

# WORKERS COMPENSATION TRENDS & THE NEW EXPERIENCE RATING FORMULA

*Presenter:*

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CHANGE THE GAME.



## ■ IN THIS PRESENTATION

- Overview of the Experience Modification Factor
- The Split Point Change Explained
- 5 Ways to Control your Mod



# ■ WORKERS COMPENSATION 101

- The year 1911 saw the first comprehensive state-based Workers' Compensation law passed in Wisconsin with other states closely following.
- It provided for payment of medical bills and lost wages resulting from work-related injuries.
- WC is a no fault system; employees cannot sue their employers for work related injuries when receiving benefits.



# ■ WORKERS COMPENSATION INSURANCE

- Compulsory (except in TX)
- Premium is based on a function of payroll, class of business and your experience modification factor
- There are other state and program-specific factors
- The one component that you have the most control over is your experience modification factor (also known as your mod).

## ■ THE PURPOSE OF A MOD

- Most states utilize the National Council on Compensation Insurance (NCCI) to gather the data necessary to manage the experience rating system and publish mods.
- The mod is designed to measure whether your company's workers' compensation losses are better or worse than expected for your size and industry.
- If your experience is **worse** than expected,
  - Results in a 1.0 or greater mod rating
  - You pay more for your workers' compensation insurance.
- If your experience is **better** than expected,
  - Results in a .99 or lower mod rating
  - You pay less for your workers' compensation insurance.

## ■ INCENTIVIZING RESPONSIBILITY

- The theory behind the mod is that it will incentivize organizations to improve their work safety environment in order to decrease their costs.
- The experience rating process provides a way of balancing “fairness” & “responsibility”.
- This is accomplished through a complex formula which takes into consideration company size, unexpected accidents, and differences between loss frequency and severity (the split point).



## ■ A SLIGHT MISUNDERSTANDING...

- Most companies believe that a 1.0 mod is good.
- Besides the impact on your premium calculation, the mod is particularly important for organizations that have contract requirements or bid for work.
- There are many different ways that organizations can decrease risk and decrease their mod.



# ■ THE FORMULA

**Actual** Primary Losses  
+  
Ballast Value  
+  
Weighting Value x **Actual** Excess Losses  
+  
(1 – Weighting Value) x Expected Excess Losses

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**Expected** Primary Losses  
+  
Ballast Value  
+  
Weighting Value x **Expected** Excess Losses  
+  
(1 – Weighting Value) x Expected Excess Losses



## ■ THE MOD

In very simple terms, your mod is the ratio of your actual losses to your expected losses.

ACTUAL/EXPECTED

There are stabilizing values, d-ratios and ballasts involved here as well, but for our purposes today, let's keep it simple.



## ■ EXPECTED LOSSES

Your company's expected losses are determined using the following formula:

$$\text{Expected losses} = (\text{ELR} / 100) \times \text{Payroll}$$

ELR is the expected loss rate that is determined by the bureau and is both state and class specific

### For example:

If \$100,000 of your payroll is classified as clerical and the ELR is .14 then your expected losses are \$140.

Likewise, if \$100,000 of your payroll is classified as pile driving and the ELR is 10.73 then your expected losses are \$10,730.



## ■ FREQUENCY V. SEVERITY

- After expected losses are calculated, the next step is to split the losses into primary and excess values. This is referred to as the split rating.
- The purpose of the split rating is to emphasize the number of losses over the amount of losses.
- If you were an underwriter and analyzing a company that had \$100,000 in losses, which would cause you more concern?
  - A. A company with twenty \$5,000 losses **OR**
  - B. A company with two \$50,000 losses




## ■ THE SPLIT RATE

- For almost 20 years the split rate in most states has been \$5,000.
- The average cost of a claim has gone from \$2500 in 1989 to \$8800 in 2011.
- This means that the current mod formula is not responding to the current conditions, therefore **most states will be initiating a three year split rating change** beginning with an increase to \$10,000 in 2013.
- Subsequent increases in 2014 to \$13,500 and in 2015 to \$15,000 plus 2 years of inflation rounded to nearest \$500.



# THE RESULT - YOUR MOD

<b>WORKERS COMPENSATION EXPERIENCE RATING</b>									
		Risk Name: <input type="text"/>					Risk ID: <input type="text"/>		
Rating Effective Date: 07/01/2011			Production Date: 01/20/2012			State: <input type="text"/>			
State	Wt	SRP	Exp Excess Losses	Expected Losses	Exp Prim Losses	Act Exc Losses	Ballast	Act Inc Losses	Act Prim Losses
MD	.10	0	39,786	45,241	5,455	204,787	22,250	234,499	29,712
(A) Wt	(B)	(C) Exp Excess Losses (D - E)	(D) Expected Losses	(E) Exp Prim Losses	(F) Act Exc Losses (H - I)	(G) Ballast	(H) Act Inc Losses	(I) Act Prim Losses	
.10		39,786	45,241	5,455	204,787	22,250	234,499	29,712	
	Primary Losses		Stabilizing Value		Ratable Excess		Totals		
Actual	(I)	29,712	$C * (1 - A) + G$ 58,057		$(A) * (F)$ 20,479		(J) 108,248		
Expected	(E)	5,455	$C * (1 - A) + G$ 58,057		$(A) * (C)$ 3,979		(K) 67,491		
	ARAP		FLARAP		SARAP		MAARAP		Exp Mod
Factors									(J) / (K) 1.60

Here's my MOD, how did I get here?



## ■ THE PHASE IN

- Beginning in 2013, NCCI and similar agencies will begin to phase in a multi-year increase of the split point used in the mod calculation.
- In 2013 as rate revisions are published, you can expect the split rate to change from \$5,000 to \$10,000.
- In 2014 you will see an increase from \$10,000 to \$13,500.
- In 2015 you will see an increase that will be \$15,000 plus two years of inflation adjustment rounded to the closest \$500.

## ■ EXAMPLES OF PUBLISHED RATES

State	Rating Published Date
Illinois	1 / 1
Iowa	1 / 1
Michigan	1 / 1
Minnesota	1 / 1
North Carolina	4 / 1
Tennessee	3 / 1
Wisconsin	10 / 1

## ■ WHAT DOES THIS MEAN TO ME?

- NCCI is estimating that 70% of businesses will experience modest changes between  $-.05$  and  $+.02$ .
- The remaining businesses may see a larger swing in their ratings.
- Businesses with higher frequency and lower severity will ultimately be affected the most.
- Some of you may already have your new rating for 1/1/13 renewals in states with rating release dates of 1/1.





# CONTROLLING YOUR MOD

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## ■ REENERGIZE YOUR SAFETY PROGRAM

- You can't change your past experience but you can change your future!
- Review your safety program or start one! Work with your agent if you need assistance and resources to help you achieve this.
- Safety culture in your organization needs to become a top down priority!



## ■ FORMALIZE YOUR MODIFIED WORK POLICY

- If your organization doesn't already have one then get one.
- Review the one that you have or have a risk advisor assist you to make sure that it is utilizing best practices.
- Medical-only claims receive a 70% discount when their primary actual dollars go into your mod calculation.
- Use your agent as a resource for compliance with federal and state regulations such as FMLA, COBRA and ADA.



## ■ BETTER CLAIM MANAGEMENT

- Your workers' compensation adjuster is not managing your rating -- **they are managing a claim.**
- Maintain close contact with your adjuster and your employee to ensure no delays in treatment or return to active duty.
- Consider utilizing a 24/7 nurse triage service to help refer your employees to the appropriate level of care. There are multiple options out there for this type of service.



## ■ DON'T HIRE YOUR NEXT CLAIM

- Put in place pre-hire post-offer physical capabilities testing.
- These types of tests objectively measure whether a candidate can perform the essential functions of a position.
- This step requires updated job descriptions with specific physical requirements.
- Go beyond drug testing!



## ■ **MANAGE YOUR EXPERIENCE**

- Review all reserves and payroll data prior to unit stat filing.
- Project what your future rating will be.
- Audit your published rating at time of release for errors.
- Take advantage of state specific rules that allow for mod corrections to be made in your favor.

**Ask your agent how they can help you, or feel free to contact me directly to discuss these options.**



# QUESTIONS???

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