1 **Experience Mod Calculation**

WCF Underwriting

2 **Top Questions About Emods**

1. What is an Emod?
2. How do I qualify?
3. So it's just a comparison?
4. I haven't had any claims; why did it go up?
5. What if I have multiple entities?
6. How can I manage my Emod?
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What is an Emod?

4 **What is an Emod?**

- Experience Modifier
- Not to be confused with Emöd, Hungary
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5 **About Emods**

- Calculated by the National Council on Compensation Insurance (NCCI, Inc.)
- Commonly referred to as Emod, XMod, EMR, Experience Modifier, Mod
- Uses past payroll and losses to predict future losses
- Tailors premium to policy holder's experience

6 **How does NCCI get the data?**

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How Do I Qualify?

8 **Emod Qualification**

- Based on manual premium reported on Unit Stats
- Maximum eligible experience is 45 months; minimum is less than 12 months
- Eligible experience is not less than 21 months before, and not more than 57 months before rating effective date
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<u>TRANSLATION</u>

- Three years of experience, starting two years before the current rating effective date

9 **Emod Qualification**

- $7,000 Subject Premium in one year or…
- $3,500 Average Annual Subject premium

10 **Emod Qualification**

11 **Emod Qualification**

12 **Emod Qualification**

13 **Emod Qualification**

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So It's Just A Comparison?

15 **Emod Calculation**

16 **Emod Calculation**

17 **Emod Elements**

- Named Insured
- Risk ID Number
- Effective Date
  - ARD (Anniversary Rating Date)
- Codes
  - Should describe their business
- Payroll

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24 **Primary vs Excess Losses**

- Two tiers for losses
  - Primary
    - First $5,000 of each loss
  - Excess
    - Any claims dollars beyond $5,000
    - Excess losses discounted later in calculation

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Expected Losses

26 **Expected Loss Rate (ELR)**

- Varies by class code
- Estimate of claims costs per $100 payroll
- Subject to certain experience adjustments:
  - No expenses
  - Inflation and benefit level adjustment
  - Capping of losses

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28 **Calculating Expected Losses**

- Expected Losses
  - (Payroll x ELR)/100
  - Example using 5645:
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  ($354,156 x 3.57)/100 =
  $1,264,337/100 =
  $12,643

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31 **A Change In ELR**

- If payroll remains constant from one year to the next, Expected Losses can still change
- Code 5645 changed from 3.37 in 2006 to 3.57 in 2007

32 **D-Ratio**

- Portion of expected losses that is projected to be primary

- Exp Losses x D-Ratio = Exp Prim Losses
  - $12,643 x 0.31 = $3,919

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Actual Losses

37 **Actual Losses**
- Claim count (Claim Data)
- Claim type (Injury Codes)
- Claim costs (Actual Incurred)

38 **Claim Data**
- Includes claim number if cost is greater than $2,000
- Indicates number of claims costing less than $2,000
  - Med Only and Indemnity claims are not grouped together
- Indicates if a claim is Open (O) or Final (F)
  -

39 **Injury Codes**

(1) Death
(2) Permanent Total Disability
(3) Major Permanent Partial Disability*
(4) Minor Permanent Partial Disability*
(5) Temporary Total Disability
(6) Medical Only
* Not reported in Utah

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41 **Actual Primary Losses**
- Only the first $5,000 are Primary Losses
- Med Only claims discounted 70%
  - Claims discounted after distinguishing Primary and Excess losses
  - $430 x 0.30 = $129
  - $656 x 0.30 = $197
  - NCCI worksheet doesn't show discount until the Totals at the bottom

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43 **Actual Excess Losses**
- All claims dollars above $5,000
- Indemnity claims are capped
  - Eff 12/1/06…
  - $89,000 per claim
  - $178,000 per multiple claim

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Break Time

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I Haven't Had Any Claims; Why Did My Emod Go Up?

47 **Two Key Calculations**

- Calculations based on NCCI Actuarial data
  - Weighting Value
  - Stabilizing Value

48 **Weighting Value**

- Found on Table Of Weighting Values
- Positively correlated to payroll
  - More Payroll = Larger Weighting Value
- Excess losses are limited by the Weighting Value
  - EL x W = Ratable Excess

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54 **Stabilizing Value**

- Makes the Emod more stabile
  - Less volatile, smaller swings
- Negatively correlated to payroll
  - More Payroll = Smaller Stabilizing Value

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56 **Stabilizing Value Effects**

- Before Stabilizing Value

57 **Stabilizing Value Effects**

- Before Stabilizing Value

58 **Stabilizing Value Calculation**

- (C) x (1-W) + (G)
  - C = Expected Excess Losses
  - 1 – W = Inverse of Weighting Value
    - Adds more weight to smaller insureds
    - Allows larger risks to "self-rate"
  - G = Tabular Ballast
    - Based on expected losses
    - Found on Table Of Ballast Values

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63 **Impact Of A Claim**

Bob's Building Yard had a lost time claim in the amount of $25,000. They are interested in determining how much this loss contributed to their mod.

1. Start with the mod calculation provided for Bob's Building Yard
2. Remove the $25,000 claim ($5,000 primary and $20,000 excess)

64 **Impact Of A Claim**

Mod calculation including $25,000 loss

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Practice Time

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Break Time

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What If I Have Multiple Entities?

68 **Multiple Entities**

- DBAs should all be on the same policy
- Separate legal entities (different FEINs) can be on the same policy if combinable
- NCCI combines the experience of all entities listed
  - Separate pages in worksheet for all policies
  - Ex: OCIP

69 **Combinability**

- ERM-14 sent to NCCI for ruling
- Common majority ownership
  - One person
  - Group of people
  - Corporation owns majority of another entity
  - One entity owns majority of another entity, which owns a majority of a third entity

70 **When to complete the ERM-14**

- A change in name or legal entity type
- Determination of combinability
- Transfer of operations or ownership
- Formation of a new entity that acts as a successor to a previous entity
- Merger, consolidation or receivership
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71 **Combinability**

- Since A owns a majority in both entities, these are combinable

72 **Combinability**

- Since all three entities are owned by the same two owners as a group, and as a group they own more than 50% or each entity, these are all combinable

73 **Combinability**

- NOP and QRS are combinable because A owns more than 50% of both entities
- TUV is combinable with NOP and QRS because A and B as a group own more than 50% in QRS and TUV

74 **Combinability**

- As a group, three individuals own 100% of both entities

75 **Combinability**

- Party C sells 60% ownership in GHI
- Entities are no longer combinable effective the date of the change

76 **Multi-State Entities**

- All NCCI states are included on worksheet
- Each state has its own ELR, D-Ratio, etc.
- Anniversary Rating Date (ARD) follows the state with the greatest premium

- Effective dates on individual policies may not line up with ARD
- ARD can change each year

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How Do I Manage My Emod?

78 **Medical Only vs Indemnity**

- Medical Only claims include medical bills
  - Med Only claims are discounted 70%
- Indemnity claims include medical bills and wage compensation
  - Indemnity claims are NOT discounted
- Early Return To Work Programs

79 **Claims Management**

- Large claims are paid out over time
  - Reserves are set based on adjuster's experience, industry averages
  - Under-reserved claims suppress Emods, jeopardize solvency of the carrier (surplus)
  - Over-reserved claims inflate Emods, decrease investment returns
  - WCF uses intermediate values of claims

80 **Claims Management**

- Emod is a snapshot of the claims dollars when the Unit Stats are sent to NCCI
- Stay in contact with the adjuster to help manage the claim and it's reserves
  - Check with adjuster on reserves prior to Unit Stats being sent to NCCI
  - Check for data accuracy with adjuster
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81 **Frequency vs Severity**

- The Emod calculation does NOT track frequency directly, however…
  - Primary losses are greater on multiple claims than on one large claim
  - Large claims are capped

82 **Emod Management**

- Per the National Safety Council, cost to society of unintentional injuries in 2004 was $574.8 billion
- An ounce of prevention is worth a pound of cure - safety programs can save money
- Which parts of a Safety Program are most critical to its effectiveness?

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Summary

84 **What Is An Emod?**

- Experience Modifier from the NCCI
- Tailors premium to policy holder's experience

85 **How Do I Qualify?**

- $7,000 in premium in one year or…
- $3,500 average premium over three years
- Experience lags by two years

86 **So It's Just A Comparison?**

87 **I Had No Claims…**

- The Stabilizing Value keeps it from going to zero
- Payrolls (and therefore expected values) change each year

88 **What About Multiple Entities?**

- All combinable entities should be on the same mod
- Separate policies get their own pages within the worksheet (ex: OCIP)
- ERM-14s are CRUCIAL to keeping mods updated

89 **How Do I Manage My Emod?**

- Medical Only vs Indemnity claims
- Talk to adjusters about claims reserves and data accuracy
- Early Return To Work Programs
- Safety programs

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The End