ABCs of Experience Rating

In This Update

NCCI designed this document to further your understanding of experience rating and how it affects your workers compensation costs.

NCCI's ***Experience Rating Plan Manual for Workers Compensation and Employers Liability Insurance*** (Plan) is an integral part of determining the cost of workers compensation. It is a method for tailoring the cost of insurance to the characteristics of an employer. It gives an employer the incentive to manage its own expenses through measurable and meaningful cost-saving programs.

Experience rating recognizes the differences among qualifying employers with respect to safety and loss prevention. It does this by comparing the experience of individual employers with the average employer in the same classification. The differences are reflected by an experience rating modification (mod), based on individual payroll and loss records, which may result in an increase, decrease, or no change in premium.

While the underlying concepts are complex, this document will help to clarify the application of these concepts.

What Does Experience Rating Do?

Insurance spreads, or shares, the cost of a loss with members of a group who are likely to experience similar losses. While the cost and probability of injuries for the *whole* group can be predicted with a fair degree of accuracy, it is impossible to determine which member of the group will actually be responsible for these costs.

This is why insurance exists. If predictability were perfect, the members of the group who do not expect to experience a loss would have no incentive to purchase insurance, while the premium charge for the members who will experience the loss would need to include the value of the loss. Historically, we know that serious individual injuries generally are rare and the cost could vary from very minor amounts to millions of dollars.

The simplest rating method for workers compensation and employers liability insurance is “manual rating.” Under manual rating, all employers are grouped according to their business operation or classification. The estimated losses of the group are added together, and an average cost is obtained. The rates determined for manual rating are averages reflecting the normal conditions found in each classification. An employer is assigned to a classification to ensure that the rates reflect the costs of all employers with similar characteristics. Although each classification contains “similar” employers, each individual employer in a class is different to some extent. Experience rating is designed to reflect these individual differences in loss potential.

If the rating system went no further than manual rating, insurance providers could seek employers with lower-than-expected costs and possibly avoid employers with higher-than-expected costs. To avoid this scenario, the rating system must be further refined. Experience rating is one such refinement.

In workers compensation experience rating, the actual payroll and loss data of the individual employer is analyzed over a period of time. Usually, the latest available three years of data is compared to similarly grouped employers to calculate the mod.

Generally, an employer with better-than-average loss experience receives a credit, while an employer with worse-than-average experience carries a debit mod.

The two primary benefits of experience rating are that it:

- Tailors the cost prediction and net premium cost to the individual employer more closely than does manual rating alone
- Provides added incentives for loss reduction that are absent from manual rating alone

Why Have Experience Rating?

If workers compensation rates are designed to predict future losses, why use experience rating? How does experience rating benefit employers?

Experience rating represents a refinement in the premium determination process. It does so by comparing the industry average experience with an individual employer’s own experience. It benefits employers by adjusting the premium cost, which is the best indicator of an individual employer’s own potential for incurring losses. By using these sound insurance principles and an employer’s own payroll and loss data, the insurance premium will be appropriate for the coverage being provided.

Experience rating is not the only pricing tool available to insurance providers to determine the cost of workers compensation coverage.

Implicit in any form of experience rating is the prospect of both debits and credits. Since experience rating gives individual employers some influence over the premium they pay, it provides an incentive for employers to develop loss prevention and claims management programs. In this way, experience rating benefits employers by promoting occupational health and safety.

Characteristics of Experience Rating

We have already mentioned the need to modify the premium based on manual rates, but what are the characteristics that the Plan recognizes?

Frequency vs. Severity

A significant feature of experience rating is that it recognizes that the *cost* of a specific accident is often left to chance and is statistically less predictable than the fact that the accident *occurred*.

For example, the survivor benefits for a young worker in their 20s leaving a spouse and three children would likely be considerably greater than the survivor benefits for a worker in their 50s leaving no dependents. The important fact is that the accident did occur, so *the Plan gives greater weight to accident frequency than to accident severity*.

This reliance on accident frequency also measures employer differences. For example, compare two similarly sized employers from the same classification:

- **Employer A**—1 loss totaling $50,000
- **Employer B**—10 losses totaling $50,000

Which employer would you expect to incur the higher workers compensation costs in the future? Statistically, Employer A—with the one large loss—is more stable, particularly when you consider that any one of the 10 small accidents of Employer B could incur higher costs than the $50,000 amount, given the proper combination of circumstances. In other words, for two similar employers, the one with the higher frequency of losses will generally have higher future workers compensation costs.

The fact that an employer may have a small number of very costly injuries should not be ignored. The final measure must be a blend of both the occurrence and the *cost* of each injury.

The Plan recognizes and measures both accident frequency and severity. Although experience rating recognizes the severity of losses, very large losses are less likely to occur and are seen as more fortuitous than smaller losses. In fact, very large losses are so infrequent that including the entire portion of the loss beyond a certain level in the experience period reduces the predictive ability of the Plan. One very large loss does not imply a pattern of claim frequency. So, a state accident limitation caps each individual loss. The state accident limitation amount differs by state.

For example, let's use a state per claim accident limitation amount of $200,000. **Exhibit A** shows that an individual loss of $500,000 would be capped at $200,000 for experience rating purposes. These limited losses that the Plan uses are *ratable losses*. The amount of loss above the state accident limitation is excluded from the calculation of the employer's mod and is a *non-ratable loss*.

Split Point

A *split rating* approach is used to reflect both the frequency and severity of losses. The split point of individual ratable losses is approved as part of each state's rate or loss cost filing. Losses are split as follows:

- The amount of any ratable individual loss up to the split point is known as *primary loss*, which reflects frequency
- The amount in excess of the split point is known as *excess loss*, which reflects severity
- For individual losses below the split point, the entire amount is primary loss and the excess loss is $0

See how this concept is applied below in **Exhibit A**. A state-approved amount of $18,500 will be used as the split point example throughout this document.

Under this split method, primary losses have a greater weight in the formula than excess losses. Because of this, primary losses have a greater impact on the mod. Although excess losses have less weight, they're still relevant, since total excess claim dollars can be high. The Plan includes an incentive for employers to reduce the frequency of losses, as well as an incentive to enable injured employees to return to work as soon as reasonably possible. Involvement by the employer can reduce the severity of losses once they have occurred.

Exhibit A—Split Rating

Loss Amount	State Per Claim Accident Limitation	Primary Loss (Frequency)	Excess Loss (Severity)
$500,000	$200,000	$18,500	$181,500
$100,000	$200,000	$18,500	$ 81,500
$ 5,000	$200,000	$ 5,000	$ 0

Weighing of Losses
The weights assigned to primary or excess losses are calibrated to ensure that the mod best reflects the loss history of the individual employer relative to its classification.

These weights vary by size of employer. The larger an employer, the more its mod calculation is influenced by its own experience. By contrast, a small employer may be covered for years without a claim and then incur an injury where the cost exceeds the total premium paid many times over. An equitable Plan must recognize this fact and temper the debit due to such a loss, as well as the credit for having no losses.

For example, an employer with 10 small losses of $5,000 each has a much larger primary loss total than an employer with a single loss of $50,000, even though each would have a loss total of $50,000. An employer with a single loss of $50,000 has $18,500 in primary losses, and the rest is excess. Because of the relative weightings, the 10-injury employer receives a much higher mod than the 1-injury employer, even though its total losses are the same.

Medical-Only Claims
Medical-only claims do not have as much of an impact on the mod because most states have approved the Experience Rating Adjustment (ERA), which limits the amount of such losses in the mod calculation. This ERA change to the formula decreases the incentive for employers to pay medical-only claims without reporting them to the insurance provider.

The mod calculation includes only 30% of the actual primary and excess portions of an individual medical-only claim. As a result, medical-only claims are reduced by 70%. This reflects the impact of medical-only claims more appropriately.

For example, consider a single medical-only claim of $30,000. **Exhibit B** shows the primary portion of the loss is $18,500, and the excess portion is $11,500. After the adjustment, the primary portion of the loss included in the mod calculation is $5,550 (30% x $18,500), and the excess portion of this claim is $3,450 (30% x $11,500).

How the Plan Operates
Experience rating is a *mandatory* plan that applies to all employers that meet a state's premium eligibility criteria for the Plan. NCCI computes mod calculations. As of this publication, **39** jurisdictions have approved and authorized the use of the Plan.

The independent rating organizations in Minnesota and Wisconsin permit the combination with states that have approved the Plan for interstate experience rating. These two states participate in the Plan only if the employer has exposure in two or more participating states within the experience period.

The Plan applies in Indiana, Massachusetts, and North Carolina. However, the independent rating organizations in these three states are responsible for producing their own intrastate mods.

The Plan does not apply in California, Delaware, Michigan, New Jersey, New York, or Pennsylvania. Nor does it apply in the four monopolistic states (North Dakota, Ohio, Washington, and Wyoming) that administer their own plans and rates.

Exhibit B—Medical-Only Claim

Loss Amount	Primary Loss	Ratable Primary Loss	Excess Loss	Ratable Excess Loss
$30,000	$18,500	$5,500	$11,500	$3,450

An employer qualifies for a mod if the subject premium meets a premium eligibility point. (Eligibility criteria differ by state. Refer to the Plan for further details.) Because the mod is based on past payroll and loss experience, each employer is evaluated based on its own experience period.

An employer's *rating effective date* determines the experience period. The experience period is generally based on three years of payroll and loss data but could range from containing less than 12 months of data up to the inclusion of 45 months of data. The amount of Policy Data used in the mod calculation may differ due to short-term policies, policies with different effective dates, or a new employer that qualifies to be experience-rated with Policy Data from its first policy.

What is the *rating effective date*?

- It is the effective date of the mod and the earliest date the mod factor can be applied to the policy
- It is usually in effect for one year, but it could be as short as 3 months or as long as 15 months
- It determines what Policy Data will fit on the worksheet
- It determines when the worksheet will be produced

Data from each of an employer's policies is included in the experience period if the policy effective date is no less than 21 months before the rating effective date and no more than 57 months before the rating effective date. Since the mod is calculated during the term of the current policy—generally 60 to 90 days before the rating effective date—the current policy is not used in the calculation of the mod. Also, the insurance provider is not required to report data about the policy until 18 months after the policy inception date. This allows insurance providers time to value losses that may have occurred and to prepare and submit the required reports to NCCI. For a rating effective date of January 1, 2023, any policy with an effective date between 4/1/2018 (1/1/2023 less 57 months) and 4/1/2021 (1/1/2023 less 21 months) is included in the experience period.

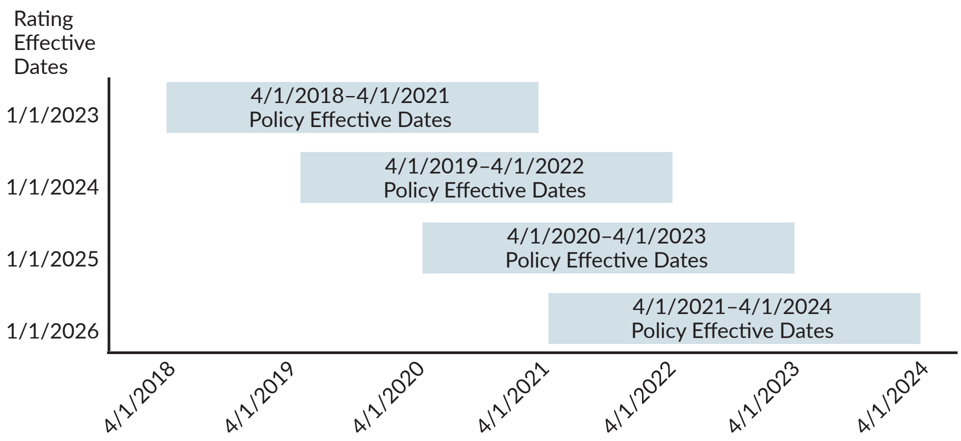
Exhibit C illustrates the policies that are included in an employer's experience period for each January 1 rating effective date.

An employer with a policy that renews on January 1, 2023, will generally have a mod that uses the loss experience that occurred during policies that were effective 1/1/2019–1/1/2020, 1/1/2020–1/1/2021, and 1/1/2021–1/1/2022.

Because loss data for the 2022 policy period is not yet valued by the insurance provider or reported to NCCI, it is not used when the 2023 mod is being calculated. The next renewal, on January 1, 2024, will use the 2022 payroll and loss experience, while dropping the oldest policy of the three-year period mentioned above.

This constant updating ensures a stable historical record for the individual employer, while also using the most recent available reflection of operating characteristics. In this way, meaningful changes in safety programs or improved technology can be reflected in the costs paid by an employer.

Exhibit C—Experience Period



Once the employer meets the qualifications, the Plan formula is applied and the rating organization (NCCI) publishes a credit or debit mod. Insurance providers in states participating in the interstate rating plan would apply the mod factor. Generally, it applies for one year, and a new mod is calculated for the next year (as long as eligibility requirements are met).

A detailed explanation of the mod calculation is shown later in this document.

Qualification for Experience Rating

According to the Plan, if an employer meets the eligibility requirements, then experience rating is mandatory. The eligibility requirements are established and approved on a state-by-state basis. To qualify, the employer must achieve the established premium threshold by one of two methods:

1. Have enough premium subject to experience rating in the most recent 24 months

OR

2. Achieve the established premium threshold on average over the entire experience period

Example

A state requires $14,000 in audited premium subject to experience rating in the most recent two years of the experience period **OR** an average of $7,000 in the overall experience period. **Exhibit D** illustrates how the qualification requirement can be met for a 2023 mod.

Exhibit D—Qualification for Experience Rating

Employer 1	Employer 2
2021—$7,500	2021—$6,600
2020—$6,500	2020—$7,100
2019—$4,500	2019—$7,300
Qualification requirement met in the most recent two years.	Qualification requirement met when premium is averaged over three years.

The premium qualification thresholds by state can be found in the State Table of Subject Premium Eligibility Amounts in the Plan.

If Employer 2 continues to have declining premium amounts in subsequent years, it may no longer qualify to be experience-rated. If this were to occur, NCCI would notify the insurance provider that the employer no longer qualifies to be experience-rated.

Types of Experience Rating

NCCI develops two types of mods—intrastate and interstate. An *intrastate* mod is issued when the employer has exposure in only one state that participates in the Plan. An *interstate* mod is issued when the employer has exposure in two or more states that participate in the Plan.

Intrastate Mod

Take, for example, an employer that has exposure in Florida only. Florida participates in the Plan; therefore, if the employer meets the qualifications established, NCCI will develop and publish an *intrastate* mod for Florida.

If an employer has exposure in Florida and Pennsylvania (Pennsylvania does not participate in the Plan) and meets the qualifications in both states, NCCI will develop and publish an *intrastate* mod that includes the payroll and loss experience for Florida only. The Pennsylvania bureau will develop an *intrastate* mod that includes the payroll and loss experience for Pennsylvania only.

Interstate Mod

If an employer has exposure in Florida and Minnesota (both states participate in the Plan), and meets the qualifications established for at least one of those states, NCCI will develop and publish an *interstate* mod for the employer. The mod will include payroll and loss experience from both Florida and Minnesota.

Status of Experience Rating

The status of a mod is important because it is used to determine what state-approved rating values are being used in the calculation. There are three statuses:

1. Preliminary
2. Final
3. Contingent

If the status is *preliminary*, it means NCCI does not have the final approved rating values for the state(s). A mod will be calculated using the prior approved rating values. Once NCCI has received the state's final approved rating values, the mod will then be revised to indicate a status of *final*.

Note: NCCI cannot indicate that an interstate mod is in a *final* status until all of the states' final approved values are used in the calculation. Using the previous interstate example, if Florida and Minnesota experience is used in the mod calculation, and NCCI has Florida's final approved rating values but not Minnesota's, the interstate mod will have a status of *preliminary* until NCCI receives the Minnesota final approved rating values for use. The worksheet will identify which states are outstanding.

Lastly, another status used is *contingent*. A *contingent* mod is issued when NCCI is expecting audited payroll and/or loss information but has not received the information from the insurance provider by the time the mod is produced. Once NCCI receives the audited payroll and/or loss information, the mod will be revised to add the newly received experience data.

Experience Rating Modification Factor

The mod applied to an employer's policy is either a unity (1.00) factor, a credit mod, or a debit mod.

An employer will receive a unity factor against the premium if any of the following apply:

- It does not meet eligibility requirements for experience rating
- It does not meet the minimum data requirements
- It is a new business with no data available for production of a mod
- It qualifies for experience rating, and the calculation results in a 1.00 mod
- Data could not be provided as a result of an ownership change

A credit mod is a mod lower than 1.00. If an employer runs a safe workplace, which includes implementing safety programs, the employer will be in a better position to receive a credit mod factor against its premium.

A debit mod is a mod higher than 1.00. If an employer receives a debit mod factor against its premium, it may benefit from a review of its workplace safety programs.

Application of Experience Rating

Exhibit E illustrates the impact that various mod factors can have on the modified premium. In these examples, the premium prior to the application of the mod is $100,000.

Now let's examine a more detailed example illustrating how both the rates and the mod impact the premium determination process. The information displayed in **Exhibit F** is for a single roofing company with employees in two classifications. The rate, which is approved by the state for each classification, is applied per $100 of payroll. The roofing rate is higher than the clerical rate because it has a greater potential for injuries. Each $100 of payroll is multiplied by the rate to arrive at the premium for each classification. Summing the premium for these two classifications yields the initial total premium. The mod is then applied to arrive at the modified premium.

Exhibit E—Application of Experience Rating

Premium		Mod Factor		Modified Premium
$100,000	x	0.75	=	$ 75,000
$100,000	x	1.00	=	$100,000
$100,000	x	1.25	=	$125,000

Exhibit F—Application of Experience Rating

Classification	Payroll	Divided by 100	Rate per $100 of Payroll	Premium
Clerical	$ 70,000	700	$0.75	$ 525
Roofer	$200,000	2,000	$63.17	$126,340

Total Premium = **$126,865**
Mod Factor = **1.25**
Modified Premium = **$158,581**

Data Used on the Experience Rating Worksheet

The payroll and claim/loss information used to calculate the mod comes from unit statistical reports. Insurance providers are required to file a unit report with NCCI for each policy they issue in accordance with NCCI's ***Statistical Plan for Workers Compensation and Employers Liability Insurance***. Other factors or rates on the worksheet are actuarially derived and are updated with each change in rates approved on a state-by-state basis.

The **first step** in the experience rating process is to transfer the payroll and loss information from the unit report to the ***Experience Rating Worksheet***. Let's look at sections of an NCCI ***Experience Rating Worksheet*** for "Any Insured" in **Exhibits G** and **H**. For a more in-depth understanding of the worksheet, view the Experience Rating Worksheet Module on **ncci.com.**

Exhibit G—Page 2 of the Experience Rating Worksheet (DETAILED)

WORKERS COMPENSATION EXPERIENCE RATING

Risk Name: ANY INSURED **Risk ID:** 990123456

Rating Effective Date: 01/01/2023 **Production Date:** 10/01/2022 **State:** ANY STATE

00–ANY STATE **Firm ID:** **Firm Name:** ANY INSURED

Carrier: 00000 **Policy No:** 2021UNIT **Eff Date:** 01/01/2021 **Exp Date:** 01/01/2022

Code	ELR	D-Ratio	Payroll	Expected Losses	Exp Prim Losses	Claim Data	IJ	OF	Act Inc Losses	Act Prim Losses
8288	3.79	.32	250,000	9,475	3,032	NO. 14	05	*	28,000	28,000
8380	.98	.32	3,025,350	29,648	9,487	2100001	05	O	53,256	18,500
8748	.30	.24	1,645,650	4,937	1,185	NO. 5	06	*	6,000	6,000
8810	.10	.36	3,000,000	3,000	1,080	2100002	06	F	17,359	17,359
Policy Total:			**7,921,000**	**Subject Premium:**	**82,425**	**Total Act Inc Losses:**			**104,615**	

Risk Information

The top section of **Exhibit G** contains the basic identifying information, such as the:

(1) Name of the employer
(2) State where employer is located
(3) Risk Identification Number
(4) When the mod was calculated
(5) The date the mod can be applied to the policy
(6) Payroll (exposure)
(7) Classification code
(8) Expected Loss Rate (ELR)
(9) Expected Losses
(10) Discount Ratio (D-Ratio)
(11) Expected *Primary* Losses

Expected Losses

The ELR **(8)** is the Expected Loss Rate. It is the amount of expected losses for the classification for each $100 of payroll. Therefore, to obtain the expected losses, multiply the ELR by the payroll divided by $100.

Taking the first line of the worksheet as an example, with an ELR of **3.79** and payroll of **$250,000**, the calculation is **3.79 x ($250,000 ÷ 100) = $9,475**. The **$9,475** is entered in the Expected Losses column **(9)**.

The D-Ratio **(10)** is the Discount Ratio. It represents the portion of the expected losses that are expected *primary* losses **(11)**. Multiply the expected losses by the D-Ratio to get the expected *primary* losses. The calculation is **$9,475 x 0.32 = $3,032**.

Claim Information

On the right-hand side is the reported claim information for each policy. Note that each loss is not directly attributable to the payroll information on the corresponding line. The claim data column **(12)** indicates claim numbers for losses more than $2,000. Individual claims of $2,000 or less may be grouped together by injury type **(13)**. The number of claims grouped will be indicated in the claim data column **(12)** by "NO." In addition, there is an indicator that shows whether the claim is open (O) or final/closed (F) **(14)** and the actual incurred loss amounts **(15)**.

Note that in transferring the losses from the unit report to the ***Experience Rating Worksheet***, the indemnity and medical amounts are combined because we are only concerned with the total amount of the claim.

For example, claim number **2100001 (16)** has an indemnity cost of $10,000 and a medical cost of $43,256 for a total of **$53,256 (17)**. Medical-only claims (Injury Type 6) are reduced by 70%. The reduced losses are shown in the summary only; the claim detail shows the entire actual amounts **(18)**.

The **second step** is to separate the actual losses into primary and excess components. The actual primary losses are shown in the last column **(19)**. For losses less than $18,500, the whole amount is taken as the primary value. For losses greater than $18,500, only the first $18,500 is primary.

Looking at the summary page (**Exhibit H**), the actual loss amounts used in the calculation are total losses of **$103,840 (20)** and primary losses of **$69,084 (21)**. By subtracting the actual primary from the total losses, we obtain actual excess losses of **$34,756 (22)**.

Exhibit H—Page 1 of the Experience Rating Worksheet (SUMMARY)

WORKERS COMPENSATION EXPERIENCE RATING

Risk Name: ANY INSURED **Risk ID:** 990123456

Rating Effective Date: 01/01/2023 **Production Date:** 10/01/2022 **State:** ANY STATE

State	Wt	Exp Excess Losses	Expected Losses	Exp Prim Losses	Act Exc Losses	Ballast	Act Inc Losses	Act Prim Losses
ANY	.14	123,309	179,520	56,211	34,756	47,800	134,191	99,435

(A) Wt	(B)	(C) Exp Excess Losses (D - E)	(D) Expected Losses	(E) Exp Prim Losses	(F) Act Exc Losses (H - I)	(G) Ballast	(H) Act Inc Losses	(I) Act Prim Losses
.14		123,309	179,520	56,211	34,756	47,800	103,840	69,084
26		23	25	24	22	28	20	21

	Primary Losses	Stabilizing Value	Ratable Excess	Totals	
Actual	(I) 69,084	C* (1 - A) + G 153,846	(A) * (F) 4,866	(J) 227,796	31
Expected	(E) 56,211	C* (1 - A) + G 153,846	(A) * (C) 17,263	(K) 227,320	32

27

	ARAP	FLARAP	SARAP	MAARAP	Exp Mod	
34 Factors	1.00				(J) / (K) 1.00	33

30 29

Now with the primary and excess losses determined, the **third step** is to calculate the expected losses for the employer. The actual losses will be compared with the expected losses to determine whether a credit (decrease) or debit (increase) mod is in order.

After totaling the expected losses, the expected *excess* losses **(23)** are obtained by subtracting the total expected *primary* losses **(24)** from the total expected losses **(25)**. The calculation is **$179,520 – $56,211 = $123,309**.

Mod Factor

The **final step** is to calculate the mod. The term "ballast" is defined as something that gives stability, such as heavy material in the hold of a ship to keep it from shifting too far one way or the other. Similarly, the ballast factor in the experience rating formula helps prevent the mod from shifting too far above or below unity. It is a stabilizing element designed to limit the impact of any single loss on the mod. It is added to both the actual *primary* losses and the expected *primary* losses by contributing to a part of the Stabilizing Value. The ballast value increases as expected losses increase.

The "Wt" factor **(26)** is the weight given to the excess losses. "Wt" is a small percentage for small employers and increases with the size of the employer. The complement of "Wt" or "1 – Wt" is assigned to the expected *excess* losses to produce another part of the Stabilizing Value.

The Stabilizing Value **(27)** is calculated by multiplying the expected *excess* losses **(23)** by **(1 – Wt)**, then adding the ballast value **(28)**. The calculation is **$123,309 x (1 – 0.14) + 47,800 = $153,846**. The weighted ratable excess losses entering the formula are obtained by multiplying the excess by the "Wt" value: **(29)** Weighted Actual Excess = **$34,756 x 0.14 = $4,866** **(30)** Weighted Expected Excess = **$123,309 x 0.14 = $17,263.**

Adjusted actual losses (the numerator of the fraction) used in the calculation are obtained by adding across and are equal in this case to **$227,796 (31)**. The adjusted expected losses are **$227,320 (32)**.

The mod **(33)** is derived by dividing adjusted actual losses by the adjusted expected losses, or **$227,796 ÷ $227,320 = 1.00**. This **1.00** is applied to the employer's manual premium at the policy's renewal, effective January 1, 2023.

NCCI sends notification of mod completion for each employer to the insurance provider on file and, in some states, to the employer. The mod and worksheet are also made available on ***Riskworkstation™***.

Additional Factors

The last row of the summary page **(34)** may include some or all of these additional factors: Assigned Risk Adjustment Program (ARAP), Florida Assigned Risk Adjustment Program (FLARAP), Simplified Assigned Risk Adjustment Program (SARAP), and Massachusetts All Risk Adjustment Program (MAARAP). These factors are calculated using the same data used in the mod calculation and are filed and approved programs. Most surcharge factors are applied to assigned risk policies and are only for those employers with a debit mod.

Ownership Changes and Combination of Entities

Another component that may affect the mod is a change in the ownership of an individual employer. When a change in ownership occurs, the employer must notify the insurance provider in writing within 90 days of the date of the change. This can be done by submitting a signed Request for Ownership Information—ERM-14 Form or information in narrative form on the employer's letterhead signed by an officer of the business. Upon receipt of this information, the insurance provider will forward it to NCCI. To submit ownership information to NCCI, visit our website for more information.

If an ownership change occurs, recalculation of mods may be required. Changes in ownership may affect the use of an individual employer's experience in past, current, and future calculations of mods.

NCCI may issue, retract, and/or revise the current mod, and up to two preceding mods, due to ownership or combination changes. Generally, the past experience of the business will be transferred to the new owner. These changes may also result in a change in the rating effective date.

In addition, the experience of businesses with more than 50% common majority ownership is combined into one mod. Combinability of the experience of entities with the same ownership is based on the premise that the owner is responsible for safety and loss prevention programs within the businesses.

For additional information on the impact of ownership changes to the mod factor, please refer to the Plan and the Experience Rating Ownership Module.

Summary of the Plan

The essentials of experience rating are as follows:

- It is mandatory for all employers that meet a state's premium eligibility requirements
- The formula measures how the performance of an employer differs predictably from similarly classified employers
- The formula is designed to tailor the cost of coverage to an individual employer

Two basic statistical principles underlie the formula:

1. The larger the premium size, the more reliable the actual record is in predicting future losses. Integral to the Plan is a credibility scale so that the actual historical record is given more weight/credibility as the size of the employer increases. Even the smallest employers have some credibility, but for practical purposes, it is necessary to have a premium threshold, or a minimum point, for eligibility.
2. The cost of an injury may vary over a very large range. Therefore, cost is less predictable than the fact that an injury occurred; to recognize and account for this, primary and excess loss components are used.

Additional Resources to Reference

To complement this document, there is a suite of experience rating modules—located on **ncci.com**—that cover some of the topics reviewed in more detail. The modules, each of which can be viewed in less than 30 minutes are in our Learning Center.

For your convenience, there are microlearning videos on these topics that can be viewed in two minutes or less:

- An Overview of NCCI's Experience Rating
- Qualifying for Experience Rating
- States Where NCCI Produces Experience Ratings
- Intrastate vs. Interstate Experience Ratings
- The Experience Rating Worksheet at a Glance
- Experience Rating Modification Factor (Mod)
- Reasons an Experience Rating Is Revised
- Introduction to Experience Rating Ownership
- Experience Rating Ownership Submission
- Determination of Combinability
- Claim Development and Mod Revisions
- What Fits on an Experience Rating Worksheet?

