

How Will Mods Change Under New NCCI Plan Recommendations?

Editor's note: Don't miss our newer articles on this topic :

- *News Regarding the 2013 Split Point Change (from NCCI and Independent Bureau States) 2/8/2012*
- *New Report Estimates Mod Change Due to 2013 Split Point Value 11/16/2011*
- *NCCI Publishes FAQ on Split Point and Maximum Debit Mod Changes 8/8/2011*

We're getting a lot of calls and emails about our previous blog article, NCCI Changing Primary-Excess Split Point in Experience Rating Methodology. Everyone, of course, is wondering the same thing: How will workers comp mods be affected?

With the help of a recent NCCI presentation, "NCCI Experience Rating Plan Review," at the Casualty Actuarial Society 2011 Spring Meeting, we're now able to tell you a little more about what to expect regarding the split point increase and some other changes that NCCI is recommending. I want to note, however, that we do not consider the NCCI presentation an official announcement – ~~we're still anticipating that this fall~~. Update: NCCI Publishes FAQs on Split Point and Maximum Debit Mod Changes. The analysis below is still accurate in light of this additional information.

The Split Point Increase

As we've noted before, the primary-excess split point is changing over a three-year transition period from its current value of \$5,000. The NCCI presentation suggests that the specific change levels may be approximately:

- 10,000 for the first year (2013),
- 13,500 for the second year,
- 15,000 for the third year, and
- the split point will be automatically indexed for claim cost inflation in the third year and future years.

The presentation shows that average claims costs have increased almost 250% since the last split point change in 1993. Then, the average work comp claim was over \$3,400; in 2011, the average claim is estimated to be almost \$8,800. It's easy to see how total excess losses – the amount of each claim over the current split point value of \$5,000 – would have become a greater and greater portion of total actual losses. "If the split point is not indexed for claim cost inflation," the presentation says, "a greater proportion of losses fall into the excess category as time goes on." But what does that mean in terms of the formula going forward?

I talked with Jeff Adcock, a Consulting Actuary with SIGMA Actuarial Consulting Group, about this. Jeff pointed out page 14, "Experience Rating Plan Split Point Review," of the



presentation and said:

The results [on page 14] are not surprising. As the split point is increased from \$5,000 up to higher amounts, claim dollars shift from the excess layer to the primary layer. Because primary losses receive more weight (higher credibility) in the experience rating formula than excess losses, the plan becomes more responsive.



Jeff Adcock,
FCAS,
MAAA, says
the spread of
mods will
increase
under the
new rules.

'More responsive,' Jeff explained, means that the company's experience will be given more weight. Referring again to page 14, he pointed out:

The spread of the modification factors increases with each increase in the split point. Companies with credit mod factors – factors less than 1.00 – should expect to see even lower mod factors at higher split points. Likewise, companies with debit mod factors should expect to see even higher mod factors at higher split points. Again, the larger the current mod factor, the larger the expected increase under the new plan as well.

A Change to the Maximum Mod Formula

NCCI is also suggesting a change to the maximum mod formula. The purpose of this formula is to cap, or limit, any debit mod (a mod over 1.0) that exceeds a specific amount. The capped mod typically applies when expected losses are quite low in comparison to actual losses. Because the cap is determined by a formula related to expected losses and average claim cost (a number adjusted each year by NCCI), it is risk-specific. The presentation explains that NCCI is recommending a change because the current formula can produce a very low cap for small risks (generally 1,000 to 10,000 in expected losses, according to the NCCI graphs). This means:

- employers who are small risks and currently have a limited mod may see their mod increase
- other employers who are relatively larger risks and currently have a limited mod may see their mod decrease

To identify your clients who currently have a capped or limited mod, look for a note on the official bureau report, or as a footnote on the bureau-type or detailed reports in ModMaster, with words to the effect of "this mod has been adjusted in accordance with experience rating plan rules."

How These Two Changes Will Affect the Mod

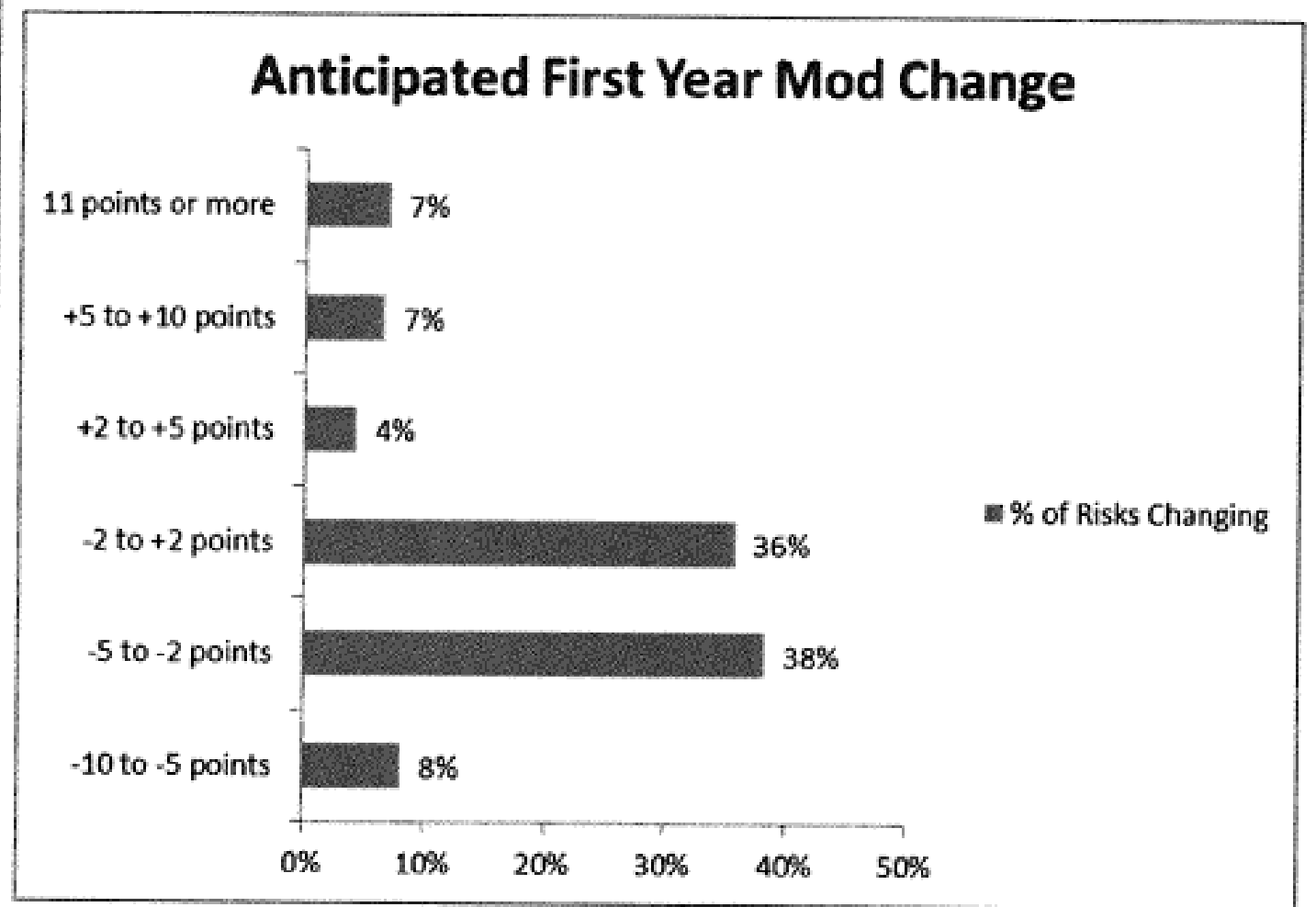
The **first year** impact of these two changes is shown on page 15, "Distribution of Differences Between Old and New Mod Values," of the presentation. Here we summarize and graph the impact on risks that NCCI projects:

Your client demographics may differ from this risk profile, but on average this graph



suggests that:

- Nearly half of your clients will see a mod decrease of 2 points or more.
- Over a third of your clients will experience a small mod change of -2 to +2 points. While that doesn't sound like bad news, you want to be extremely careful about clients in contracting, roofing, and other professions who may have to have a mod of a certain value (like 1.0) to bid on a job.



The mod change reflects the first year change to a \$10,000 split point, an associated 50% increase in D-ratios (which are used to determine expected primary losses), and the new maximum mod formula.

- If your clients are average, 1 in 7 will experience a mod increase of 5 points or more.
- Don't forget, as I mentioned in our first article on this topic, that minimum mods should drop as a result of the split point change.

All of these changes are a great opportunity to be conversing with your clients and prospects about the minimum mod, the controllable mod, the maximum mod (when it applies to them) and the possibility of a mod change.

The NCCI presentation also mentions some other possible forthcoming changes, but it appears that only the split point and maximum mod formula changes will be filed for approval by the states this year, in anticipation of a roll-out in 2013. Future changes, which NCCI indicates they may further discuss late in 2011, include:

- an increase to the eligibility threshold
- replacing weighting and ballast factors with primary and excess credibility factors (Z_p and Z_e)
- other minor changes to make the language of experience rating more accessible

For those of you who use ModMaster and other Zywave products: If you'd like to go deeper into this topic, including learning how to analyze the impact of the first year split point change on a specific risk, I talk about how to do that in this Tips and Trends in WC webinar on Zywave's AgencyFuel site. If you're a former Specific Software customer who doesn't yet have an AgencyFuel logon, please let us know at support@zywave.com.

As always, feel free to comment here or to email me at kory.wells@zywave.com.

WORKERS COMPENSATION EXPERIENCE RATING



Risk Name:

Risk ID:

Rating Effective Date: 01/01/2012

Production Date: 10/13/2011

State: OREGON

36-OREGON

Firm ID:

Firm Name:

N

Carrier: 20001

Policy No.

Eff Date: 01/01/2008

Exp Date: 01/01/2009

Code	ELR	D-Ratio	Payroll	Expected Losses	Exp Prim Losses	Claim Data	IJ	OF	Act Inc Losses	Act Prim Losses
8810	.09	.31	119,026	107	33	8096534F	5	F	10,992	5,000
9079	.87	.40	1,071,130	9,319	3,728	8104798G	6	F	563	563
						8100731D	6	F	3,615	3,615
Policy Total:			1,190,156	Subject Premium: 17,566		Total Act Inc Losses:			15,170	

36-OREGON

Firm ID:

Firm Name:

Carrier: 20001

Policy No.

Eff Date: 01/01/2009

Exp Date: 01/01/2010

Code	ELR	D-Ratio	Payroll	Expected Losses	Exp Prim Losses	Claim Data	IJ	OF	Act Inc Losses	Act Prim Losses
8810	.09	.31	142,509	128	40	8147890B	5	F	11,756	5,000
9079	.87	.40	980,177	8,528	3,411	8126280B	6	F	272	272
						8130836E	6	F	653	653
						8128233A	6	F	660	660
						8131290G	6	F	1,056	1,056
Policy Total:			1,122,686	Subject Premium: 17,326		Total Act Inc Losses:			14,397	

36-OREGON

Firm ID:

Firm Name:

Carrier: 20001

Policy No.

Eff Date: 01/01/2010

Exp Date: 01/01/2011

Code	ELR	D-Ratio	Payroll	Expected Losses	Exp Prim Losses	Claim Data	IJ	OF	Act Inc Losses	Act Prim Losses
8810	.09	.31	145,824	131	41	8179173B	6	F	815	815
9079	.87	.40	1,005,376	8,747	3,499	8170422H	6	F	1,196	1,196
Policy Total:			1,151,200	Subject Premium: 17,987		Total Act Inc Losses:			2,011	

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* Total by Policy Year of all cases \$2000 or less.

D Disease Loss

X Ex-Medical Coverage

U USL&HW

C Catastrophic Loss

E Employers Liability Loss

Limited Loss

WORKERS COMPENSATION EXPERIENCE RATING



Risk Name: | |

Risk ID: |

Rating Effective Date: 01/01/2013

Production Date: 09/27/2012

State: OREGON

36-OREGON

Firm ID: Firm Name: |

Carrier: 20001 Policy No. Eff Date: 01/01/2009 Exp Date: 01/01/2010

Code	ELR	D-Ratio	Payroll	Expected Losses	Exp Prim Losses	Claim Data	IJ	OF	Act Inc Losses	Act Prim Losses
8810	.10	.43	142,509	143	61	8147890B	5	F	11,756	10,000
9079	.93	.51	980,177	9,116	4,649	8126280B	6	F	272	272
						8130836E	6	F	653	653
						8128233A	6	F	660	660
						8131290G	6	F	1,056	1,056
Policy Total:			1,122,686	Subject Premium: 17,326		Total Act Inc Losses:		14,397		

36-OREGON

Firm ID: Firm Name: |

Carrier: 20001 Policy No. Eff Date: 01/01/2010 Exp Date: 01/01/2011

Code	ELR	D-Ratio	Payroll	Expected Losses	Exp Prim Losses	Claim Data	IJ	OF	Act Inc Losses	Act Prim Losses
8810	.10	.43	145,824	146	63	8170422H	6	F	1,196	1,196
9079	.93	.51	1,005,376	9,350	4,769	8179173B	6	F	1,214	1,214
Policy Total:			1,151,200	Subject Premium: 17,987		Total Act Inc Losses:		2,410		

36-OREGON

Firm ID: Firm Name: |

Carrier: 20001 Policy No. Eff Date: 01/01/2011 Exp Date: 01/01/2012

Code	ELR	D-Ratio	Payroll	Expected Losses	Exp Prim Losses	Claim Data	IJ	OF	Act Inc Losses	Act Prim Losses
8810	.10	.43	159,655	160	69	8187027F	6	F	348	348
9079	.93	.51	967,632	8,999	4,589	8204937A	9	O	61,428	10,000
Policy Total:			1,127,287	Subject Premium: 16,366		Total Act Inc Losses:		61,776		

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* Total by Policy Year of all cases \$2000 or less.

D Disease Loss

X Ex-Medical Coverage

U **USLSHW**

C Catastrophic Loss

E Employers Liability Loss

Limited Loss

WORKERS COMPENSATION EXPERIENCE RATING



Risk Name:

Risk ID:

Rating Effective Date: 01/01/2014

Production Date: 09/24/2013

State: OREGON

36-OREGON

Firm ID: Firm Name:

Carrier: 20001

Policy No.

Eff Date: 01/01/2010

Exp Date: 01/01/2011

Code	ELR	D-Ratio	Payroll	Expected Losses	Exp Prim Losses	Claim Data	U	OF	Act Inc Losses	Act Prim Losses
8810	.10	.49	145,824	146	72	8170422H	6	F	1,196	1,196
9079	.95	.57	1,005,376	9,551	5,444	8179173B	6	F	1,214	1,214
Policy Total:			1,151,200	Subject Premium:	17,987	Total Act Inc Losses:			2,410	

36-OREGON

Firm ID: Firm Name:

Carrier: 20001

Policy No.

Eff Date: 01/01/2011

Exp Date: 01/01/2012

Code	ELR	D-Ratio	Payroll	Expected Losses	Exp Prim Losses	Claim Data	U	OF	Act Inc Losses	Act Prim Losses
8810	.10	.49	159,655	160	78	8187027F	6	F	348	348
9079	.95	.57	967,632	9,193	5,240	8204937A	9	O	124,813	13,500
Policy Total:			1,127,287	Subject Premium:	16,366	Total Act Inc Losses:			125,161	

36-OREGON

Firm ID: Firm Name:

Carrier: 20001

Policy No.

Eff Date: 01/01/2012

Exp Date: 01/01/2013

Code	ELR	D-Ratio	Payroll	Expected Losses	Exp Prim Losses	Claim Data	U	OF	Act Inc Losses	Act Prim Losses
8810	.10	.49	164,025	164	80	8240667L	6	F	353	353
9079	.95	.57	981,877	9,328	5,317	8232510G	6	F	801	801
						8227692L	6	F	1,317	1,317
Policy Total:			1,145,902	Subject Premium:	16,808	Total Act Inc Losses:			2,471	

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* Total by Policy Year of all cases \$2000 or less.

D Disease Loss

X Ex-Medical Coverage

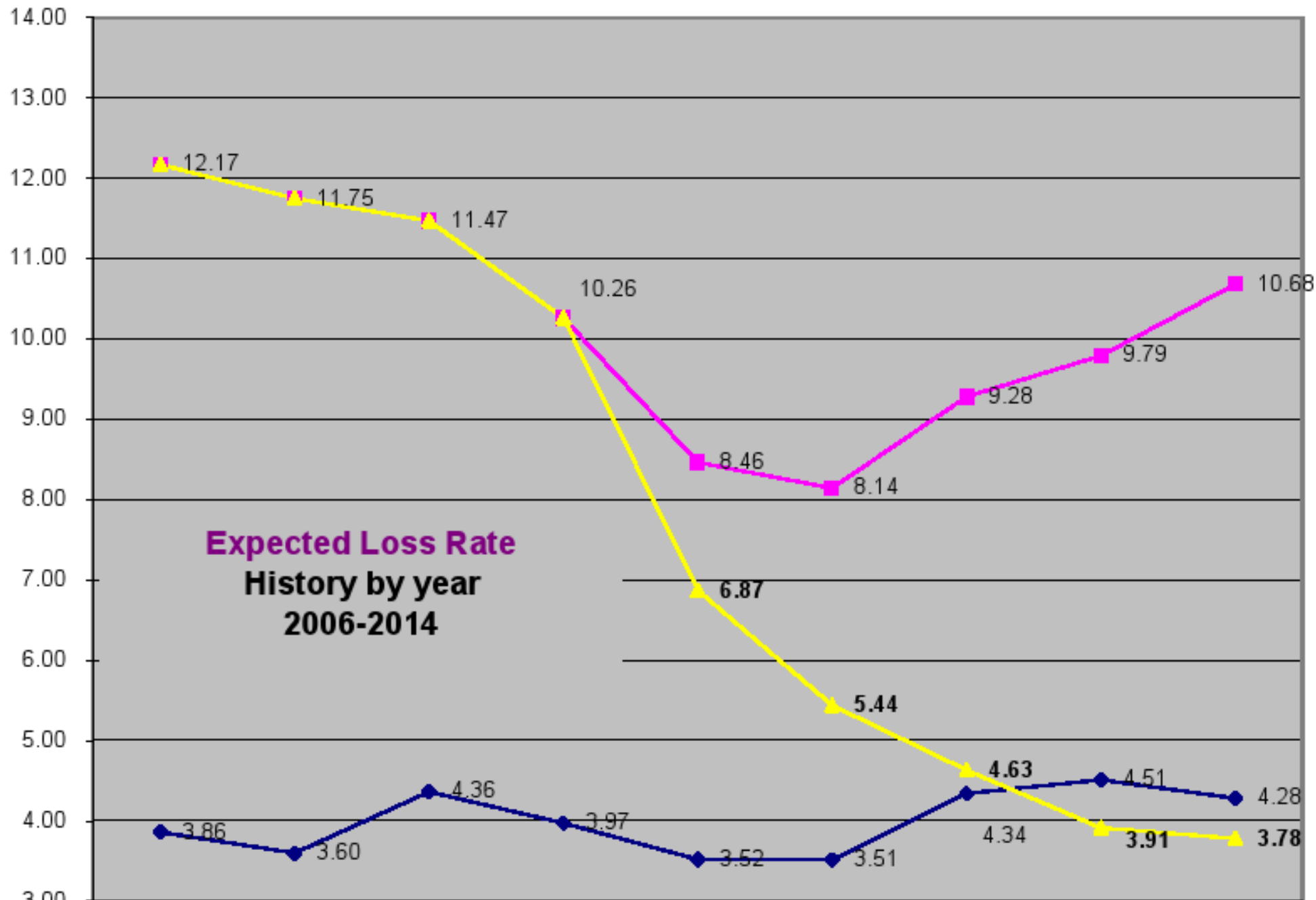
U USL&HW

C Catastrophic Loss

E Employers Liability Loss

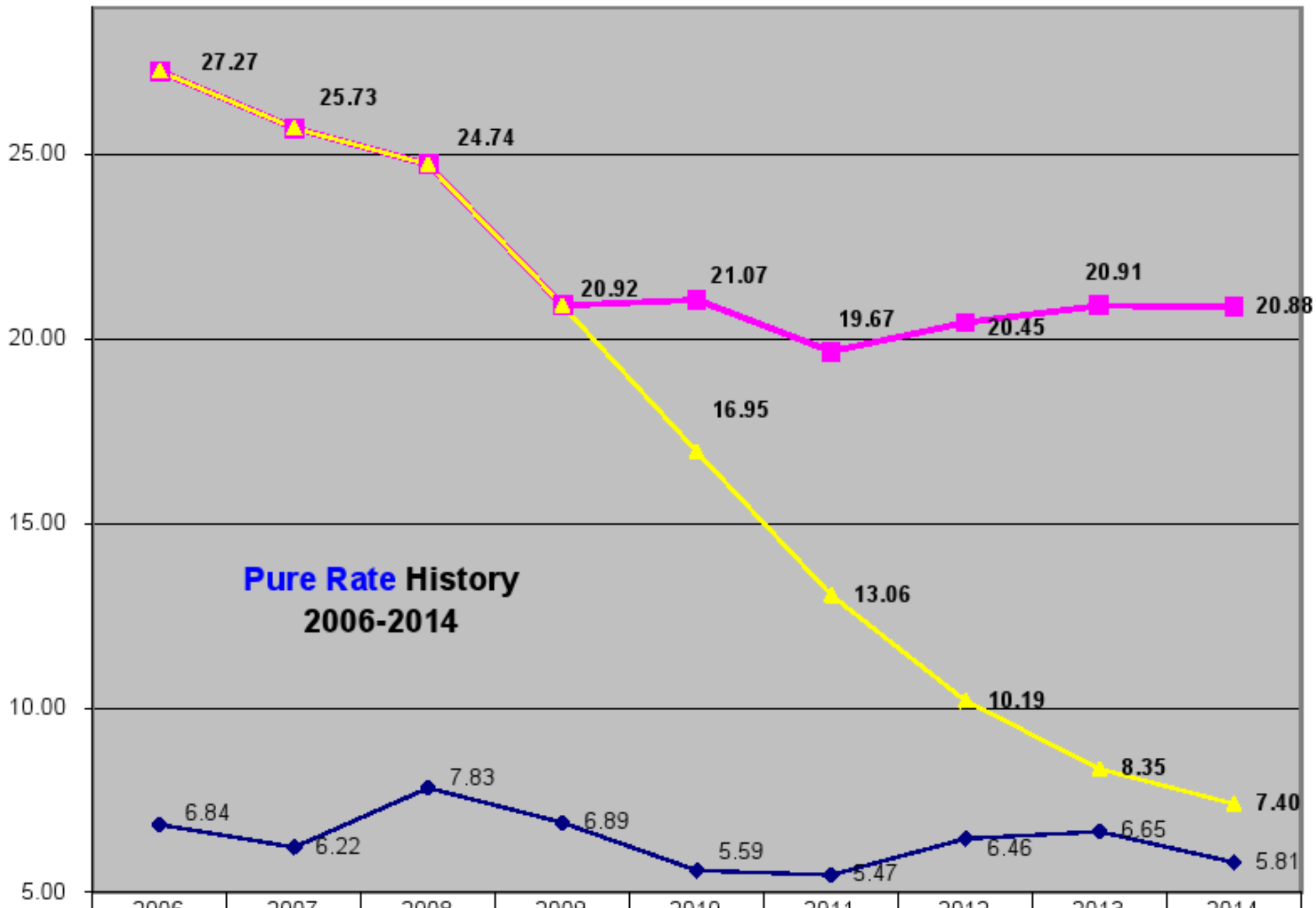
Limited Loss

Oregon Expected Loss Rate History



◆ 0124- Reforestation	3.86	3.60	4.36	3.97	3.52	3.51	4.34	4.51	4.28
■ 2702 - Logging	12.17	11.75	11.47	10.26	8.46	8.14	9.28	9.79	10.68
▲ 2704 - Wildland Fire	12.17	11.75	11.47	10.26	6.87	5.44	4.63	3.91	3.78

Oregon Pure Rate History



◆ 0124- Reforestation	6.84	6.22	7.83	6.89	5.59	5.47	6.46	6.65	5.81
■ 2702 - Logging	27.27	25.73	24.74	20.92	21.07	19.67	20.45	20.91	20.88
▲ 2704 - Wildland Fire	27.27	25.73	24.74	20.92	16.95	13.06	10.19	8.35	7.40