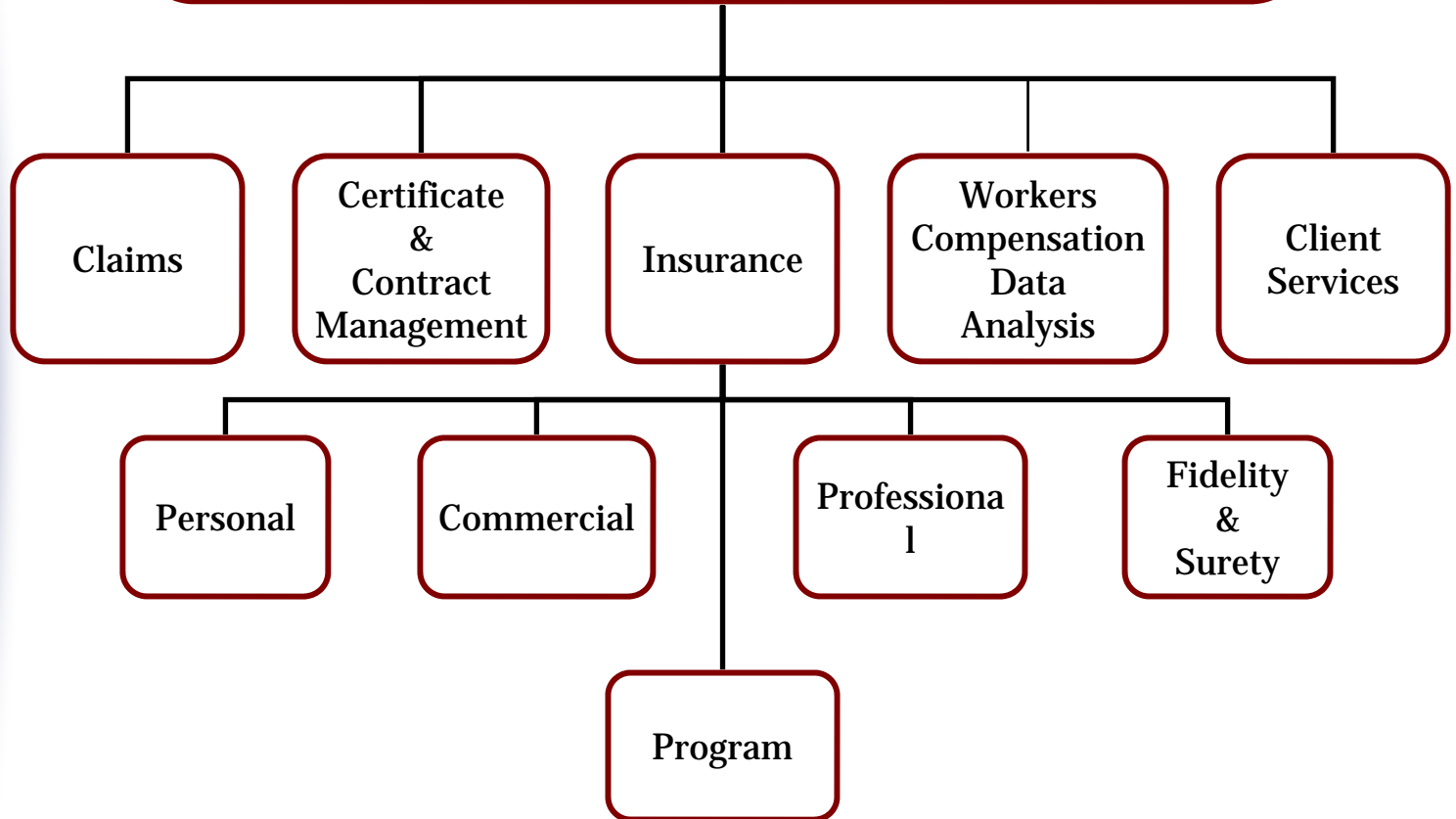




Workers Compensation: *Dirty Little Secrets*



**THE
McLAUGHLIN
COMPANY**
INSURANCE SINCE 1929





Only Item In Your Control?

➤ **LOSSES**

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Purpose and Theory of Experience Rating

- Designed to measure whether losses are better or worse than expected



If Worse....

PUNISHED!


(You have to pay more)



If Better...


REWARDED!

(You pay less)

- 
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- Thinking a MOD of 1.0 is good is a common misunderstanding
 - This is like saying a “C” is a good average



Published Rates Represent the
Average Company

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To lower modification, you must
first understand the MOD
formula



What Drives Formula?

- Loss Frequency
- Loss Severity
- Misallocation of Payroll

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The Experience Rating Process
is a job of balancing...

“Fairness” vs. “Responsibility”



How is this accomplished?

We have a complex formula that takes into consideration...

- Size of the Company
- Possibility of Unexpected Accidents
- Differences Between Loss Frequency and Loss Severity




Experience Modification Model

$$\begin{array}{ccccccc} & & & \text{Weighting Value} & & \text{(1- Weighting Value)} & \\ & & & \text{X} & & \text{X} & \\ \text{Actual} & + & \text{Ballast} & + & & + & \\ \text{Primary} & & \text{Value} & & \text{Acutal Excess Losses} & & \text{Expected Excess Losses} \\ \text{Losses} & & & & & & \end{array}$$

$$\begin{array}{ccccccc} & & & \text{Weighting Value} & & \text{(1- Weighting Value)} & \\ & & & \text{X} & & \text{X} & \\ \text{Expected} & + & \text{Ballast} & + & & + & \\ \text{Primary} & & \text{Value} & & \text{Expected Excess} & & \text{Expected Excess Losses} \\ \text{Losses} & & & & \text{Losses} & & \end{array}$$

In Simpler Terms...


$$\text{Experience Modifier} = \frac{\text{Total Incurred Losses} \\ (\text{Open Reserves, Actual Paid})}{\text{Expected Losses}}$$


$$\frac{2.00}{1.0} = 2.00$$


$$\frac{1.0}{1.0} = 1.00$$

$$\frac{.50}{1.0} = .50$$

- A mod of 1.0 is average
- A mod greater than 1.0 (debit mod) pay more
- A mod less than 1.0 (credit mod) pay less

Experience Modification Worksheet

 NCCI National Council on Compensation Insurance, Inc.		WORKERS COMPENSATION EXPERIENCE RATING					
Risk Name:							
Risk ID:		State: INTERSTATE					
Rating Effective Date: 11/1/2008		Production Date: 8/30/2008					
<p>RATING REFLECTS A DECREASE OF 70% MEDICAL ONLY PRIMARY AND EXCESS LOSS DOLLARS WHERE ERA IS APPLIED. *NOTICE - THIS IS A PRELIMINARY MODIFICATION* COMPLETE PAYROLL AND LOSS DATA HAVE BEEN APPLIED TO CURRENT RATING VALUES BUT A FINAL MODIFICATION CANNOT BE PROMULGATED UNTIL PENDING RATE FILING HAS BEEN APPROVED FOR THE STATES IDENTIFIED WITH AN * ABOVE. THE ARAP FACTOR SHOWN IS FOR THOSE STATES CONTAINED ON THIS RATING THAT HAVE APPROVED THE ARAP PROGRAM AND IS CALCULATED BASED ON THE STATE WITH THE HIGHEST APPROVED MAXIMUM ARAP SURCHARGE. THE MAXIMUM ARAP SURCHARGE MAY VARY BY STATE. PLEASE REFER TO EACH STATES APPROVED RULES FOR THE APPLICABLE MAXIMUM ARAP SURCHARGE.</p>							
(A) W	(B) Exp	(C) Excess Losses	(D) Expected Losses	(E) Exp Prim Losses	(F) Act Prim Losses	(G) Act Excess Losses	(H) Act Mod Losses
027	357803	452758	94955	780601	59788	891748	101145
Primary Losses		Stabilizing Value	Ratable Excess		Total		
Actual	101145	320882	213462		635589		
Expected	94955	320882	98607		512524		
(ARAP) If applicable	ARAP: 1.12	FLARAP: 1.24	SARAP:		Exp Mod: 1.24		



This is sent to you 18 months after
your policy is effective

➤ **WHY???**



They are required to tell you what
your experience is

➤ **WHY???**



Since 1919 an insured has a right to challenge open reserved

- But must be done within the 6th month
- Later than 6th month the experience modification is established



Your Workers Compensation is effective 2/15/06...


Which is the most important date for your renewal?

A. 6/15/06

B. 8/15/06


C. 9/15/06

D. 1/15/06




8/15/06

Unit Statistical Plan Filing Date




Next year modification is promulgated...

- Is the payroll allocated correctly?
- Are they the right classification?
- Are the losses and loss reserves correct?



9/15/06

- Any information on the Experience Rating Worksheet must be challenged by this date



6/15/06

- 60 days prior to unit statistical plan filing date
- 60 days to work on reserves



1/15/06

- 30 days prior to renewal
- Time to evaluate funding options



Funding Options

- Guaranteed Cost
- Deductible Program
- Retrospective Rating
- Join a Self Insure Group*
- Establish a Self Insured Program*
- Form a Captive*

* Need at least 6 months to evaluate




The correct answer is....


A. 6/15/06



What do you audit?

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Verify accuracy of reserves and
review the circumstances that lead to
injury

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Review claims investigation
procedures , including subrogation
and 2nd injury fund

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Review attending physicians reports
and independent medical reports

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Review the potential for returning
the claimant to either full or light
duties, medical rehabilitation and
vocational rehabilitation

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If utilize medical or vocational
rehabilitation, review the
appropriateness of this service

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Request activity checks and
surveillance by insurance company
or 3rd party administrator if
appropriate




Determine whether the insurance company has requested:

- Appropriate hearings, including discontinuance
- Earning capacity
- Vocational rehabilitation
- Fraudulent claims
- Impartial physicians
- Non-compensable claims



Review the lump sum demand and advise on the appropriateness of a settlement

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Advise client as to status and appropriate direction of the claims by providing claim status reports



What is an Incurred Loss?

Open Reserves

+

Amount Paid

Incurred Loss

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Why concern about Class Codes?

➤ **5474 Construction Classification N/A—MN**

PHRASEOLOGY PAINTING OR PAPERHANGING NOC & SHOP OPERATIONS, DRIVERS.

Includes the painting of metal storage tanks, fire escapes, staircases, balconies, shutters, window frames or sash. Painting ship hulls, metal structures over two stories in height or bridges to be separately rated.

➤ **5037 Construction Classification N/A—CA, NJ, OR**

PHRASEOLOGY PAINTING: METAL STRUCTURES—OVER TWO STORIES IN HEIGHT—& DRIVERS.

Includes shop operations. The painting of metal storage tanks, fire escapes, staircases, balconies, shutters, window frames or sash to be separately rated as [5474](#)—Painting NOC.

CROSS-REF. *Painting: Metal Bridges & Shop Operations, Drivers.*

SCOPE Code 5037 is applied to insureds engaged in the painting of metal structures which exceed two stories in height. For commercial structures, a "story" is defined as being fifteen (15) feet in height.

Code 5037's footnote indicates that painting of metal storage tanks is assigned to Code [5474](#). The fact that a metal tank is supported by a tower or other supporting device which makes the combined height of the tank and supporting devices exceed two stories in height would not preclude the assignment of painting these storage tanks to Code [5474](#). Oil or gasoline storage tanks, gas holders and silos typify those types of tanks, the painting of which is contemplated by Code [5474](#).

➤ **5462 Construction Classification N/A—CA**

GL Class: [13590](#)

PHRASEOLOGY GLAZIER—AWAY FROM SHOP & DRIVERS

SCOPE Code 5462 is applied to employees of glass merchants engaged in the delivery and installation of plate glass windows in storefronts or elsewhere, the installation or replacement of window glass in houses and commercial buildings (regardless of height) and the installation of mirrors. The operations contemplated within the scope of this classification apply to glaziers' activities away from permanent shop locations. Refer to Code [4130](#)—Glass Merchant for employees of glass merchants who work in a permanent shop and are responsible for the storing or preparation of glass prior to its installation **4130**

GL Class: [13590](#)

PHRASEOLOGY GLASS MERCHANT.

Includes bending, grinding, beveling or silvering of plate glass.

SCOPE Code 4130 is applied to glass merchants who conduct their operations at a permanent shop location. The operations include the receiving, storing and selling of glass such as window glass, plate glass, safety glass for automobiles, mirrors and other types of glass. The classification contemplates the cutting of glass to customers' specified dimensions, beveling, buffing, polishing, silvering of plate glass and the installation of glass into frames provided such work is performed in the shop. Employees engaged in the delivery and installation of new or replacement windows away from the shop are properly classified to Code [5462](#)—Glazier—Away from Shop & Drivers

Effect of Misclassification

Class	Rate	Class	Rate
5462	17.96	5037	50.72
4130	<u>5.77</u>	5474	<u>9.25</u>
Additional	12.19		41.47
\$100,000	12,190		41,470
\$200,000	24,380		82,940



Working on existing claims is only
half of the solution

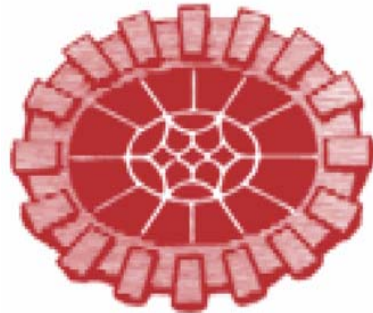
➤ Safety and Loss Control is the other 1/2



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Communicate.

Any Questions?



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