

Overview of Experience Rating American Association of Safety Professionals San Diego, CA

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Your Presenter



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01

Review of the Basics of Experience Rating



What is Experience Rating?

“ . . . a rating procedure utilizing **past insurance experience** of the individual policyholder to **forecast future losses** by measuring the policyholder’s loss experience against the loss experience of **policyholders in the same classification** to produce a prospective premium credit, debit or unity modification.”

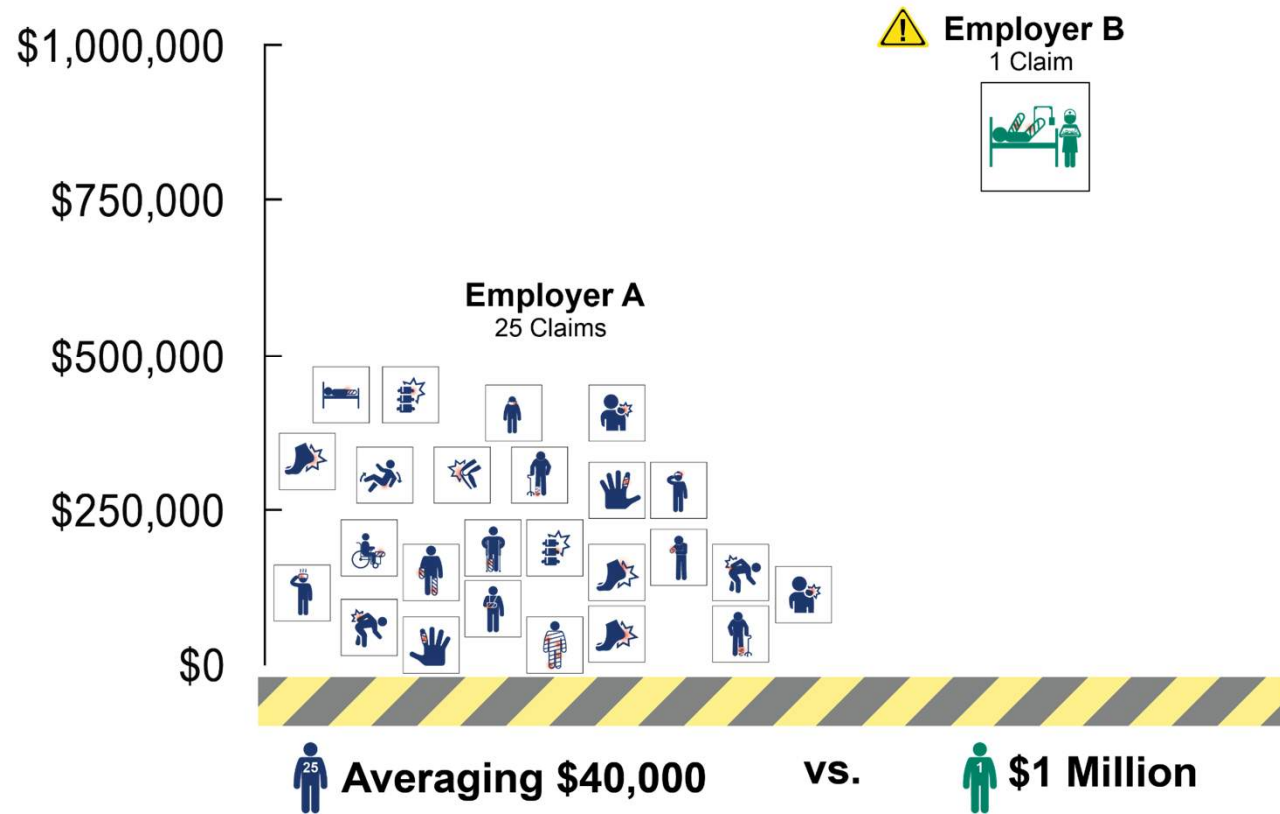


Experience Rating

Forecast of Future Losses

Frequency vs. Severity

Cost of Actual Claims



What Does an Experience Modification Represent?

- An experience modification is a forecast of future losses
 - Not a recoupment program – past experience is used only to the extent it is predictive of future experience
 - Predictive value depends on size of employer with the loss history of larger employers given more weight
 - Not a proxy for safety – safety is one of the factors that go into the X-Mod
- An experience modification is expressed as a percentage
 - Less than 100% means employer has better than average loss history
 - Over 100% means employer has worse than average loss history
- Experience rating experience rating is premium neutral on a statewide basis
- Experience rating is only one component of employer's premium determination
 - Loss experience and risk characteristics are also considerations

Experience Rating Overview

Purpose of X-Mods

- Experience rating is a state mandated merit rating system that benchmarks an employer against others in its industry
- Provides a uniform mechanism to refine the pricing of workers' compensation insurance to acknowledge the unique characteristics of each employer's operation
- Provides a direct financial incentive for employers to reduce accidents

Experience Rating Overview

Purpose of X-Mods (...continued)

- The “industry” by which all employers are associated is defined by the Standard Classification assigned to their business operations. While Standard Classifications include a range of activities considered “normal and usual” for the industry, there are differences in:
 - Operations (e.g., level of mechanization)
 - Safety practices
 - Salary levels
 - Other characteristics (e.g., size and location)
- One purpose of X-Mods is to account for these differences

What is the WCIRB's Role?

- The WCIRB is a licensed rating organization and the California Insurance Commissioner's designated statistical agent
- Administers and proposes amendments to the Insurance Commissioner's workers' compensation regulations
 - Uniform Statistical Reporting Plan
 - Experience Rating Plan
 - Miscellaneous Regulations

02

How is Data Used in Experience Rating



How Data is Collected and Used by the WCIRB



Data from every workers' compensation insurance policy providing coverage in California is required to be reported to the WCIRB within 60 days after policy inception.

Payroll by classification and any claims are submitted to the WCIRB by 20 months after the policy inception date.

All claims on the policy are first valued at 18 months. Up to nine additional reports are required annually, as long as there are open claims as of the prior valuation.

Level	Date of Valuation	Date of Reporting
1	18 months	20 months
2	30 months	32 months
3	42 months	44 months
4	54 months	56 months
5	66 months	68 months
6	78 months	80 months
7	90 months	92 months
8	102 months	104 months
9	114 months	116 months
10	126 months	128 months

Experience Period

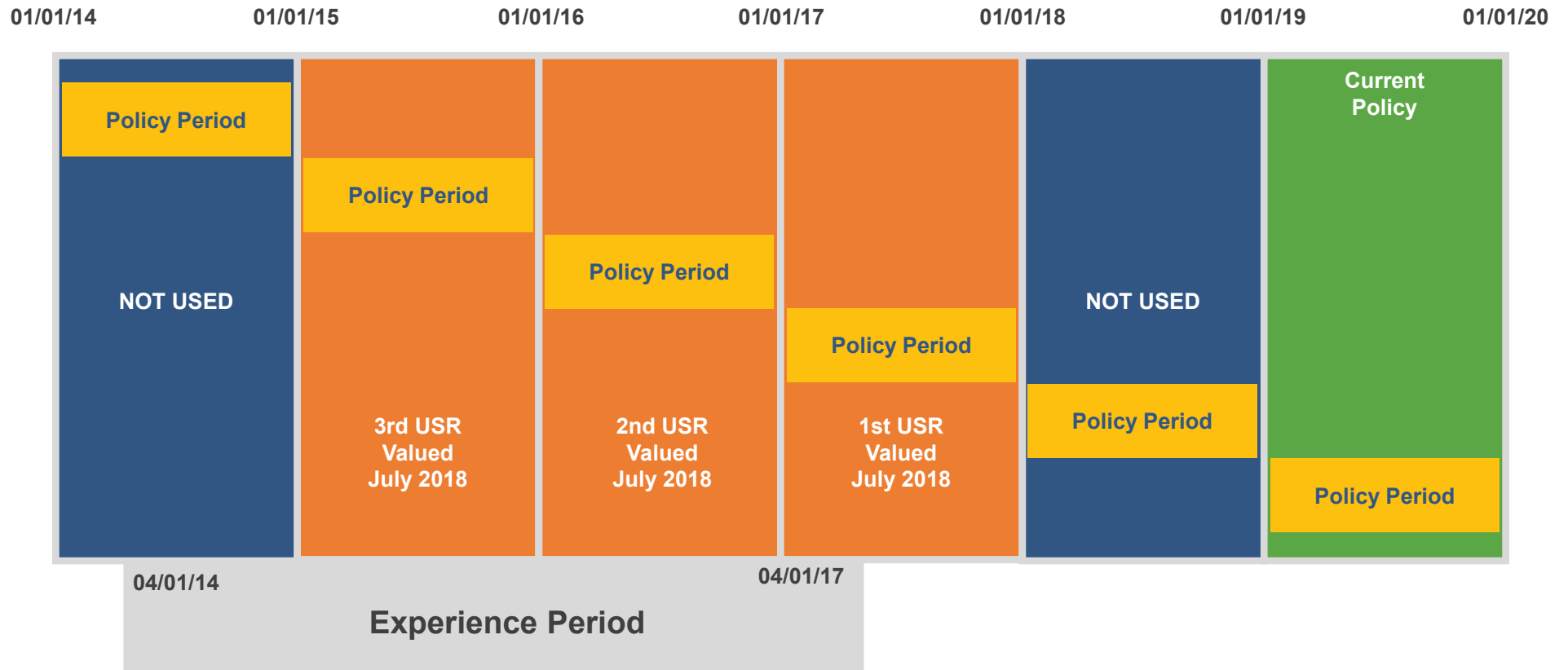
Section III of the ERP

Start by establishing the rating effective date (RED). Prior to 1/1/2018, this was the anniversary rating date (ARD). Generally speaking, the inception date of the annual renewal policy sets the next RED (1/1/2018 to 1/1/2019 policy sets a 1/1/2019 RED).

The experience period is a three (3) year period, commencing four (4) years and nine (9) months prior and terminating one (1) year and nine (9) months prior to the date for which an experience modification is to be established. The payroll and loss data from all policies that incept within the experience period are used to produce the experience modification.

The payroll and loss data from all policies that incept within the experience period will be used in the calculation.

The Experience Period



Eligibility for Experience Rating

Section III of the ERP

To determine eligibility, the payroll developed during the experience period is totaled by classification code. These totals are multiplied by the expected loss rate that applies as of the effective date of the experience modification for the particular classification. The sum of these premium calculations must equal or exceed the minimum premium threshold. The eligibility threshold for 2019 experience modifications is \$10,000.

Classification Code	2015 Payroll	2016 Payroll	2017 Payroll	Payroll Total	Expected Loss Rate (per \$100)	Eligibility Value
8017	211,777	199,592	260,500	671,869	\$1.50	\$10,078
8742	92,109	95,551	100,551	288,211	\$0.16	461
8810	49,233	55,566	64,555	169,354	\$0.13	220
						\$10,759

Experience Rating Overview

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Header

Workers' Compensation Experience Rating Form

Bureau Number

Effective Date

Issue Date

Experience Modification

Insurer

Insurer Group

Policy Number

Issuing Office

Experience Period

Page

Summary of Payroll and Expected Losses

Class Code	Payroll	Expected Loss Rate per \$100 payroll	Expected Losses	D-Ratio	Expected Primary Losses	Expected Excess Losses
Insurer: Policy Period :						
Totals						

Summary of Claims and Actual Losses Primary Threshold:

Claim Number	Injury Type	Open / Closed	Actual Losses	Actual Primary Losses
Insurer: Policy Period :				
Totals				

Expected Losses

Actual Losses

Experience Period Totals

Expected Losses	Expected Primary Losses	Expected Excess Losses	Number of Claims	Actual Losses	Actual Primary Losses
C		D			A

Rating Procedure

Actual Primary Losses

Expected Excess Losses

Expected Losses

Loss-Free Rating:

[A] + [B] / [C] =

(S) Subrogation, (L) Joint Claim, (P) Partially Fraudulent, if any.

Workers' Compensation Insurance Rating Bureau of California®

Expected Losses

- At a basic level, an experience modification is a comparison of expected losses to actual losses.
- Expected losses are the amount of claims (frequency and severity) expected from a business based on the industry (classification) and the size of the business (measured in payroll).
 - The higher expected loss rate, the greater hazard, and therefore, more “Expected Losses”
 - The more payroll, the more employee exposure to hazard, and therefore, more “Expected Losses”

Splitting Expected Losses with D-Ratio

Section VII of the ERP – Pre-2019

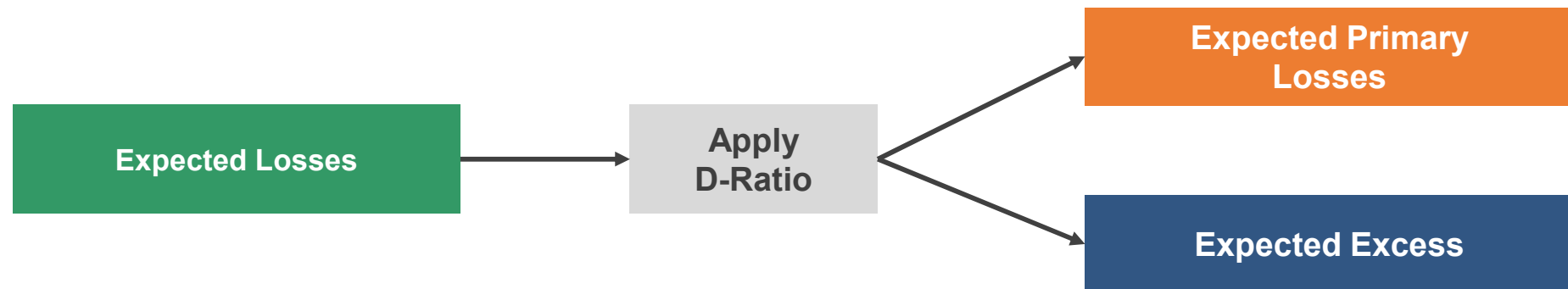
- The D-Ratio discounts/reduces the impact of the severity of large claims on X-Mods by separating expected losses into two components: Expected Primary Losses and Expected Excess Losses.
- Expected Primary Losses represent the portion of the expected losses that are more related to claim frequency and have the greatest predictive value in projecting future losses.
- Expected Excess Losses represent the severity of claim costs that are considered more outside the employer's control and are not predictive of future losses.

Splitting Expected Losses with D-Ratio

Of the Expected Losses, what part of the losses should be considered controllable by the policyholder?

The D-Ratio helps to answer — think D for divide.

- Expected Primary Losses = Frequency-Predictive
- Expected Excess = Severity-Outside Control



Splitting Expected Losses with D-Ratio (...continued)

- While there is only one Expected Loss Rate for each classification, there are over 90 D-Ratio values for each classification, which corresponds to the 90+ Primary Thresholds, as determined by the policyholder's Expected Losses.
- The larger the employer, the greater their Primary Threshold, meaning more of the actual value of claims will be used in their X-Mod calculation.
- The D-Ratios for each classification reflect differences in the average severity of claims by classification.
- In 2019, the Expected Loss Rates and D-Ratios were adjusted to reflect the removal of the first \$250 of all claims in the calculation of experience modifications.

Expected Loss Rate and D-Ratio

Effective January 1, 2018

Table I – Expected Loss Rates and D-Ratios

Class Code	Expected Loss Rate	D-Ratio by Primary Threshold									
		4,500	5,000	5,500	6,000	6,500	7,000	7,500	8,000	8,500	9,000
7707*	125.86	0.123	0.132	0.140	0.148	0.156	0.163	0.171	0.179	0.186	0.193
7720	1.18	0.143	0.153	0.163	0.173	0.182	0.191	0.200	0.209	0.218	0.227
7721	2.11	0.132	0.143	0.154	0.165	0.175	0.185	0.195	0.205	0.215	0.224
7722*	67.82	0.121	0.131	0.140	0.149	0.158	0.167	0.175	0.184	0.192	0.200
7855	1.16	0.098	0.106	0.114	0.122	0.130	0.137	0.145	0.152	0.159	0.167
8001	2.61	0.152	0.164	0.177	0.188	0.200	0.211	0.223	0.233	0.244	0.255
8004	1.51	0.152	0.162	0.171	0.180	0.189	0.197	0.206	0.214	0.222	0.230
8006	2.07	0.190	0.203	0.216	0.228	0.240	0.252	0.263	0.274	0.285	0.296
8008	1.26	0.189	0.202	0.215	0.228	0.240	0.252	0.263	0.275	0.286	0.296
8013	0.74	0.139	0.150	0.161	0.171	0.182	0.192	0.202	0.212	0.221	0.231
8015	2.55	0.150	0.160	0.171	0.181	0.191	0.201	0.210	0.220	0.229	0.238
8017	1.61	0.161	0.173	0.184	0.194	0.205	0.215	0.225	0.235	0.245	0.254
8018	2.56	0.157	0.168	0.180	0.191	0.201	0.212	0.222	0.232	0.242	0.252
8019	1.02	0.161	0.173	0.185	0.196	0.206	0.217	0.227	0.237	0.246	0.256
8021	3.97	0.155	0.167	0.179	0.190	0.201	0.212	0.223	0.233	0.244	0.254

2018 Table can be found in the ERP

Expected Loss Rate and D-Ratio

Effective January 1, 2018 (...continued)

Table I – Expected Loss Rates and D-Ratios

Class Code	Expected Loss Rate	D-Ratio by Primary Threshold									
		4,500	5,000	5,500	6,000	6,500	7,000	7,500	8,000	8,500	9,000
7707*	125.86	0.123	0.132	0.140	0.148	0.156	0.163	0.171	0.179	0.186	0.193
7720	1.18	0.143	0.153	0.163	0.173	0.182	0.191	0.200	0.209	0.218	0.227
7721	2.11	0.132	0.143	0.154	0.165	0.175	0.185	0.195	0.205	0.215	0.224
7722*	67.82	0.121	0.131	0.140	0.149	0.158	0.167	0.175	0.184	0.192	0.200
7855	1.16	0.098	0.106	0.114	0.122	0.130	0.137	0.145	0.152	0.159	0.167
8001	2.61	0.152	0.164	0.177	0.188	0.200	0.211	0.223	0.233	0.244	0.255
8004	1.51	0.152	0.162	0.171	0.180	0.189	0.197	0.206	0.214	0.222	0.230
8006	2.07	0.190	0.203	0.216	0.228	0.240	0.252	0.263	0.274	0.285	0.296
8008	1.26	0.189	0.202	0.215	0.228	0.240	0.252	0.263	0.275	0.286	0.296
8013	0.74	0.139	0.150	0.161	0.171	0.182	0.192	0.202	0.212	0.221	0.231
8015	2.55	0.150	0.160	0.171	0.181	0.191	0.201	0.210	0.220	0.229	0.238
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8018	2.56	0.157	0.168	0.180	0.191	0.201	0.212	0.222	0.232	0.242	0.252
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8021	3.97	0.155	0.167	0.179	0.190	0.201	0.212	0.222	0.232	0.242	0.252

Class Code	Payroll	Expected Loss Rate per \$100 payroll	Expected Losses	D-Ratio	Expected Primary Losses	Expected Excess Losses
Insurer: 905 Policy Period : 06/01/2016 to 06/01/2017						
8017	260,500	1.61	4,194	0.194	814	3,380
8742	100,551	0.15	151	0.177	27	124
8810	64,555	0.13	84	0.198	17	67
Totals	425,606		4,429		858	3,571



02. How is Data Used in Experience Rating

Actual Losses

Section VII of the ERP – Pre-2019

Actual Losses

- Actual losses are broken down into:
 - Actual Primary Losses (the more predictive and controllable portion of the claim) and
 - Actual Excess Losses (the less predictive and less controllable portion of the claim).
- There are over 90 Primary Threshold values that vary based upon the size of the employer ranging from \$4,500 to \$75,000 as determined by the policyholder's Expected Losses.
 - Primary thresholds increment by \$500 from \$4,500 until \$25,000 at which point the increments change to \$1,000.

Primary Threshold

Effective January 1, 2018

Table II - Credibilities and Primary Thresholds

Maximum Loss Value \$175,000

Average Death Value \$175,000

Expected Losses			Primary Threshold	Credibility Primary	Credibility Excess
Below	-	8,910	4,500	1.00	0.00
8,911	-	10,140	5,000	1.00	0.00
10,141	-	11,432	5,500	1.00	0.00
11,433	-	12,789	6,000	1.00	0.00
12,790	-	14,212	6,500	1.00	0.00
14,213	-	15,704	7,000	1.00	0.00
15,705	-	17,266	7,500	1.00	0.00
17,267	-	18,900	8,000	1.00	0.00
18,901	-	20,610	8,500	1.00	0.00
20,611	-	22,396	9,000	1.00	0.00

2018 Table can be found in the ERP

Primary Threshold

Effective January 1, 2018 (...continued)

Table II - Credibilities and Primary Thresholds

Maximum Loss Value \$175,000

Average Death Value \$175,000

Expected Losses			Primary Threshold	Credibility Primary	Credibility Excess
Below	-	8,910	4,500	1.00	0.00
8,911	-	10,140	5,000	1.00	0.00
10,141	-	11,432	5,500	1.00	0.00
11,433	-	12,789	6,000	1.00	0.00
12,790	-	14,212	6,500	1.00	0.00
14,213	-	15,704	7,000	1.00	0.00
15,705	-	17,266	7,500	1.00	0.00
17,267	-	18,900	8,000	1.00	0.00
18,901	-	20,610	8,500	1.00	0.00
20,611	-	22,396	9,000	1.00	0.00

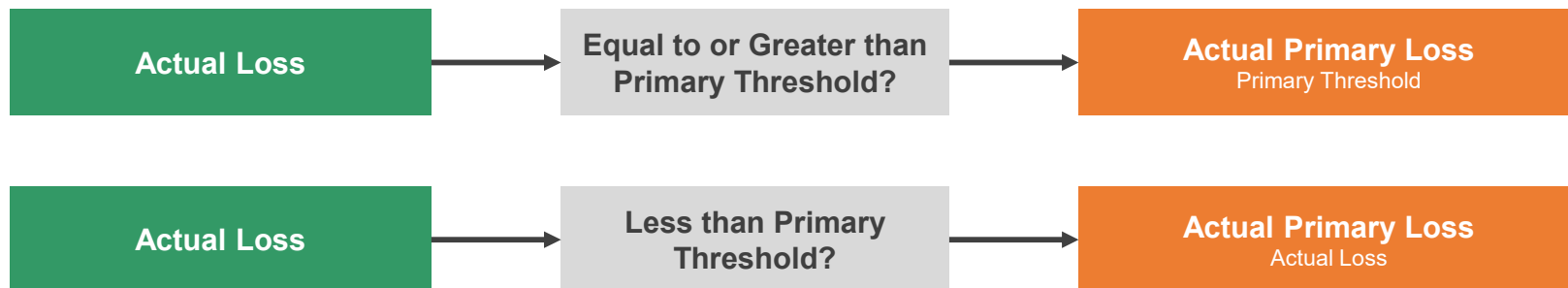
Experience Period Totals

	Expected Losses	Expected Primary Losses	Expected Excess Losses
A	11,463	B 2,218	C 9,245

Splitting Actual Losses with Formula

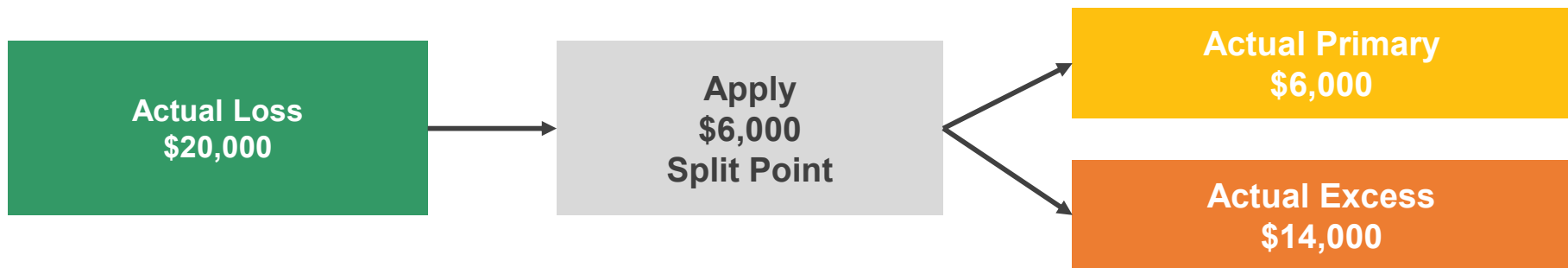
Section VII of the ERP – Pre-2019

- As with Expected Losses, employers are expected to have some control, therefore responsibility, over accidents in the workplace.
- To determine how much, or what proportion, of each claim an employer should be held accountable, utilize this simple formula, where the Primary Loss is the portion considered “controllable” by the employer.



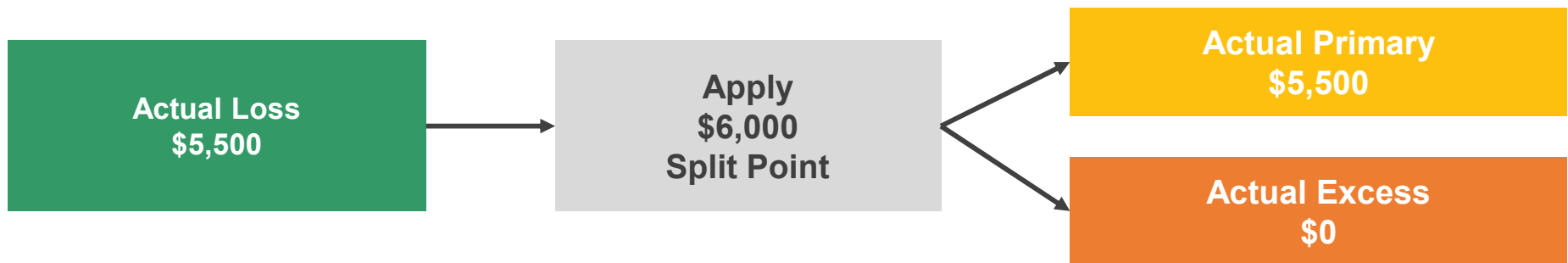
Primary Actual Losses

Example 1: Primary Threshold \$6,000



Primary Actual Losses (...continued)

Example 2: Primary Threshold \$6,000



Actual Losses

Section VII of the ERP – Pre-2019

Summary of Claims and Actual Losses Primary Threshold: 6,000

Claim Number	Injury Type / # of Claims	Open / Closed	Actual Losses	Actual Primary Losses	Actual Excess Losses
UNDER \$2,001	1		299	299	
Totals	1		299	299	0
47092939	05	Open	97,795	6,000	91,795
UNDER \$2,001	2		1,852	1,852	
Totals	3		99,647	7,852	91,795
Totals	0		0	0	0
005241191	04	Closed	13,229	6,000	7,229
Totals	1		13,229	6,000	7,229

03

2019 Changes to the Experience Rating Plan



Labor Code Section 5401(a) Definition of First Aid

“[F]irst aid’ means any one-time treatment and any follow-up visit for the purpose of observation of minor scratches, cuts, burns, splinters, or other minor industrial injury, which do not ordinarily require medical care. This one-time treatment, and follow-up visit for the purpose of observation, is considered first aid even though provided by a physician or registered professional personnel.”



DIR Requirements on First Aid Claims



Employers are not required to provide a claim form (DWC-1) to an injured worker on first aid claims (Labor Code Sec. 5401(a))



Employers are not required to submit the Employer's First Report of Occupational Injury or Illness (5020) to DIR on first aid claims (Labor Code Sec. 6409.1)



Physicians who attend to any injured employee are required to file a Doctors First Report of Occupational Injury or Illness (5021) on all claims in which they provide treatment including first aid claims (Labor Code Sec. 6409(a))



Only a physician or registered professional personnel can determine whether an injury or illness arising out of and occurring in the course of employment qualifies as "first aid"

2019 Change to X-Mod Formula—Why?

Exclusion of First \$250 of Each Claim

- 2015: WCIRB established a broad working group on non-reporting of small “First Aid” claims
- Working Group findings & recommendations
 - Non-reporting of claims is a significant issue affecting workers’ access to benefits, fairness & insurer’s ability to manage claims
 - Clarify reporting requirements
 - Remove disincentive to report small claims by eliminating the use of these claims in X-Mod formula
- 2017: Reporting requirements clarified – all claims with medical treatment costs must be reported
- 2019: Claims less than \$250 not used in X-Mod formula (includes 2017 claims)
- Objective: Get all workers’ comp claims into the system

2019 Change to X-Mod Formula—Why \$250?

- Most claims meeting California definition of “First Aid” will be less than \$250 in value
- Higher alternative thresholds reviewed had significant impact on plan accuracy, loss-free credits and X-Mod distribution
- WCIRB will regularly review \$250 threshold and adjust for inflation as needed

What Changed in 2019?

- Exclude first **\$250** of each loss from formula
 - Addresses potential underreporting of “first aid” claims
 - Modest impact on most employers’ X-Mods
- Simplified **Formula**
 - Eliminates credibility terms
 - No impact on X-Mods
 - Changes experience rating form

2019 Change to X-Mod Formula

How It Works – \$250 Loss Exclusion

Examples – Primary Losses with Primary Threshold = \$10,000

\$

For Incurred Loss of \$200

Actual Primary Loss = 0

\$

For Incurred Loss of \$5,000

Actual Primary Loss = \$4,750

\$

For Incurred Loss of \$10,000

Actual Primary Loss = \$9,750

\$

For Incurred Loss of \$50,000

Actual Primary Loss = \$9,750

2018 Workers' Compensation Experience Rating Form

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Workers' Compensation Experience Rating Form

Example Bureau Number X-XX-XX-XX-R Page 1 of 1
Effective Date 06/01/2018
Issue Date 02/07/2018
Experience Modification 149%
Insurer
Insurer Group
Policy Number
Issuing Office
Experience Period 09/01/2013 to 09/01/2016

Summary of Payroll and Expected Losses							Summary of Claims and Actual Losses						
Class Code	Payroll	Expected Loss Rate per \$100 payroll	Expected Losses	D-Ratio	Expected Primary Losses	Expected Excess Losses	Claim Number	Injury Type / # of Claims	Open / Closed	Actual Losses	Actual Primary Losses	Actual Excess Losses	
Insurer: MMM Policy Period: 06/01/2016 to 06/01/2017							Primary Threshold: 6,000						
8742	20,193	0.15	30	0.177	5	20	0200111	04	Open	28,963	6,000	22,963	
9220	155,837	2.95	4,567	0.189	859	3,728	UNDER \$2,001	2		1,809	1,809		
Totals	176,030		4,627		874	3,753	Totals	3		30,772	7,809	22,963	
Insurer: MMM Policy Period: 06/01/2015 to 06/01/2016													
8742	17,852	0.15	26	0.177	5	21							
9220	130,623	2.95	3,853	0.189	733	3,126							
Totals	148,275		3,879		733	3,148	Totals	0		0	0	0	
Insurer: MMM Policy Period: 06/01/2014 to 06/01/2015													
8742	1,501	0.15	2	0.177	0	2							
9220	100,935	2.95	2,978	0.189	563	2,415							
Totals	102,436		2,980		563	2,417	Totals	0		0	0	0	
Experience Period Totals													
Expected Losses		Expected Primary Losses		Expected Excess Losses		# of Claims		Actual Losses		Actual Primary Losses		Actual Excess Losses	
A 11,486		B 2,170		C 9,316		D 3		E 30,772		F 7,809		G 22,963	

Credible Primary Loss				Credible Excess Loss			
$\left[\frac{\text{Total Actual Primary Losses (G)}}{\text{Total Expected Primary Losses (B)}} \right] \times \left[\frac{\text{Total Expected Primary Losses (B)}}{\text{Total Expected Primary Losses (B)}} \right] = \text{Credible Primary Loss (H)}$				$\left[\frac{\text{Total Actual Excess Losses (I)}}{\text{Total Expected Excess Losses (C)}} \right] \times \left[\frac{\text{Total Expected Excess Losses (C)}}{\text{Total Expected Excess Losses (C)}} \right] = \text{Credible Excess Loss (J)}$			
$\frac{7,809}{2,170} \times 1.00 = 3.5986$				$\frac{22,963}{9,316} \times 1.00 = 2.4648$			
Loss-Free Rating: 81%				Experience Modification: 149%			

(S) Subrogation; (J) Joint Claim; (P) Partially Fraudulent, if any
CNR0235834 Workers' Compensation Insurance Rating Bureau of California® 02/06/2018

2018 Workers' Compensation Experience Rating Form

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Workers' Compensation Experience Rating Form

Example

Bureau Number: X-XX-XX-XX-R Page 1 of 1

Effective Date: **06/01/2018**

Issue Date: 02/07/2018

Experience Modification: **149%**

Insurer:

Insurer Group:

Policy Number:

Issuing Office:

Experience Period: 09/01/2013 to 09/01/2016

Summary of Payroll and Expected Losses						Summary of Claims and Actual Losses						
Class Code	Payroll	Expected Loss Rate per \$100 payroll	Expected Losses	D-Ratio	Expected Primary Losses	Expected Excess Losses	Claim Number	Injury Type / # of Claims	Open / Closed	Actual Losses	Actual Primary	Actual Excess
Insurer: MMM Policy Period: 06/01/2016 to 06/01/2017												
8742	20,193	0.15	30	0.177	5	29	3200111	04	Open	28,963	6,000	22,963
9220	155,837	2.95	4,567	0.189	869	3,728	UNDER \$2,001	2	Closed	1,809	1,809	
Totals	176,030		4,627		874	3,753	Totals	3		30,772	7,809	22,963
Insurer: MMM Policy Period: 06/01/2015 to 06/01/2016												
8742	17,852	0.15	26	0.177	5	21						
9220	130,623	2.95	3,853	0.189	728	3,125						
Totals	148,275		3,879		733	3,146	Totals	0		0	0	0
Insurer: MMM Policy Period: 06/01/2014 to 06/01/2015												
8742	1,501	0.15	2	0.177	0	2						
9220	100,935	2.95	2,979	0.189	563	2,415						
Totals	102,436		2,981		563	2,417	Totals	0		0	0	0

Experience Period: 09/01/2013 to 09/01/2016

Group claims listed individually

Summary of Claims and Actual Losses					
Claim Number	Injury Type / # of Claims	Open / Closed	Actual Losses	Actual Primary Losses	Actual Excess Losses
3200111	04	Open	28,963	6,000	22,963
UNDER \$2,001	2	Closed	1,809	1,809	
Totals	3		30,772	7,809	22,963
Totals	0		0	0	0
Totals	0		0	0	0

Remove \$250

Column goes away

Credible Primary Loss

$$\left(\frac{\text{Total Actual Primary Losses (D)} \times \text{Credibility Primary Losses (B)}}{\text{Total Expected Primary Losses (C)}} \right) + \left(\frac{\text{Total Actual Excess Losses (E)} \times \text{Credibility Excess Losses (F)}}{\text{Total Expected Excess Losses (G)}} \right)$$

$$\left(\frac{7,809 \times 1.00}{2,174} \right) + \left(\frac{22,963 \times 0.00}{0.00} \right) = 3.59$$

Credible Excess Loss

$$\left(\frac{\text{Total Actual Excess Losses (E)} \times \text{Credibility Excess Losses (F)}}{\text{Total Expected Excess Losses (G)}} \right)$$

$$\left(\frac{22,963 \times 0.00}{0.00} \right) = 0.00$$

Loss-Free Rating: 81%

(C) Subrogation; (U) Joint Claim; (P) Partially Fraudulent; if any

CNRSC235534 Workers' Compensation Insurance Rating Bureau of California®

2018 vs. 2019 Format

2018 Format

WCIRB California
Example

Workers' Compensation Experience Rating Form
Policy Number: 0000000000
Effective Date: 06/01/2018
Expiration Date: 05/31/2019
Experience Modification: 143%
Policy Period: 06/01/2018 to 05/31/2019

Summary of Payroll and Expected Losses									
Class Code	Payroll	Expected Losses	Expected Losses (A)	Expected Losses (B)	Expected Losses (C)	Expected Losses (D)	Expected Losses (E)	Expected Losses (F)	Expected Losses (G)
0000	100,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000
0001	100,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000
0002	100,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000
Totals	300,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000

Remove \$250

Column goes away

Group claims listed individually

Summary of Claims and Actual Losses					
Claim Number	Injury Type / # of Claims	Open / Closed	Actual Losses	Actual Primary Losses	Actual Excess Losses
3200111	04	Open	28,963	6,000	22,963
UNDER \$2,001	2		1,809	1,809	
Totals	3		30,772	7,809	22,963
Totals	0		0	0	0
Totals	0		0	0	0

Simplified Formula

Credible Primary Loss

$$\left[\left(\frac{\text{Total Actual Primary Losses (A)}}{\text{Total Expected Primary Losses (B)}} \right) \times \left(\frac{\text{Total Expected Primary Losses (B)}}{\text{Total Expected Primary Losses (B)}} \right) \right] = \left[\left(\frac{\text{Total Actual Primary Losses (A)}}{\text{Total Expected Primary Losses (B)}} \right) \times \left(\frac{\text{Total Expected Primary Losses (B)}}{\text{Total Expected Primary Losses (B)}} \right) \right] = 1.00$$

Credible Excess Loss

$$\left[\left(\frac{\text{Total Actual Excess Losses (C)}}{\text{Total Expected Excess Losses (D)}} \right) \times \left(\frac{\text{Total Expected Excess Losses (D)}}{\text{Total Expected Excess Losses (D)}} \right) \right] = \left[\left(\frac{\text{Total Actual Excess Losses (C)}}{\text{Total Expected Excess Losses (D)}} \right) \times \left(\frac{\text{Total Expected Excess Losses (D)}}{\text{Total Expected Excess Losses (D)}} \right) \right] = 1.43$$

Loss-Free Rating: 81%

Experience Modification: 143%

2019 Format

WCIRB California
Example

Workers' Compensation Experience Rating Form
Policy Number: 0000000000
Effective Date: 06/01/2018
Expiration Date: 05/31/2019
Experience Modification: 143%
Policy Period: 06/01/2018 to 05/31/2019

Summary of Payroll and Expected Losses									
Class Code	Payroll	Expected Losses	Expected Losses (A)	Expected Losses (B)	Expected Losses (C)	Expected Losses (D)	Expected Losses (E)	Expected Losses (F)	Expected Losses (G)
0000	100,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000
0001	100,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000
0002	100,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000
Totals	300,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000

Summary of Claims and Actual Losses				
Claim Number	Injury Type	Open / Closed	Actual Losses	Actual Primary Losses
2403001	06	Closed	1,590	1,340
2920001	06	Closed	219	0
3200111	04	Open	28,963	5,750
Totals	3		30,772	7,090
Totals	0		0	0
Totals	0		0	0

Actual Primary Losses

$$\left[\left(\frac{\text{Total Actual Primary Losses (A)}}{\text{Total Expected Primary Losses (B)}} \right) \times \left(\frac{\text{Total Expected Primary Losses (B)}}{\text{Total Expected Primary Losses (B)}} \right) \right] = \left[\left(\frac{\text{Total Actual Primary Losses (A)}}{\text{Total Expected Primary Losses (B)}} \right) \times \left(\frac{\text{Total Expected Primary Losses (B)}}{\text{Total Expected Primary Losses (B)}} \right) \right] = 1.00$$

Expected Excess Losses

$$\left[\left(\frac{\text{Total Actual Excess Losses (C)}}{\text{Total Expected Excess Losses (D)}} \right) \times \left(\frac{\text{Total Expected Excess Losses (D)}}{\text{Total Expected Excess Losses (D)}} \right) \right] = \left[\left(\frac{\text{Total Actual Excess Losses (C)}}{\text{Total Expected Excess Losses (D)}} \right) \times \left(\frac{\text{Total Expected Excess Losses (D)}}{\text{Total Expected Excess Losses (D)}} \right) \right] = 1.43$$

Loss-Free Rating: 81%

Experience Modification: 143%

2019 Change to X-Mod Formula

How it Works – Simplifying the X-Mod Formula

2018 formula:

$$\frac{[(Ap \times Cp) + (Ep \times (1 - Cp))] + [(Ae \times Ce) + (Ee \times (1 - Ce))]}{E}$$

Ap = Actual Primary Losses
Cp = Credibility Primary Value
Ep = Expected Primary Losses

Ae = Actual Excess Losses
Ce = Credibility Excess Value
Ee = Expected Excess Losses

E = Expected Losses

2019 Change to X-Mod Formula

How it Works – Simplifying the X-Mod Formula

2019 Formula: With $C_p = 1$ and $C_e = 0$, the experience rating formula simplifies to:

$$\frac{[A_p + E_e]}{E}$$

A_p = Actual Primary Losses

E_e = Expected Excess Losses

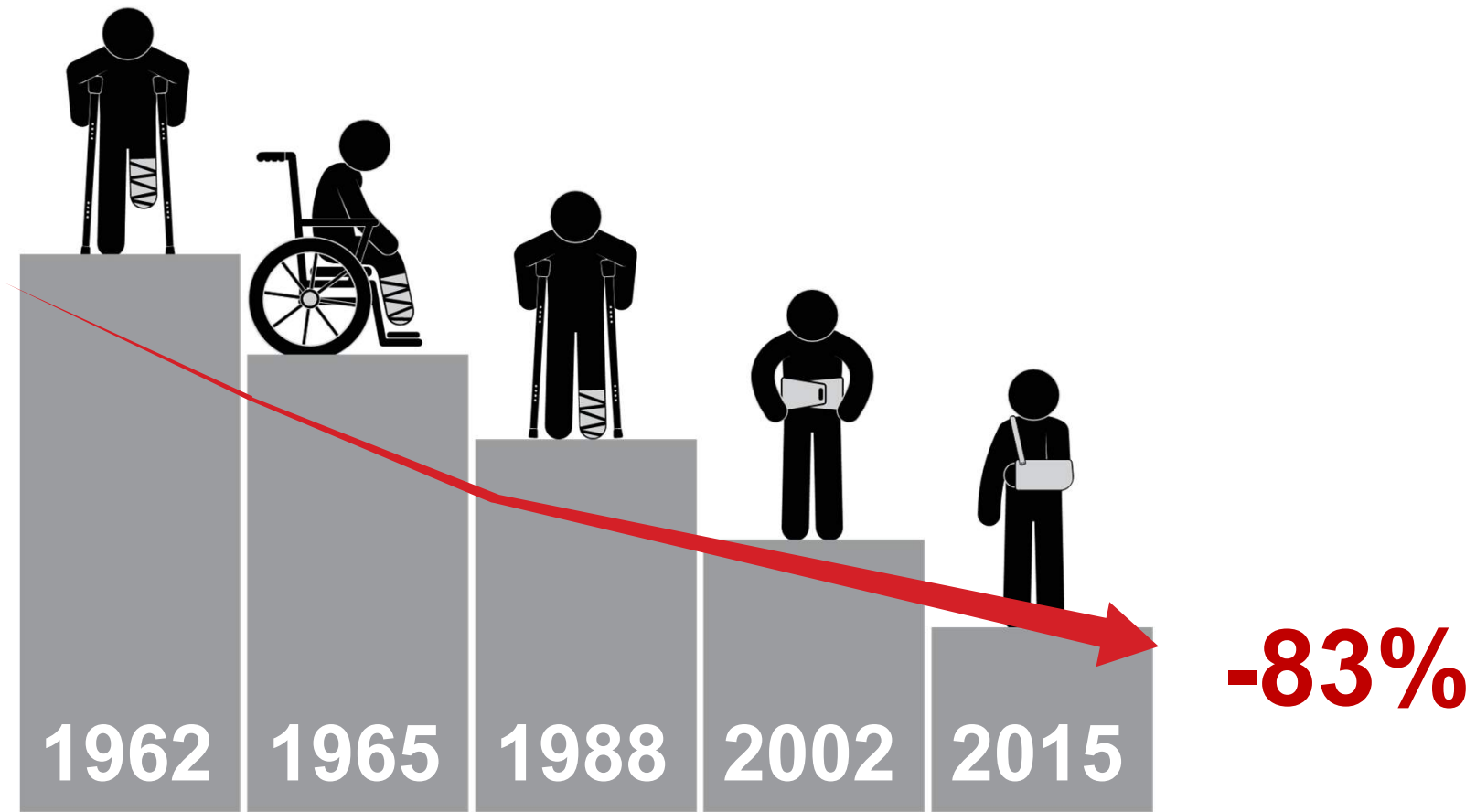
E = Expected Losses

04

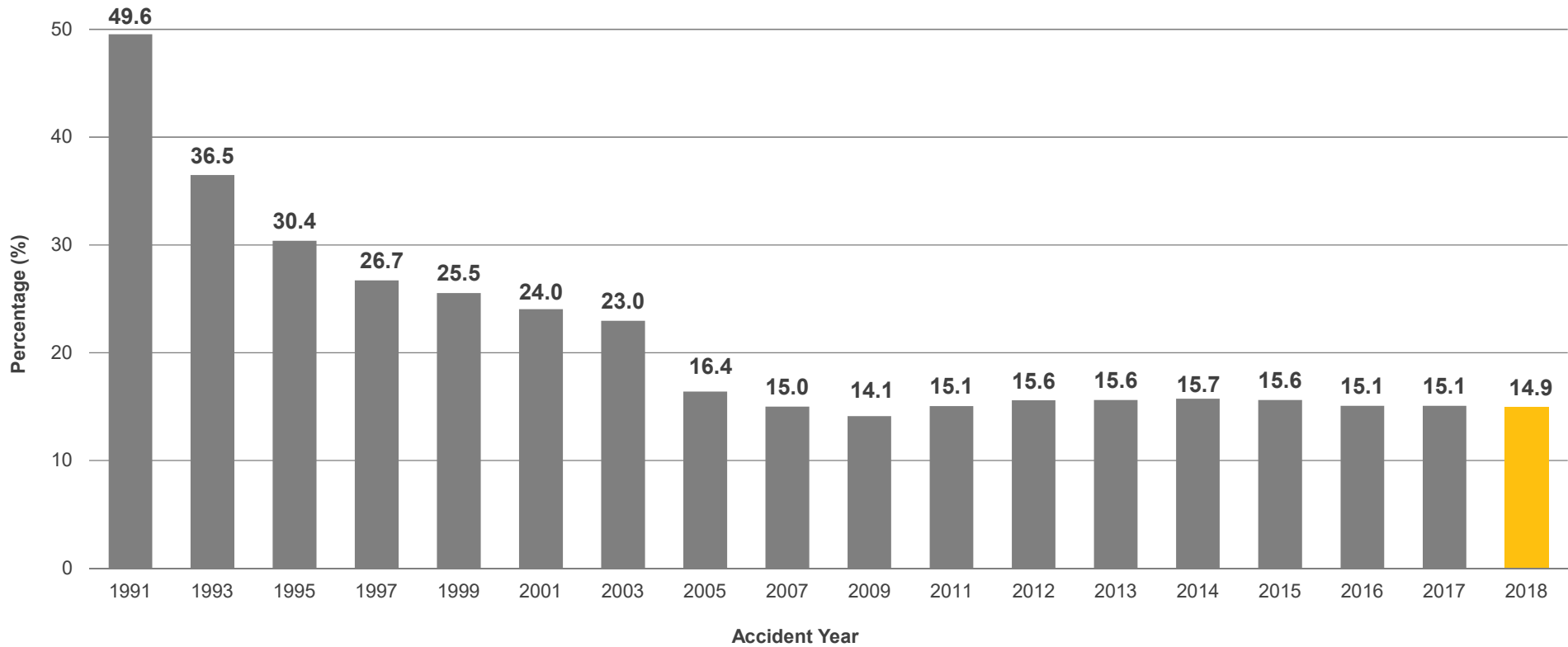
Trends in Workers' Compensation



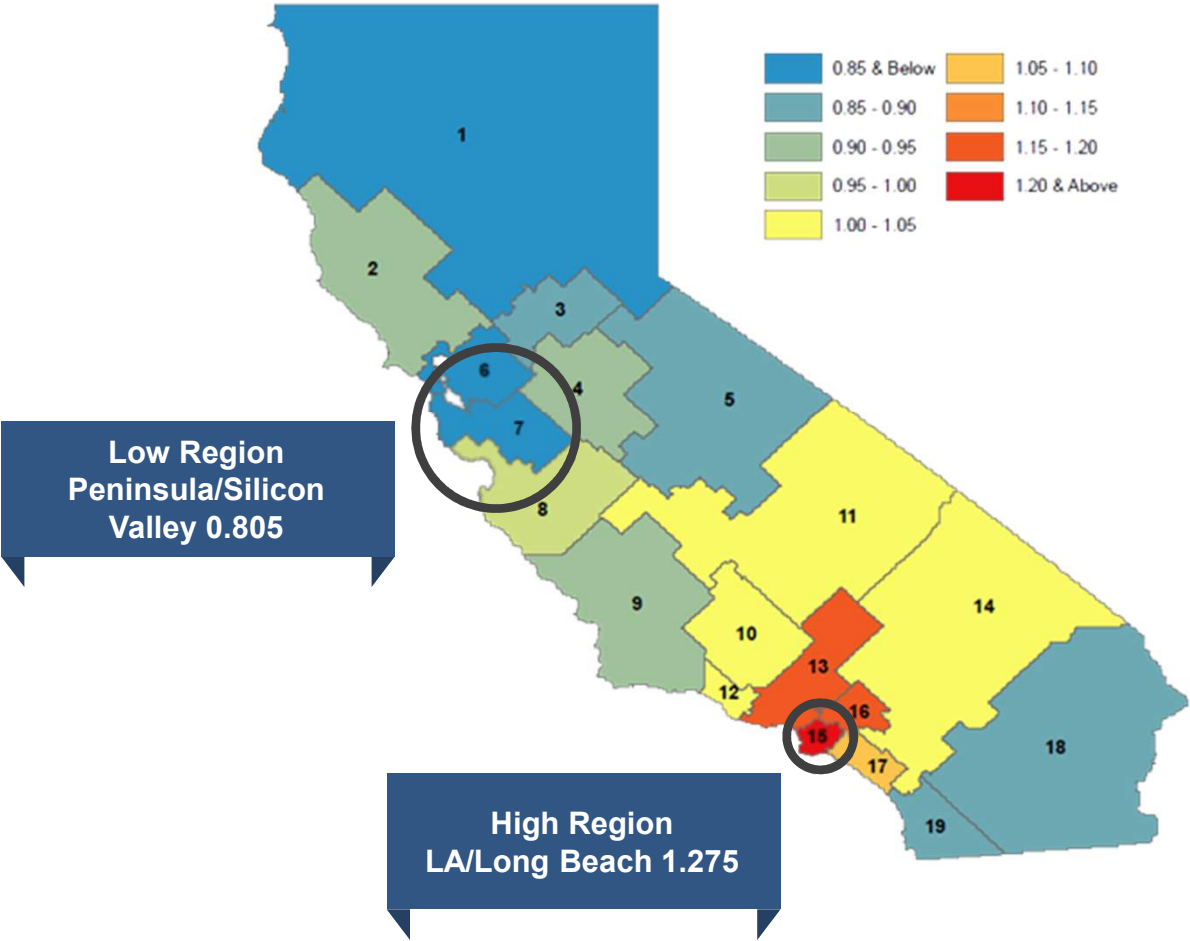
Long-Term Reduction in Claim Frequency



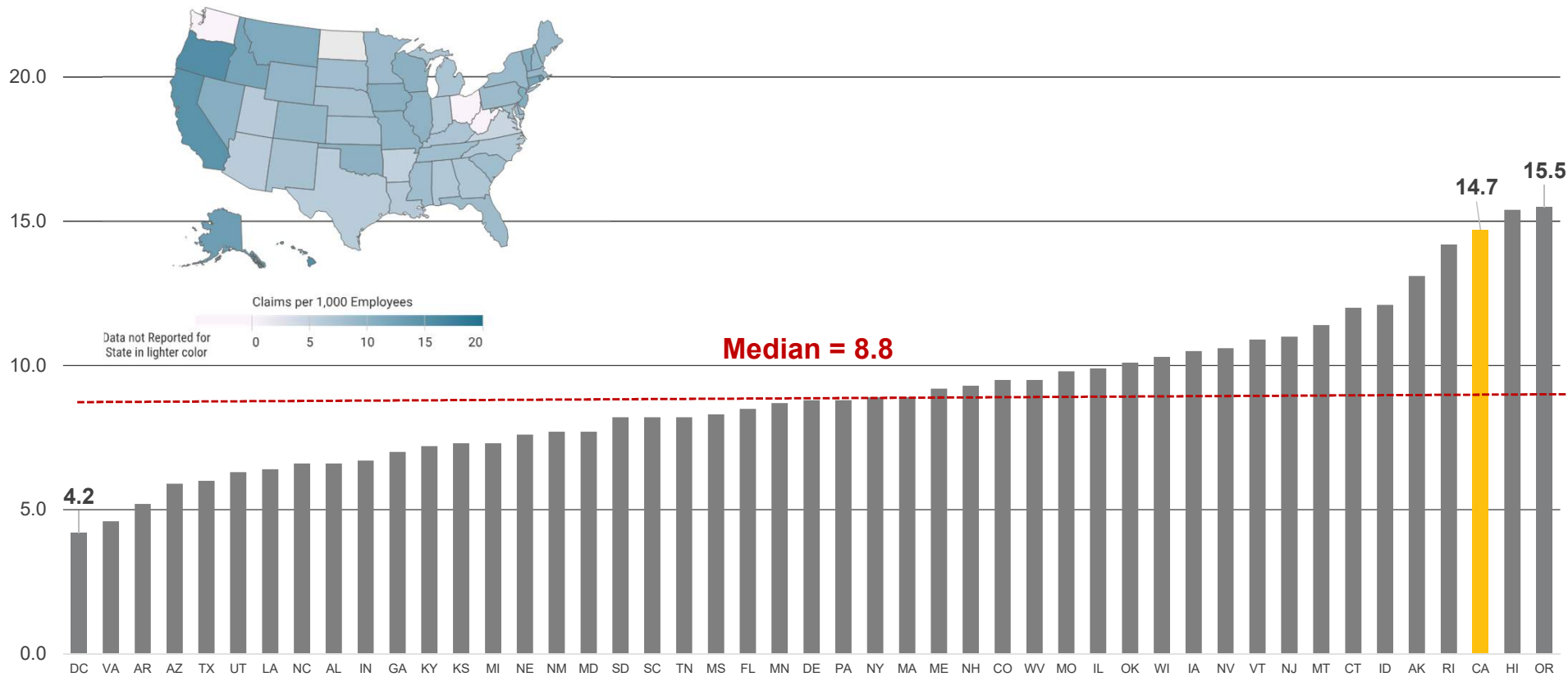
Indemnity Claims per 1,000 Employees



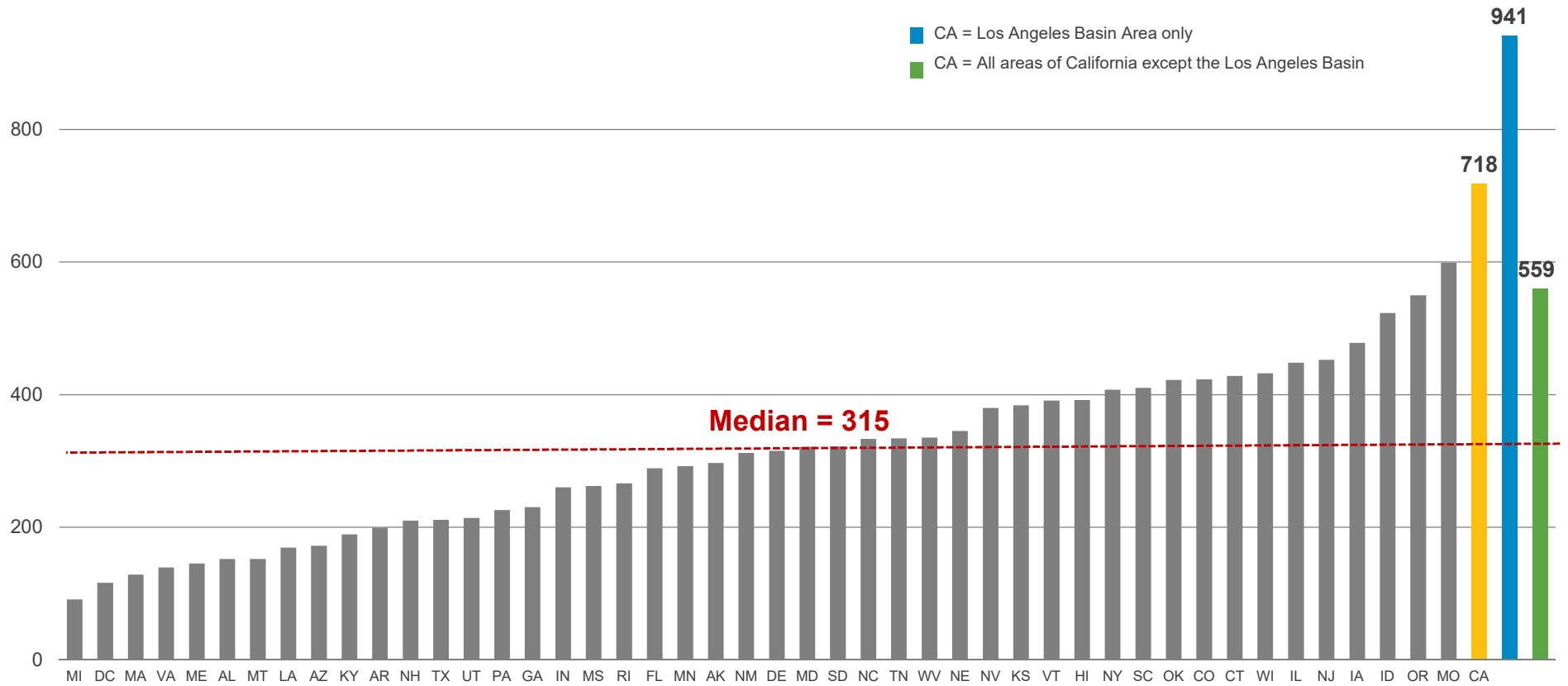
Regional Differences in Indemnity Claim Frequency



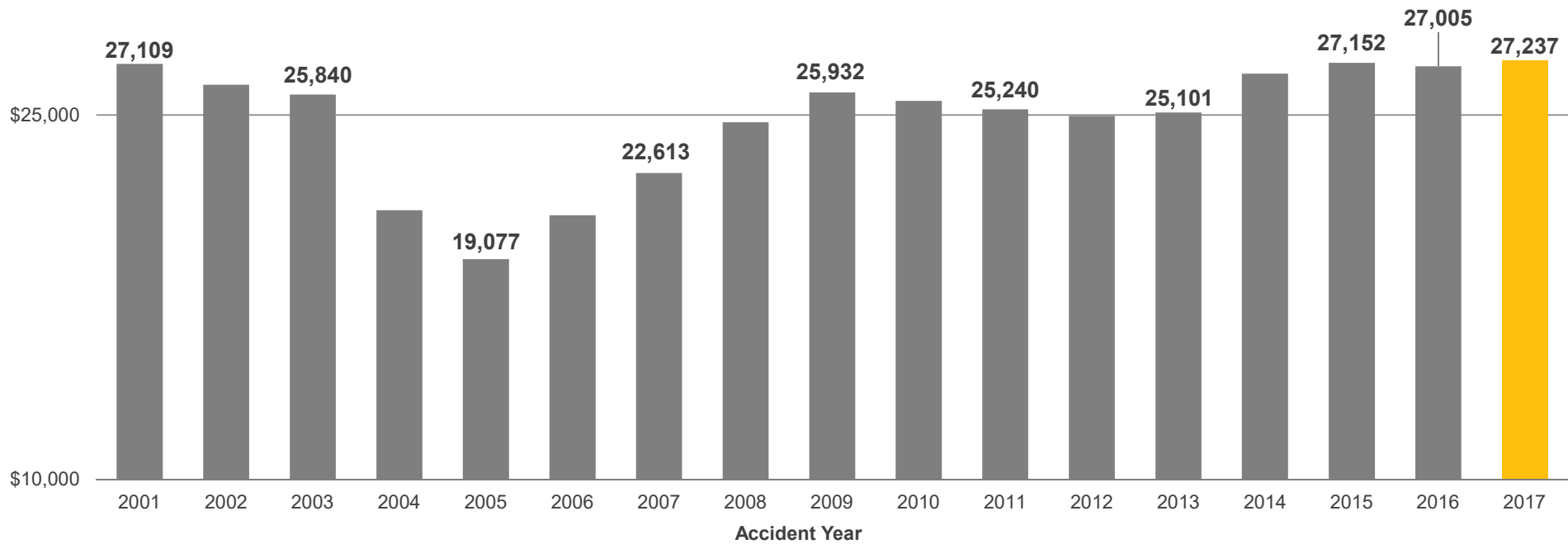
Indemnity Claims per 1,000 Employees by State



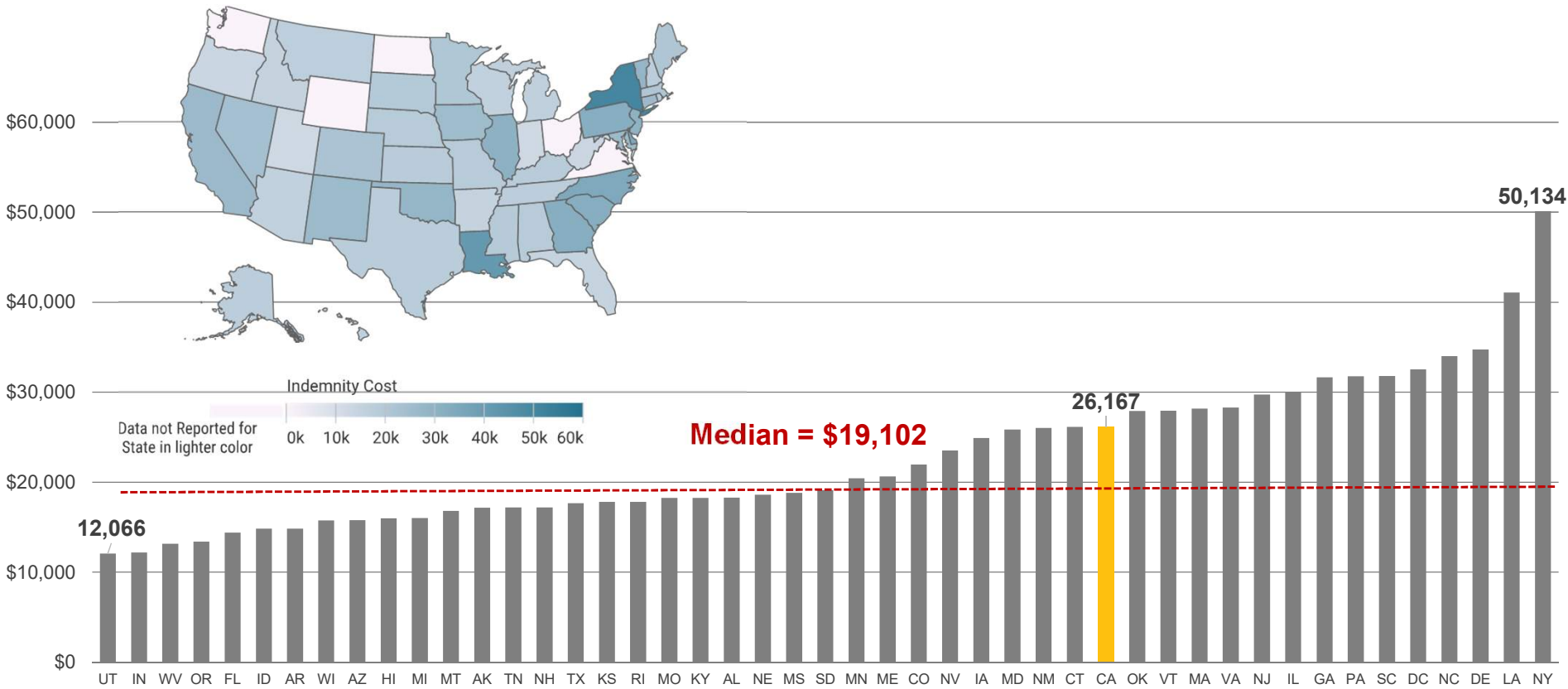
Permanent Disability Claims per 100,000 Employees



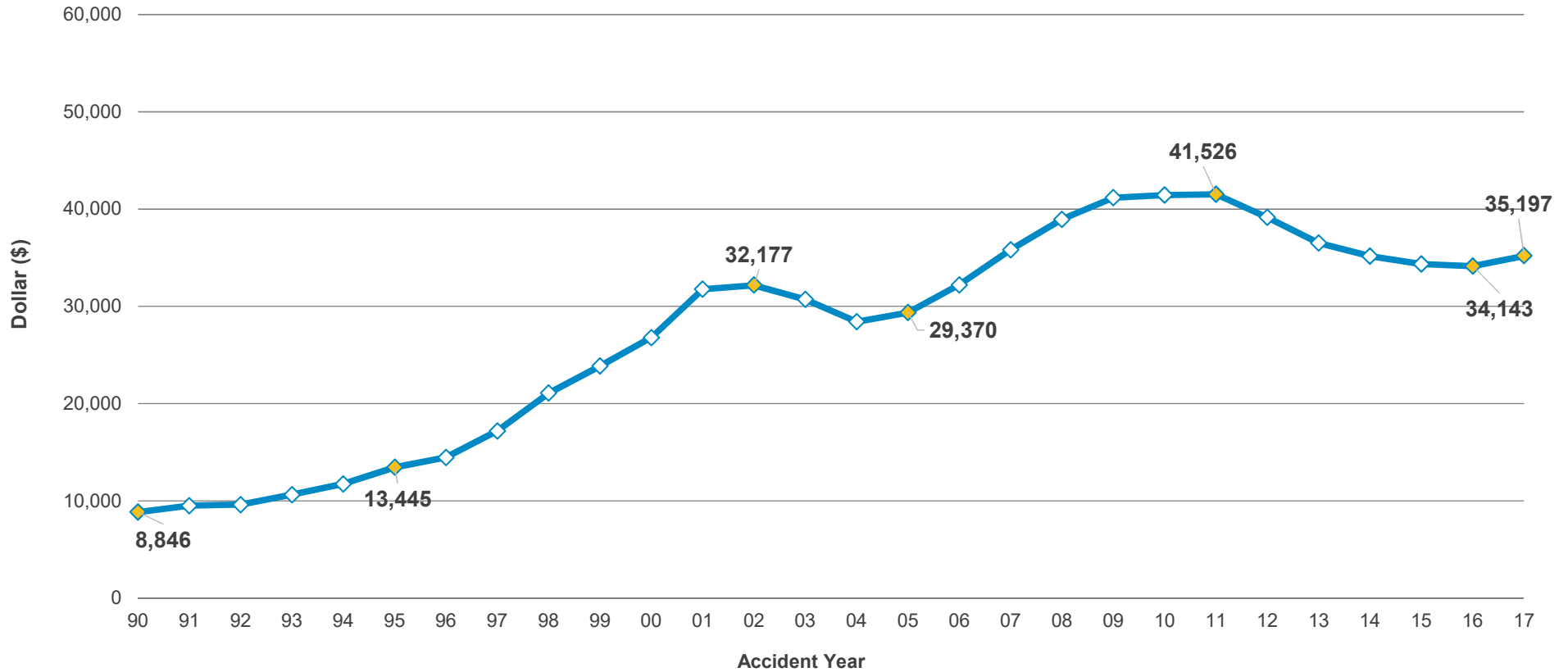
Average Indemnity Cost per Indemnity Claim



Indemnity Cost per Indemnity Claim by State



Average Medical Cost per Indemnity Claim



Cost to Deliver \$1 of Benefits

Medicare



\$0.02

Private Group
Health Insurance



\$0.18

Workers' Compensation
Median State



\$0.23

California Workers'
Compensation



\$0.53

Resources to Learn More

- WCIRB website, wcirb.com
- WCIRB Publications and Filings
- E-Newsletters
- WCIRB News & Notes
- WCIRB Wire Stories
- Education on Demand videos
- CompEssentials® Experience Rating
- WCIRB Webinars

wcirb.com

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