

**Changes to the 2013
Experience Modification
Factor Calculation
and the
Impact on Your Premium**

WCRA[®]

Workers' Compensation Reinsurance Association

Who Determines the Formula?

- National Council on Compensation Insurance, Inc. (NCCI) (interstate rated)
www.ncci.com
- Minnesota Workers' Compensation Insurers Association (MWCIA) – Minnesota Data Service Organization (intrastate rated)
www.mwcia.org
- Minnesota Department of Commerce
<http://mn.gov/commerce>

What Are the Changes?

Adjustment to the:

1. Maximum debit modification formula.
2. Primary/excess loss split point.

What Is the Maximum Debit Modification Formula?

- Debit experience rating modifications that exceed a specified amount are subject to a cap. The cap varies by the size of the employer.
- Only 3 percent of experience-rated employers reach the cap.

Why Does the Experience Rating Split Point Need to Change?

- Last change occurred over 20 years ago, while the average cost of a claim has tripled.
- The plan formula has become less responsive, and individual employer experience rating modifications have gravitated toward the all-employer average over time, which gives less weight to each employer's actual experience.

Experience Modification Formula

$$1 + \frac{(A - C)(E) + (B - D)(1 - E)}{C + F}$$

A = Actual Incurred Losses

B = Actual Primary Losses

C = Expected Losses

D = Expected Primary Losses

E = Weight Factor

F = Ballast Factor

2012

Claim No	Loss	Primary	Excess
A1	25,500	5,000	20,500
A2	60,000	5,000	55,000
A3	9,000	5,000	4,000

2013

Claim No	Loss	Primary	Excess
A1	25,500	10,000	10,500
A2	60,000	10,000	50,000
A3	9,000	9,000	0

2012

$$1 + \frac{(\$1,158,317 - \$614,348) (0.3614) + (\$319,600 - \$123,145) (1 - 0.3614)}{\$614,348 + \$80,640} = \mathbf{1.46 \text{ Mod}}$$

2012 WITH NEW LIMITS

$$1 + \frac{(\$1,158,317 - \$614,348) (0.3614) + (\$464,724 - \$193,816) (1 - 0.3614)}{\$614,348 + \$80,640} = \mathbf{1.53 \text{ Mod}}$$

2013 ACTUAL

$$1 + \frac{(\$1,160,978 - \$867,731) (0.4168) + (\$538,204 - \$273,073) (1 - 0.4168)}{\$867,731 + \$106,892} = \mathbf{1.28 \text{ Mod}}$$

Additional Factors Influencing the Mod

- Medical-only claims.
- Multi-claimant claims.
- Changes in type/value of 2008 vs. 2011 claims/payroll.
- D-Ratio factor.
- Expected loss ratio factors.

What Is the Experience Rating Split Point Transition Plan?

- Currently \$5,000.
- January 1, 2013 increases to \$10,000.
- January 1, 2014 increases to \$13,500.
- January 1, 2015 increases to \$15,000.
- Year 4 and Beyond: The split point will then continue to be indexed against inflation and will change every year going forward.



Questions