About this Report
The WCIRB prepares and presents reports to the WCIRB's Classification and Rating Committee to assist in the formulation of proposed changes to the Insurance Commissioner’s regulations. Once adopted by the Classification and Rating Committee, the recommendations contained in the report are provided to the WCIRB Governing Committee and may be included in a WCIRB regulatory filing that is submitted to the Insurance Commissioner for approval.

About the WCIRB
The WCIRB is California’s trusted, objective provider of actuarially-based information and research, advisory pure premium rates, and educational services integral to a healthy workers' compensation system. Learn more at www.wcirm.com.
Notice
This Report was developed by the Workers’ Compensation Insurance Rating Bureau of California (WCIRB) to assist in the formulation of proposed changes to the Insurance Commissioner’s regulations. The WCIRB has made reasonable efforts to ensure the accuracy of this Report. You must make an independent assessment regarding the use of this Report based upon your particular facts and circumstances.

© 2012 Workers’ Compensation Insurance Rating Bureau of California. All rights reserved.

No part of this work may be reproduced or transmitted in any form or by any means, electronic or mechanical, including, without limitation, photocopying and recording, or by any information storage or retrieval system without the prior written permission of the Workers’ Compensation Insurance Rating Bureau of California (WCIRB), unless such copying is expressly permitted in this copyright notice or by federal copyright law.

Each WCIRB member company, including any registered third-party entities, (Company) and agents and brokers licensed to transact workers’ compensation insurance in the state of California are authorized to reproduce any part of this work solely for the purpose of transacting workers’ compensation insurance and for no other purpose. This reproduction right does not include the right to make any part of this work available on any Website or on any form of social media.

Workers’ Compensation Insurance Rating Bureau of California, WCIRB, WCIRB California, WCIRB Online, X-Mod Direct, eSCAD and the WCIRB California logo (WCIRB Marks) are registered trademarks or service marks of the WCIRB. WCIRB Marks may not be displayed or used in any manner without the WCIRB’s prior written permission. Any permitted copying of this work must maintain any and all trademarks and/or service marks on all copies.

To seek permission to use any of the WCIRB Marks or any copyrighted material, please contact the Workers’ Compensation Insurance Rating Bureau of California, 525 Market Street, Suite 800, San Francisco, California 94105-2767.
Executive Summary

Objective
The WCIRB reviewed the procedure of combining, for ratemaking purposes, the experience of Classification 2586(1), Dry Cleaning or Dyeing — N.O.C. — including repairing or pressing, and cash and carry departments on plant premises, and Classification 2589, Dry Cleaning or Laundry — retail — including repairing or pressing, and cash and carry departments on premises, and Classification 2589, Dry Cleaning or Laundry — retail — including repairing or pressing, and cash and carry departments on premises.

Findings
Based on its review, the WCIRB has determined that:

1. The operations contemplated by Classification 2586 are separate, distinct and easily identifiable from those contemplated by Classification 2589;
2. Classification 2589 develops sufficient data to produce a fully credible advisory pure premium rate;
3. Classification 2586 develops sufficient data to produce an advisory pure premium rate; however, the classification relativity data is not fully credible;
4. Based on experience at the 2012 policy year level, Classification 2586 has a Selected (Limited) Loss to Payroll Ratio that is 33.1% greater, and an Indicated (Unlimited) Loss to Payroll Ratio that is 44.7% greater, than the current Selected (Unlimited) Loss to Payroll Ratio for Classifications 2586 and 2589 combined;
5. Based on experience at the 2012 policy year level, Classification 2589 has a Selected (Unlimited) Loss to Payroll Ratio that is 18.8% less than the current Selected (Unlimited) Loss to Payroll Ratio for Classifications 2586 and 2589 combined;
6. In view of the fact that Classification 2586 lacks full statistical credibility, the operations and statistical data for Classifications 2586, Dry Cleaning or Dyeing — N.O.C., were compared with those of Classification 2585, Laundries — N.O.C., to determine if these classifications should be combined for ratemaking purposes. The review found that:
   a. The operations performed by employers assigned to Classifications 2586 and 2585 are similar;
   b. The summaries of Unit Statistical Reports (USR) and inspection reports reveal that commercial laundry operations (Classification 2585) and commercial dry cleaning (Classification 2586) are not usually performed by the same employer; and
   c. The Selected (Unlimited) Loss to Payroll Ratio for Classifications 2585 and 2586 combined is 77.1% greater than the current Loss to Payroll Ratio for Classification 2586, and
7. The footnotes to Classifications 2586(1), 2589 and 2585 include the qualifying term “walk-in” that is not needed and could be subject to misinterpretation.
Recommendation
The WCIRB does not recommend that Classifications 2586 and 2585 be combined for ratemaking purposes for the following reasons: (1) such action would have a substantial impact on firms (commercial dry cleaners) currently assigned to Classification 2586; (2) although Classification 2586 does not develop enough data to produce a fully credible (100% indemnity and medical) advisory pure premium rate, sufficient data exists to produce an advisory pure premium rate that is not considered to be low credibility by WCIRB actuarial standards; and (3) recent year to year (2006 – 2008) payrolls and losses for commercial dry cleaners are increasing. In view of the lack of full statistical credibility, the WCIRB will periodically review the ratemaking data developed by commercial dry cleaners and recommend appropriate action if the statistical credibility of Classification 2586 falls below acceptable levels.

The WCIRB recommends that separate advisory pure premium rates be developed for Classifications 2586(1) and 2589 effective January 1, 2013, and that Classifications 2586(1), 2589 and 2585 be amended to delete the conditional term "walk-in". 
Report on Commercial Dry Cleaning or Dyeing and Retail Dry Cleaning or Laundry

2586(1), Dry Cleaning or Dyeing — N.O.C. — including repairing or pressing, and cash and carry departments on plant premises
2586(2), Yarn or Thread Dyeing or Finishing — no yarn or thread manufacturing
2586(3), Hide or Fur Cleaning, Processing or Preserving
2589, Dry Cleaning or Laundry — retail — including repairing or pressing, and cash and carry departments on premises
2585, Laundries — N.O.C. — all employees — including cash and carry departments on plant premises

Introduction
The WCIRB has reviewed the procedure of combining, for ratemaking purposes, the experience of Classification 2586(1), Dry Cleaning or Dyeing — N.O.C., and Classification 2589, Dry Cleaning or Laundry — retail. Typically, classifications are combined for ratemaking purposes for the following reasons:

1. **Similarity in Operations**
   Classifications are combined for ratemaking purposes when the proper classification may be difficult to determine due to a significant similarity in operations, for example, a clear line of delineation does not exist between the two classifications.

2. **Low Statistical Credibility**
   The experience of two or more classifications is combined for ratemaking purposes when one or more of the classifications lack statistical credibility. Although the classifications may be clearly defined, due to insufficient statistical credibility, the classifications are combined based on similarity in industry type and operations.

3. **Temporary Variance in Experience**
   There is a temporary dissimilarity in the relative experience of two related classifications that results in a relationship between the relativities for the classifications that is not expected to continue into the future.

Classification History
Following is the history of Classifications 2586 and 2589:

- **1915:** Classification 2583, Cleaning and Dyeing, was established to contemplate cleaning or dyeing of garments and linens for customers on a fee basis.

- **1949:** Classification 2583 was eliminated and Classification 2586(1), Cleaning and Dyeing — including repairing or cash and carry departments on plant premises, was established.

- **1970:** Classification 2416, Yarn or Thread Dyeing, was eliminated and Classification 2586(2), Yarn or Thread Dyeing, was established as a cross reference to Classification 2586(1).

- **1997:** The Classification and Rating Committee (Committee) reviewed a study of the classification procedure for retail dry cleaning establishments that also perform traditional laundering activities. This resulted in the establishment of Classification 2589, Dry Cleaning or Laundry — retail — including repairing or pressing, and cash and carry departments on plant premises, and Classification 2586 was amended to include the term “dry cleaning.” The removal of the “retail” businesses from Classification 2586 due to the establishment of Classification 2589 resulted in low statistical credibility for Classification 2586; therefore, Classifications 2586 and 2589 were combined for ratemaking purposes. This ratemaking procedure has not been reviewed since 1997.
• **2009**: Classifications 2623(1), *Tanning*; 2623(2), *Fur Manufacturing*, and 2623(3), *Hide Processing or Preserving*, were eliminated due to low statistical credibility and Classification 2586(3), *Hide or Fur Cleaning, Processing or Preserving*, was established as a cross reference to Classification 2586.

Following is the history of Classification 2585, *Laundries — N.O.C.*:

• **Prior to 1918**: There were three separate classifications for laundry operations: Classification 2580, *Laundries — wet wash, no flat work, ironing or operating power ironing machinery*; Classification 2581, *Laundries — N.O.C.*, and Classification 2582, *Laundries — no machinery*.

• **1918**: Classification 2580 was eliminated.

• **1937**: Classification 2582 was eliminated.

• **1945**: Classification 2581 was amended to read, *Laundries — N.O.C. — including cash and carry departments at laundry premises*.

• **1947**: Classification 2581 was amended to change the code number to conform with national standards and to change the phraseology to read as follows, Classification 2585, *Laundries — all kinds — all employees — including cash and carry departments at laundry premises*.

• **1949**: Classification 2585 amended to read, *Laundries — N.O.C. — all employees — including cash and carry departments on plant premises*.

**Description of Operations**

Following are the classification phraseologies, footnotes and relevant summaries of operations for Classification 2586(1), *Dry Cleaning or Dyeing — N.O.C.* and Classification 2589, *Dry Cleaning or Laundry — retail — including repairing or pressing, and cash and carry departments on premises*.

**DRY CLEANING OR DYEING — N.O.C. — including repairing or pressing, and cash and carry departments on plant premises**

Retail dry cleaning and laundering establishments engaged primarily (in excess of 50% of gross receipts) in the cleaning of garments, linens and other household items for the general walk-in public shall be classified as 2589, *Dry Cleaning or Laundry — retail*.

Commercial dry cleaning firms provide professional dry cleaning services for commercial concerns such as hotels, restaurants, spas, hospitals, janitorial companies and similar clients that utilize a high volume of linens and uniforms. Typically, route drivers pick up soiled linens from commercial concerns and transport the soiled linens to the commercial dry cleaning facility. Linens are unloaded and sorted according to item type. The linens are spot treated and loaded into large industrial dry cleaning machines along with chemical cleaning agents and solvents. The cleaned linens are repaired or altered if necessary before being pressed. The linens are then hung on hangers or folded, wrapped in plastic and delivered to customers.

Classification 2586(1) also contemplates the dyeing of garments for clothing manufacturers. Garments are received and sorted by size or sets consisting of large batches. The items are loaded into dyeing machines along with water, chemicals, and dyes and submersed for a prescribed amount of time. The items are pulled, placed into hydroextractors to remove excess dye solution and placed into dryers. The dyed items are packaged and set aside for delivery.¹

¹ The cross-references to Classification 2586 include Classification 2586 (2), *Yarn or Thread Dyeing or Finishing*, and Classification 2586(3), *Hide or Fur Cleaning, Processing or Preserving*. 
Classification Analysis – Classifications 2586 and 2589

Classification 2586 applies to firms that provide commercial or industrial dry cleaning and dyeing services, whereas Classification 2589 applies to firms that provide retail dry cleaning and laundry. The cross-reference classifications to 2586 apply to firms engaged in yarn or thread dyeing and hide or fur processing and preserving – operations that are significantly different from those contemplated by Classification 2589. Accordingly, the operations assignable to Classifications 2586 and 2589 are separate, distinct and clearly identifiable.

Below is a summary of 2008 policy year Unit Statistical Reports (USR) that shows the number of employers for which payroll was reported in Classifications 2586 and 2589.

Table 1: 2008 USR Summary – Number of Employers For Which Payroll Was Reported in Classifications 2586 and 2589

<table>
<thead>
<tr>
<th>Classification</th>
<th>Employers with Payroll Reported in Indicated Classification</th>
<th>Employers with Payroll Reported in Both Classifications</th>
<th>Percent – Payroll only Reported in Indicated Classification</th>
<th>Percent – Payroll Reported in Both Classifications</th>
</tr>
</thead>
<tbody>
<tr>
<td>2586</td>
<td>230</td>
<td>4</td>
<td>98.3%</td>
<td>1.7%</td>
</tr>
<tr>
<td>2589</td>
<td>2,117</td>
<td>4</td>
<td>99.8%</td>
<td>0.2%</td>
</tr>
</tbody>
</table>

As shown above, 98.3% of the employers that reported payroll in Classification 2586 did not report payroll in Classification 2589. In addition, 99.8% of the employers that reported payroll in Classification 2589 did not report payroll in Classification 2586.
Below is a summary of WCIRB inspection reports that assign Classifications 2586 and 2589.

Table 2: Number of Employers Assigned by the WCIRB to Classifications 2586 and 2589

<table>
<thead>
<tr>
<th>Classification</th>
<th>Employers Assigned to Indicated Classification</th>
<th>Employers Assigned to Both Classifications</th>
<th>Percent – Employers Assigned only to Indicated Classification</th>
<th>Percent – Employers Assigned to Both Classifications</th>
</tr>
</thead>
<tbody>
<tr>
<td>2586</td>
<td>327</td>
<td>4</td>
<td>99.8%</td>
<td>0.2%</td>
</tr>
<tr>
<td>2589</td>
<td>686</td>
<td>4</td>
<td>99.4%</td>
<td>0.6%</td>
</tr>
</tbody>
</table>

As shown above, 99.8% of the employers assigned to Classification 2586 were not assigned to Classification 2589. In addition, 99.4% of the employers assigned to Classification 2589 were not assigned to Classification 2586.

This information indicates that the two industries have little commonality in operations. Each classification is clearly defined and the potential for misclassification of payroll is low. Therefore, from a classification perspective, there appears to be no compelling reason to continue to combine Classifications 2586 and 2589 for ratemaking purposes.

It is noted that the footnotes to Classifications 2586(1) and 2589 that describe retail dry cleaning and laundering establishments include the qualifying term “walk-in”. This term is not needed and may be subject to misinterpretation as dry cleaning and laundering services may be provided to the general public who do not enter the dry cleaning and laundering premises. That is, some firms employ route drivers who pick up and deliver articles that are cleaned for the general public.

Statistical Analysis
Table 5 presents the classification relativity data for Classifications 2586 and 2589 combined at policy 2012 level under the current procedure of combining Classifications 2586 and 2589:

Table 5: Commercial Dry Cleaning or Dyeing (2586) and Retail Dry Cleaning or Laundry (2589) Classification Relativity Data at Policy Year 2012 Level

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of Employers</th>
<th>Payroll</th>
<th>Losses</th>
<th>Loss to Payroll Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>2,125</td>
<td>224,900,609</td>
<td>6,157,383</td>
<td>2.738</td>
</tr>
<tr>
<td>2006</td>
<td>2,141</td>
<td>216,050,662</td>
<td>5,829,204</td>
<td>2.698</td>
</tr>
<tr>
<td>2007</td>
<td>2,238</td>
<td>223,074,855</td>
<td>6,396,943</td>
<td>2.868</td>
</tr>
<tr>
<td>2008</td>
<td>2,351</td>
<td>234,027,657</td>
<td>7,071,657</td>
<td>3.022</td>
</tr>
<tr>
<td>Total</td>
<td>8,855</td>
<td>898,053,783</td>
<td>25,455,186</td>
<td>2.834</td>
</tr>
</tbody>
</table>

Selected (Unlimited) Loss to Payroll Ratio 3.036
Tables 6 and 7 present the classification relativity data at the policy year 2012 level for each classification independently.3

### Table 6: Commercial Dry Cleaning or Dyeing (2586) Classification Relativity Data at Policy Year 2012 Level

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of Employers</th>
<th>Payroll</th>
<th>Losses</th>
<th>Loss to Payroll Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004</td>
<td>278</td>
<td>50,264,078</td>
<td>1,831,673</td>
<td>3.644</td>
</tr>
<tr>
<td>2005</td>
<td>260</td>
<td>49,156,756</td>
<td>2,007,519</td>
<td>4.084</td>
</tr>
<tr>
<td>2006</td>
<td>229</td>
<td>43,289,406</td>
<td>2,208,211</td>
<td>5.101</td>
</tr>
<tr>
<td>2007</td>
<td>233</td>
<td>45,051,388</td>
<td>2,307,920</td>
<td>5.123</td>
</tr>
<tr>
<td>2008</td>
<td>234</td>
<td>55,559,647</td>
<td>3,095,556</td>
<td>5.572</td>
</tr>
<tr>
<td>Total</td>
<td>1,234</td>
<td>243,321,275</td>
<td>11,450,879</td>
<td>4.706</td>
</tr>
</tbody>
</table>

- Indicated (Unlimited) Loss to Payroll Ratio: 4.393
- Selected Loss to Payroll Ratio (Restricted to 25% Change): 4.041

### Credibility

<table>
<thead>
<tr>
<th></th>
<th>Indemnity</th>
<th>Medical</th>
</tr>
</thead>
<tbody>
<tr>
<td>Indemnity</td>
<td>0.60</td>
<td></td>
</tr>
<tr>
<td>Medical</td>
<td>0.74</td>
<td></td>
</tr>
</tbody>
</table>

2 The relativity for each classification in the upcoming policy year is determined based on a comparison of that classification’s actual losses per $100 of payroll and the ratio of losses per $100 of payroll underlying the current pure premium rate. The “credibilities” assigned to a classification are the statistical weights assigned to that classification’s experience as a predictor of future claim experience relative to the loss per $100 of payroll underlying the classification’s current pure premium rate. The predictability or credibilities assigned to a classification’s recent historical experience depends on the volume of indemnity and medical claims incurred during the experience period. The WCIRB strives to have classifications that are fully, or 100%, statistically credible based on historical experience over five or fewer years, which means that the classification’s relativity in the upcoming policy year can be best estimated using only the loss per $100 of payroll experience from the latest two-, three-, four- or five-year periods. The WCIRB generally will not recommend the establishment of a new classification if the credibility factors are less than one-half (< 0.50).

3 The Classification Relativities shown in Tables 6 and 7 each require five years of data to achieve statistical credibility; the Classification Relativity [combined] shown in Table 5 requires four years of data to achieve statistical credibility.

4 Classification relativity changes are limited to an annual increase or decrease of 25%. If Classification 2586 had not been combined with Classification 2589 for ratemaking purposes, its 2012 Selected Loss to Payroll Ratio would have been 4.041, not the indicated unlimited amount of 4.393.
Table 7: Retail Dry Cleaning or Laundry (2589)
Classification Relativity Data at Policy Year 2012 Level

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of Employers</th>
<th>Payroll</th>
<th>Losses</th>
<th>Loss to Payroll Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004</td>
<td>1,790</td>
<td>162,761,044</td>
<td>4,117,583</td>
<td>2.530</td>
</tr>
<tr>
<td>2005</td>
<td>1,878</td>
<td>175,743,853</td>
<td>4,149,864</td>
<td>2.361</td>
</tr>
<tr>
<td>2006</td>
<td>1,919</td>
<td>172,761,256</td>
<td>3,620,993</td>
<td>2.096</td>
</tr>
<tr>
<td>2007</td>
<td>2,013</td>
<td>178,023,467</td>
<td>4,089,023</td>
<td>2.297</td>
</tr>
<tr>
<td>2008</td>
<td>2,121</td>
<td>178,468,010</td>
<td>3,976,100</td>
<td>2.228</td>
</tr>
<tr>
<td>Total</td>
<td>9,721</td>
<td>867,757,630</td>
<td>19,953,564</td>
<td>2.299</td>
</tr>
</tbody>
</table>

Selected (Unlimited) Loss to Payroll Ratio 2.465

<table>
<thead>
<tr>
<th>Credibility</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Indemnity</td>
<td>0.99</td>
</tr>
<tr>
<td>Medical</td>
<td>1.00</td>
</tr>
</tbody>
</table>

As shown above, Classification 2589 develops sufficient payroll and loss data to produce a fully credible advisory pure premium rate. Although its classification relativity data is not fully credible (Indemnity .60, Medical .74), Classification 2586 develops sufficient data to produce an advisory pure premium rate. Therefore, from a ratemaking perspective, there appears to be no compelling reason to continue to combine Classifications 2586 and 2589 for ratemaking purposes.

Impact Analysis – Classifications 2586 and 2589
Table 8 depicts the first year impact on policyholders assigned to Classification 2586 if separate classification relativities – and thus advisory pure premium rates – are established for Classifications 2586 and 2589. In this table, the classification relativity for Classification 2586 is limited to a 25% increase.

Table 8: Classifications 2586 and 2589 Combined (Current Relativity) vs. Classification 2586 (Limited)
Comparison of Selected Loss to Payroll Ratios at Policy Year 2012 Level

<table>
<thead>
<tr>
<th>Classifications 2586 and 2589</th>
<th>Classification 2586 – limited to 25% change</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>3.036</td>
<td>4.041</td>
<td>+1.005 (+33.1%)</td>
</tr>
</tbody>
</table>
In Table 9, the classification relativity for Classification 2586 is not limited to a 25% increase. This comparison depicts the ultimate impact on policyholders assigned to Classification 2586.

Table 9: Classifications 2586 and 2589 Combined vs. Classification 2586 (Unlimited)
Comparison of Indicated Loss to Payroll Ratios at Policy Year 2012 Level

<table>
<thead>
<tr>
<th>Classifications 2586 and 2589</th>
<th>Classification 2586 – Unlimited</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>3.036</td>
<td>4.393</td>
<td>+1.357 (+44.7%)</td>
</tr>
</tbody>
</table>

Table 10 depicts the impact on policyholders assigned to Classification 2589 if separate classification relativities – and thus advisory pure premium rates – are established for Classifications 2586 and 2589.

Table 10: Classifications 2586 and 2589 Combined vs. Classification 2589
Comparison of Selected (Unlimited) Loss to Payroll Ratio at Policy Year 2012 Level

<table>
<thead>
<tr>
<th>Classifications 2586 &amp; 2589</th>
<th>Classification 2589</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>3.036</td>
<td>2.465</td>
<td>-0.571 (-18.8%)</td>
</tr>
</tbody>
</table>

As shown above, based on experience at the 2012 policy year level, Classification 2586 has a Selected (Limited) Loss to Payroll Ratio that is 33.1% greater, and an Indicated (Unlimited) Loss to Payroll Ratio that is 44.7% greater, than the Selected (Unlimited) Loss to Payroll Ratio for Classifications 2586 and 2589 combined; and Classification 2589 has a Selected (Unlimited) Loss to Payroll Ratio that is 18.8% less than the Selected (Unlimited) Loss to Payroll Ratio for Classifications 2586 and 2589 combined.

Classification Analysis – Classifications 2586 and 2585
As noted above, Classification 2586(1), Dry Cleaning or Dyeing — N.O.C., lacks full statistical credibility (100% indemnity and medical). Since employers assigned to Classifications 2585, Laundries — N.O.C., and 2586 provide garment and linen cleaning services to the commercial trade, the operations and statistical data for these classifications were compared to determine if they should be combined for ratemaking purposes.

Following is the phraseology for Classification 2585:

**LAUNDRIES — N.O.C. — all employees — including cash and carry departments on plant premises**

Retail dry cleaning and laundering establishments engaged primarily (in excess of 50% of gross receipts) in the cleaning of garments, linens and other household items for the general walk-in public shall be classified as 2589, Dry Cleaning or Laundry — retail.

Operations – Classification 2585
Commercial laundry firms provide professional laundry services to commercial concerns. Typically, route drivers pick up soiled garments and linens from commercial concerns and transport the soiled items to the commercial laundry facility. Items are unloaded and sorted according to item type. The soiled items are tagged, spot cleaned and placed into industrial washing machines along with detergents. The washed items are removed from the washing machines and placed into industrial dryers. Cleaned items are removed from the dryers, repaired or altered if necessary, pressed, folded or hung and set aside pending delivery to the customer by route drivers.
It is noted that the footnote to Classification 2585 includes the qualifying term “walk-in”, which is not needed for the reasons described above.

**Operations – Classification 2586**

Commercial dry cleaning firms provide professional dry cleaning services for commercial concerns such as hotels, restaurants, spas, hospitals, janitorial companies and similar clients that utilize a high volume of linens and uniforms. Typically, route drivers pick up soiled linens from commercial concerns and transport the soiled linens to the commercial dry cleaning facility. Linens are unloaded and sorted according to item type. The linens are spot treated and loaded into large industrial dry cleaning machines along with chemical cleaning agents and solvents. The cleaned linens are repaired or altered if necessary before being pressed. The linens are hung on hangers or folded, wrapped in plastic and delivered to customers.

Although the operations performed by commercial laundry firms (Classification 2585) and commercial dry cleaners (Classification 2586) are similar, the two operations involve different cleaning agents and machinery.

To determine whether commercial laundry and dry cleaning are commonly performed by the same employer, staff reviewed the 2008 policy year USR that show the number of employers for which payroll was reported in Classifications 2585 and 2586.

**Table 11: 2008 USR Summary – Number of Employers For Which Payroll Was Reported in Classifications 2585 and 2586**

<table>
<thead>
<tr>
<th>Classification</th>
<th>Employers with Payroll Reported in Indicated Classification</th>
<th>Employers with Payroll Reported in Both Classifications</th>
<th>Percent – Payroll only Reported in Indicated Classification</th>
<th>Percent – Payroll Reported in Both Classifications</th>
</tr>
</thead>
<tbody>
<tr>
<td>2585</td>
<td>142</td>
<td>34</td>
<td>76.1%</td>
<td>23.9%</td>
</tr>
<tr>
<td>2586</td>
<td>200</td>
<td>34</td>
<td>83%</td>
<td>17%</td>
</tr>
</tbody>
</table>

As shown above, 76.1% of the employers that reported payroll in Classification 2585 did not report payroll in Classification 2586. In addition, 83% of the employers that reported payroll in Classification 2586 did not report payroll in Classification 2585.

In like manner, staff reviewed the number of inspection reports that assign Classifications 2585 and 2586.

**Table 12: Number of Employers Assigned by the WCIRB to Classifications 2585 and 2586**

<table>
<thead>
<tr>
<th>Classification</th>
<th>Employers Assigned to Indicated Classification</th>
<th>Employers Assigned to Both Classifications</th>
<th>Percent – Employers Assigned only to Indicated Classification</th>
<th>Percent – Employers Assigned to Both Classifications</th>
</tr>
</thead>
<tbody>
<tr>
<td>2585</td>
<td>376</td>
<td>34</td>
<td>91%</td>
<td>9.0%</td>
</tr>
<tr>
<td>2586</td>
<td>297</td>
<td>34</td>
<td>88.6%</td>
<td>11.4%</td>
</tr>
</tbody>
</table>

As shown above, 91% of the employees assigned to Classification 2585 were not assigned to Classification 2586. In addition, 88.6% of the employers assigned to Classification 2586 were not assigned to Classification 2585.
The summaries of USR reports and inspection reports indicate that commercial laundry operations (Classification 2585) do not normally prevail in the operations of commercial dry cleaners (Classification 2586). This observation was corroborated by a review of the 376 inspection reports that assigned Classification 2585 but did not assign Classification 2586. The review confirmed that operators of commercial laundries (Classification 2585) do not perform dry cleaning operations.\footnote{That is, the review ruled out the possibility that some commercial laundry operators also perform commercial dry cleaning and Classification 2586 could not be assigned due to the provisions of the Multiple Enterprises Rule.} While there may be similarities between the operations performed by commercial dry cleaners and commercial laundries, the USR and inspection report analysis demonstrates that the operations assignable to Classification 2585 and 2586 are separate, distinct, and clearly identifiable.

Statistical Analysis
Table 13 presents the classification relativity data for Classification 2585 at policy year 2012 level.

Table 13: Commercial Laundry (2585)
Classification Relativity Data at Policy Year 2012 Level

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of Employers</th>
<th>Payroll</th>
<th>Losses</th>
<th>Loss to Payroll Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>208</td>
<td>432,861,252</td>
<td>22,453,877</td>
<td>5.187</td>
</tr>
<tr>
<td>2008</td>
<td>176</td>
<td>427,921,250</td>
<td>20,375,695</td>
<td>4.762</td>
</tr>
<tr>
<td>Total</td>
<td>384</td>
<td>860,782,502</td>
<td>42,829,572</td>
<td>4.976</td>
</tr>
</tbody>
</table>

Selected (Unlimited) Loss to Payroll Ratio 5.334

<table>
<thead>
<tr>
<th>Credibility</th>
<th>Indemnity</th>
<th>Medical</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1.00</td>
<td>1.00</td>
</tr>
</tbody>
</table>

Table 14 presents the classification relativity data for Classifications 2585 and 2586 combined at policy year 2012 level:

Table 14: Commercial Laundry (2585) and Commercial Dry Cleaning or Dyeing (2586)
Classification Relativity Data at Policy Year 2012 Level

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of Employers</th>
<th>Payroll</th>
<th>Losses</th>
<th>Loss to Payroll Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>442</td>
<td>477,912,640</td>
<td>24,761,797</td>
<td>5.181</td>
</tr>
<tr>
<td>2008</td>
<td>410</td>
<td>483,480,897</td>
<td>23,471,251</td>
<td>4.855</td>
</tr>
<tr>
<td>Total</td>
<td>852</td>
<td>961,393,537</td>
<td>48,233,048</td>
<td>5.017</td>
</tr>
</tbody>
</table>

Selected (Unlimited) Loss to Payroll Ratio 5.378

<table>
<thead>
<tr>
<th>Credibility</th>
<th>Indemnity</th>
<th>Medical</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1.00</td>
<td>1.00</td>
</tr>
</tbody>
</table>
Impact Analysis – Classifications 2585 and 2586
In a similar manner as above, the WCIRB compared the statistical data for Classification 2585 and 2586. Table 15 compares the Selected (Unlimited) Loss to Payroll Ratio of Classification 2585 to the Selected (Limited) Loss to Payroll Ratio of Classification 2586.

Table 15: Classification 2585 vs. Classification 2586 (Limited)
Comparison of Selected Loss to Payroll Ratio at Policy Year 2012 Level

| Classification 2585 (Laundry) | Classification 2586* (Dry Cleaning) | Difference  
|------------------------------|-------------------------------------|-----------
| 5.334                        | 4.041                               | +1.293 (32.0%) |

*Classification 2586 is limited to a 25% change

Table 16 compares the Selected and Indicated (Unlimited) Loss to Payroll Ratios for Classifications 2585 and 2586.

Table 16: Classification 2585 vs. Classification 2586
Comparison of Indicated (Unlimited) Loss to Payroll Ratio at Policy Year 2012 Level

| Classification 2585 (Laundry) | Classification 2586 (Dry Cleaning) | Difference  
|------------------------------|------------------------------------|-----------
| 5.334                        | 4.393                              | +0.941 (21.4%) |

As shown above, based on experience at the 2012 policy year level, Classification 2585 has a Selected (Unlimited) Loss to Payroll Ratio that is 32% greater, than the Selected (Limited) Loss to Payroll Ratio for Classification 2586; and a Selected (Unlimited) Loss to Payroll Ratio that is 24% greater than the Selected (Unlimited) Loss to Payroll Ratio for Classification 2586.

Table 17 displays the impact on affected policyholders if Classification 2586 (current procedure) was combined with Classification 2585 to produce a single classification relativity – and thus advisory pure premium rate.

Table 17: Classifications 2585 and 2586 Combined vs. Classification 2586 and 2589 Combined (Current Procedure)
Comparison of Selected (Unlimited) Loss to Payroll Ratio at Policy Year 2012 Level

| Classifications 2585 & 2586 | Classification 2586/2589 (Current Procedure) | Difference  
|------------------------------|-----------------------------------------------|-----------
| 5.378                        | 3.036                                         | +2.342 (77.1%) |

In a similar manner, Table 18 compares the 2012 advisory pure premium rates for Classifications 2585 and 2586.

Table 18: 2585 vs. 2586
Comparison of 2012 Advisory Pure Premium Rates
As shown above, based on experience at the 2012 policy year level, Classification 2585 and 2586 combined has a Selected (Unlimited) Loss to Payroll Ratio that is 77.1% greater than the Selected (Unlimited) Loss to Payroll Ratio for Classification 2586 (current procedure) and the advisory pure premium rate for Classification 2585 is 76.9% greater, than the advisory pure premium rate for Classification 2586 (current procedure). Accordingly, the combination of Classifications 2585 and 2586 would substantially impact firms currently assigned to Classification 2586.

In view of (1) the wide disparity between the Loss to Payroll Ratios for Classifications 2585 and 2586; (2) the fact that commercial dry cleaners (Classification 2586) develop sufficient data to produce an advisory pure premium rate that is not considered to be low credibility by WCIRB actuarial standards; and (3) recent year to year (2006 – 2008) payrolls and losses for commercial dry cleaners are increasing, the WCIRB does not recommend that Classifications 2585 and 2586 be combined for ratemaking. Nevertheless, in view of the lack of full statistical credibility, staff will periodically review the ratemaking data developed by commercial dry cleaners and will recommend appropriate action if the statistical credibility of Classification 2586 falls below acceptable levels.

Conclusion
Based on its review of the procedure of combining Classifications 2586 and 2589 for ratemaking purposes, the WCIRB finds that:

1. The operations contemplated by Classification 2586 are separate, distinct and easily identifiable from those contemplated by Classification 2589;

2. Classification 2589 develops sufficient data to produce a fully credible pure premium rate;

3. Although its relativity data is not fully credible, Classification 2586 develops sufficient data to produce an advisory pure premium rate;

4. Based on experience at the 2012 policy year level, Classification 2586 has a Selected (Limited) Loss to Payroll Ratio that is 33.1% greater, and an Indicated (Unlimited) Loss to Payroll Ratio that is 44.7% greater, than the current Selected (Unlimited) Loss to Payroll Ratio for Classifications 2586 and 2589 combined;

5. Based on experience at the 2012 policy year level, Classification 2589 has a Selected (Unlimited) Loss to Payroll Ratio that is 18.8% less than the current Selected (Unlimited) Loss to Payroll Ratio for Classifications 2586 and 2589 combined; and

6. In view of the fact that Classification 2586 lacks full statistical credibility, the operations and statistical data for Classifications 2586, Dry Cleaning or Dyeing — N.O.C., were compared with those of Classification 2585, Laundries — N.O.C., to determine if these classifications should be combined for ratemaking purposes. The review found that

   a. The operations performed by employers assigned to Classifications 2586 and 2585 are similar;

   b. The summaries of USR reports and inspection reports reveal that commercial laundry operations (Classification 2585) and commercial dry cleaning (Classification 2586) usually are not performed by the same employer; and
c. Based on experience at the 2012 policy year level, the Selected (Unlimited) Loss to Payroll Ratio for Classification 2585 and 2586 combined is 77.1% greater than the current Loss to Payroll Ratio for Classification 2586.

7. The footnotes to Classifications 2586(1), 2589 and 2585 include the qualifying term “walk-in” that is not needed and could be subject to misinterpretation.

**Recommendation**

The WCIRB recommends discontinuing the combination of the experience of Classifications 2586 and 2589 for ratemaking purposes and allowing each classification to develop its own advisory pure premium rate.

The WCIRB does not recommend that Classifications 2586 and 2585 be combined for ratemaking purposes for the following reasons: (1) such action would have a substantial impact on firms (commercial dry cleaners) currently assigned to Classification 2586; (2) although the data for Classification 2586 does not develop enough data to produce a fully credible (100% indemnity and medical) advisory pure premium rate, sufficient data exists to produce an advisory pure premium rate that is not considered to be low credibility by WCIRB actuarial standards; and (3) recent year to year (2006 – 2008) payrolls and losses for commercial dry cleaners are increasing. In view of the lack of full statistical credibility, the WCIRB will periodically review the ratemaking data developed by commercial dry cleaners and recommend appropriate action if the statistical credibility of Classification 2586 falls below acceptable levels.

The WCIRB recommends that its January 1, 2013 Pure Premium Rate Filing include proposed revisions to Classifications 2586(1), 2589 and 2585 to delete the term “walk-in”.

Released: August 13, 2012
Proposed Changes to the *California Workers’ Compensation Uniform Statistical Reporting Plan—1995*

**Recommendation**
Amend Classifications 2586 (1), *Dry Cleaning or Dyeing — N.O.C.*; 2589, *Dry Cleaning or Laundry — retail*; and 2585, *Laundries — N.O.C.*, to remove the conditional term “walk in” for clarity and consistency.

**PROPOSED**

**DRY CLEANING OR DYEING — N.O.C. — including repairing or pressing, and cash and carry departments on plant premises**

Retail dry cleaning and laundering establishments engaged primarily (in excess of 50% of gross receipts) in the cleaning of garments, linens and other household items for the general walk-in public shall be classified as 2589, *Dry Cleaning or Laundry — retail*.

**DRY CLEANING OR LAUNDRY — retail — including repairing or pressing, and cash and carry departments on premises**

This classification applies to those retail establishments engaged primarily (in excess of 50% of gross receipts) in the dry cleaning or laundering of garments, linens and other household items for the general walk-in public. This classification also applies to coin-operated laundries that retain attendants to perform “fluff and fold” activities.

Cash and carry facilities, situated away from the dry cleaning or laundry location, that solely engage in the receipt and distribution of items to be cleaned shall be classified as 8017(1), *Stores — retail — N.O.C.*.

This classification does not apply to diaper service companies or uniform and linen rental or service companies. Such firms shall be classified as 2585, Laundries, or 2586(1), *Dry Cleaning or Dyeing*.

**LAUNDRIES — N.O.C. — all employees — including cash and carry departments on plant premises**

Retail dry cleaning and laundering establishments engaged primarily (in excess of 50% of gross receipts) in the cleaning of garments, linens and other household items for the general walk-in public shall be classified as 2589, *Dry Cleaning or Laundry — retail*.