

NCCI Experience Modification: Understanding E-mods and How You Can Impact Your Factor

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Meet Your Presenter



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Today's Goal

Learn how your company's experience modification (e-mod) is calculated, how it impacts financials, and how you can positively impact your future e-mod.

Topics Covered

- Who is Pinnacol Assurance?
- Who is NCCI?
- Explanation of Loss Costs
- What is an E-mod?
- Objectives of an E-mod/Experience Rating
- Eligibility in Colorado
- Experience period
- The experience modification formula
- Frequency vs. Severity
- Attributes of an E-mod Worksheet
- Tools and Resources

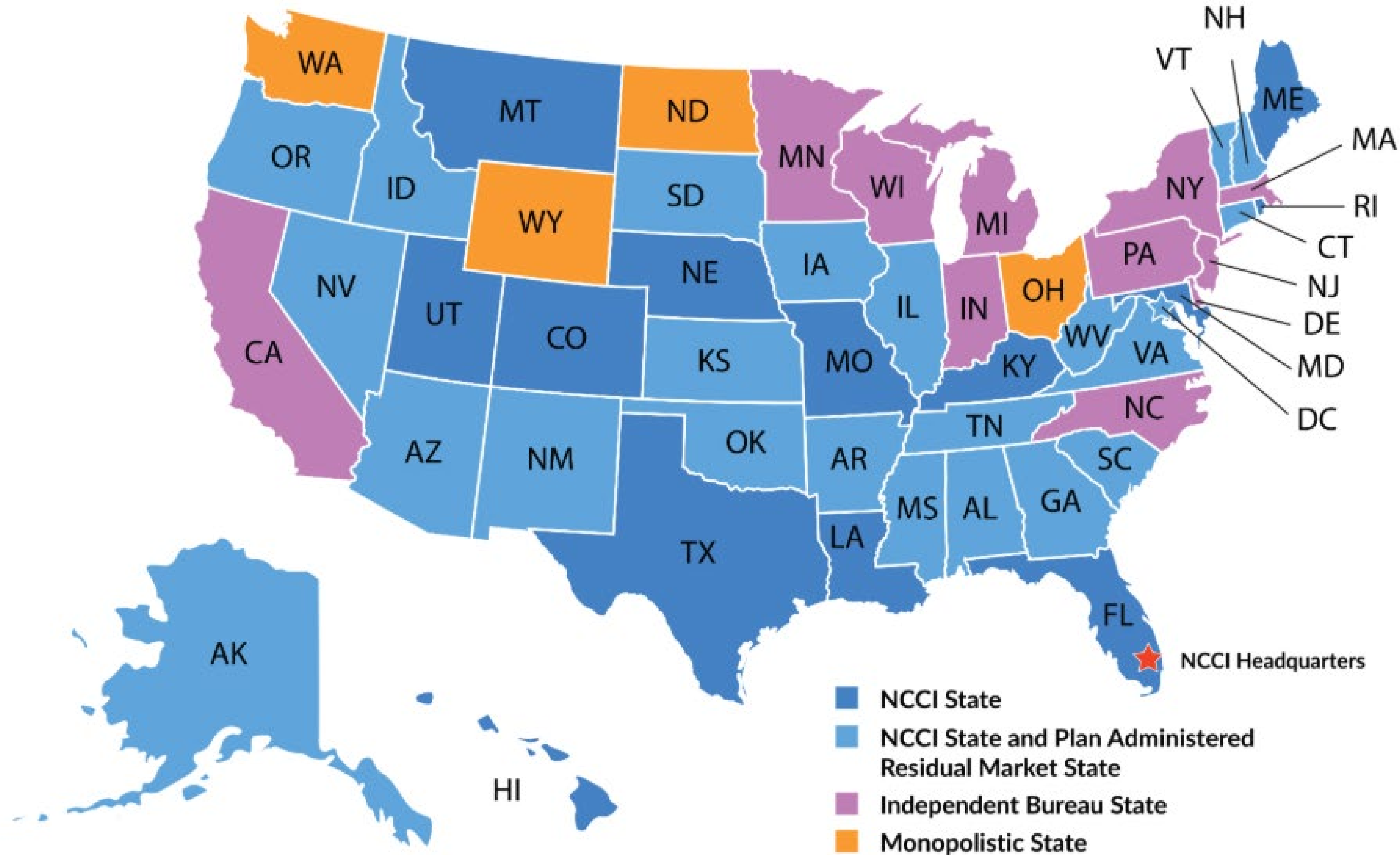
Who is Pinnacol Assurance?

- Founded in 1915 when CO enacted the Workers' Compensation Act
- Quasi-governmental entity operating as a mutual insurance company
- Provides workers' compensation insurance to CO employers
- Protects over 50,000 businesses and their employees

Who is ?

- National Council on Compensation Insurance — Nationwide rating organization for workers' compensation.
- NCCI collects and analyzes data and trends to provide objective insurance rates and loss cost recommendations, as well as establishing rules by which workers' compensation carriers operate, and calculating individual experience modification factors for eligible businesses.
- All workers' compensation insurers in NCCI states are required to submit their premium and loss data (unit statistical data).
- NCCI uses pooled data to develop actuarially based rates for each classification by state.
- NCCI is also the administrator of the residual market.
- NCCI provides industry insights, financial trends, and education to carrier affiliates as well as the public.

NCCI State Map - Jurisdiction



NCCI BY THE NUMBERS

Each year, we collect and analyze:



LEARN@NCCI

Online learning



EVENTS AND PROGRAMS

Engagement Hub



INSIGHTS

Spotlight on key issues



ABOUT US

Our company and culture



Loss Costs

Loss costs

There are about 550 workers' compensation classification codes in Colorado

A class code is a four-digit code used to identify types of businesses.

Examples include:

- 0036 = Dairy Farm Operations
- 2701 = Logging or Tree Removal
- 5445 = Drywall or Wallboard Installation
- 7219 = Trucking NOC All Employees and Drivers
- 8810 = Exclusively Office

Loss costs represent expected losses and loss expenses per \$100 of payroll for each classification code

Proposed loss costs contemplate expected losses and loss expenses

Loss costs are calculated by NCCI, and NCCI uses multiple years of data to determine their proposals.

Expected losses and loss expenses are based on a group of businesses likely to experience similar losses

Businesses are classified based on overall operations and grouped together to have the same general cost of insurance if all circumstances were equal.

Experience Modification

What is an E-mod?

- Experience Modification Rating Factor
a.k.a. e-mod or EMR
- Experience rating is designed to reflect individual differences in loss potential between employers and refine the pricing beyond the loss cost calculations.
- It is custom-calculated to match the individual risk characteristics of a business.
- A rating or pricing factor (out of many) included in the calculation of an employer's premium.

Objectives of an E-mod

- Identifies differences between individual employers with similar exposures to loss (size and class)
- Provides refinement in the premium determination process by comparing the industry average experience with an individual employer's own experience
- Predicts if an employer is likely to have better or worse loss experience than other like businesses based on their historical performance
- Provides incentive for an employer to control loss experience through safety and prevention measures

Objectives of experience rating

E-mod modifies premium

- Balances out overall experience for similar businesses by adjusting individual premium
- Unity experience modification = 1.00
- Factor less than 1.00 decreases premium (credit)
Example: 0.90
- Factor greater than 1.00 increases premium (debit)
Example: 1.10



Who qualifies for an e-mod?

NCCI calculates the premium for the policy periods used in the experience rating to determine eligibility

Formula

Manual premium + increased limits (employers' liability) – deductible discount = subject premium

Subject premium eligibility amounts table for Colorado

Rating effective date	Minimum subject premium eligibility amount based on subject premium from the most recent 24 months of the experience period (\$)	Minimum subject premium eligibility amount based on average annual subject premium if using more than 24 months of experience in the experience period (\$)
07/01/2025 and after	12,000	6,000
07/01/2024 to 06/30/2025	11,000	5,500
07/01/2023 to 06/30/2024	10,500	5,250

- NCCI updates eligibility thresholds each year
- The experience rating plan is mandatory for carriers who have accepted and implemented the use of the plan
- Premium eligibility differs by state.

Features of the Experience Rating Plan

- Recognizes both accident frequency and severity by use of a method called split rating
- Each loss amount (claim cost) is split between the primary portion of a loss (frequency) and the balance of the loss value, called excess (severity)
- Frequency impacts e-mod to a greater extent than severity
- Severity claim costs are capped
- This split rating value is also referred to as the “split point”

Factors affecting the e-mod

- Size of business/payrolls (expected loss)
- Type of business (expected loss)
- Total of all losses (actual loss)
- Size of each individual loss (actual loss)



Experience period

Period is generally the most recent three policy periods, excluding the most recent period

- Most recent period has not developed
- Sometimes, a company may have differing policy periods that do not align with their e-mod rating effective date (RED). For these e-mod calculations, the rating organization uses a period that is (a) not less than 21 months before the RED, and (b) not more than 57 months before the RED, and no greater than 45 months combined.

One-year workers' comp policy

- Rating is effective for a 12-month period



Loss experience included

Loss experience used = Total incurred losses

- Paid medical benefits - Doctor visits, physical therapy, surgery
- Paid indemnity benefits - lost wages (average weekly wage; 2/3 lost wages up to a cap)
- Claim Reserves (expected future costs) valued as of the date experience is reported
- First report of this data is sent to NCCI eighteen months after policy period effective date, then annually thereafter up to 10 total reports:
 - Example: policy period 06/01/2023-06/01/2024
 - Unit statistical (unit stat) data reported on 12/01/2024
 - Will appear on 06/01/2025 e-mod
- Example: payroll and losses used for e-mod calculation for a RED of 06/01/2025
 - 6/1/2021 – 6/1/2022
 - 6/1/2022 – 6/1/2023
 - 6/1/2023 – 6/1/2024

Loss experience excluded

- Loss adjustment expense (administrative – legal, investigation, etc.)
- Amounts above the state accident limitation
 - Colorado per claim accident limitation (2025) - \$136,500
 - Colorado multiple claim accident limitation (2025) - \$273,000
- Colorado mandates the removal of claim amounts within the small deductible table (net of deductible calculations)
- Pinnacol must offer a deductible that matches the “split point”
- The Colorado legislature made these changes in 2013

How is the E-Mod Calculated?

The Formula



Calculating the E-mod

- Loss amounts used are the total of Primary Losses + Stabilizing Value + Ratable excess for both Actual and Expected Losses

$$\text{E-mod} = \text{Total Actual Losses} / \text{Total Expected Losses}$$

- If result < 1.0 – Equates to a percentage **discount** to the premium (e.g. 0.90 e-mod factor = 10% credit)
- If result > 1.0 – Equates to a percentage **surcharge** to the premium (e.g. 1.10 e-mod factor = 10% debit)
- If result = 1.0 – No change to premium

E-mod formula

Actual Losses (Customer)

Primary

Stabilizing value

Ratable excess



Expected Losses (NCCI)

Primary

Stabilizing value

Ratable excess

E-mod formula example

$$\text{E-mod} = \$43,863 \text{ (Actual losses)} / \$27,804 \text{ (Expected losses)} = 1.58$$

- **Actual** = \$14,500 (Primary)
+ \$23,763 (Stabilizing)
+ \$5,600 (Excess)
= **\$43,863**
- **Expected** = \$3,088 (Primary)
+ \$23,763 (Stabilizing)
+ \$953 (Excess)
= **\$27,804**

Frequency vs. Severity

- A significant feature of experience rating is that it recognizes that the *cost* of a specific accident is often left to chance and is statistically less predictable than the fact that the accident *occurred*.
- E-mod emphasizes, or puts more weight on, frequency because frequency of loss is more indicative of future losses than the amount of any loss
- Portion of claim below split point are the frequency losses:
 - 2022 = \$18,500
 - 2023 = \$18,500
 - 2024 = \$14,500
 - 2025 = \$14,500

Employer #1

Over the last 4 years:

- One claim
- Total claim cost = \$120,000

Employer #2

Over the last 4 years:

- 3 claims per year
- Average claim cost = \$10,000 per claim
- Total claim cost = \$120,000

Who do you predict to have a greater probability of future losses?

Remember, the cost of the claim is important, and is factored into e-mod calculation. However, the cost of claims are left to chance, and the more predictable indicator of future potential losses is the history of losses that have occurred. One large loss does not imply a pattern.

Attributes of E-mod Worksheets

WORKERS COMPENSATION EXPERIENCE RATING									
 Risk Name: EXAMPLE ONLY Risk ID: 910999999									
Rating Effective Date: 01/01/20X6 Production Date: 10/01/20X5 State: INTERSTATE									
State	Wt	Exp Excess Losses	Expected Losses	Exp Prim Losses	Act Exc Losses	Ballast	Act Inc Losses	Act Prim Losses	Split Point
AL	.13	0	0	0	0	44,620	0	0	23,500
AZ	.15	0	0	0	0	25,990	0	0	16,500
*AR	.10	378	578	200	0	29,100	0	0	18,500
CO	.08	361	601	240	0	28,500	0	0	18,500
CT	.13	335	506	171	0	50,370	0	0	20,000
DC	.13	233	388	155	0	52,210	0	0	23,500
FL	.13	29,548	49,124	19,576	44,176	43,240	67,513	23,337	18,000

E-mod worksheets now include the Split Point for each state included in the e-mod calculation. Helps employers understand the primary portion of the losses in each of those states.

The summary section of the e-mod worksheet shows actual losses vs. expected losses, and how the factor is calculated using those figures.

223,677 (actual)

223,590 (expected) = 1.00038905

WORKERS COMPENSATION EXPERIENCE RATING									
 Risk Name: BUSINESS NAME Risk ID: 000000000									
Rating Effective Date: 01/01/2022 Production Date: 11/05/2021 State: STATE									
State	Wt	Exp Excess Losses	Expected Losses	Exp Prim Losses	Act Exc Losses	Ballast	Act Inc Losses	Act Prim Losses	
STATE	.16	196,542	291,065	94,523	0	50,600	130,920	98,935	
(A) (B) (C) Exp Excess Losses (D) Expected Losses (E) Exp Prim Losses (F) Act Exc Losses (H - I) (G) Ballast (H) Act Inc Losses (I) Act Prim Losses	Wt								
.16		196,542	291,065	94,523	0	50,600	130,920	98,935	
		Primary Losses		Stabilizing Value		Ratable Excess		Totals	
Actual	(I)	68,584		C * (1 - A) + G 150,615		(A) * (F) 4,478		(J) 223,677	
Expected	(E)	56,172		C * (1 - A) + G 150,615		(A) * (C) 16,803		(K) 223,590	
		ARAP		FLARAP		SARAP		MAARAP	
Factors		1.00						(J) / (K) 1.00	

Attributes of E-mod Worksheets (cont'd)



Risk Name: BUSINESS NAME

Risk ID: 000000000

Rating Effective Date: 01/01/2022

Production Date: 11/05/2021

State: STATE

00-STATE

Firm ID:

Firm Name: BUSINESS NAME

Carrier: 00000

Policy No. 0000000

Eff Date: 01/01/2022

Exp Date: 01/01/2023

Code	ELR	D-Ratio	Payroll	Expected Losses	Exp Prim Losses	Claim Data	IJ	OF	Act Inc Losses	Act Prim Losses	
3724	.79	.32	1,070,756	8,459	2,707	NO.4	05	*	28,000	28,000	
5551	3.62	.32	1,996,027	72,256	23,122	170001		F	49,985	49,985	
5606	.26	.32	602,657	1,567	501	NO.5	06	*	6,000	6,000	
8227	1.05	.37	157,171	1,650	611	170002	06	F	17,359	17,359	
Policy Total:				8,052,550	Subject Premium:		308,889		Total Act Inc Losses:		101,344

Each state with experience will appear separately by business, policy number and policy period, and will include which carrier provided coverage.

Each policy period includes all ratable class codes, including statistical codes, the payroll associated with each class code and expected losses.

Each policy period also includes actual losses and loss amounts. Claims under \$2,000 each will be grouped together by injury type.

E-mod Revisions

When can unit stats be corrected?

- Exposure corrections (revised audits)
- Errors (claim number, ITC, incurred amounts)
- Non-compensability ruling
- Fraud ruling
- Subrogation recovery of $\geq 10\%$

Tools and Resources

Proactive vs Reactive

What can you do to improve e-mod?

- Agent and Carrier Relationship
- Deductible consideration
- Safety Culture
- Return to Work
- Claims Management
- Subrogation



Agent and Carrier Relationship

- **Differing business operations – make the right choice**
- **Upfront and ongoing transparency**
 - **This goes both ways**
- **Utilize all your resources**



Find your deductible sweet spot

Loss Amount	Net of \$500	Net of \$1000	Net of \$1500
\$589	\$89	\$0	\$0
\$1,436	\$936	\$436	\$0
\$2,017	\$1,517	\$1,017	\$567
\$339	\$0	\$0	\$0
\$994	\$494	\$0	\$0
\$1,372	\$872	\$372	\$0



Safety Services

- **Safety Culture**
- **Cost Containment Certification**
 - Safety Program
- **Loss Trend Reports**
- **On-Site Visits**
 - Carrier, Agent, or 3rd Party



Claims Management

- **Initial Injury Reporting Process**
- **Loss Trend Analysis**
- **Quality Medical Care**
 - **Interview your Providers**
 - **Eliminate ER Visits, except for emergent situations**
 - **Return to Work/Light Duty**
 - **Provider Relations**

Experience rating resources



ncci.com

Learning Center > Experience Rating

ncci.com/LearningCenter/Pages/LearningCenter.aspx?webinarseries=experience%20rating

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