Doing the splits:
How experience rating and other changes are affecting your customers

Kyle Carlton, Underwriter
Linda Hale, Underwriter
Continuing education credit

To receive one hour of CEC credit, agents must:

**Sign in** at the beginning of class.

Attend entire class.

Not miss more than five minutes.

Sign out at the end of class.
Overview

• Experience rating
  • What is it
  • Calculation
  • Noncompensable claims
  • Split point formula change

• Nondisabling reimbursement
  • Impact on ER mod
  • Business Online
Background and purpose of experience rating

- Helps predict future policyholder performance based on past losses
- Adjusts industry average class rates to reflect individual policyholder variations
- Creates a financial incentive to create a safe workplace
A mandatory plan

- Administered by NCCI, not your carrier
- All Oregon WC carriers are subject
- All employers are required to use their experience modification
Calculation of experience

- Calculated by NCCI
- Sent to the policyholder’s workers’ compensation carrier
- Typically released 90 days prior to effective date
Base period

2015 Current year
2014 Lag year
2013 Base years
2012
2011
### WORKERS COMPENSATION EXPERIENCE RATING

**Risk Name:** ABC COMPANY  
**Risk ID:** 3609999999  
**Production Date:** 10-17-2014  
**State:** OREGON  
**Rating Effective Date:** 01/01/2015

#### 36-OREGON

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**Firm Name:** ABC COMPANY

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**Policy Total:** 1,118,136  
Subject Premium: 35,478  
Total Act Inc Losses: 61,724

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**Policy Total:** 1,133,467  
Subject Premium: 35,820  
Total Act Inc Losses: 0

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**Policy Total:** 1,604,982  
Subject Premium: 58,961  
Total Act Inc Losses: 40,471
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Policy Total: 1,118,136  Subject Premium: 35,478  Total Act Inc Losses: 61,724

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Policy Total: 1,133,467  Subject Premium: 35,820  Total Act Inc Losses: 0

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Policy Total: 1,604,821  Subject Premium: 58,861  Total Act Inc Losses: 40,471
# Worksheet summary

## Workers Compensation Experience Rating

**Risk Name:** ABC COMPANY  
**Risk ID:** 3609999999  
**Rating Effective Date:** 01/01/2015  
**Production Date:** 10-17-2014  
**State:** OREGON

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Expected losses

- Expected losses are estimated based on:
  - Payroll
  - Classification
  - Expected loss rate (ELR)
## Expected losses

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Actual incurred losses

A policyholder’s reported injuries that include:

- Actual costs (paid)
- Potential costs (outstanding reserves)
## Actual incurred losses

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**Total Act Inc Losses:** 61,724
Excluded and capped claims

Certain claims costs are excluded:

- Preferred Worker claims
- Claims that are reported as coal mine disease (Black Lung)
- Accidents involving only one person subject to per-claim accident limitation
- Accidents involving two or more persons subject to multiple-claim accident limitation
Excluded and capped claims

• An employer’s liability loss is subject to the employer’s liability per-claim accident limitation.

• Disease losses are subject to per-claim and multiple-claim limitations.

• Medical or legal expenses incurred for the benefit of the carrier (ALAE)

• Anticipated third-party recoveries

• Nondisabling reimbursements

• Fraudulent claims
Excluded and capped claims

Noncompensable claims
Noncompensable claim

• Any claim in which:
  
  • All claimed conditions are denied and the denial is final.
  
  • Denial was not appealed or the denial was upheld through litigation.

• Denied claims with settlements are not considered noncompensable under this change and will be included in the experience rating.
Split point

- Frequency leads to severity.
- Severity can vary and is difficult to predict.
- Frequency is much more predictable.
- Higher frequency is penalized.
- Primary costs impact mod at full value.
- Excess costs impact mod at reduced value.
<table>
<thead>
<tr>
<th>Code</th>
<th>ELR</th>
<th>D-Ratio</th>
<th>Payroll</th>
<th>Expected Losses</th>
<th>Exp Prim Losses</th>
<th>Claim Data</th>
<th>IJ</th>
<th>OF</th>
<th>Act Inc Losses</th>
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<td>118</td>
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</table>

Policy Total: 1,118,136
Policy Premium: 35,478

Total Act Inc Losses: 61,724

Split point
2013 NCCI formula change for split point

- It had been $5,000 for more than 20 years.
- Average first report claim cost was $2,537.
- In 2012, average first report claim cost was $8,787.
- The plan has become less responsive.
- It must be indexed to keep up with inflation.
**Split point change**

January 1, 2013, the split point increased to $10,000.

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<thead>
<tr>
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<td><strong>10,000</strong></td>
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<td></td>
<td></td>
<td></td>
<td><strong>61,724</strong></td>
</tr>
</tbody>
</table>
Split point change

- **January 1, 2014,** the split point increased to $13,500.

- **January 1, 2015,** the split point increased to $15,500.

- Subsequent increases will be as the inflation index indicates.
Impact to policyholders?

- Overall, statewide impact will be revenue neutral.
- In general, experience credits will become larger.
- In general, experience debits will become larger.
Example #1

- Rubber goods manufacturer
- Estimated annual premium: $25,000

Split points:
- $5,000: 1.33
- $10,000: 1.43
- $13,500: 1.48
- $15,500: 1.51
Example #2

- Furniture store
- Estimated annual premium: $41,000
- Split points:
  - $5,000: .76
  - $10,000: .71
  - $13,500: .68
  - $15,500: .67
Example #3

- Steel fabricator
- Estimated annual premium: $130,000
- Split points:
  - $5,000: .92
  - $10,000: .96
  - $13,500: .97
  - $15,500: .98
Example #4

- Nonprofit group home
- Estimated annual premium: $60,000
- Split points:
  - $ 5,000: 1.75
  - $10,000: 2.11
  - $13,500: 2.32
  - $15,500: 2.51
How will this impact the insured?

• Greater impact to WC premiums:
  • Positive
  • Negative

• Mods greater than 1.00 could further impact pricing:
  • Qualifying for group discounts
  • Qualifying for the OCCPAP

• Relationship with owners or general contractors
Influencing the mod

- Develop an action plan to:
  - Prevent future injuries.
  - Manage future injuries.

- Review current policies and procedures.

- Determine:
  - Why the mod is going up
  - How to control it
Future action plan

• Make loss control a top priority!
• Monitor claims closely.
• Bring employees back on light duty ASAP.
• Consider the ND reimbursement program.
Nondisabling reimbursement

- Oregon legislature enacted the law in 1987.
- Employers can reduce or eliminate claims used in future mod calculations.
- Maximum ND reimbursement started out at $500.
- On January 1, 2015, the maximum ND reimbursement increased to $1,900.
Nondisabling claim defined

Injured worker does not receive any payment for:

- Time lost from work
- Any permanent disability
How does the program work?

• Employers may choose to participate.

• Enrollment form is completed and sent to workers’ compensation carrier.
  • Received within 30 days of the policy inception
  • After 30 days – effective on date received or after

• Participation continues until:
  • Insurer is notified in writing to cancel participation.
  • Coverage is cancelled.
Employer responsibility

- Form 801 must still be submitted.
- Employer cannot pay medical providers directly.
- Workers’ compensation carrier will:
  - Determine compensability.
  - Process claim.
- Carrier invoices are sent outlining eligible claims.
SAIF’s reimbursement options

Guaranteed cost and regular retros including AGC group retros

- Quarterly option:
  - NDR billings are issued every 3 months.
  - Quarterly billings continue for 27 months.
  - 60 days to reimburse.
Reimbursement options

Annual option:

• First billing is issued 15 months after effective date.

• Second billing is sent one year later.

• Policyholder has 60 days in which to reimburse.
SAIF’s reimbursement options

- Cash flow retros
  - Incurred loss
  - Paid loss
- ND reimbursement is now automatic.
  - Applied each quarter
  - Statement included at retro evaluations
Impact of ERM changes to NDR

- 227 GC policies with 2013 effective dates
- Premium from less than $7,500 to more than $200,000
- Range of mods from .53 to 1.91
Impact of ERM changes to NDR

• We made four ERM calculations:
  • 2012 formula with no ND reimbursements
  • 2012 formula with all ND reimbursed
  • 2013 formula with no ND reimbursements
  • 2013 formula with all ND reimbursed

• Compared outcomes
When does NDR make sense?

Net savings:

- Annual premium savings – annual average NDR

Below $15,000

- Insignificant savings
- Resulted in additional cost

When standard premium was greater than $15,000
Does 2013 change impact NDR?

- 227 GC policies with 2013 effective dates
- 121 with standard premiums greater than $15,000
- 78 (65%) with no change in the reduction amount
Does 2013 change impact NDR?

Example:

- 2012 unreimbursed mod: 1.21
- 2012 reimbursed mod: 1.16
- **Reduction:** .05

- 2013 unreimbursed mod: 1.13
- 2013 reimbursed mod: 1.08
- **Reduction:** .05
Does 2013 change impact NDR?

- 14 (12%) with a \textbf{.01 increase} in the reduction
- 2 (2%) with a \textbf{.02 increase} in the reduction
- 2 (2%) with a \textbf{.03 increase} in the reduction
- 1 (1%) with a \textbf{.04 increase} in the reduction
- 1 (1%) with a \textbf{.05 increase} in the reduction
Does 2013 change impact NDR?

- 21 (17%) with a .01 drop in the reduction
- 1 (1%) with a .02 drop in the reduction
- 1 (1%) with a .03 drop in the reduction
Conclusion

- **81%** had no change or a small increase in reduction.

- **19%** had a small drop in the reduction.

Generally speaking, **2013 change did not significantly impact NDR.**
Qualifier

• Each policyholder is unique:
  • Needs individualized analysis
  • Anticipated annual reimbursement costs
  • Anticipated annual premium savings
  • Net impact

• Impact of future formula changes is unknown.
Additional considerations for GC policies

Benefits:

- Potential for reduced net workers’ compensation costs
- Increased loss awareness
- Contractors’ need to keep mod below 1.00
- Group programs require mod to be below 1.00
- Program is flexible
- Easy to administer
Additional considerations for GC policies

Drawbacks:

- Possibility of net loss
- Possibility net savings not significant
- Impact on only three future policy years
- Significant time delay before savings realized
- Difficult to forecast savings because of variables
Retros including AGC Retros

- Employer pays for claims
  
  Retro premium = (basic + converted claims) x TM

- Out-of-pocket cost the same

- Reimbursed claims credited
  
  Retro premium = [(basic + converted claims) x TM] - NDR payments

- DCBS assessment reduced
Business Online

- Rating plan analysis
- Online reimbursement option
Rating plan analysis
### Rating Plan Analysis

- **Policy**: 939088 - Policyholder
- **Legal Name**: Policyholder
- **Status**: Active
- **Agency**: SAIF Appointed Agent
- **Market Type**: Voluntary
- **Relation Type**: Rate Account

#### Rating Plan Analysis
- **ARD**: 02/01/2013
- **ER Eff**: 02/01/2013
- **ER Mod System**: 08/10/2012

#### Calculation

**Policy Experience Summary**

<table>
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<tr>
<th>Policy</th>
<th>Wt</th>
<th>Expected Excess Losses</th>
<th>Expected Losses</th>
<th>Expected Primary Losses</th>
<th>Actual Excess Losses</th>
<th>Ballast</th>
<th>Actual Incurred Losses</th>
<th>Actual Primary Losses</th>
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### Experience Rating Calculations

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<th>Ratable Excess</th>
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<td>(j)</td>
<td>(f)</td>
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<tbody>
<tr>
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<td>1.35</td>
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<td>1.32</td>
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</table>

**System Messages**

Tentative modifier (not final). SAIF only data. May be less than full base period.
Create Rating Plan Analysis

Required Data

Analysis Name: Test Analysis

* ARD: 7/1/2013

Rating Eff Date: [blank]

[Create] [Cancel]
Rating Plan Analysis

Policy: 939088 - Policyholder

Legal Name: Policyholder Legal Name
Status: Active
Agency: SAIF Appointed Agent

Market Type: Voluntary
Relation Type: 
Rate Account:

Rating Plan Analysis

ARD: 07/01/2013 - ER Eff: 07/01/2013 - DEMOAGENCY 04/22/2013 - Test Analysis

Rating Plan Analysis Name: Test Analysis
Type: Test
Base Period Range: 10/1/2008 - 10/1/2011
Risk ID Number: 9999999999

Updated by/Date: SARAP/ARAP Factor: 1.35
ER Mod Eligible/Factor: Yes - 1.32

Calculation | Policies | Units | Exposure | Losses

Unit: 939088 - POLICYHOLDER - 02/01/2009 - 02/01/2010, 939088 - POLICYHOLDER - 02/01/2010 - 0

Max NDR | Zero Out NDR

<table>
<thead>
<tr>
<th>Policy Number</th>
<th>Policy Name</th>
<th>Unit Eff Date</th>
<th>Claim</th>
<th>Date of Injury</th>
<th>Claim Type</th>
<th>Gross Incurred Losses</th>
<th>ND Reimb</th>
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New Policy Changes Application - Now Available

SAIF has launched a new application to allow policyholders and agents to submit policy changes and requests online. The application will allow users to submit requests for:

- Address and contact changes
- Business name changes
- Canceling a policy
- Adding/removing class codes
- EIN changes
- Employer liability limit changes
- Payroll changes
- Preferred worker changes
- Waiver of subrogation changes
- Freeform for other types of requests

All changes and requests submitted will be directed to appropriate policy staff at SAIF for processing. The application will also send a confirmation email of the change or request to the requestor.

A video demonstration is available under Tutorials at the right side of this screen.

saifQuote Overhaul Completed

The following enhancements to saifQuote were released on 2/27/2013:

- Quote documents now follow the regional model and incorporate content from the fax cover sheet into the cover letter.
- Attachments can be uploaded prior to Submitting to SAIF at Step 10.
- Payroll is now required when entering prior coverage.
- Sales rep will default to the current user (internal staff only) when sales rep equals current user. Producer will then default to equal SAIF.

Preferences on the worklist will include the ability to save sales rep and underwriter.

First Fill Enrollment Is Automatic When Policyholders Submit a Claim Online
Hands-free is not risk-free

An employee using a cell phone—even hands-free—while driving is four times as likely to crash. The risks are obvious, so why do people keep doing it?
Welcome to your Employer Guide

This guide is where to go for news and announcements, our calendar of free trainings, and helpful information about the workers’ comp process, like how to report payroll. Don’t miss the Safety and Health section, which is full of videos, guides, and other resources on over 70 workplace safety topics.

This guide is also where you can access Business Online, the secure site where you can check your policy profile, check a claim profile, pay your premium online, issue or renew your certificates of insurance, request and file payroll reports, and more.

Employer news

- **Hands-free is not risk-free**
  April is Distracted Driving Awareness Month, and the National Safety Council has posters and hand-outs to share with your employees.

- **Oregon company is one of only 11 in U.S. to get affiliation with national worker safety and health effort**
  Access to leading resources and research will help make Oregon workers safer and healthier.
ND reimbursement
Enter amount to pay

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</table>

Statement date 12/03/2012

Claims selection and payment must be received by 6:00 p.m. on 05/05/2013.

You may increase or decrease requested amounts.

Pay by mail  Pay online

View additional statements 12/03/2012

* Preferred Worker claims are not included in the Nondisabling Claims Reimbursement program.
The amounts you reimburse SAIF will not be included in your Experience Rating Modification.
Select payment option

Balance Summary:

<table>
<thead>
<tr>
<th>Balance Description</th>
<th>Amount</th>
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<td>New Transactions View Details</td>
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<tr>
<td>Nondisabling claims reimbursement for statement due by 05/05/2013 View Statement</td>
<td>$84.85</td>
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<tr>
<td>Estimated Remaining Policy Balance View Future Installments</td>
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</table>

Payments submitted after **6:00 pm Pacific** time will be applied to your policy tomorrow.

Pay with eCheck or credit/debit card: [Continue]

Online payment questions? Call 888.598.5880 (M-F 8am-5pm PST)
Additional Resources

- www.NCCI.com
- www.SAIF.com
- Your SAIF underwriter