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## California Workers' Compensation

A More Practical View of the 2017 WCIRB  
Experience Rating Plan Changes

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As an employee of a large regional insurance brokerage firm, I have developed a distinct admiration and respect for our clients; the entrepreneurs and risk takers that continue to conduct business in the State of California. It is difficult, if not impossible, for an organization to stay abreast of the complex and often conflicting regulations that apply to Workers' Compensation. The governing bodies include the Department of Insurance, Department of Industrial Relations, Workers' Compensation Appeals Board, Cal/OSHA, and the Workers' Compensation Insurance Rating Bureau (WCIRB).

The focus of this article is on the WCIRB and changes to the Experience Rating Plan that have been approved by the Department of Insurance and become effective January 1, 2017. The most predominate change is the move from a fixed to a variable split point of primary and excess losses.

The experience rating process incentivizes employers to prevent workplace accidents or reduce the severity of accidents that do occur by getting injured employees back to work as quickly as possible through return to work programs. The experience modification factor (X-Mod) is a performance barometer. It is a lagging indicator that compares all organizations under the same class code based on prior claims history. The X-Mod is one of many components an underwriter will evaluate and use when developing the pricing structure of an organization's workers' compensation premium.

So, why is the experience rating formula changing? According to research performed by the WCIRB, the variable split plan increases the accuracy of the experience rating formula by reducing the impact of a large shock loss. The new formula places more emphasis on claims frequency and less emphasis on claims severity. This supports the long-held belief that the smaller, more frequent claims are controllable by applying safety and loss control measures.

The split point divides claims into two parts, a primary loss amount and an excess loss amount. Primary losses are the frequency loss amounts, viewed as controllable, and the full amount is used in the rating formula. Excess losses are the severity loss amounts; viewed as less controllable and less predictive of future claims costs.

Prior to 2017, the WCIRB applied a fixed primary split point of \$7,000 to all claims for all organizations. The excess losses were included at a discounted amount based upon the size of an organization. This was accomplished by application of "credibility" factors ranging from 0.00 – 0.78.



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Effective January 1, 2017 the WCIRB will use a variable primary split point ranging from \$4,500 – \$75,000 based upon the size of an organization. The excess losses are eliminated from the rating formula. The intended result is that an organization with high claims frequency will generally have a higher X-Mod, and an organization with a large shock loss will generally have a lower X-Mod.

A demonstration of the impact of the variable split plan based on a random sampling of InterWest clients is shown below:

| Premium          | 2017 Split Point | 2016 X-Mod  | 2017 X-Mod  |
|------------------|------------------|-------------|-------------|
| \$9,500          | \$9,500          | 112%        | 112%        |
| \$36,000         | \$10,500         | 77%         | 76%         |
| \$59,000         | \$11,000         | 104%        | 104%        |
| <b>\$75,000</b>  | <b>\$13,500</b>  | <b>174%</b> | <b>181%</b> |
| \$120,000        | \$27,000         | 123%        | 120%        |
| \$280,000        | \$30,000         | 134%        | 118%        |
| <b>\$400,000</b> | <b>\$32,000</b>  | <b>226%</b> | <b>233%</b> |
| \$500,000        | \$33,000         | 86%         | 85%         |
| \$750,000        | \$37,000         | 107%        | 98%         |

These results are aligned with the WCIRB's comment that the variable split plan changes are "neutral overall." In many instances, our clients will enjoy a more favorable result on their X-Mod. However, where claims frequency is a problem (**highlighted above**), an organization should anticipate its X-Mod will increase.

The actual impact of the 2017 WCIRB Experience Rating Plan changes are unique for every organization. An experienced insurance broker will be able to dissect the components of the X-Mod, explain the changes, and provide assistance with the implementation of safety and loss control to help reduce claims and reduce the X-Mod.

