PROTECTIVE INSURANCE

WORKERS' COMPENSATION: UNDERSTANDING YOUR EXPERIENCE RATING & MOD

Experience rating is the main pricing component of your workers' compensation policy that you can directly impact. It's essentially a method for determining whether your business' losses are better or worse than expected.

The state rating bureau or the National Council on Compensation Insurance (NCCI), an organization that administers workers' compensation on behalf of most states, evaluates your business' loss and payroll history and compares your loss experience with the average loss experience in your industry. From that data, an experience modification (or ex-mod or mod) is created. Your experience mod is unique to your business. **This factor will either increase or decrease your overall workers' compensation premium.** If your mod is over 1.0, your business compares unfavorably to other businesses in your industry. If your mod is below 1.0, your business compares favorably to other businesses in your industry.

Reducing your losses by taking an active role in employee safety will help improve your mod and save your business money! When you have no actual losses in your experience period, you are utilizing the best mod available to your business.

Understanding your experience rating worksheet*

WORKERS COMPENSATION EXPERIENCE RATING

JOHN Q. TRANSPORTATION ENTERPRISES

...tive Date: Production Date: State: CONNE...

Expected Losses (D) – based on the payroll and type of work your employees do, this is the amount expected to be paid out in losses

Actual Losses (H) – the actual losses your business reported in the experience period

...ss	Expected Losses	Exp Prim Losses	Act Exc Losses	Ballast	Act Inc L...	
CT .09	34,456	47,856	13,400	20,500	27,000	34,000	13,500

(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
.09		34,456	47,856	13,400	20,500	27,000	34,000	13,500

	Primary Losses	Stabilizing Value	Ratable Excess	Totals
Actual	(I) 13,500	C * (1 - A) + G 58,355	(A) * (F) 1,845	(J) 73,700
Expected	(E) 13,400	C * (1 - A) + G 58,355	(A) * (C) 3,101	(K) 74,856

	ARAP	FLARAP	SARAP	MAARAP	Exp Mod
Factors	1.00				(J) / (K) .98

REVISED RATING
REVISED RATING TO INCLUDE UPDATED DATA FOR: CT, POL. #: 123456789 EFF.: 08/14/2012

WORKERS COMPENSATION EXPERIENCE RATING

...TRANSPORTATION ENTERPRISES **Risk ID:** 060624623

...e: Production Date: State: CONNECTICUT

Payroll – payroll reported for each class code listed on each policy within the experience period (audited payroll)

06-CONNECTICUT Firm ID: Firm Name: JOHN Q. TRANSPORTATION ENTERPRISES

Carrier: 14788 Policy No. 123456789 Eff Date: 08/14/2010 Exp Date: 08/14/2011

Code	ELR	D-Ratio	Payroll	Expected Losses	Exp Prim Losses	Claim Data	IJ	OF	Act Inc Losses	Act Prim Losses
7231	11.95	.28	63,289	7,563	2,118					
9807	ADDITIONAL PREMIUM			0	0					
Policy Total:			63,289	Subject Premium:	11,959	Total Act Inc Losses:			0	

06-CONNECTICUT Firm ID: Firm Name: JOHN Q. TRANSPORTATION ENTERPRISES

Carrier: 14788 Policy No. 123456789 Eff Date: 08/14/2011 Exp Date: 08/14/2012

Code	ELR	D-Ratio	Payroll	Expected Losses	Exp Prim Losses	Claim Data	IJ	OF	Act Inc Losses	Act Prim Losses
7231	11.95	.28	116,786	13,956	3,908					
9807	ADDITIONAL PREMIUM			0	0					
Policy Total:			116,786	Subject Premium:	28,885	Total Act Inc Losses:			0	

06-CONNECTICUT Firm ID: Firm Name: JOHN Q. TRANSPORTATION ENTERPRISES

Carrier: 14788 Policy No. 123456789 Eff Date: 08/14/2012 Exp Date: 08/14/2013

Code	ELR	D-Ratio	Payroll	Expected Losses	Exp Prim Losses	Claim Data	IJ	OF	Act Inc Losses	Act Prim Losses
7231	11.95	.28	220,394	26,337	7,374	123456789	05	O	34,000	13,500
9807	ADDITIONAL PREMIUM			0	0					
Policy Total:			220,394	Subject Premium:	64,643	Total Act Inc Losses:			34,000	

There are other values included in the worksheet such as the **ballast** and **weighting** values, **expected loss rates (ELR)** and **discount ratios (D-ratio)**. These values vary by state, year and payroll code and are beyond the employer's control but also affect the mod.

*This is an example of a **worksheet issued by the NCCI at www.ncci.com/LearningCenter**. The format of a worksheet from the state rating bureau may look different but the content is generally the same. Learn more with the **ABC's of Experience Rating pdf**.

How am I doing compared to my peers?

Now let's compare your company's losses to the industry average, also known as your industry benchmark total loss ratio. On your mod worksheet, find your **total actual losses (box H)** and **total expected losses (box D)**. If your actual losses are lower than your expected losses, you're doing better than average.

State	Wt	Exp Excess Losses	Expected Losses	Exp Prim Losses	Act Exc Losses	Ballast	Act Inc Losses	Act Prim Losses
CT	.09	34,456	47,856	13,400	20,500	27,000	34,000	13,500
(A) (B) Wt		(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
.09		34,456	70,000	13,400	20,500	27,000	50,000	13,500

Divide the actual by the expected to obtain your industry benchmark total loss ratio. Let's say your total actual losses were $50,000 and your expected losses were $70,000. Your total loss ratio would be .71 and this means your losses are 29% better than your competitors!

You can use this same calculation with the primary and excess portions of your losses. This would give you your primary loss ratio and your excess loss ratio. **The primary portion of losses measures the frequency of claims, while the excess portion measures the severity of claims.** By calculating your primary and excess loss ratios, you'll be able to assess whether your business is doing better or worse than the industry average in frequency and severity.

Industry Benchmark
Total Loss Ratio

Actual losses — $50,000
÷
Expected losses — $70,000
=
Loss ratio — 0.71

The frequency of losses tends to impact your mod more than the severity of a single loss. Frequency is a better predictor of future claims and can indicate training or safety issues that should be addressed.

IMPORTANT FACTORS TO KEEP IN MIND

1. **Not every business will qualify for experience rating.** A business' eligibility is based on premium size and this varies by state.

2. **The experience rating period typically consists of the prior three policy years,** not including the most recent expiring policy.

3. **Each loss will typically impact your mod for a three-year period.**

4. **The claim values on your experience rating worksheet are a snapshot of the claim activity as of the worksheet valuation date.** The valuation date is always the 18th month from your policy effective date.

5. **Changes in ownership can affect experience rating.** Any entity that experiences ownership changes, such as a merger, acquisition, or sale, transfer or conveyance of all or a portion of their ownership interest/physical assets, is required to notify their insurance carrier within 90 days of the change.

6. Reducing losses will reduce your mod and your premium, but it's an effort that takes time. **Here are some questions you should be asking yourself:**

   - Do I need to improve my hiring practices?
   - Have I implemented a return-to-work program?
   - Am I providing adequate safety training?

   Protective Insurance has many resources available to help you implement the proper loss prevention measures for your business.

   Visit **protectiveinsurance.com/mod** to learn how to implement a program to improve your loss experience and your mod.

   For additional guidance, email **lossprevention@protectiveinsurance.com**.

Learn more

For more information on understanding your experience rating worksheet and other related topics such as how mergers and acquisitions can affect your experience mod, visit **www.ncci.com** to view their many informative webinars. In the top menu, hover over Education then click on Experience Rating for a full list of related webinars.

For resources to help you reduce your losses and lower your mod, contact Protective at **lossprevention@protectiveinsurance.com**. Resources are also available online at **protectiveinsurance.com.**

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