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WORK COMP INSIGHTS

NCCI Changes Primary-Excess Split Point for 2013

The National Council on Compensation Insurance (NCCI) recently changed the experience rating formula. The primary-excess split point will be increased over a three-year transition period. The first stage of the transition took effect with each state's approved rate and loss cost filing on or after Jan. 1, 2013.

Understanding the Primary-Excess Split

In the experience rating process, each loss is divided into a primary and excess portion. Currently, the first $10, 000 of every loss is allocated as a primary loss, with everything over and above considered an excess loss. For example, a $9,000 loss has no excess value. On the other hand, a loss of $15,000 would have $10,000 in primary losses as well as $5,000 in excess losses. Primary losses are used as an indicator of frequency, and are counted in full as part of the mod calculation. Conversely, excess losses receive partial weight in the mod calculation. This means that primary losses affect the mod more than excess losses do. The rationale behind assessing primary and excess loss amounts is that "severity follows frequency," or in other words, an organization that displays a continual pattern of loss has an increased chance of a severe loss in the future. Thus, a company with a large number of primary losses will have a higher mod than a company with the same amount of losses split between primary and excess.

If you're not prepared, an NCCI increase of the primary-excess split point could raise your primary losses and negatively influence your mod.

Changes to the Split Point

In July 2011, NCCI announced a proposal to raise the split point from $5,000 to $15,000 over a three-year period to better correlate with claim inflation. The process of transitioning to the new split point began in 2013, with an increase in the split point from $5,000 to $10,000. In 2014, the split point is increasing to $13,500. In 2015, the split point will increase to $15,000 and also be adjusted for claim inflation. These changes will directly affect the 34 states and the District of Columbia currently using the NCCI's rating system. The independent rating bureaus of Indiana, Michigan, Minnesota, New York, North Carolina and Wisconsin have also adopted the change, and other independent bureaus (Massachusetts and Texas) may re-evaluate their split points as well. The rating methods used by California, Delaware, New Jersey and Pennsylvania differ widely from NCCI's approach, so similar changes in those states are not anticipated.

How Does This Affect My Organization?

Whether your mod increases or decreases will depend on whether you have an above or below average number of losses under the split point. If most of your losses are less than the split point amount, you are likely to see a decrease in your mod. If many of your losses exceed the new split point, you should prepare for an increase in your mod.

Analysts expect the split point change to result in a wider range of mods across each industry. Debit mods (those over 1.0) will tend to gain points; credit mods (those under 1.0) will more than likely see a decrease in points. Furthermore, many employers will see their minimum mod, or loss-free rating, decrease.

Another minor change which will take effect with the split

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point change is an adjustment to the maximum debit mod formula which caps debit mods based on state and employer size. NCCI reports that the cap applies to only 2% of employers. As a result of this change, small risks who reach the cap may see their mod increase while larger risks may see their capped mod decrease.

It's important to remember that NCCI's goal is to have the industry-wide average modification factor be 1.00. Along with the split point change, NCCI will adjust other factors affecting the formula so that the average mod across all employers does not change.

Preparing for Change
Although no one knows exactly what a future mod will be until all payroll, losses and rates are available, we can work with you to project how your organization's mod- and premium- may be affected by these rule changes. Preparing for the shift will be especially important for companies that are required to maintain a certain mod in order to bid on jobs or contracts. It is essential to address and control losses and become familiar with your loss profile so your organization will be prepared when the NCCI experience rating change takes effect.

Effective Dates of New Split Point Method
The following states use NCCI or very similar rating methodology and therefore approved the split point change; if noted, the following states announced a firm date to enact changes (as of Nov. 1, 2013):

- Alabama – March 1, 2013
- Alaska – Jan. 1, 2013 (5)
- Arizona – Jan. 1, 2013
- Arkansas – July 1, 2013
- Colorado - Jan. 1, 2013
- Connecticut – Jan. 1, 2013
- District of Columbia – Nov. 1, 2013
- Florida – Jan. 1, 2013
- Georgia – March 1, 2013 (4)
- Hawaii – Jan. 1, 2013
- Idaho - Jan. 1, 2013
- Illinois – Jan. 1, 2013
- Indiana (1) – Jan. 1, 2013
- Iowa - Jan. 1, 2013
- Kansas – Jan. 1, 2013
- Kentucky – Oct. 1, 2013
- Louisiana – May 1, 2013 (4)
- Maine – Jan. 1, 2013
- Maryland – Jan. 1, 2013
- Massachusetts (1)
- Michigan (2) – Jan. 1, 2013
- Minnesota (2) – Jan. 1, 2013
- Mississippi – March 1, 2013
- Missouri (6) – Jan. 1, 2013
- Montana- July 1, 2013
- Nebraska – Feb. 1, 2013
- Nevada – March 1, 2013
- New Hampshire – Jan.1, 2013
- New Mexico – Jan. 1, 2013
- New York (2) – Oct. 1, 2013 (3)
- North Carolina (1) – Apr. 1, 2013
- Oklahoma – Jan. 1, 2013
- Oregon – Jan.1, 2013
- Rhode Island – June 1, 2013
- South Carolina – July 1, 2013
- South Dakota – July 1, 2013
- Tennessee – March 1, 2013
- Texas (2)
- Utah – Dec. 1, 2013
- Vermont – Apr. 1, 2013
- Virginia – Apr. 1, 2013
- West Virginia – Nov. 1, 2013
- Wisconsin (2) – Oct. 1, 2013

Footnotes:
(1) State has independent bureau but interstate-rates under NCCI rules
(2) State has independent bureau
(3) Final approval pending; NY has indicated the 2013 split point will be 10,000; subsequent split point changes are anticipated but to be determined
(4) GA and LA will also implement the ERA (experience rating adjustment) of medical-only losses on their respective filing dates in 2013.
(5) Alaska will implement the ERA (experience rating adjustment) of medical-only losses on Jan. 1, 2013. Alaska will also be removing its former state rule exception to the maximum debit mod formula so that the new national formula will apply.
(6) In Missouri, the split point increase will be staged over 4 years instead of 3.