

## Example of Experience Rating Worksheet

The **first step** in the experience rating process is to transfer payroll and loss information from the unit statistical reports to the experience rating worksheet. Exhibit B, shows NCCI's Experience Rating Worksheet for "Any Insured."

### Payroll and Loss Data

The top section of Exhibit B contains the basic identifying information, such as the name of the insured (1), the state in which the insured is located (2), and the risk identification number (3). In addition, it shows that the experience modification will be used for the policy that becomes effective January 1, 2005 (4).

The payroll and loss information is shown separately for each of the three policies under review. On the left-hand side, we have the payroll (exposure) (5) for each classification code (6). On the right-hand side, we have the actual incurred losses (7) and the indicator of whether the claim is open or closed (8) and the respective claim number for losses over \$2,000. Individual claims of \$2,000 or less will show a blank in the claim data column (9).

Note that in transferring the losses from the unit report to the experience rating worksheet, the indemnity and medical amounts are combined since we are only concerned with the total amount of the claim.

For example, claim number 03 0001 (10) has an indemnity cost of \$50,000 and a medical cost of \$12,500 for a total of \$62,500 as is shown at (11) on the experience rating worksheet. The claim just below this one has an indemnity cost of \$418 and a medical cost of \$4,408 for a total of \$4,826 (12). Medical-only claims (Injury Type 6) are listed separately on the worksheet because these are reduced by 70%. The reduced losses are shown in the foot totals only; the claim detail shows the entire actual amounts (13).

As previously noted, an important consideration in experience rating is the frequency of injuries or how often they occur. Another component is the severity or seriousness of the injuries. The severity may have little or no significance for small employers, and becomes more of a factor as the size of the employer increases.

The **second step** is to separate the actual losses into primary and excess components. The actual primary losses are shown at (14). For losses under \$5,000, the whole amount is taken as the primary value. For losses greater than \$5,000, only the first \$5,000 is primary. In this example, we have total losses of \$130,961 (15) and primary losses of \$45,725 (16). By subtracting the primary from the total losses, we obtain excess losses of \$85,236 (17).

Now that primary and excess losses have been identified, the next step is to calculate the expected losses for the insured. The actual losses will be compared with the expected losses to determine whether a credit (decrease) or debit (increase) modification is in order.

# Exhibit C—Expected Losses

22 **NCCI** WORKERS COMPENSATION EXPERIENCE RATING

19 ANY INSURED  
Name of Risk

Risk Ident No 551234567  
State XYZ

Date 01/01/05

18

CODE	ELR	D- RATI	PAYROLL	EXPECTED LOSSES	EXP PRIM LOSSES	CLAIM DATA	IJ	O F	ACT INC LOSSES	ACT PRIM LOSSES
CARRIER	99999		POLICY NO.	2001UNIT		EFF-DATE	01/01/01	EXP-DATE	01/01/02	
3507	446	18	2807260	125204	22537	010001	1	O	20000	5000
7380	344	15	93870	3229	484	010002	5	F	12847	5000
8742	058	14	127430	739	103	NO.	12	5	7422	7422
8810	036	16	425480	1532	245	NO.	6	6	2449	2449
POLICY-TOTAL			3454040 (SUBJECT PREMIUM = 103695)				42718			
CARRIER	99999		POLICY NO.	2002UNIT		EFF-DATE	01/01/02	EXP-DATE	01/01/03	
7380	344	15	102618	3530	530	NO.	4	5	3600	3600
3507	446	18	3232201	144156	25948	NO.	28	6	13243	13243
8810	036	16	462375	1665	266	020027	5	F	9477	5000
8742	058	14	135368	785	110					
POLICY-TOTAL			3932562 (SUBJECT PREMIUM = 153335)				26320			
CARRIER	99999		POLICY NO.	2003UNIT		EFF-DATE	01/01/03	EXP-DATE	01/01/04	
3507	446	18	3868379	172530	31055	030001	2	O	62500	5000
7380	344	15	107322	3692	554	030002	5	F	4826	4826
8742	058	14	132507	769	108	030003	5	F	5412	5000
8810	036	16	502408	1809	289	NO.	4	6	562	562
POLICY-TOTAL			4610616 (SUBJECT PREMIUM = 12617)				73300			

21

RATING REFLECTS A DECREASE OF 70% MEDICAL ONLY PRIMARY AND EXCESS LOSS DOLLARS WHERE ERA IS APPLIED.

(A)	(B)	(C) EXPECTED EXCESS (D-E)	(D)	(E)	(F) ACTUAL EXCESS (H-I)	(G)	(H)	(I)
032		377411	459640	82229	85236	64800	130961	45725

\* Total by Policy Year of all cases \$2,000 or less.  
# Limited Loss.  
C Catastrophic loss.

PAGE NUMBER	DATE	1	2	3	4	(11) PRIMARY LOSS		(12) STABILIZING VALUE	(13) RATABLE EXCESS	(14) TOTALS	(15) EXP MOD (J) / (K)
						(I)	(J)	(C) X (1-W) + (G)	(A) X (F)	(J)	
						ACTUAL	45725	321439	27276	394440	
						EXPECTED	82229	321439	120772	524440	0.75

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## Expected Losses

In Exhibit C, the ELR (18) is the Expected Loss Rate. It is the amount of expected losses for the classification for each \$100 of payroll. Therefore, to obtain the expected losses, multiply the ELR by the payroll divided by \$100.

Taking the first line of the worksheet as an example, with an ELR of 4.46 and payroll of \$2,807,260, the calculation is  $4.46 \times (\$2,807,260 \div 100) = \$125,204$ .

The \$125,204 is entered in the Expected Losses column (19). The total for expected losses is shown at the bottom of the column (20).

The D-ratio (21) is the Discount Ratio. It represents the portion of the expected losses that are expected *primary* losses (22). Multiply the expected losses by the D-ratio to get the expected primary losses. The calculation is  $\$125,204 \times 0.18 = \$22,537$ . The total for expected primary losses is shown at the bottom of the column (23).

The expected *excess* losses (24) are then obtained by subtracting the expected primary losses (23) from the total expected losses (20). The calculation is  $\$459,640 - \$82,229 = \$377,411$ .

The **final step** is to calculate the experience modification factor. The actual primary losses (25) and expected primary losses (26) are entered in the appropriate boxes at the bottom of the page.

The term "ballast" is defined as something that gives stability, such as heavy material in the hold of a ship to keep it from shifting too far one way or the other. Similarly, the ballast factor in the experience rating formula helps prevent the experience modification from shifting too far above or below unity. It is part of the Stabilizing Value. The ballast value increases as expected losses increase.

The "W" factor (27) is the Weight given to the excess losses and expected losses. "W" is a small percentage for small insureds and increases with the size of the insured. The complement of "W" or "1 - W" is assigned to the expected excess losses to produce another part of the Stabilizing Value.

The Stabilizing Value (28) is calculated by multiplying the expected excess losses (24) by (1 - W), then adding tabular ballast value (29). The calculation is  $\$377,411 \times (1 - 0.32) + \$64,800 = \$321,439$ . The weighted ratable excess losses entering the formula are obtained by multiplying the excess by the "W" value:

$$(30) \text{ Weighted Actual Excess} = \$ 85,236 \times 0.32 = \$27,276$$

$$(31) \text{ Weighted Expected Excess} = \$377,411 \times 0.32 = \$120,772$$

Adjusted actual losses (the numerator of the fraction) used in the calculation are obtained by adding across and are equal in this case to **\$394,440 (32)**. The adjusted expected losses are **\$524,440 (33)**.

The experience modification **(34)** is derived by dividing adjusted actual losses by the adjusted expected losses or  $\$394,440 \div \$524,440 = 0.75$ .

This **0.75** is applied to the employer's manual premium at the renewal, effective January 1, 2005.

## EXPERIENCE RATING FREQUENTLY ASKED QUESTIONS

- Q.** I just purchased a competitor's business. How does this affect my experience rating modification?
- A.** If the same person, group of persons or corporation owns more than 50% of each entity, the entities are usually combinable for experience rating purposes. As a result, the experience rating modification may be revised to include the experience of the newly acquired business.
- Q.** I just received my experience rating modification and believe it is incorrect. What should I do?
- A.** If unable to resolve this with your agent, contact NCCI's Customer Service Department at 800-622-4123. A representative will be able to help determine whether further action is necessary.
- NCCI determines the applicability of its *Experience Rating Plan Manual* rules, and calculates, issues, and if necessary, revises experience rating modifications.
- Q.** Why might the data contained on an experience modification factor be longer or shorter than the referenced three-year period?
- A.** A risk's experience can range from containing less than 12 months of data up to the inclusion of 45 months of data. Some reasons for this are:
- |                               |                                      |
|-------------------------------|--------------------------------------|
| Short-term policies           | Multiple policy effective dates      |
| Cancellations                 | Policies longer than 1 year, 16 days |
| Gaps in coverage              | Wrap-up policies                     |
| Changes in ownership          | Interstate policies                  |
| Rating effective date changes |                                      |
- Q.** I just received my experience rating modification and there is a comment of "preliminary" listed on the rating. What does this mean?
- A.** A preliminary modification uses existing rating values that are expected to change pending regulatory action on a rate filing. Another comment frequently seen on the experience rating modification is "contingent." Contingent ratings are missing some data, but still meet the minimum data requirements for the calculation of experience rating (see the Minimum Data Requirements Table located in NCCI's *Experience Rating Plan Manual* for further details).

**EXPERIENCE RATING**  
**FREQUENTLY ASKED QUESTIONS (CONT'D)**

- Q.** I've been in business for 10 years. Why is this the first year my company is experience rated?
- A.** In the past, the company's subject premium was most likely less than the premium eligibility threshold. In order to qualify for experience rating, you must meet minimum premium requirements, which differ by state. The State Table of Subject Premium Eligibility Amounts can be found in NCCI's *Experience Rating Plan Manual*.