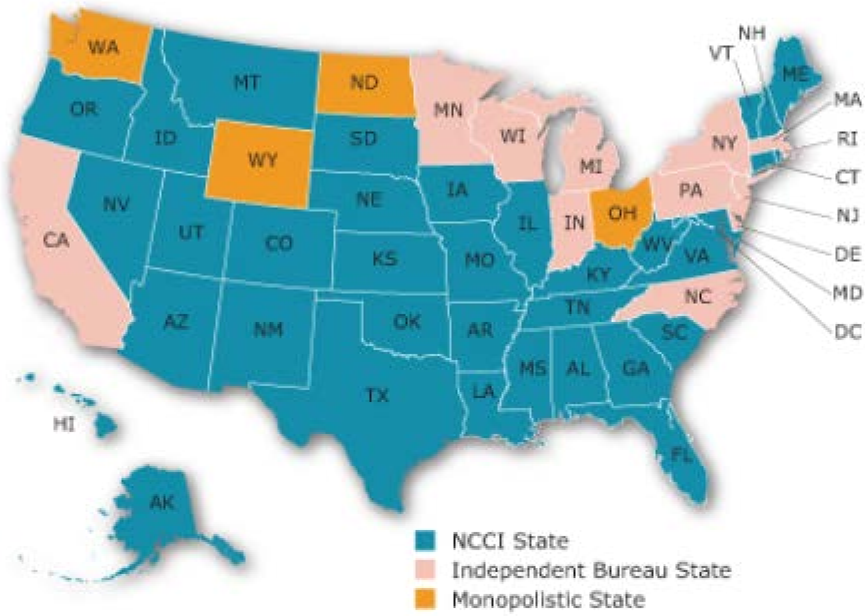
Non-NCCI states



<u>California</u>

- Rating bureau is WCIRB
- Experience rating system is a merit system
    - direct financial incentive for employers to reduce work-related accidents
    - system objectively distributes the cost of workers' comp equitably among employers assigned to particular industry classifications
- Experience modification (%) compares the loss or claims history of one company to all other companies in the same industry that are similar in size
    - Experience modification of less than 100% reflects better-than-average experience and an experience modification of more than 100% reflects worse-than-average experience
    - For those businesses that qualify, experience rating is mandatory
    - Experience Modification = Actual Losses / Expected Losses

  http://www.wcirb.com/guide-to-workers-compensation/experience-rating

<u>Delaware</u>

- Rating bureau is DCRB
- DCRB develops own manuals and rules regarding classification and experience modifiers
- DCRB provides carriers with experience rate calculation

<u>Indiana</u>

- Rating bureau is ICRB
- Uses NCCI for ratemaking and uses the NCCI Basic Manual but does not always follow NCCI classification interpretations

<u>Maryland</u>

- Uses NCCI for ratemaking but with different interpretations of classifications
- Does not report loss and payroll data to NCCI for computing experience modification factors

- Has a competitive Injured Workers Insurance Fund (IWIF) which is the assigned risk plan

<u>Massachusetts</u>

- Rating bureau is WCRIBMA
- Develops own manuals and rules regarding classification and experience modifiers
- Elements in experience rating include actual incurred losses, actual primary losses, and actual excess losses
    - Actual Excess Losses are determined by subtracting the Actual Primary Losses from the Actual Incurred Losses.
        - the excess portion of a loss reflects its severity and is given partial weight based on the size of the risk
- Calculation

b. To determine whether the "R" value for the insured is greater than 1.0, the following information is needed from the experience rating calculation using Massachusetts data only:

W	=	Weighting value, calculated on an intrastate basis
A	=	Actual losses, as limited on a per accident basis
Ap	=	Actual primary losses
E	=	Total expected losses
Ep	=	Expected primary losses
M	=	Normal experience rating modification, calculated on an intrastate basis

c. To determine the "R" value (weighted test ratio), the numbers derived from a. above are inserted into the formula:

$$R = \frac{((0.5 - 0.5W) \times Ap)}{(M \times Ep)} + \frac{((0.5 + 0.5W) \times A)}{(M \times E)}$$

d. To determine the surcharge factor (called S) for qualified risks, the following formula is used:

$$S = 1 + \left[\frac{(.08 \times E \times ((R - 1)^{1.25}))}{(E + 3)^{0.5}} \right]$$

In the calculation for S, E (Total expected losses) is divided by one thousand and may not exceed 40, while R may not exceed 2.0. [ ]

e. The surcharge factor is limited to a maximum of 1.25.

https://www.wcribma.org/mass/ToolsAndServices/UnderwritingToolsandForms/Manuals/Manuals.aspx

<u>Michigan</u>

- Rating bureau is CAOM
- There is no regulation of classification codes for voluntary workers comp
- CAOM administers the assigned risk plan and calculates experience modifier for exposure
- Rates are based upon the classification of the employees type of work performed
- Insurance companies establish a competitive premium rate for each classification

<u>Minnesota</u>

- Rating Bureau is MWCIA
- Does not regulate what classification codes insurers use on voluntary market work comp business
- Loss and payroll data is reported to NCCI for inclusion in interstate mods
- Experience rating compares the payroll and loss records of individual employers with the average employer in the same classification. The differences are reflected by an experience rating modification.
  http://mwcia.org/ExperienceModIntro.aspx

<u>New Jersey</u>

- Rating bureau NJCRIB
- NJCRIB creates manuals and rules of classifications and experience rating

- Experience rating adjusts premium by comparison of actual loss record of an individual employer with the average loss performance expected from a business of like size and kind
  - Experience modification factor is applied to the total premium and may be further adjusted with other considerations
- Department of Insurances does not exercise much oversight of work comp insurance

<u>New York</u>

- Rating bureau NYCIRB
- Develops own manuals and rules regarding classification and experience modifiers
- Employers do not have certain regulatory protections concerning insurance premiums
- NY requires separate coverage for workers' disability for non-work related exposures
  http://www.cutcomp.com/depts.htm

<u>North Carolina</u>

- Rating bureau NCRB
- Follows the NCCI model closely
- Manual published by NCCI but has its own in-state experience mods
- Does report to NCCI for use in interstate mods

Calculation of Experience Modification

After the actual loss and payroll data are used to develop the primary (actual and expected) loss values, they are totaled and put into the final calculation of the experience modification.

(A) Actual Incurred Losses	=	Total of all Actual Incurred Losses
(B) Actual Primary Losses	=	Total of all Actual Primary Losses
(C) Expected Losses	=	Total of all Expected Losses
(D) Expected Primary Losses	=	Total of all Expected Primary Losses
(E) Actual Excess Losses	=	(A) – (B)
(F) Expected Excess Losses	=	(C) – (D)
(W) Weighting Value	=	Tabular value based on Expected Losses (C)
(H) Ballast Value	=	Tabular value based on Expected Losses (C)

The formula for calculating the Experience Modification is:

(I) Actual	=	B + H + (E x W) + (1 - W) x F
(J) Expected	=	D + H + (F x W) + (1 - W) x F
Experience Modification	=	(I) / (J)

The experience rating plan formula includes a procedure limit, or cap, the size of an experience modification debit. The cap is a function of Expected Losses (C) and is calculated as follows:

Rating Effective Date	Cap on Modification
Prior to 04/01/2013	1 + 0.00005 (C + 2C / G)
04/01/2013	1.10 + (0.0004 * C / G)

<u>North Dakota</u>

- Monopolistic State Fund
- Experience modification calculation:

$$\frac{\text{Actual Primary Losses} + \text{Credibility Factor} \times \text{Actual Excess Losses} + \text{1 - Credibility Factor} \times \text{Expected Excess Losses} + \text{Ballast Value}}{\text{Total Expected Losses} + \text{Ballast Value}}$$

Ohio

- Monopolistic State Fund

Pennsylvania

- Rating bureau PCRB a non-government agency licensed and regulated by the PA Insurance Dept.
- PCRB develops rules for classification, premium computation, and experience rating
- Experience rating calculation:

With these definitions in mind, the Pennsylvania Experience Rating Plan formula is written as follows:

$$\mathbf{M} = \frac{\mathbf{(A \times C) + (E \times L \times C) + E\ (1.000 - C)}}{\mathbf{E}}$$

Where:

M	=	**Experience Modification** M as calculated above is the Indicated Experience Modification, The Final Experience Modification is Capped to Within a Range of +/- 25% of the Prior Experience Modification.
A	=	**Actual Losses** (both paid and reserved) over the experience period, limited to specified maximum amount(s).
C	=	**Credibility** assigned based on the total amount of expected losses. A table of credibility factors is found in Table B of the Experience Rating Plan. Credibility represents the extent to which an insured's actual (limited) losses will be reflected in the experience modification. Credibility factors range from 0.283 to 0.938.
E	=	**Expected Losses**. Normal or average loss amounts based on the employer's size and type of business calculated by applying expected loss rates by classification to payroll or other exposures
L x C	=	**Limit Charge**. An additional charge applied to experience-rated risks in exchange for the procedure of using only limited actual losses in experience rating.

Washington

- Monopolistic State Fund
- The Experience Modification Factor is calculated as:

$$\frac{\text{Credible Actual Primary Loss + Credible Actual Excess Loss}}{\text{Expected Loss}}$$

- If Credible Actual Loss is less than the firm's Expected Loss then the Experience Modification Factor will be less than 1.0.
    - lower costs per unit of insurance exposure (usually hours) than the average firm in its class
- If Credible Actual Loss is greater than the Expected loss then the Experience Modification Factor will be greater than 1.0.
    - higher costs per unit of insurance exposure than the average firm in its class

http://www.lni.wa.gov/ClaimsIns/Insurance/RatesRisk/How/ExpFactor/ExpModFactor/Default.asp

Wisconsin

- Rating bureau WCRB
- A risk is eligible for intrastate experience rating when it develops a qualifying premium based on payrolls or other exposures reported in accordance with the Wisconsin Worker's Compensation Statistical Plan
    - Qualifying premium is achieved when the payrolls or other exposures developed in the last year or last two years of the experience period produce, at current manual rates, a premium equal to at least twice the Experience Rating Eligibility amount shown in the WCRB Miscellaneous Value Table; or, when more than the latest two years of the experience period's exposures produce, at current manual rates, an average annual premium equal to at least the Experience Rating Eligibility amount

A. EXPERIENCE MODIFICATION FORMULA

The experience modification for all risks is determined from the following formula.

Actual Primary Losses	+	Weighting Value Times Actual Excess Losses	+	(1 Minus Weighting Value) Times Expected Excess Losses	+	Ballast Value	=	Total A
Expected Primary Losses	+	Weighting Value Times Expected Excess Losses	+	(1 Minus Weighting Value) Times Expected Excess Losses	+	Ballast Value	=	Total B

For experience modification, divide Total A by Total B; round to two decimal places.

<u>Wyoming</u>

- Monopolistic State Fund
- Experience modifier calculation:

[(Modified Claims – ALA) / ALA] x Credibility = EMR Percentage

EMR Percentage + 1 = EMR Factor

Allowed Loss Amount = 3 years of Premium reported x 50%
Modified claims = Actual Paid Costs plus Reserves Less Recovered Amounts
Credibility = An actuarial factor based on 3 years of Premium amount