

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% credit2 years: 15% credit

- 1 lost time claim
 - o No credit or debit
- 2 or more lost time claims
 - o 10% debit

Comparative Experience

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

Basic formula:

<u>Actual Losses (ABC Painters)</u> = E-Mod

Expected Losses (All Painters)

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

\$100,000 (Expected losses)

\$50,000 (Actual losses) = 0.67

\$75,000 (Expected losses)



Formula Characteristics

- Greater weight is given to frequency over severity
- Single losses are capped at \$15,500 at this time
- Smaller losses less than \$2000 may be grouped together
- Employers with expected losses of \$100K or less are subject to capped emod
- Experience for all entities with common majority ownership will be included

NCCI Participating States

Applies in most jurisdictions, excluding:

California Delaware Michigan

New Jersey Pennsylvania

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

Intrastate vs. Interstate

- 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)
 - o Only 30% of med only claims to be used
- Claims over \$2,000 (shown individually)
- Employers liability claims shown separately

Data Reporting Timeline

- 1st Report 18 months after inception
- 2nd Report 30 months after inception
- 3rd 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

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Example: Rating Effective 1-1-14
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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.

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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
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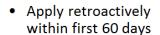
Types of Modifiers
Contingent Modifier - Missing Data
Preliminary Modifiers - Pending Rate change
Experience Modifier (final) - No adjustments expected

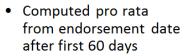
Modifier Changes



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

Emod increases







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