



## Experience Rating: Understanding the Basics

### What is Experience Rating?

*A systematic method of modifying future, or prospective, premiums by comparing the actual incurred loss experience of an individual insured to the normal expected loss experience for the class during some representative experience period in the past.*

In a nutshell: It is a formula that generates a factor that modifies workers comp premium

### What is the purpose?

Comparative analysis – adjustment in premium to reflect loss experience of each business

Creates incentive to promote health and safety – to reduce number of losses and to encourage return-to-work of injured workers

### Who Qualifies?

Employers must carry a workers' compensation policy and:

- Have at least a \$10,000 audited premium for 1 year OR
- Have an average annual premium of at least \$5,000 in last 2 or more years

Mandatory rating component if qualifies

### Rule XVII—Premium Incentive for Small Employers

For employers with workers' compensation premium less than \$5,000

#### Premium Incentive Table

- No lost time claims
  - 1 year: 10% credit
  - 2 years: 15% credit
- 1 lost time claim
  - No credit or debit
- 2 or more lost time claims
  - 10% debit



Experience Rating compares the account experience of an individual employer against the expected losses within the entire industry.

A woman in a dark shirt is pointing with a pen at a whiteboard. The whiteboard contains several mathematical formulas, including  $2x^2 + 3x - 1$ ,  $4x^2 - 5x + 2$ , and  $6x^2 - 7x + 3$ .

$$\frac{\$50,000 \text{ (Actual losses)}}{\$100,000 \text{ (Expected losses)}} = 0.50$$

### Formula Characteristics

- ### NCCI Participating States

California  
New Jersey

Michigan

Does not apply in the Monopolistic States  
In 2014, Texas joined the NCCI states

- Intrastate
  - Includes experience for single state
  - Texas intrastate risk ID# begins with 42
- Interstate
  - Includes experience from more than one state
  - Risk ID# begins with a 9



### Data Reporting

A carrier's Unit Statistical Department files Stat Cards with NCCI. Subsequent Reports are filed to total up to 3 years of data.

Data Reported for Calculation includes:

- Payrolls by class codes
- Claims under \$2,000 (lumped as one)
  - Only 30% of med only claims to be used
- Claims over \$2,000 (shown individually)
- Employers liability claims shown separately

Data Reporting Timeline

- 1<sup>st</sup> Report – 18 months after inception
- 2<sup>nd</sup> Report – 30 months after inception
- 3<sup>rd</sup> Report – 42 months after inception

No changes are allowed to the experience modifier. Emod Revision Exceptions:

- Clerical error
- Subrogation recovery was collected
- Claim declared non-compensable

### Policy Data

Generally 3 years of experience is included on the experience modifier - ending 1 year prior to the effective date of the modifier

Example: Rating Effective 1-1-14

1-1-12 to 1-1-13  
1-1-11 to 1-1-12  
1-1-10 to 1-1-11

Maximum length = 3.75 years

Minimum length = 1 year

Policy periods stay on the modifier for up to 3 years. As one year drops off another is added.

Rating Effective 1-1-12

**1-1-10 to 1-1-11**

1-1-09 to 1-1-10

1-1-08 to 1-1-09

Rating Effective 1-1-13

1-1-11 to 1-1-12

**1-1-10 to 1-1-11**

1-1-09 to 1-1-10

Rating Effective 1-1-14

1-1-12 to 1-1-13

1-1-11 to 1-1-12

**1-1-10 to 1-1-11**

### Types of Modifiers

Contingent Modifier - Missing Data

Preliminary Modifiers - Pending Rate change

Experience Modifier (final) - No adjustments expected

## Modifier Changes



Emod **decreases** applied retroactively to effective date of the policy or anniversary rate date



### Emod **increases**

- Apply retroactively within first 60 days
- Computed pro rata from endorsement date after first 60 days

Exceptions to Experience modifier Increases:

- Rules do not apply if change is:
- Resulting from reclassification of a risk
- Resulting from changes in ownership

**LINE BY LINE comparison – see Experience Modifier Worksheet**

### Managing Experience Modifiers

- Implement a loss control program
- Review loss reserves regularly
- Keep track of subrogation
- Prepare a test modifier to estimate renewal premium
- Verify there are no clerical errors
- Understand the effects of ownership changes

### WC-RFI

- Ownership change - File a Workers Compensation Request for Information (WCRFI)
- Ruling made by NCCI to determine effect on Emod



### Conclusion

- Experience Rating compares individual experience against industry
- Frequency has greater impact than severity
- Experience Modifier Worksheet provides valuable insight into the account
- Managing the experience modifier pays