Workers’ Compensation Experience Modification Calculation Change for 2013

The National Council on Compensation Insurance, Inc. (NCCI) and several state rating bureaus have changed the way they calculate an experience modification (mod), a key factor in determining the premium for Workers’ Compensation insurance if your business qualifies for experience rating. The change has been approved in all states except California, Delaware, Pennsylvania and Texas. This article will summarize the changes taking place and what you can expect.

Background
For employer’s who qualify, the NCCI and state ratings bureaus calculate an experience mod based on an employer’s historical loss experience as compared to that of an average risk in the same industry. The mod is a credit or debit factor that is applied to manual premium and can be located on your policy information page.

Your experience mod is higher than 1.0 if your loss experience is worse than average, and lower than 1.0 if your loss experience is better than average. Your annual premium will increase with an experience mod above 1.0, or will decrease if your experience mod is below 1.0.

When losses are reported, there is a split point value to determine the primary and excess portion of the loss. The “primary” portion is a measure of claim frequency and the “excess” portion is a measure of claim severity. The current split point value is $5,000 and has not changed in over 20 years, whereas the average cost of claims has almost tripled.

For example, on a $20,000 claim, the losses would be as follows:
- $5,000 – Primary Loss
- $15,000 – Excess Loss

*Only a portion of the Excess Loss applies in the experience mod calculation, whereas the entire portion of the Primary Loss applies.

Solution and its Effect on Your Business
All states except CA, DE, PA and TX have approved NCCI’s recommendation to raise the split point value over the next three years to an amount that will be adjusted for inflation. In the majority of states, the split point climbs to $10,000 in 2013, $13,500 in 2014, and $15,000 in 2015. Beginning in 2016, the split point also will be indexed to account for inflation.

The split point value change becomes effective with each state’s rate filing on or after January 1, 2013 and subsequent rate filings as indicated above.

For example, in Illinois, rates were filed and approved effective 1/1/13. Therefore, the split mod value change to $10,000 is effective in Illinois as of 1/1/13. If you are an employer in Illinois with a Workers’ Compensation policy effective 3/1/13 and you qualify for experience rating, the mod applied to your 3/1/13 policy will reflect this new calculation.

Not all states file rate changes as of 1/1/13. For example, in Arkansas, the rate filing is effective 7/1/13. Therefore the split point increase to $10,000 for experience mod calculations will become effective 7/1/13 in Arkansas. If an Arkansas employer has a Workers’ Compensation policy
effective 6/1/13 and qualifies for experience rating, the mod applied to the 6/1/13 policy will NOT reflect the new split point exp. mod calculation. Instead the mod applied to the 6/1/14 renewal policy will be the first time this employer would be affected by the 2013 change.

The change in the split point should have the following effects, according to NCCI:

- A state’s average premium should remain the same.
- The larger your firm, the greater the increase or decrease in your experience mod.
- In most cases, NCCI has found that your experience mod will decrease, resulting in a more favorable loss control factor.
- Generally, if your renewal experience mod would have been below 1.0 before the formula changes, it will go down. If it was above 1.0, it will go up.

For details about these changes and their possible impact on your business, you can view these webinars on NCCI’s website:

- **Summarizing The Changes**, an 8-minute overview
- **More In-Depth Information**, 24 minutes, including actuarial analysis

Also, these articles can add insight:

- **Experience Mod FAQs**
- **NCCI Experience Rating Update**

While some Independent Contractors and Independent Service Providers may see significant differences in experience mods and resulting premiums on their renewal policy, Marsh and Protective believe that for most businesses, you will not see a substantial impact to your premiums due to this change.

Of course, please feel free to contact the Marsh Service Center with any questions. Call 1-866-814-7515 from 7:30 AM to 5:00 PM Central Standard Time, Monday through Friday. If necessary, Marsh will work with your insurance provider, Protective, to help answer your questions.