

How does NCCI plan to accomplish performance improvement?

- Implement state-specific split points reflecting an average D-ratio of approximately 40% by state
 - Currently the split point is set at a common level across states where NCCI provides ratemaking. Because the average D-ratio in a state depends not only on the split point, but also on that state's average claim costs, having a common split point results in an average D-ratio that varies widely across states.
- Revise the calculation of accident limitations to reflect the 95th percentile of lost-time claims
 - The state per claim accident limitation (SAL) is used to curtail the impact of large claims on the experience rating modification because large outlier claims are generally not expected to be predictive of future loss experience.
 - The new definition of the SAL and USL&HW per claim accident limitation results in lower limits in every state, making experience rating modifications less sensitive to large outlier claims without sacrificing predictive accuracy.
- Revise the calculation of G to reflect accident limitations and the reduction of medical-only losses, where applicable
 - G represents state average claim severity (in thousands of dollars). While G currently reflects the unlimited average severity in a state, this item proposes to update the methodology under which G is calculated to reflect accident limitations and the 70% reduction of medical-only losses (per the experience rating adjustment [ERA]), where applicable.
 - In the calculation of an employer's expected claim count, the employer's expected losses are divided by the G value (average claim severity). Because expected losses already reflect ERA and accident limitations, this change in how G is calculated makes for a more consistent calculation of each employer's expected claim count. In turn, this is expected to result in more appropriate credibility being assigned to each employer's loss experience.
- Update the credibility parameters underlying the weight and ballast values
 - The proposed credibility parameters underlying the weight and ballast values have been recalibrated to increase equity across employers. All other things being equal, the new credibility parameters would increase credibility for larger risks and decrease credibility for smaller risks. However, because of the interaction of the split point change with the credibility change, the combined impact will vary across states and across employers of difference sizes.
- Simplify the D-ratio calculation by removing the classification-level weighting adjustment
 - NCCI currently produces D-ratios that vary by classification code. D-ratios are first calculated by hazard group (HG) and then adjusted to reflect a classification's share of indemnity and medical pure premium. While the classification-level adjustment adds complexity to the calculation, NCCI's research found that this adjustment does not add value. As such, this item proposes to eliminate the classification-level adjustment, meaning that the D-ratio will vary only by HG and not by classification code.