

The “split point” change in the WC Experience Rating Plan

What is the Experience Rating Plan?

A classification rate is an average rate for all employers who hire employees to perform the same type of work (for example, office work). Under the Experience Rating Plan, the New York Compensation Insurance Rating Board adjusts the average rate (up or down) going forward using actual experience from a particular employer's past. The average rate then is adjusted to better fit the individual employer's risk level, providing an incentive to create a safer workplace environment. A factor of 1.0 would indicate the employer has average experience. A debit factor above 1.0 indicates the employer is worse than average experience and a credit factor below 1.0 indicates the experience is better than average.

In order to compute the experience rating factor, NYCIRB goes back three years and uses only the employer's actual experience and payroll reported during those three years that proceed from that year. By comparing actual losses with the experience rating formula, the employer's modification factor is determined. Changes in payroll or experience rating factor will result in a change in the employer's experience rating factor.

What is a “split point”?

The formula for determining the experience modification factor includes entries for “primary” actual and expected losses, “excess” actual and expected losses, and excess losses are set at a “split point,” historically \$5,000 (years) set at a loss of \$5,000. Losses over \$5,000 are given more weight in the formula. Losses over \$5,000 are making the experience modification factor more influential. This means that small claims generate less experience rating factor than large claims. Many employers who have had multiple claims in the past are likely to see a decrease in their experience rating factor.

What is the effective date of the “split point” change?

Following the lead of the National Council on Compensation Insurance, NYCIRB has changed the “split point” to \$10,000 effective Oct. 1, 2013. (NCCI made the change in its jurisdictions effective Jan. 1, 2012 and is transitioning to higher amounts over the next three years.) The result is an experience modification factor that gives more weight to these larger “primary” claims that fall under the higher “split-point” threshold.

NYCIRB also is making a technical change to the maximum debit modification formula. Debit experience rating modifications that exceed a specified amount are subject to a cap. This latter change is expected to affect a relatively small number of employers, having a negligible overall impact. NCCI states that only 2 percent of experience-rated employers ever reach this cap.

How will this “split point” change affect WC premium?

Overall, the experience modification factor will not change, but the overall change in premium, however, individual employers may see a change in their factors and premium, depending on the number of claims they have that exceed \$5,000. To some extent, good factors may get better and bad factors may get worse. However, nearly four out of five employers will see no more than a .05 point change in either direction; with 35.8 percent seeing no more than a $\pm .02$ change.

NCCI anticipates that the change in “split point” to \$10,000 will result in the following comparison of factors:

No employer will see a factor decrease of more than .10 points;

8.1 percent of employers will see a factor decrease of .05 to .10 points;

38.3 percent of employers will see a factor decrease of .02 to .05 points;

35.8 percent of employers will see a factor decrease of .02 points up to an increase of .02 points;

4.3 percent of employers will see a factor increase of .02 to .05 points;

6.5 percent of employers will see a factor increase of .05 to .10 points; and

7 percent of employers will see a factor increase of .10 or more points.

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What can we do to prepare for this change?

It is important to verify the accuracy of information on your experience rating worksheet, because this data is used to calculate your modification factor. When you obtain the most current worksheet, take note of the number of claims over \$5,000. These will be most influential in the “split point” factor changes.

Now, more than ever, it is important for you to implement, enforce and monitor a loss control plan in your business. Please contact our agency for any assistance you may need.

Where can we get more information about the Experience Rating Plan and coming changes?

While not specific to New York, NCCI offers free webinars and brochures online at: <https://www.ncci.com/NCCIMain/Education/ExperienceRating/Default.aspx>.

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