

Understanding Experience Rating in Workers' Compensation

By CSD Pool

How does the “experience rating” affect costs?

When it comes to understanding workers' compensation coverage cost, there are quite a few rating factors that could influence long-term cost. One crucial element in this equation is the experience rating, which is a mechanism designed to modify annual contribution based on a district's history of loss experience and audited payroll.

This is accomplished by a formula developed by the National Council on Compensation Insurance (NCCI). The experience rating produces an experience modification factor referred to as the “emod”. A 1.00 emod is neutral and has no effect on manual contribution. An emod greater than 1.00 is a debit factor while an emod less than 1.00 is a credit factor. For instance, a 1.20 emod applies a 20% surcharge on manual contribution. In contrast, a 0.70 emod provides a 30% discount on manual contribution.

In essence, it's a way to reward or penalize districts based on the frequency and severity of workplace injuries relative to district size as measured by payroll.

How is an emod produced?

Following the NCCI formula, an emod is calculated based on three years of historical data, excluding the most recent coverage period. The formula accounts for both the frequency and severity of claims in net dollars after claim recovery as well as audited payroll figures of the district.

Specifically, the formula calculates the expected loss for the member based on its operations and payroll size, then compares it to the actual loss experience. If the actual loss experience is greater than the expected loss, the formula will generate a debit emod, and vice versa.

The Pool releases preliminary emods in August for the next coverage period starting on January 1 based on June 30 claims data. The purpose of the preliminary emod is to assist with budgeting processes as the final emod is not finalized until November after applying approved rating factors. The Pool applies the final emod on the member's renewal coverage effective January 1.

It's important to note that not every district qualifies for an emod. To be eligible, the district's annual contribution size must be over a certain

threshold according to the NCCI rating rules. If the district is not eligible, a neutral emod of 1.00 is applied.

Impact on contributions

In general, a clean loss history with a large amount of payroll often produces a credit emod. Conversely, districts with a higher frequency and severity of workplace injuries, especially when its payroll size is relatively small, could see a large debit emod. The grid below summarizes the effects on emod from payroll and losses.

Payroll	Loss	Emod
Large	None; minimal	Low (credit)
Small	Large, frequent losses	High (debit)

Districts should aim to achieve a credit emod (<1.00).

Improving your emod

There are a couple of ways to improve emod, but implementing robust safety management is the most effective way to protect employees and reduce emod.

The CSD Pool offers free safety management consulting that can help you reduce workplace injuries. Most districts qualify for the CSD Pool's Safety Grant Program which reimburses district purchases related to safety and loss prevention up to 50%, including trainings. In many cases, a strong safety policy and regular employee trainings could save districts thousands of dollars a year.

Another way to improve emod—for districts that have not elected a deductible or only has a small deductible—is to consider taking a higher deductible. This is because most losses under a deductible are not included in emod calculations, potentially achieving a lower emod in the long run. Additionally, the district would receive an upfront discount for taking a higher deductible.

In closing, with the understanding of how experience rating works and its impact on long-term workers' compensation cost, districts should take proactive steps to improve safety and mitigate risks, ultimately fostering a safer and more productive workplace for all.

For speak with an underwriter, or to schedule a complimentary safety inspection, please email us at info@csdpool.org.