Agent Update

from Meadowbrook/TPA Associates

Experience Mod Rate Change

We have received a number of inquiries from our customers asking why they have seen increases in their experience mod factor when they have had good claims experience. You have probably heard the same questions over the past few months. As you know, the answer lies in the recent (9/1/2005) rate change which reflected an average rate decrease of 3.0%. The change has caused considerable confusion as it included changes to the calculation method of Experience Modifications and the All Risk Adjustment Program (ARAP).

Premium Calculation

Manual rates are set by class and contemplate the rate necessary to pay claims and other expenses for the “average risk”. Experience Rating is a mechanism designed to determine whether an entity’s claim activity is better or worse than the “average risk” during the experience rating period. This period is generally the last three years excluding the immediate past year. Hence, the experience period for a policy effective 1/1/06 would be the years 2004, 2003 and 2002. Each successive year the oldest year will roll off and the next current year will be part of the rating.

Payrolls for the three years in the rating period are multiplied by the expected loss rate (ELR) for each classification. The ELR is determined on an actuarial basis and the product is the total expected losses for that insured. The total expected losses are then multiplied by the Discount Ratio (D-Ratio) to determine the portion of the losses which are primary. The difference between the Total Expected Losses and the Primary Expected Losses are the Expected Excess Losses.

The Actual Losses in total are reviewed with any amounts up to $5,000 per claim (medical and indemnity) considered to be a Primary Actual Loss and amounts over $5,000 per claim considered to be Excess Actual Losses. The Expected and Actual Losses are then compared. As a general statement if the Actual Losses are less than the Expected Losses the insured receives an experience modification credit (which equates to a reduction in premium). If the Actual Losses exceed the Expected Losses, then a debit modification is applied

Welcome to the first edition of our agent email forum! From time to time we will send you news updates or items that may be of interest. Please feel free to share this email with other members of your staff or your clients.

Quick Links...

- Our Website
- General Information
- Loss Control Services

Our Carrier Partners

- AIG
- St Paul Travelers
- Hartford
- ACE

(which equates to a rise in premium).

Generally speaking the greater the actual losses vary from the expected losses, the larger the experience rating debit or credit. It is important to recognize that one of the results of significant changes in the Expected Loss Rates or Discount Ratios is that excellent accounts may find that their experience modifications may have increased merely because of the fact that their rate(s) decreased. As the recent rate change affected not only class rates but also included changes in the ELR and D-ratios, this has caused some clients to see changes in their mod and/or ARAP without significant change in their loss history.

Conclusion

While Experience Rating is important, it is only one of the determinants in the ultimate premium an insured will pay. The manual rates for each classification are far more significant. Unlike many states, employers in Massachusetts have enjoyed large rate decreases in classifications over the past decade. To illustrate, a business that was paying an average manual premium of $10,000 in 1994 would be paying $4,336 today. This is clearly good news, but the impact on experience mods is a clear reminder that the best way to control your costs is to prevent claims from happening. Loss control and risk management programs that target loss sources will pay dividends in the long run, both in terms of reduced mods and premiums for strong performance, but more importantly in keeping your workforce safe and healthy.

About Meadowbrook/TPA Associates

Meadowbrook/TPA Associates is a managing general agent and third party administrator specializing in fully insured and self- insured workers compensation programs. Established in 1991, they provide a wide range of integrated services such as strategic risk selection and distribution, program management, claim administration, loss control consultation, and regulatory relations. They operate throughout the Northeast from their office in Andover, Massachusetts.

Website: http://www.meadowbrooktpa.com