

UNDERSTANDING EXPERIENCE RATING

*How Experience Modifications Affect Your
Workers Compensation Premium*



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WHAT IS EXPERIENCE RATING?

Experience Rating is a method (calculation) that recognizes the differences among individual employers with respect to safety and loss prevention. It does this by comparing the experience of individual employers with the average employer in similar classifications. The differences are reflected by an experience rating modification (mod), based on individual payroll and loss records, which may result in an increase, decrease, or no change in premium.

WHO IS ELIGIBLE?

Eligibility for experience rating is based on two factors:

- (1) number of years in business and
- (2) premium

PREMIUM CRITERIA:

The insured must be in business at least 2 years and meet one of the following premium criteria:

- \$11,000 unmodified premium in the 1st year of the experience rating period or,
- An average of \$11,000 unmodified premium in the first 2 years of the experience rating period or,
- If an insured has more than 2 years of experience, they must develop an average annual unmodified premium of \$5,500 in the experience rating period.

WHAT POLICY DATA DO WE USE?

Three complete years of experience ending one year prior to the effective date of the experience rating. For example:



Policy Period

Rating Period

HOW DO EXPERIENCE MODS AFFECT MY PREMIUM?

Credit factors may *decrease* your premium and debit factors may *increase* your premium.

.80 = 20% Premium CREDIT

1.20 = 20% Premium DEBIT

ELEMENTS OF THE EXPERIENCE RATING PLAN FORMULA:

UNMODIFIED PREMIUM

- Audited premium before the modification is applied.

ACTUAL LOSS

- Total value of a claim including reserves.

PRIMARY LOSS

- Limited amount of a claim used in formula.

EXPECTED LOSS

- Amount of claims your business is expected to have based on your business type (class codes) and size (payroll).

FORMULA FACTORS:

EXPECTED LOSS RATE

- Factor used to determine the amount of expected losses by class code.
- *Can be found in the current [Minnesota Ratemaking Report](#)*

D RATIO

- Limits the expected loss totals to arrive at the expected primary losses.
- Can be found in the current [Minnesota Ratemaking Report](#)

WEIGHT FACTOR

- Percentage of actual losses used in the formula.

BALLAST FACTOR

- Stabilizing element that limits modification fluctuation in the formula.

VALUATION DATE

- The date the value of a claim used in the formula. This date is always 18 months after the effective date of the policy.

EXPERIENCE MOD FORMULA:

$$1 + \frac{(A - C)(E) + (B - D)(1 - E)}{C + F}$$

REMEMBER:

Open claims include reserves.

Medical only claims are reduced by 70%.

TIPS FOR KEEPING MODS LOW:

- Use Insurance Company loss control and safety programs to prevent and reduce losses
- Review audit information – Payroll and Class Codes
- Closely monitor your claims
- Contact carrier 60 days prior to claim valuation date to review status of all open claims

FAQ:**How can I get my mod revised?**

- If Circumstances meet the criteria for a revision, the carrier must submit the corrected data to MWCIA and we will revise the Experience Rating.

How low can my mod factor go?

- If you are loss free, your mod factor is as low as it can get for your industry type and size.

Does claim severity affect mods more than frequency?

- Generally, claim frequency has a larger impact. For example, multiple claims that total \$20,000 will have a greater impact on your mod than a single \$20,000 loss.

Are mods revised if a claim closes?

- Mods are typically calculated once a year and any changes to a claim during the year are included in the next experience rating year.

How does a change in ownership affect my mod?

- Loss history and experience mods follow a business in most cases. Businesses that share more than 50% common ownership are subject to a single mod based on their combined data.

WHAT IF I STILL HAVE QUESTIONS?**For questions concerning open claims:**

- Contact your agent
- Contact the carrier's claim department

For questions about class codes and payrolls:

- Contact your agent
- Contact the carrier's audit department

For questions about the rating formula:

Email MWCIA at underwriting@mwcia.org

Who We Are:

The mission of the Minnesota Workers Compensation Insurers Association (MWCIA) is to collect, process, and analyze workers' compensation data so that we can provide high quality, consistent information to our insurer members and regulators. We will develop and deliver useful services and products to the workers' compensation community.

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