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*

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

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WORKERS COMPENSATION EXPERIENCE RATING

JOHN Q. TRANSPORTATION ENTERPRISES

tive Date: 08/14/2014 **Production Date:** 08/15/2014 **State:** CONNE

		ses	Expected Losses	Exp Prim Losses	Act Exc Losses	Ballast	Act Inc Lo	
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
	(I)	C * (1 - A) + G	(A) * (F)	(J)
Actual	13,500	58,355	1,845	73,700
	(E)	C * (1 - A) + G	(A) * (C)	(K)
Expected	13,400	58,355	3,[illegible]	

	ARAP	FLARAP	SARAP	MAA
Factors	1.00			

REVISED RATING
REVISED RATING TO INCLUDE UPDATED DATA FOR: CT, POL. #: 123456789 EFF.: 08/14/2

Excess Losses (C, F) and Primary Losses (E, I) – Both the expected and actual losses are split into these two categories. The primary portion is the first $X of the claim (see schedule below) and is included at 100 percent. The excess portion is the remaining portion of the loss above primary. Only a percentage of the excess loss is included in the mod calculation. This limits the impact of severe claims, but gives more weight to claims frequency.

Primary / Excess Split Schedule
(used by most states)

Year	Split point
Prior to 2013	$5,000
2013	$10,000
2014	$13,500
2015	$15,000 (+2 years of inflation adjustment)

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

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WORKERS COMPENSATION EXPERI

TRANSPORTATION ENTERPRISES

: 08/14/2014 **Production Date:** 08/15/2014

06-CONNECTICUT **Firm ID:** **Firm Name:** JOHN Q. TRANSPORTATION ENTER

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

Code	ELR	D-Ratio	Payroll	Expected Losses	Exp Prim Losses	Claim Data	IJ
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:**	

06-CONNECTICUT **Firm ID:** **Firm Name:** JOHN Q. TRANSPORTATION ENTER

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

Code	ELR	D-Ratio	Payroll	Expected Losses	Exp Prim Losses	Claim Data	IJ
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. The format of a worksheet from the state rating bureau may look different but the content is generally the same.

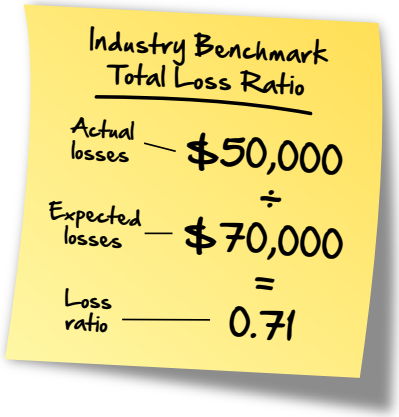
How am I doing compared to my peers?

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) 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	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.

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.

Understanding medical only (or med only) losses

In most states, the claim cost is reduced by 70% when a claim is medical only (no lost time from work). You can identify a med only loss on your experience rating worksheet by looking at the injury (IJ) code next to each claim. An injury code of 6 indicates the claim is med only and did not involve an indemnity component, usually incurred when an employee does not return to work in a specified number of days. **Getting employees back to work as soon as possible can save you mod points, which in turn saves you money!**

Claim Data	IJ	OF	Act Inc Losses	Act Prim Losses
NO. 2	05	*	1,685	1,685
09786958	06	*	253	253
09785475	09	F	31,583	13,500
09786937	09	O	191,513	13,500
Total Act Inc Losses:			225,034	

Indicates 'Med Only' Claim

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. So your 2014 mod will include policy data from your 2012, 2011 and 2010 policies.
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. If your policy is effective in June 2014, the data reported on your future 2016 experience rating worksheet will be valued as of December 31, 2015. And while claim activity could change after that date, the adjustment will not take place until the next valuation date in December 2016.
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** or call 833-216-3564 and ask for our Loss Prevention & Safety Services Department.

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** or call 833-216-3564 and ask for the Loss Prevention & Safety Services Department. Resources are also available online at **protectiveinsurance.com.**