

Experience Modification

The key to controlling your insurance costs is through injury prevention.

Questions and Answers

What is the California Experience Rating Plan?

The California Experience Rating Plan (ERP) provides a direct financial incentive for employers to maintain safe working conditions by modifying the workers' compensation premiums they pay according to their loss history. The program is required by California law.

The ERP compares a qualifying employer's loss experience—or actual claims—during a specific rating period to those of similar businesses based on the classifications and the amount of payroll developed. The resulting experience modification (ex-mod) modifies the employer's workers' compensation insurance premium. Employers with few or low losses as compared to the average for that classification will see a reduction in their premiums, while operations with higher than average losses will see an increase in those costs.

Who administers the Experience Rating Plan?

As the designated statistical agent of the California Insurance Commissioner, the Workers' Compensation Insurance Rating Bureau (WCIRB) administers the plan and also calculates the annual ex-mod for all qualifying employers.

Who qualifies for experience rating?

An employer qualifies for experience rating if the product of the WCIRB's pure premium rates when applied to the total remuneration (usually payroll) of the employer meets a minimum premium level. This minimum premium level is adjusted annually and is approved by the Insurance Commissioner. Qualification is automatic and mandatory. An employer cannot "opt in" or "opt out" of the plan.

Can an insurance carrier ignore the experience modification calculated by the WCIRB?

No, all insurance carriers must apply the ex-mod calculated by the WCIRB for all qualified employers. Also, a carrier cannot apply an ex-mod that has not been published by the WCIRB.

How does experience rating work?

The WCIRB calculates, based on actual experience, what the average amount of losses was for each industry classification during a specific period. Based on the payroll an employer develops in each of these classifications, the WCIRB calculates that employer's statistically expected amount of loss. The actual losses incurred by that employer are then compared to what was expected and expressed as

a percentage. If the actual losses are the same as what was expected, the ex-mod is 100 percent. If the loss experience is better than the average, the ex-mod will be below 100 percent (credit ex-mod). Conversely, if it is worse than the average, the ex-mod will be higher than 100 percent (debit ex-mod).

How does my ex-mod affect my workers' compensation premium?

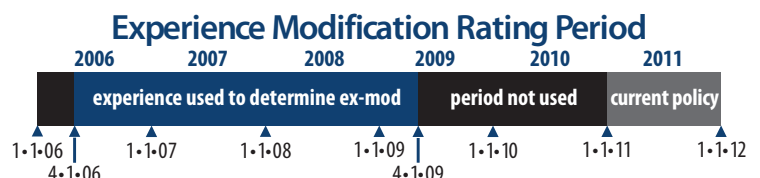
Depending on whether you have a credit or debit ex-mod, your insurance premium will go up or down as a direct result of your ex-mod. Insurance carriers apply the ex-mod to your base premium, which is calculated using the total remuneration to your employees divided by 100 and multiplied by the carrier's base rates. As a simplified illustration, if your base premium is \$33,200, a 90 percent ex-mod reduces your premium to \$29,880. In contrast, a 110 percent ex-mod increases your premium to \$36,520 for the same coverage.

Effective 1-1-2011, the ex-mod rate sheet will show your actual ex-mod and the Loss Free Rating you would have earned if you had no losses during the experience period. The Loss Free Rating may vary from year to year due to changes in payroll and in the expected loss rate that the WCIRB calculates for each industry class code. It is intended to serve as a safety incentive by showing how much money you would save by reducing workplace injuries. You may request one free copy of your ex-mod rate sheet from the WCIRB, or from your State Fund representative.

Insurance carriers may have other discounts or rating plans that ultimately determine the final premium that you will pay.

What is the specified rating period?

The rating period, or experience period, is three years in duration beginning 4 years and 9 months prior to the effective date of the ex-mod and ending 1 year and 9 months prior.



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All the experience from any policies that incept during the experience period will be used in the ex-mod calculation. For example, a policy incepting 1-1-11 will have its ex-mod based on the experience from policies incepting between 4-1-06 and 4-1-09. The data on policies incepting after 4-1-09 is too new, not fully credible, and generally not available for use in the ex-mod computation.

How does my safety record affect the computation of my experience modification?

There are four factors that determine your ex-mod rating:

EXPECTED LOSSES

- Classifications that apply for your business
- Total remuneration (usually payroll) within each classification

ACTUAL LOSSES

- Number of claims (Frequency)
- Costs of the claims (Severity)

Remember, experience rating is a comparison of what was expected to what actually occurred. The more payroll that is developed, or the greater the average losses are for a classification, the higher the expected losses will be. With actual losses, it's not just the total amount of loss that matters, but also how many claims occurred. The experience rating formula provides an incentive for employers to not only reduce the overall cost of claims, but to keep claims from occurring at all.

For example, having two \$5,000 claims will have a greater

negative impact on an ex-mod than one \$20,000 claim. The formula also compensates for the size of the employer, limits the value of any single claim to \$175,000 and has provisions to address recoveries made against third parties through subrogation, joint claims, and other special situations.

What if I haven't been in business that long?

If during your first year in business, you meet the minimum premium requirement approved by the Insurance Commissioner, you will qualify for experience rating and get an ex-mod beginning with your third policy year. If it takes the combined premium of your first two years in business to reach the minimum premium requirement, you will qualify beginning with your fourth policy year.

How can State Fund help me control or even lower my workers' compensation insurance premium costs?

State Fund's experienced and knowledgeable underwriters, loss control consultants, and claims adjusters are available to you at no additional charge.

- We can review your policy history with you, explain your experience rating, and keep you informed.
- We inspect jobsites to help you identify hazards, review your loss analysis reports for accident patterns, and assist you with setting up proactive, cost-effective injury and illness prevention programs.
- We guard against unnecessary medical treatments and procedures. We have an established Medical Provider Network (MPN) to assure proper treatment, and our automated bill-review program helps eliminate the overpayment of bills. A listing of approved MPN services in your area can be found at statefundca.com. These services, designed to promote quick and equitable claims, can reduce claims costs.
- Our Claims Reporting Hotline is staffed 24 hours a day, seven days a week to receive claims reports. Timely reporting is key to proper claims handling and controlling costs. Information and forms can be found on the Employers tab at statefundca.com.

Customer Service Center

Policy Services

1-888-STATE FUND

1-888-782-8338 toll-free

Claims Reporting Center

(888) 222-3211 toll-free

www.statefundca.com

