

**Alaska
Public Entity
Insurance**

Workers' Compensation Rating

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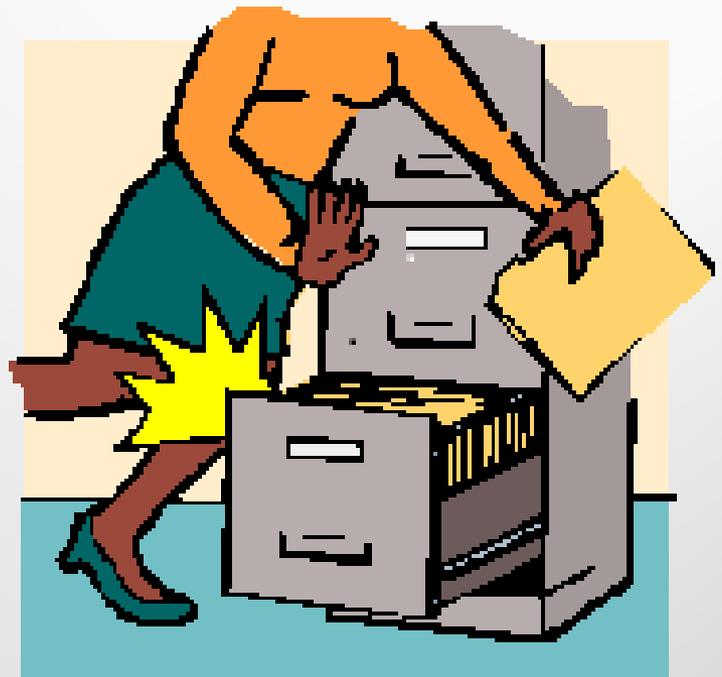
Issues to be Discussed

- ▶ General info on Workers' Compensation
- ▶ Rate Development
- ▶ Classifications
- ▶ Experience Modifications
- ▶ Other Debits or Credits affecting Rates
- ▶ Current Issues in WC



What is Workers' Compensation Insurance?

- ▶ Covers costs of workers injured on the job
 - Medical
 - Indemnity
 - Vocational Rehabilitation
- ▶ No-fault coverage
 - Coverage exists regardless of whether worker was at fault or was careless



Workers' Compensation Rates

- ▶ Based on
 - Types of work done by employees (classification)
 - Amount of payroll in each classification
 - Employer's "Experience Modification"

$$\begin{aligned} \text{Premium} &= (\text{Classification Rate}) \\ &* (\text{Payroll}) \\ &* (\text{Experience Mod}) \end{aligned}$$

- ▶ Calculated separately for each employee class

Classifications

- ▶ Employees in some jobs have a higher risk of injury than employees in other jobs



- ▶ Classification rates for high-risk jobs are higher than rates for low-risk jobs

Why should Claim History affect premiums?

- ▶ Number and size of claims somewhat under the control of the employer
 - Slip and falls
 - Repetitive motion injuries
 - Maintenance
 - Sprinklers
- ▶ Insurers want to encourage employers to practice loss control



- ▶ Fairly allocate premiums among policyholders
- ▶ Intent is NOT to recoup amounts paid for past claims
 - Single claim may exceed many years of premiums



WC Experience Mod

- ▶ Reflects how employer's claim experience compares to what would be expected
- ▶ Calculation of Experience Mod is consistent between insurers
 - Experience mod remains the same if employer changes insurers
- ▶ Average experience mod is about 1.00
 - Debit mods > 1.00
 - Credit mods < 1.00

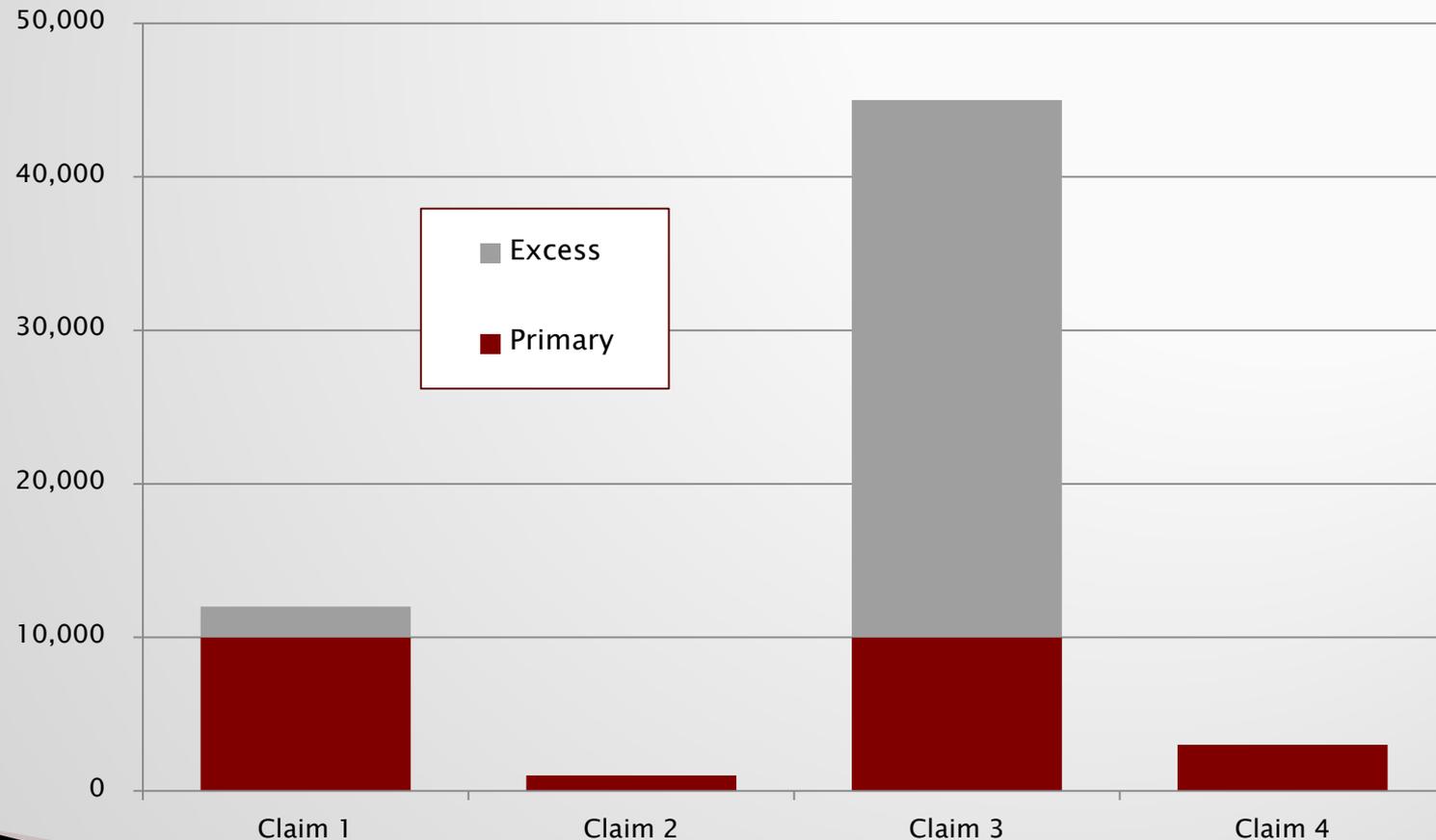
WC Experience Mod Calculation

- ▶ Each claim is separated into
- ▶ Primary loss
 - First \$10,000
 - All primary amounts included in experience mod calculation
- ▶ Excess loss
 - Amount $>$ \$10,000
 - Only a portion of the excess amounts are included in the experience mod calculation

Example: WC Claims for a Sample Employer

	Incurred Value of Claim	Primary Portion of Loss	Excess Portion of Loss
Claim 1	12,000	10,000	2,000
Claim 2	1,000	1,000	0
Claim 3	45,000	10,000	35,000
Claim 4	3,000	3,000	0
Total	61,000	24,000	37,000

Example: WC Claims for a Sample Employer



Experience mod calculation formula

Experience Mod =

$$\frac{\text{Actual Primary Losses} + \text{Adjusted Excess Losses} + \text{Ballast}}{\text{Expected Primary Losses} + \text{Expected Excess Losses} + \text{Ballast}}$$

Calculated Experience Mod for Sample Employer

Adjusted Excess Losses

Actual Excess	37,000
Expected Excess	44,000
Weight	0.08
Adjusted Excess	43,440

Calculated Experience Mod for Sample Employer

Actual Primary	24,000
Adjusted Excess	43,440
Ballast	35,000
Total	102,440

Expected Primary	28,000
Expected Excess	44,000
Ballast	35,000
Total	107,000

Experience Mod	0.957
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Other Debits and Credits Affecting WC Rates

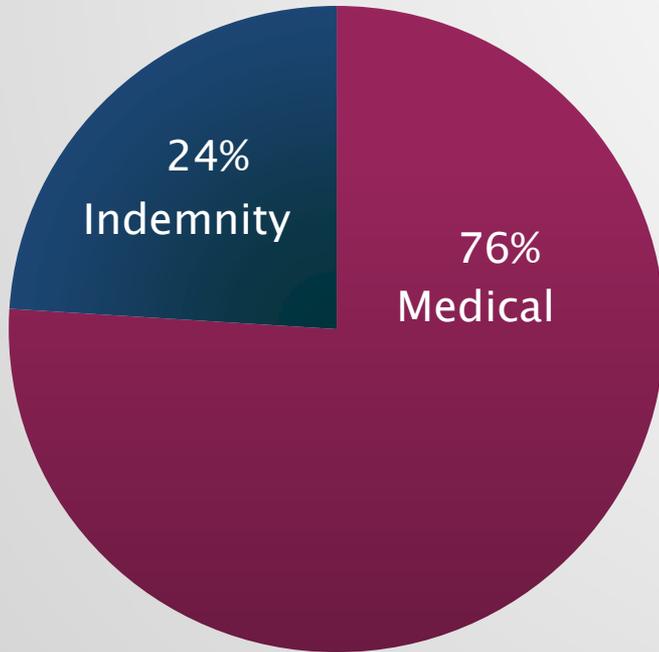
- ▶ Varies by insurer, but commonly includes
 - Loss Control Credits
 - Earned by employer participating in certain activities designed to reduce injuries
 - Schedule Rating
 - Debits or credits designed to reflect specific characteristics of an employer

Current Issues in WC

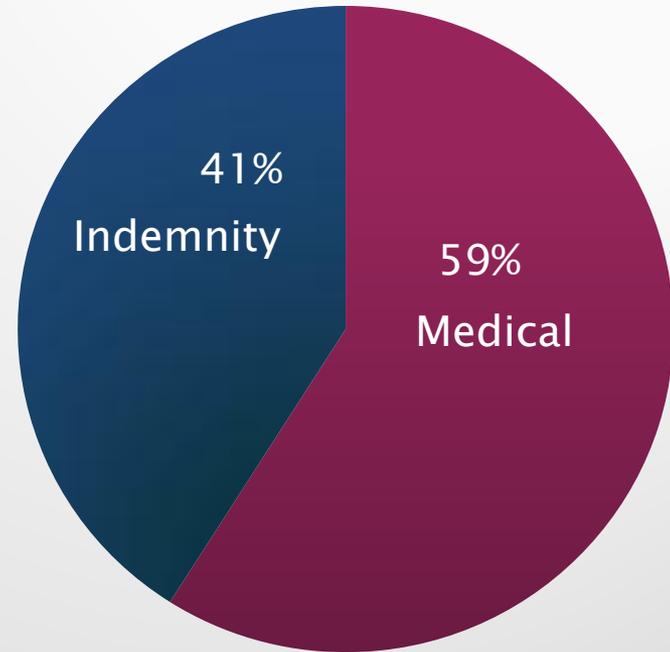
- ▶ Medical Costs
 - Substantially higher in Alaska than in other states
 - Based on a Fee Schedule
- ▶ Change in Calculation of Experience Mods
 - “Split Point” between Primary and Excess Insurance is increasing

Medical Costs Make up the Majority of Workers' Comp Payments

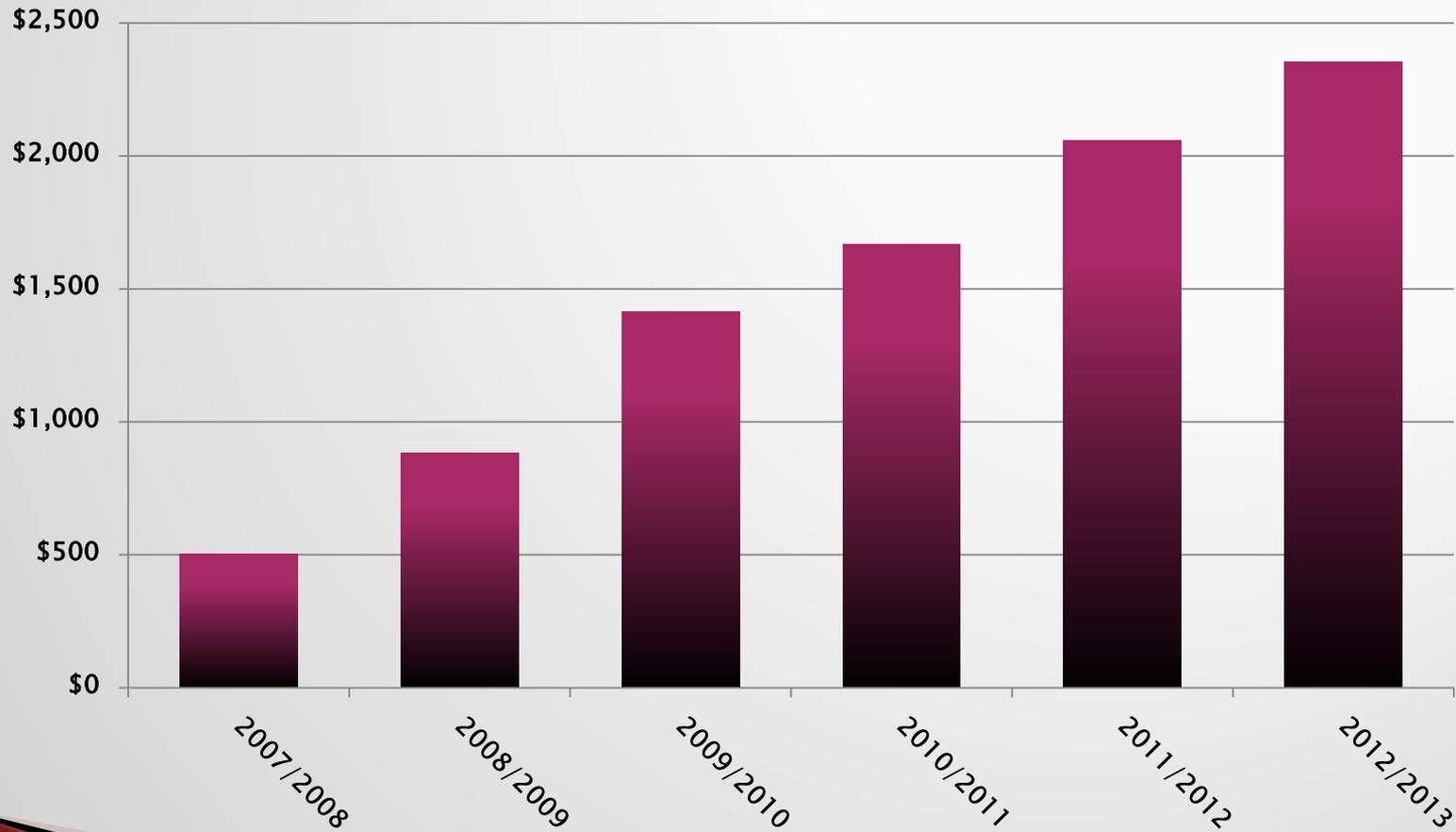
Alaska



Countrywide



Average APEI Cost for a Workers' Comp Medical-only Claim



WC Medical Fee Schedule

- ▶ WC Medical expenses paid based on fee schedule
- ▶ Prior to 2011
 - Fee schedules fixed
 - Updated infrequently
- ▶ Starting in 2011
 - Fee schedule set to 90th percentile of billing
 - Updated regularly
- ▶ Significant increase in costs
 - APEI has seen 40%+ increases for same services

Upcoming Changes to WC Experience Rating

- ▶ “Split Point” between Primary and Excess losses will increase
 - Has been \$5,000 for many years
 - Changing to \$10,000 in 2013
 - Then to \$15,000 by 2015
 - Indexed to inflation after that



Impact of Experience Mod Calculation Change

- ▶ Premiums will be more sensitive to loss history than in the past
- ▶ Overall is revenue neutral for insurers
 - Increases and decreases should offset one another
- ▶ Individual policyholders will see changes
 - High cost claims will result in increase in the experience mod
 - Low cost claims will result in decreases in the mod

More Info

- ▶ General Questions
 - Barbara Thurston, APEI
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 - 523-9452

- ▶ Workers' Compensation Experience Rating
 - www.NCCI.com / Education / Experience Rating
 - Webinars
 - Pamphlet: *ABCs of Experience Rating*

Any Questions ?

