Under WCIRB Recommendation

| Classification 4304 (A) | Classification 4304 and Newspaper Delivery Operations of Newspaper Publishing 4312 Employers Combined (B) | % Difference (B/A-1) |
|--------------------------------|--|-----------------------------|
| 5.575 | 5.558 | -0.1% |

4. Impact on Newspaper Delivery Operations of Newspaper Publishing 4312 Employers

The selected loss to payroll ratio for newspaper delivery operations of newspaper publishing 4312 employers would increase significantly, by 51.2%, after combination with Classification 4304 (Table 4). As discussed previously, the current selected loss to payroll ratio for Classification 4312 is not highly reflective of recent experience and may not be indicative of future experience for these operations. The future experience modifications of experience rated newspaper publishing employers with 4312 delivery operations reassigned to Classification 4304 will also likely decrease, offsetting some of the increase in the advisory pure premium rates.

Similar to the 25% limitation applied to fee-based 4312 employers, the WCIRB also recommends applying the standard 25% limitation to the year-to-year relativity change for the newspaper delivery operations of newspaper publishing 4312 employers and maintaining Classification 4312 until such time as the selected Classification 4312 relativity is better aligned with that of Classification 4304.

¹⁶ The retrospective 2021 experience modification is calculated based on the reported payroll and losses in the experience rating period used for the published 2021 experience modification. The Expected Loss Rate and D-Ratio for Classification 7198 are used for calculating the expected losses and expected primary losses for Classification 4312. This calculation does not include the impact of applying the 25% limitation to the year-to-year relativity change for Classification 4312.

Table 4. Changes in the Selected (Unlimited) Loss to Payroll Ratio for Newspaper Delivery Operations of Newspaper Publishing 4312 Employers Under WCIRB Recommendation

| Classification 4312 (A) | Classification 4304 and Newspaper Delivery Operations of Newspaper Publishing 4312 Employers Combined (B) | % Difference (B/A-1) |
|-------------------------|---|----------------------|
| 3.677 | 5.558 | +51.2% |

V. Findings

Based on this review, the WCIRB has determined:

1. Classification 4312 applies to two distinct groups of employers performing newspaper delivery operations. The first group of employers includes those that perform delivery operations on a fee-basis for newspaper publishers and printers (referred to as “fee-based 4312 employers”), while the other group includes employers that publish or print newspapers and sell and deliver these newspaper(s) to customers (referred to as “newspaper publishing 4312 employers”). While both groups of employers engage in newspaper delivery, delivery is the primary business for fee-based 4312 employers and an incidental activity for newspaper publishing 4312 employers. These two groups of employers in Classification 4312 have dissimilar payroll and loss experience.
2. Fee-based 4312 employers have similar operations, long-term loss to payroll ratios and shares of claims involving motor vehicle injuries with employers assigned to Classification 7198(1), *Parcel Delivery and Messenger Service Companies*. Given that the reported payroll of newspaper delivery employers is declining in California, reclassifying newspaper delivery operations of fee-based 4312 employers to Classification 7198(1) would improve the statistical credibility and help stabilize the advisory pure premium rate for fee-based 4312 employers.
3. The WCIRB also analyzed the operations and loss and payroll experience of employers assigned to Classification 8745, *News Agents or Distributors of Magazines or Other Periodicals*, to evaluate whether this classification should be expanded to include fee-based 4312 employers. However, the operations and loss and payroll experience are dissimilar between fee-based 4312 employers and employers in Classification 8745.
4. Reclassifying newspaper delivery operations of fee-based 4312 employers to Classification 7198(1) would lead to a significant increase (+55.4%) in the classification relativity for fee-based 4312 employers. However, the increase in the classification relativity was based on the current selected loss to payroll ratio which does not fully reflect the recent increasing trend in this classification’s loss to payroll ratio primarily due to its low credibility. In accordance with standard WCIRB classification ratemaking procedures, the year-to-year classification relativity change for fee-based 4312 employers will be limited to a 25% increase. There would be minimal impact (+0.1%) to employers currently assigned to Classification 7198(1).
5. The delivering of newspapers to customers for their personal use conducted by newspaper publishing 4312 employers is similar to the delivery of newspapers to wholesale distributors or retail locations, which is a General Inclusion for employers assigned to Classification 4304, *Newspaper Publishing or Printing – all other employees*. A large share of newspaper publishing employers had payroll reported in both Classifications 4304 and 4312. Since most newspaper publishing employers deliver newspapers to customers for their personal use and to wholesale distributors or retail locations, it appears that both delivery operations normally prevail in the newspaper publishing industry, which is consistent with the inclusion of drivers as a General Inclusion and the Single Enterprise rule. Some newspaper publishers may also use the same

crew of employees to conduct both operations, which may create challenges for these employers to divide payroll between the two classifications. The loss and payroll experience for newspaper delivery operations of newspaper publishing 4312 employers is volatile due to the small amount of payroll reported. Given the similarity in operations, reclassifying newspaper delivery operations of newspaper publishing 4312 employers to Classification 4304 would improve the statistical credibility and help stabilize the advisory pure premium rate for the newspaper delivery operations of newspaper publishing 4312 employers.

6. Reclassifying newspaper delivery operations of newspaper publishing 4312 employers to Classification 4304 would lead to a significant increase (+51.2%) in the classification relativity for the newspaper delivery operations of newspaper publishing 4312 employers. However, the current selected loss to payroll ratio for Classification 4312 is not highly reflective of recent experience in the classification and may not be indicative of future experience of these employers. In accordance with standard WCIRB classification ratemaking procedures, the year-to-year classification relativity change for the newspaper delivery operations of newspaper publishing 4312 employers will be limited to a 25% increase. The impact to Classification 4304 is minimal (-0.1%).

VI. Recommendations

Based on these findings, the WCIRB recommends:

1. Combining the loss and payroll experience of employers that deliver newspapers to customers for their personal use on a fee basis, assigned to Classification 4312, with Classification 7198(1), *Parcel Delivery and Messenger Service Companies*, for ratemaking purposes and limiting the advisory pure premium rate relativity change for constituents of Classification 4312 to 25% each year until the advisory pure premium rate for Classification 4312 better aligns with that of Classification 7198(1), at which time Classification 4312 would be eliminated and the fee-based 4312 employers assigned to Classification 7198(1).
2. Combining the loss and payroll experience of operations comprising the sale or delivery of newspapers to customers for their personal use by newspaper publishers or printers, assigned to Classification 4312, with Classification 4304, *Newspaper Publishing or Printing*, for ratemaking purposes and limiting the advisory pure premium rate relativity change for constituents of Classification 4312 to 25% each year until the advisory pure premium rate for Classification 4312 better aligns with that of Classification 4304, at which time Classification 4312 would be eliminated and the newspaper delivery operations of newspaper publishing 4312 employers assigned to Classification 4304.

Appendix I – History

Following is a timeline of significant changes to the scope and application of Classification 4312, *Newspaper Delivery*:

- **1975:** Classification 4312 was established to apply to the sale or delivery of newspapers to customers for their personal use and not for resale. It also included a minimum remuneration requirement of \$2.00 per person per day newspapers were sold or delivered.
 - California Legislature passed Assembly Bill No. 2935 (AB 2935), which amended the Labor Code to remove the exclusion of individuals delivering newspapers on a contract basis from being designated as employees. Prior to AB 2935, individuals hired as independent contractors to deliver newspapers were not considered employees for workers' compensation insurance purposes.
- **2003:** The *Printing, Publishing and Duplicating* Industry group was established, which included Classification 4312.
- **2012:** Classification 4312 was amended to eliminate the minimum remuneration requirement as a result of a 2011 WCIRB classification study.
- **2016:** Classification 4312 was amended to include sale and delivery operations performed by employers engaged in the publishing or printing of newspapers, tabloids, advertising newspapers, and specialty sections, and to such operations performed on a fee basis.

The following is a timeline of significant changes to the scope and application of Classification 4304, *Newspaper Publishing*:

- **1915:** Classification 4304 is an original Manual of Compensation and Liability Insurance classification.
- **2003:** The *Printing, Publishing and Duplicating* Industry group was established, which included Classification 4304.
- **2005:** Classification 4304 was amended to include drivers and their helpers and a footnote was amended to include a cross reference to the newly established companion Classification 8818, *Newspaper Publishing or Newspaper Printing – editing, designing, proofreading, and photographic composing*.
- **2014:** Classification 4304 was amended to include employers engaged in the publishing or printing of newspapers, tabloids, advertising newspapers, and specialty sections, such as the comics section and the television section of newspapers, and to newspaper publishers that assemble, bundle, label or distribute newspapers that are printed by other employers.
- **2016:** Classification 4304 was amended to include a cross reference to Classification 4312, *Newspaper Delivery*.

The following is a timeline of significant changes to the scope and application of Classification 7198, *Parcel Delivery Companies – Exclusively delivering parcels and packages not exceeding one hundred pounds in weight; including Drivers, Chauffeurs and their Helpers*:

- **1951:** Classification 7198 was established.
- **1982:** Classification 7198 was amended to exclude reference to the weight of parcels and packages and to include no handling of bulk merchandise or freight and a footnote was amended to include reference to the weight of parcels and packages.
- **2012:** Classification 7198 was changed to Classification 7198(1), *Parcel Delivery Companies – no handling of bulk merchandise or freight*, and Classification 7198(2), *Armored Car Services*, was established as an alternate phraseology to Classification 7198(1).
- **2014:** Classification 7198(1) was amended to direct that if the weight restrictions were not met, the employer's operations were to be separately classified as Classification 7219, *Trucking Firms – N.O.C.*

- **2015:** Classification 7198(1) was amended to include messenger service companies, terminal employees and mechanics and a footnote was amended to exclude the cross-reference to Classification 7219.
- **2021:** Classification 7198(1) was amended to include app-based on-demand Delivery Network Companies (DNC) that deliver restaurant meals, groceries or various store merchandise, or perform errands such as dropping off or picking up dry cleaning.

Appendix II – Other Jurisdictions

The WCIRB reviewed how other jurisdictions classify newspaper delivery operations. The National Council on Compensation Insurance, Inc., the Workers' Compensation Rating and Inspection Bureau of Massachusetts, the Compensation Advisory Organization of Michigan and the North Carolina Rate Bureau direct that newspaper delivery operations conducted on foot are assigned to the employer's governing classification and delivery operations conducted using motor vehicles or bicycles are classified in their respective delivery or driver classification.

The Wisconsin Compensation Rating Bureau and New York Compensation Insurance Rating Board have similar classification procedures, except that only delivery operations conducted using motor vehicles are classified in the respective driver classification.

The Minnesota Workers' Compensation Insurers Association has two separate classification codes: one for newspaper delivery operations conducted using motor vehicles and one for those conducted using bicycles or on foot.

The delivery or driver classifications used for newspaper delivery operations for the aforementioned jurisdictions are generally for parcel delivery operations, similar to Classification 7198(1) in California.

Appendix III – Classification Relativities¹⁷

Table 1: Classification 4312 – Classification Relativity at Policy Year 2021 Level

| Policy Year | Adjusted Payroll | Adjusted Indemnity Losses | Adjusted Medical Losses | Adjusted Total Losses | Adjusted Loss to Payroll Ratio (00s) |
|-------------|------------------|---------------------------|-------------------------|-----------------------|--------------------------------------|
| 2014 | 18,362,092 | 183,734 | 194,441 | 378,175 | 2.060 |
| 2015 | 16,214,920 | 215,488 | 451,015 | 666,503 | 4.110 |
| 2016 | 15,914,397 | 677,901 | 759,463 | 1,437,364 | 9.032 |
| 2017 | 14,680,278 | 333,654 | 477,483 | 811,137 | 5.525 |
| 2018 | 13,621,751 | 284,193 | 362,552 | 646,745 | 4.748 |
| Total | 78,793,438 | 1,694,970 | 2,244,954 | 3,939,924 | |

Adjusted Loss to Payroll Ratio 5.000
 Selected Loss to Payroll Ratio 3.677

| Credibility | |
|-------------|---------|
| Indemnity | Medical |
| 0.38 | 0.40 |

Table 2: Classification 7198 – Classification Relativity at Policy Year 2021 Level

| Policy Year | Adjusted Payroll | Adjusted Indemnity Losses | Adjusted Medical Losses | Adjusted Total Losses | Adjusted Loss to Payroll Ratio (00s) |
|-------------|------------------|---------------------------|-------------------------|-----------------------|--------------------------------------|
| 2017 | 2,228,689,506 | 69,909,669 | 48,283,205 | 118,192,874 | 5.303 |
| 2018 | 2,445,278,238 | 69,200,325 | 48,106,278 | 117,306,603 | 4.797 |
| Total | 4,673,967,744 | 139,109,994 | 96,389,484 | 235,499,477 | |

Adjusted Loss to Payroll Ratio 5.039
 Selected Loss to Payroll Ratio 5.709

| Credibility | |
|-------------|---------|
| Indemnity | Medical |
| 1.00 | 1.00 |

¹⁷ WCIRB September 1, 2021 Regulatory Filing.

Table 3: Classification 7198 Under the Proposed Change – Classification Relativity at Policy Year 2021 Level

| Policy Year | Adjusted Payroll | Adjusted Indemnity Losses | Adjusted Medical Losses | Adjusted Total Losses | Adjusted Loss to Payroll Ratio (00s) |
|-------------|------------------|---------------------------|-------------------------|-----------------------|--------------------------------------|
| 2017 | 2,240,660,583 | 70,241,131 | 48,745,161 | 118,986,292 | 5.310 |
| 2018 | 2,457,143,875 | 69,479,230 | 48,463,173 | 117,942,403 | 4.800 |
| Total | 4,697,804,459 | 139,720,362 | 97,208,335 | 236,928,696 | |

Adjusted Loss to Payroll Ratio 5.043
 Selected Loss to Payroll Ratio 5.715

| Credibility | |
|-------------|---------|
| Indemnity | Medical |
| 1.00 | 1.00 |

Table 4: Classification 4304 – Classification Relativity at Policy Year 2021 Level

| Year | Payroll | Adjusted Indemnity Losses | Adjusted Medical Losses | Adjusted Total Losses | Loss to Payroll Ratio |
|-------|-------------|---------------------------|-------------------------|-----------------------|-----------------------|
| 2014 | 103,690,966 | 2,653,704 | 2,550,778 | 5,204,482 | 5.019 |
| 2015 | 81,103,900 | 3,144,647 | 2,586,276 | 5,730,923 | 7.066 |
| 2016 | 77,719,365 | 1,779,720 | 1,635,856 | 3,415,576 | 4.395 |
| 2017 | 73,936,292 | 1,456,195 | 1,661,072 | 3,117,267 | 4.216 |
| 2018 | 67,819,867 | 1,295,493 | 1,221,444 | 2,516,937 | 3.711 |
| Total | 404,270,390 | 10,329,759 | 9,655,426 | 19,985,185 | |

Adjusted Loss to Payroll Ratio 4.944
 Selected Loss to Payroll Ratio 5.575

| Credibility | |
|-------------|---------|
| Indemnity | Medical |
| 0.96 | 0.87 |

Table 5: Classification 4304 Under the Proposed Change – Classification Relativity at Policy Year 2021 Level

| Year | Payroll | Adjusted Indemnity Losses | Adjusted Medical Losses | Adjusted Total Losses | Loss to Payroll Ratio |
|-------|-------------|---------------------------|-------------------------|-----------------------|-----------------------|
| 2014 | 107,496,673 | 2,662,733 | 2,572,075 | 5,234,808 | 4.870 |
| 2015 | 85,004,300 | 3,242,590 | 2,888,129 | 6,130,719 | 7.212 |
| 2016 | 80,101,126 | 1,813,269 | 1,726,630 | 3,539,899 | 4.419 |
| 2017 | 76,736,744 | 1,461,419 | 1,677,898 | 3,139,317 | 4.091 |
| 2018 | 69,249,730 | 1,303,464 | 1,226,713 | 2,530,177 | 3.654 |
| Total | 418,588,574 | 10,483,475 | 10,091,445 | 20,574,920 | |

Adjusted Loss to Payroll Ratio 4.915
 Selected Loss to Payroll Ratio 5.558

| Credibility | |
|-------------|---------|
| Indemnity | Medical |
| 0.98 | 0.88 |



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