

## **Do You Know Where Your Workers Compensation Mod Will Go?**

In October of 2013, the State of Wisconsin, which relies on the National Council on Compensation Insurance (NCCI) will be increasing the primary excess loss split. In order to calculate the workers compensation experience rating modifications, an insured's incurred losses are split into two parts, a primary loss portion and an excess loss portion. The amount of the incurred loss equal or less than the "split point" is the primary loss and the portion in excess of the split point is the excess loss. Any state that relies on the NCCI will see a change in the split point, which will increase gradually over the next three years. In 2015 the split point will be changed each year based on the inflation index. Let's review how an experience modification is calculated:

The formula for calculating the premium is:

$$\text{Payroll (per \$100) X Classification Rate X Experience Modifier} = \text{Premium}$$

The basis for using an experience rating calculation is that a frequency of claims is more demonstrative than the severity of the claims. In other words if one were to compare two companies that each pay the same premium and Company A had 7 claims that resulted in \$35,000 in incurred losses over the last three years, and Company B had 1 loss at \$65,000 which is the better risk? According to the experience rating theory a company with a greater frequency of losses will have a worse claims experience than a company with little frequency of losses. Therefore, the experience calculation gives more weight to smaller claims than larger ones. The total primary portion of a claim is used in the calculation but only a portion of the excess claim total is used.

### **Now, what does this all mean to the insured?**

First, it is predicted that experience modification factors will increase. The overall affect of the new calculation is revenue neutral but for the individual insureds' - this may not be the case. Some insureds may see a decrease but many will see an increase of ten points or more because of this change. The formula counts the first \$5,000 or \$10,000 etc. of each injury at 100% in the experience mod. The remainder of the claim above the split point is discounted based on employee pay and employer classification (in other words, what type of work you do).

Currently the split point is \$5,000 so losses up to \$5,000 are valued for loss frequency and are considered primary losses. The losses over \$5,000 are excess losses. Over the next three years this split point is to adjust from \$5,000 to:

\$10,000 in 2013  
\$13,500 in 2014  
Between \$15,000 and \$17,500 in 2015.

From 2015 forward the split point will be changed annually based on the inflationary index.

One industry that will see potential for significant change is the construction industry. The reason for this is because contractors may need to increase their bid pricing if they have an increase in the cost of their workers compensation insurance. This may cause them to lose work or not be able to bid in some cases if the bidder has an experience rating modification that does not meet the customer's standards. For example a customer may say if your experience rating modification factor is above 1.00 we will not work with you, therefore, this particular contractor would have fewer jobs or the contractor may decide not to bid.

It is important to discuss your loss history with your agent, carrier or consultant and look for opportunities to reduce or eliminate the frequency of claims or claims below the split point. Closely monitoring claims will become increasingly beneficial to all insureds. Fewer claims will result in a lower experience rating modification factor, thus creating premium savings for you, the insured.

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