

Understanding Worker's Compensation

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Agenda

- What is an Experience Rating
- Experience Rating Eligibility
- Purpose & Benefits of Experience Rating
- Basic Promulgation of an Experience Modification Rating
- Modification Changes When & Why
- Implications of Return to Work Programs and Lost Time Incidents
- Is There Really a Benefit in not Reporting Claims?

Experience Rating Defined

- Experience Rating: A method in which the actual loss experience of the business is compared to the loss experience that is normally expected by other companies in the businesses rating class. The resulting experience modification factor is then applied to the premium.
- There are two types of NCCI modifications
 - Intrastate When there is payroll is only in one participating state
 - Interstate When payroll is in two or more participating states

NCCI Experience Rating Plan - Eligibility

- Mandatory for all employers that meet a premium eligibility criteria which varies by state*
- Computed by the NCCI for all states authorized to use the NCCI plan
- The NCCI Plan does not apply in CA, DE, MI, NJ, PA nor the 4 monopolistic states of ND, OH, WA, WY. These states administer their own plans and rates**

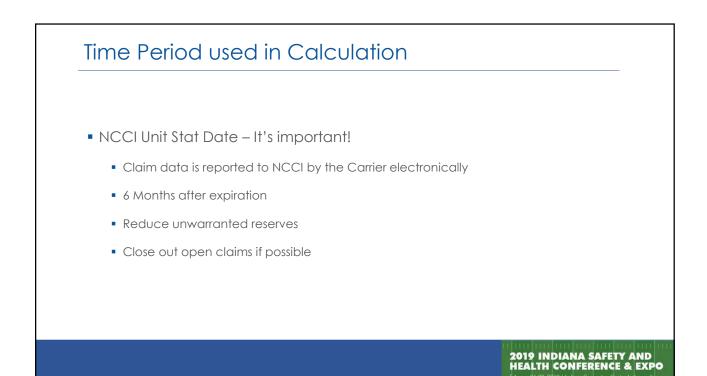
*(For state specific info, refer to the premium eligibility table in the NCCI Plan Manual. <u>https://www.ncci.com/ServicesTools/Pages/ER2003.aspx</u>)
**(Refer to state's insurance website for details related to rating plan)

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Time Period used in Calculation

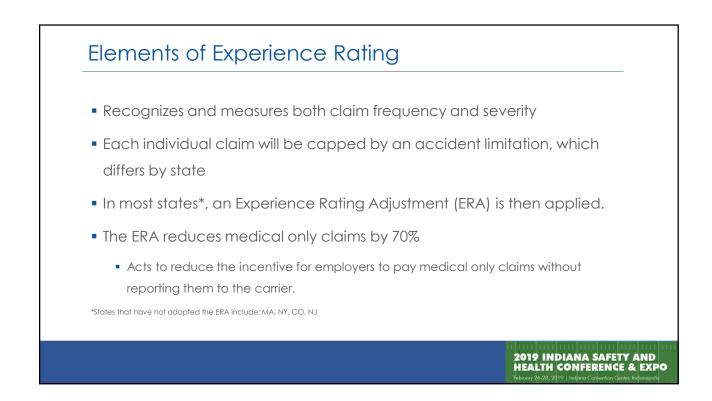
- The experience period is generally based on 3 years of payroll and loss data
 - This could range between 12 months and 45 months of data.
- The modification is calculated during the current policy term
 - Typically 60-90 days before the rating effective date
- The insurer is not required to report data about a policy to the state until 18 months after the policy inception date
- The current policy is not used in the calculation



Time Period used in Calculation

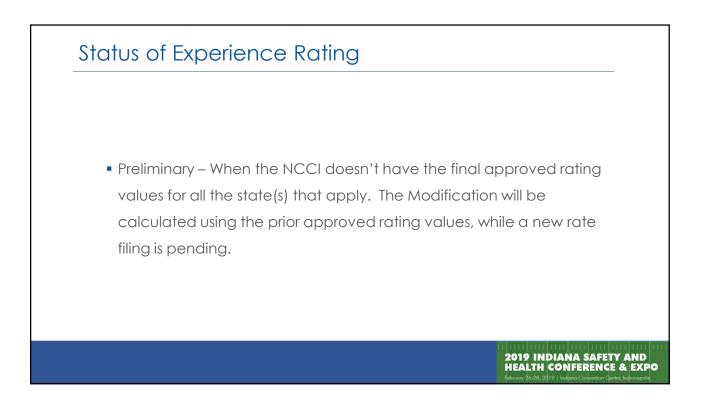
• Example: An employers policy renews on January 1, 2018, the rating uses loss experience from the following policies:

- 1/1/14 1/1/15
- 1/1/15 1/1/16
- 1/1/16 1/1/17
- Because the 17-18 policy period is not yet valued by the carrier or reported to NCCI, it is not used when the 18-19 modification is calculated



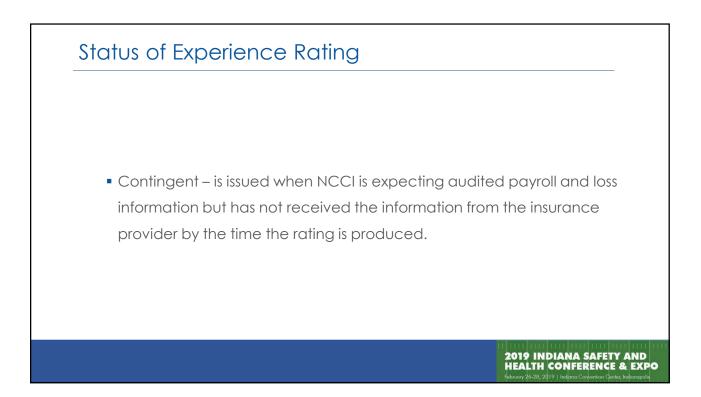
Status of Experience Rating

- The status of an experience modification determines what state approved rating values are used to calculate the experience rating modification
- There are three statuses:
 - Preliminary
 - Final
 - Contingent



Status of Experience Rating

• Final - The mod uses current rating values that have been approved for use in a specific state. Interstate mods can have states with both preliminary and final rating values. Only when all states are final is the mod considered final.

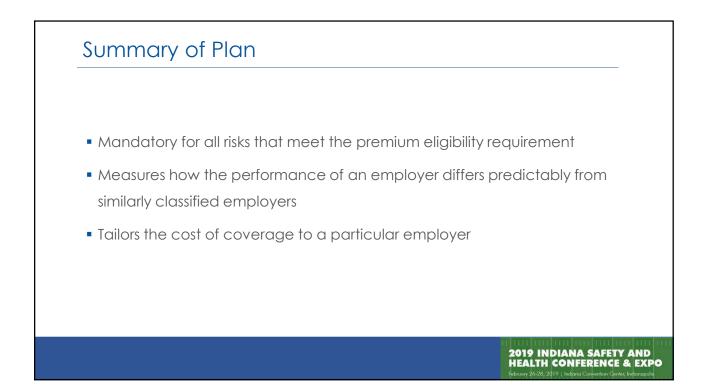


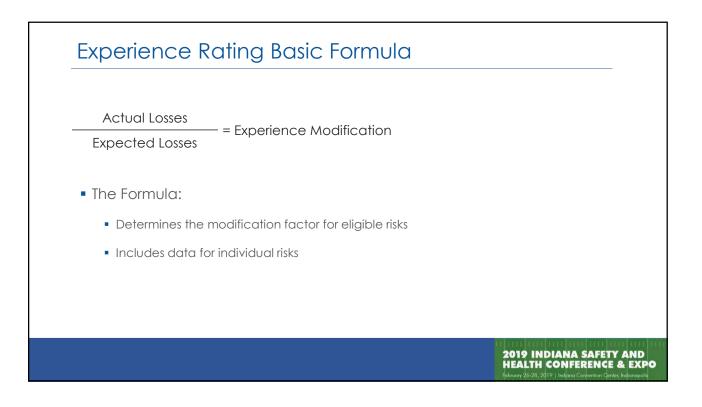
Experience Rating Mod Factor

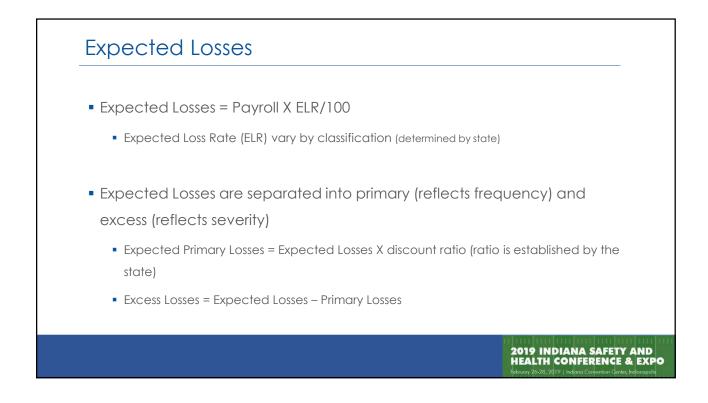
- The modification factor applied to an employer's policy/premium is one of three factors:
- Unity factor = 1.00
- Credit Mod = mod lower than 1.00 (e.g, 0.75)
- Debit Mod = mod higher than 1.00 (e.g, 1.25)

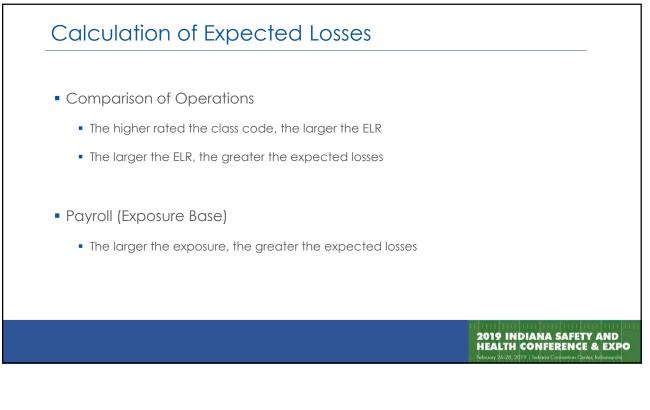
Premium		Modification Factor		Modified Premium
\$100,000	Х	0.75	=	\$75,000
\$100,000	Х	1.00	=	\$100,000
\$100,000	Х	1.25	=	\$125,000
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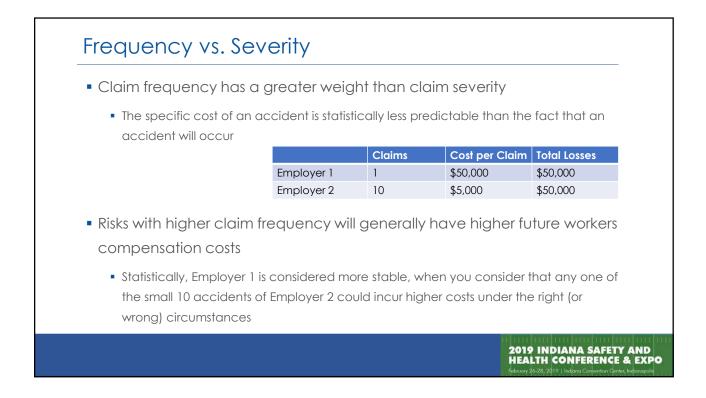
 Illustration of h 	ow rates and	d the experience	e modification f	actor are used
to determine p	oremium.			
 Rates for each 	n classificatio	n code are appi	roved by state.	
• Example inclu	des a single (employer with er	nployees in 2 c	lassifications.
Classification	Payroll	Divided by 100	Rate per \$100 of Payroll	Premium
Clerical	\$70,000	700	\$0.75	\$525
	000 000	2,000	\$63.17	\$126,340
Roofer	\$200,000	2,000	4 00117	
Roofer Total Premium	\$200,000	2,000	çoonii	
		2,000	φ.σ <i>γ</i>	
Total Premium	=\$126,865	2,000	ţ,	
otal Premium Modification Factor	=\$126,865 =1.25		çooni	2019 INDIANA SAFETY











Primary vs. Excess Loss

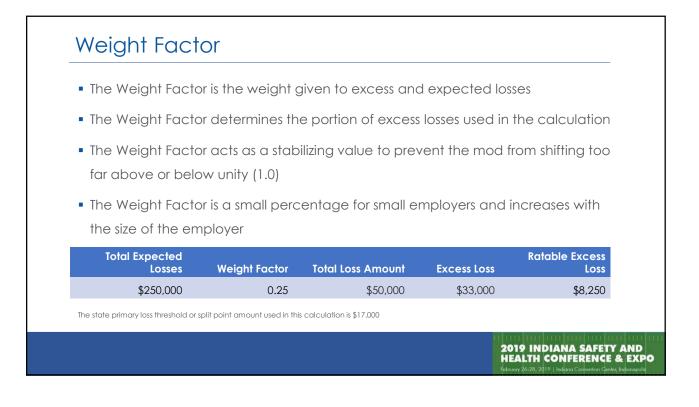
- Primary Loss = the first \$17,000* of a claim
- Excess Loss = Any ratable individual loss greater than \$17,000*
 - Ratable loss is that portion of a claim that falls within the loss cap established by the state's accident limitation amount

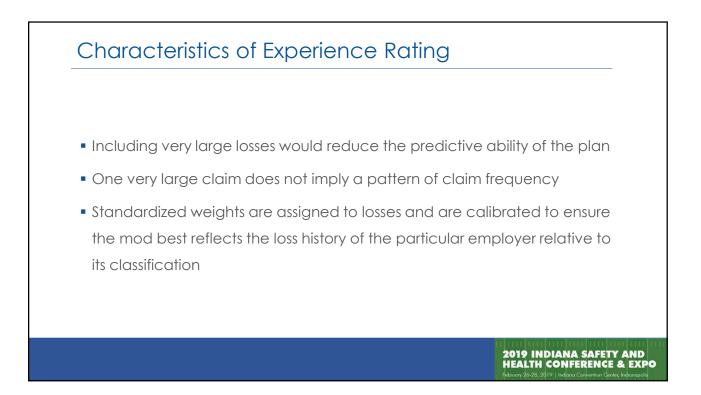
	Total Loss Amount	Ratable Loss	Primary Loss	Excess Loss
Employer 1	\$9,000	\$9,000	\$9,000	\$0
Employer 2	\$100,000	\$100,000	\$17,000	\$83,000

 Note: The primary loss amount becomes effective concurrently with each state's approved rate/loss cost filing

*In most states effective with rate filing on or after 1/1/19

(severity)	sses (frequenc Number of Losses	cy) are	e given a greate Total Loss Amount	er weight than e Total Primary Loss	excess losses Total Excess Loss
(severity)		cy) are		-	
(severity)		cy) are		-	
1	Number of Losses		Total Loss Amount	Total Primary Loss	Total Excoss Loss
	Number of Losses		Total Loss Amount	Total Primary Loss	Total Excess Loss
	Number of Losses		Total Loss Amount	Total Primary Loss	
Employer 1					TOTAL EXCESS LOSS
	1	Х	\$50,000	\$17,000	\$33,000
Employer 2	10	Х	\$5,000	\$50,000	\$0
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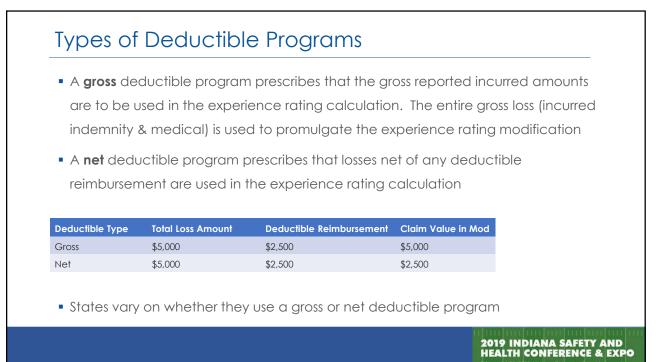




Per-Claim Accident Limitation

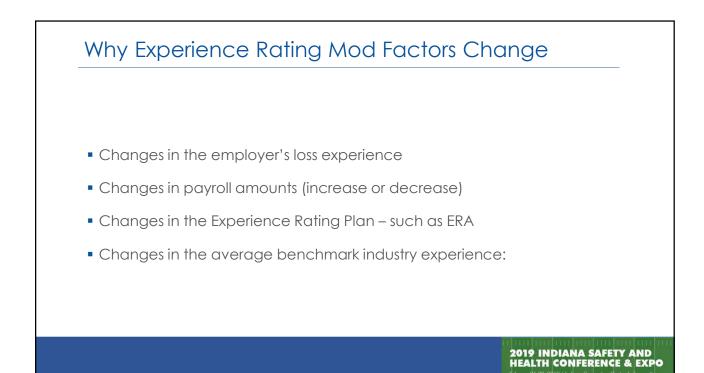
- Claims are limited by the state per-claim accident limitation to prevent large one-off claims from reducing the predictive ability of the plan
- Limitations vary by state and by rate filing

	Total Loss Amount	Ratable Loss	Ratable Primary Loss	Non-Ratable Loss			
Florida	\$500,000	\$240,000	\$17,000	\$260,000			
Georgia	\$500,000	\$319,500	\$17,000	\$180,500			
Ratable loss is that portion of a claim that falls within the per-claim accident limitation established by the state State per-claim accident limits and split points for FL & GA listed are effective 1/1/19							



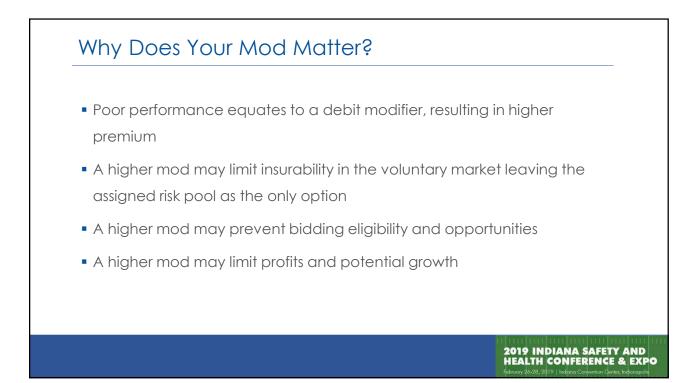
When Will Mod Factor Be Revised?

- Changes from preliminary to final status
- Receipt of payroll or loss correction reports
- Receipt of missing data for a previously contingent modification
- Changes in Ownership
- Reclassification of a risk
- Transfer of experience from a Professional Employer Organization's (PEO's) mod to stand alone workers compensation coverage



Summary

- The larger the premium size, the more reliable the actual record is in predicting future losses (premium eligibility threshold)
- The cost of an injury may vary over a very large range
- The cost is less predictable than the fact than an injury occurred (addressed with the use of primary and excess loss components)



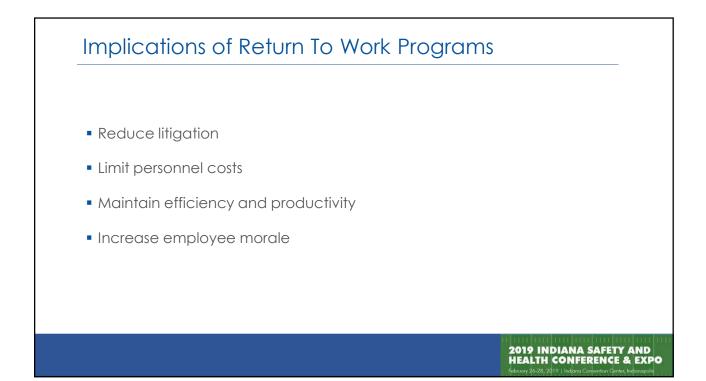
Why Does Your Mod Matter?

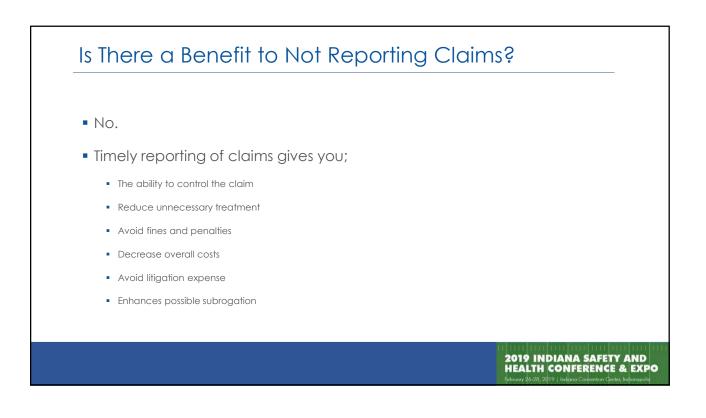
- Good performance equates to a credit modifier, and results in lower premium
- A lower mod results in lower premium
- A lower mod = more profit, ability to be more competitive and more opportunity to grow the business
- A lower mod may result in more bidding opportunities
- A lower mod presents a better risk, inclining more markets to compete for the business



Implications of Return To Work Programs

- Reduce future premium increases
- Reduce claim costs more than 50%
- Return injured workers to their regular jobs faster
- Faster recovery
- Reduce fraud









When It's Over and It's Time to Tailgate!

