NCCI Experience Modification Changes

What are the changes and
what should you know

Summary of Mod Values

- Expected Loss Ratio (ELR) – Amount of losses that would be expected in connection with a typical risk in a given classification
  - Each class has a different ELR
- Primary Losses – First tier/level of losses considered in mod calculation
- Excess Losses – Losses above primary
- Actual Losses (primary/excess) – Losses actually incurred
- Expected losses (primary/excess) – Losses expected with a typical risk given classes and payroll on the policy

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Summary of Mod Values

- Ratable Excess Losses – Excess losses used in mod calculation
- D-ratio – Ratio that determines the dividing line between expected primary and excess losses
- Stabilizing Value – Value intended to stabilize the mod and reduce fluctuations
- Weighting Value – Discounting factor applied to excess losses
  - More discounting for smaller businesses means excess losses effect them less relative to bigger businesses

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Mod Calculation

- Expected Losses
  - (Payroll/100) X ELR
- Expected Primary Losses
  - Expected losses X D Ratio
- Actual primary losses
  - Actual Losses up to the primary loss limitation (split point)
- Ratable Excess losses (expected/actual)
  - Excess Losses X Weighting Value

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Mod Calculation

- Calculation of Totals
  - Total Actual Losses = Actual Primary + Stabilizing Value + Actual Ratable Excess
  - Total Expected Losses = Expected Primary + Stabilizing Value + Expected Ratable Excess
- Mod
  - Total actual Losses/Total Expected Losses

Purpose of Mods

- Recognize the differences among individual businesses with respect to safety and loss prevention.
- The goal in the aggregate is to generate mods that drive loss ratios to 100%

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Why Is NCCI Making the Change?

- Medical Inflation
  - Modifier formula hasn't changed in 20 years while medical inflation has accelerated
  - The average claim cost has risen from $2,500 to $8,800
- Bring Expected Loss Ratios Back to 1.0
  - Currently the very best are subsidizing the very worst in balancing rates

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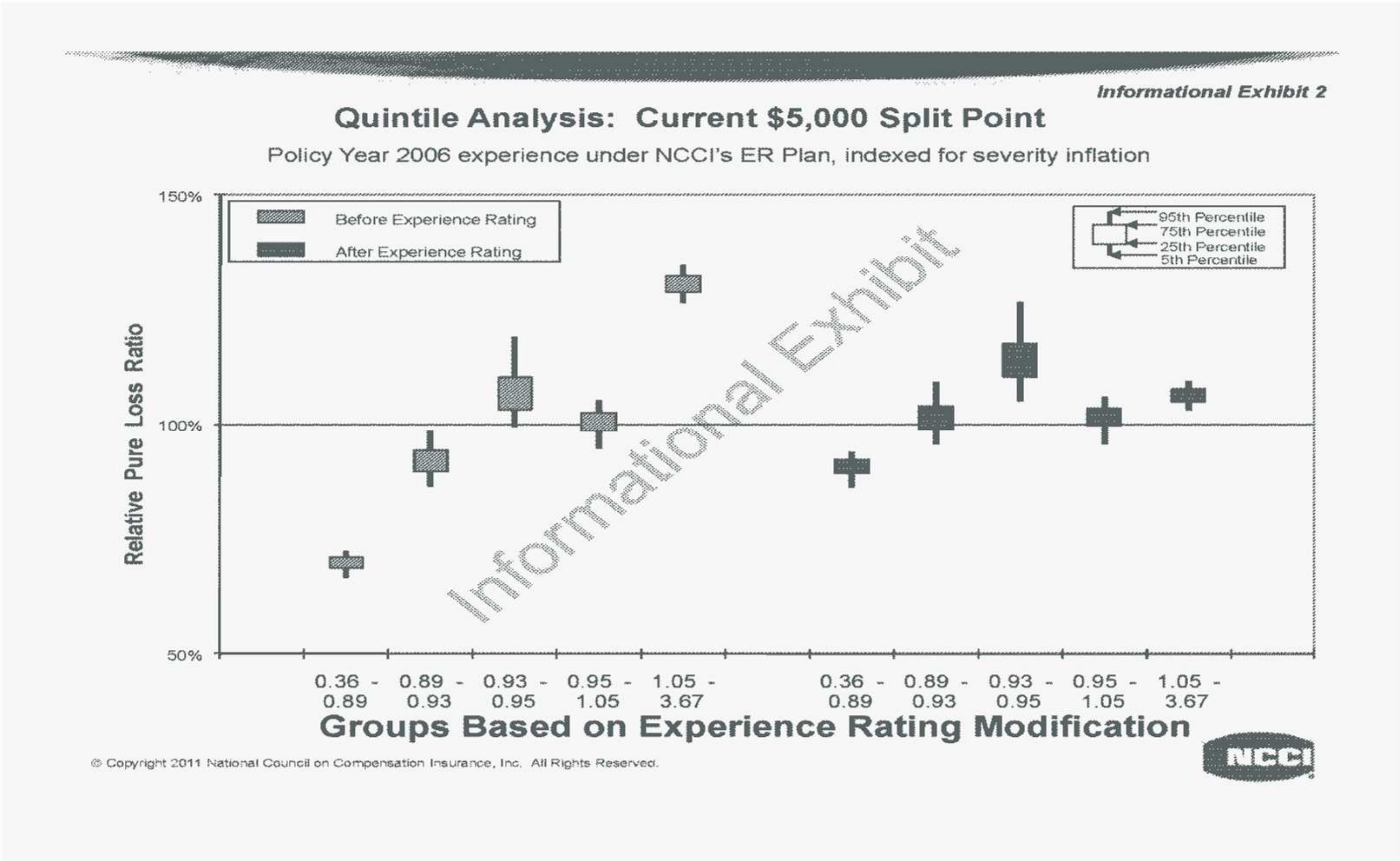
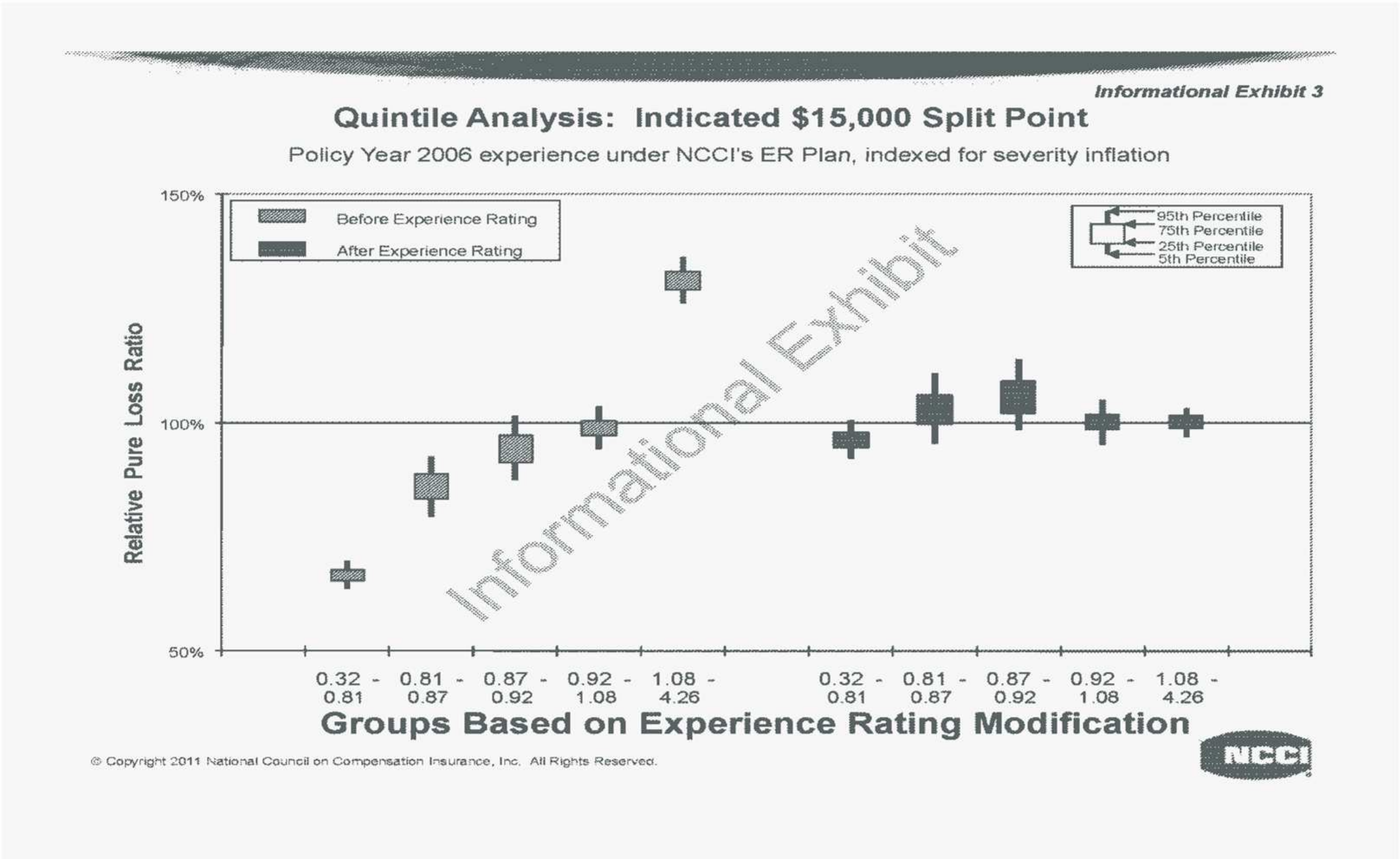
NCCI Analysis Without Changes



NCCI, Circular CIF-2011-14, Informational Exhibit 2

NCCI Analysis With Changes



NCCI, Circular CIF-2011-14, Informational Exhibit 3

Review : Split Point

- Claims are divided into primary losses and excess losses
  - Primary losses are counted in full toward the modifier
  - Excess losses are discounted and do not affect the modifier as much as primary losses
- The split point is the threshold that divides actual primary from actual secondary loss dollars

What Is Being Changed?

- Starting in 2013, NCCI will change the split point which is currently set at $5,000
  - In 2013 the split point will move to $10,000
  - In 2014 the split point will move to $13,500
  - In 2015 the split point will move to $15,000
  - Thereafter the split point will change based on an index

Effective Dates of Change

- Rating Effective Date(RED)
  - Earliest date that a specific mod is applied to a policy
  - In most states, also the date that any other rating changes are applied
- Effective dates will be different depending on your RED and state coverage is in
- The split point will change on the first RED following the effective date in a given state
- See the following table with effective dates by state.

States and Effective Dates of Change

NATIONAL COUNCIL ON COMPENSATION INSURANCE, INC.
(Applies in: AK, AL, AR, AZ, CO, CT, DC, FL, GA, HI, IA, ID, IL, IN, KS, KY, LA, MA, MD, ME, MO, MS, MT, NC, NE, NH, NM, NV, OK, OR, RI, SC, SD, TN, UT, VA, VT, WV)

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FILING MEMORANDUM

ITEM E-1402—REVISIONS TO THE EXPERIENCE RATING PLAN PRIMARY/EXCESS SPLIT POINT VALUE AND MAXIMUM DEBIT MODIFICATION FORMULA

The following chart shows the proposed effective dates for each state:

State	Proposed Effective Date*
Alabama	March 1, 2013
Alaska	January 1, 2013
Arizona	January 1, 2013
Arkansas	July 1, 2013
Colorado	January 1, 2013
Connecticut	January 1, 2013
District of Columbia	November 1, 2013
Florida	January 1, 2013
Georgia	March 1, 2013
Hawaii	January 1, 2013
Idaho	January 1, 2013
Illinois	January 1, 2013
Indiana	January 1, 2013
Iowa	January 1, 2013
Kansas	January 1, 2013
Kentucky	October 1, 2013
Louisiana	May 1, 2013
Maine	January 1, 2013
Maryland	January 1, 2013
Massachusetts	TBD
Mississippi	March 1, 2013
Missouri	January 1, 2013
Montana	July 1, 2013
Nebraska	February 1, 2013
Nevada	March 1, 2013
New Hampshire	January 1, 2013
New Mexico	January 1, 2013

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States and Effective Dates of Change

NATIONAL COUNCIL ON COMPENSATION INSURANCE, INC.
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FILING MEMORANDUM

ITEM E-1402—REVISIONS TO THE EXPERIENCE RATING PLAN PRIMARY/EXCESS SPLIT POINT VALUE AND MAXIMUM DEBIT MODIFICATION FORMULA

State	Proposed Effective Date*
North Carolina	April 1, 2013
Oklahoma	January 1, 2013
Oregon	January 1, 2013
Rhode Island	June 1, 2013
South Carolina	July 1, 2013
South Dakota	July 1, 2013
Tennessee	March 1, 2013
Utah	December 1, 2013
Vermont	April 1, 2013
Virginia	April 1, 2013
West Virginia	November 1, 2013

* Subject to change

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How Will This Affect Your Mod?

- Risks with good credit mods will see their mod drop even lower
- Risks with poor debit mods will see their mod increase even higher
- Risks around 1.0 will have varied results
  - Some credit mods may become debits and some debit mods may move below 1.0
- Large employers will see the biggest changes

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Good News!

The change in split point will not change strategies for managing your mod.

How Do You Control Your Mod?

- Early Return to Work and Modified Duty are still the best ways to control your mod with these changes
  - Medical only claims are still discounted 70% and this makes a large difference
- Controlling the frequency of claims is now even more important
  - Preventing smaller claims should be a focus

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Questions?