How Experience Modifications Affect Your Workers Compensation Premium
# Contents

- What is Experience Rating? ............................................................................................................................................................ 1  
- Who is Eligible? ............................................................................................................................................................................ 1  
- Premium Criteria: ............................................................................................................................................................................. 1  
- What Policy Data do We Use? ............................................................................................................................................................ 1  
- How do Experience Mods Affect My Premium? ......................................................................................................................................... 2  
- Elements of the Experience Rating Plan Formula: ........................................................................................................................................ 2  
- Formula Factors: ............................................................................................................................................................................... 2  
- Experience Mod Formula: .................................................................................................................................................................. 3  
- Remember: ....................................................................................................................................................................................... 3  
- Tips for Keeping Mods Low: ............................................................................................................................................................. 3  
- FAQ: ............................................................................................................................................................................................................... 4  
- What if I Still Have Questions? .......................................................................................................................................................... 4  
- Who We Are: .................................................................................................................................................................................... 5  
- Company Information: ....................................................................................................................................................................... 5  

TABLE OF CONTENTS
WHAT IS EXPERIENCE RATING?
Experience Rating is a method (calculation) for adjusting an employer’s workers compensation insurance premium to recognize the employer’s claims experience. It does this by comparing the claims experience of an individual employer with the claims experience of an average employer in similar classifications. The differences are reflected by an experience rating modification factor (mod) that is calculated based on individual employer’s payroll and loss records and results in an increase, decrease, or no change in premium.

WHO IS ELIGIBLE?
Eligibility for experience rating is based on two factors:

(1) number of years in business and
(2) amount of unmodified premium

PREMIUM CRITERIA:
An Employer must be in business for at least 2 years and meet one of the following premium criteria:

- $11,500 unmodified premium in the 1st year of the experience rating period or,
- An average of $11,500 unmodified premium in the first 2 years of the experience rating period or,
- If an employer has more than 2 years of experience, they must develop an average annual unmodified premium of $5,750 in the experience rating period.

WHAT POLICY DATA DO WE USE?
Three complete years of experience ending one year prior to the effective date of the experience rating. For example:
HOW DO EXPERIENCE MODS AFFECT MY PREMIUM?
An experience modification may decrease your premium (a credit factor) or may increase your premium (a debit factor). For example:

- A 0.80 (experience modification) = 20% Premium CREDIT
- A 1.20 (experience modification) = 20% Premium DEBIT

ELEMENTS OF THE EXPERIENCE RATING PLAN FORMULA:

UNMODIFIED PREMIUM
- Audited premium before the modification is applied.

ACTUAL LOSS
- Total value of a claim including reserves.

PRIMARY LOSS
- Limited amount of a claim used in formula.

EXPECTED LOSS
- Amount of claims your business is expected to have based on your business type (class codes) and size (payroll).

FORMULA FACTORS:

EXPECTED LOSS RATE
- Factor used to determine the amount of expected losses by class code.
  - Can be found in the current Minnesota Ratemaking Report

D RATIO
- Limits the expected loss totals to arrive at the expected primary losses.
  - Can be found in the current Minnesota Ratemaking Report

WEIGHT FACTOR
- Percentage of actual losses used in the formula.

BALLAST FACTOR
- Stabilizing element that limits modification fluctuation in the formula.

VALUATION DATE
- The date the value of a claim used in the formula. This date is always 18 months after the effective date of the policy.
EXPERIENCE MOD FORMULA:

\[ 1 + (A - C)(E) + (B - D)(1 - E) \]
\[ \frac{C + F}{C + F} \]

REMEMBER:

*Open claims include reserves.*

*Medical only claims are reduced by 70%.*

TIPS FOR KEEPING MODS LOW:

- Use Insurance Company loss control and safety programs to prevent and reduce losses
- Review audit information – Payroll and Class Codes
- Closely monitor your claims
- Contact carrier 60 days prior to claim valuation date to review status of all open claims
FAQ:

How can I get my mod revised?
- If Circumstances meet the criteria for a revision, the carrier must submit the corrected data to MWCIA and we will revise the Experience Rating.

How low can my mod factor go?
- If you are loss free, your mod factor is as low as it can get for your industry type and size.

Does claim severity affect mods more than frequency?
- Generally, claim frequency has a larger impact. For example, multiple claims that total $20,000 will have a greater impact on your mod than a single $20,000 loss.

Are mods revised if a claim closes?
- Mods are typically calculated once a year and any changes to a claim during the year are included in the next experience rating year.

How does a change in ownership affect my mod?
- Loss history and experience mods follow a business in most cases. Businesses that share more than 50% common ownership are subject to a single mod based on their combined data.

WHAT IF I STILL HAVE QUESTIONS?

For questions concerning open claims:
- Contact your agent
- Contact the carrier’s claim department

For questions about class codes and payrolls:
- Contact your agent
- Contact the carrier’s audit department

For questions about the rating formula:
Email MWCIA at underwriting@mwcia.org
WHO WE ARE:
The mission of the Minnesota Workers Compensation Insurers Association (MWCIA) is to collect, process, and analyze workers’ compensation data so that we can provide high quality, consistent information to our insurer members and regulators. We will develop and deliver useful services and products to the workers’ compensation community.

COMPANY INFORMATION:
Address:
MWCIA
7701 France Ave S
Suite 450
Minneapolis, MN 55435 - 3203
Tel: 952-897-1737
Fax: 952-897-6495
Email: info@mwcia.org
Website: www.mwcia.org

The information provided in this brochure is intended as a high-level summary of experience rating. The specific experience rating requirements are set forth in the applicable MWCIA manual which can be found at:


Nothing in this brochure is intended to modify the requirements set forth in the applicable manual.