

## Explanation of Your Experience Rating Form

Following is a brief explanation of your Experience Rating Form. The WCIRB's website contains additional information about the calculation of your experience modification including electronic versions of the *California Workers' Compensation Experience Rating Plan—1995 (ERP)* and the *California Workers' Compensation Uniform Statistical Reporting Plan—1995 (USRP)*. These publications are part of the Insurance Commissioner's regulations and govern experience rating and the reporting of payroll and losses by insurers, respectively. Please visit [www.wcirbonline.org](http://www.wcirbonline.org) and select "Helpful Information" from the home page.

### About Experience Rating

Experience rating provides employers a direct financial incentive to reduce the number of work-related accidents and helps to objectively distribute the cost of workers' compensation insurance among employers assigned to the same industry classification.

The USRP contains approximately 500 standard classifications used to describe all types of California businesses. A business that is not specifically described is assigned by analogy to a classification that is most similar in terms of processes and hazards.

Businesses assigned to your standard industry classification are relatively similar to your business, however, there are differences and those differences can have an impact on workers' compensation claims costs. To address these variations and encourage workplace safety, experience rating adjusts the premium you pay either upward or downward based on a comparison of your company's history of payroll and claims (collectively referred to as your "experience") to what is expected for businesses of similar size within the same industry classification. This comparison results in your **experience modification**. An experience modification greater than 100 results from less favorable loss experience compared to the average of other similar businesses. An experience modification less than 100 results from more favorable loss experience. The data used to calculate your experience modification and the experience modification formula are shown on the Experience Rating Form (often referred to as a "worksheet" or "rate sheet"). Since the experience modification is intended to reflect differences in anticipated *future* claims costs, the formula reflects several standard "actuarial" adjustments so that past claim experience is used in a way that is predictive of future claim levels. For those employers who have sufficient historical experience to qualify, experience rating is mandatory and used by all insurers.

### Data Used for Experience Rating

The data used to calculate your experience modification is determined by your company's anniversary rating date, which **generally** is the inception date, or start date, of your policies. For example, if your policies always start on January 1, your anniversary rating date would be January 1.

The anniversary rating date determines the *experience period*, which is a three-year period beginning four years and nine months prior to your anniversary rating date and terminating one year and nine months prior to the anniversary rating date. With few exceptions, the payroll and losses arising from all policies incepting within the experience period are used in the calculation of your experience modification.

The payroll and loss information used in the experience rating calculation are reported by your insurer to the WCIRB on *unit statistical reports* in accordance with the USRP. Factors used in the experience rating calculation, such as Expected Loss Rates, D-Ratios, and "B" and "W" Values are developed by the WCIRB and approved by the Insurance Commissioner based on analysis of statewide data and are part of the ERP.

### Experience Rating Form

The Experience Rating Form provides detailed information about the calculation of your experience modification including the payroll reported by your insurer for each applicable classification and shows the claim experience reported by your insurer and used in the experience modification calculation. Your company name, address and other business names that are included under your insurance policy are captured from the policy information page. Some information may not be shown due to space limitations.

### Terms Used on the Form (In Order of Appearance)

**Bureau Number** — A unique file number assigned by the WCIRB to your company.

**Effective Date** — The date your experience modification applies to your policy.

**Carrier and Issuing Office** — The name of your insurer and the office from which the policy was issued.

**Issue Date** — The date this Experience Rating Form was released.

**Classification Codes (Form Header)** — Classification codes that apply to your California operations according to WCIRB records may be displayed; however, in some cases, the classification codes may not be shown or may not be complete due to space constraints.

**Payroll** — The payroll shown on the form is reported to the WCIRB by your insurer.

**Expected Loss Rate (ELR)** — The average rate of losses per \$100 of payroll that is expected for a classification during an experience rating period. ELRs are found in Table II of the ERP.

**Expected Losses** — The amount of losses that were expected to arise for businesses of your size and industry classification(s) during the experience rating period. Expected Losses are determined by multiplying your total payroll for each classification by the corresponding Expected Loss Rate.

**D-Ratio** — The ratio used to split Expected Losses into "Primary" and "Excess" amounts. This split accounts for differences in the average severity of claims by classification. D-Ratios are found in Table II of the ERP.

**Primary Expected Losses** — Determined by multiplying your Expected Losses for the classification by the D-ratio for that classification. Primary Expected Losses are totaled for all classifications.

**Expected Excess** — The difference between your total Expected Losses and your total Primary Expected Losses. Labeled "(f) = (d) – (e)" on the form.

**Expected Losses (Total)** — The sum of all Expected Losses arising from policies incepting during the Experience Period. Labeled "(d)" on the form.

**Primary Expected Losses (Total)** — The sum of all Primary Expected Losses arising from policies incepting during the Experience Period. Labeled "(e)" on the form.

**Claim Number** — The claim number reported to the WCIRB by your insurer.

**Injury Type** — Provides some detail about the type of injury associated with a claim. Injury types include Death (D), Permanent Total (P), Permanent Partial Disability 25% or Greater (M), Permanent Partial Disability Less Than 25% (N), Temporary Disability (T), Medical Only (X), or Compromised Death Claim (S).

**O or F** — The claim status that is reported to the WCIRB. "O" meaning open and "F" meaning closed or final.

**Policy Year** — The inception year of the policy in which the claim was reported.

**Actual Incurred Losses** — The total medical and indemnity paid plus estimated future payments on a claim reported to the WCIRB by your insurer as of the latest required claim valuation date. In order to mitigate the impact of a single claim on your experience modification, the amount of a single loss is limited to \$175,000 in the experience rating calculation.

**Primary Actual Losses** — The experience modification calculation splits each claim into two components – a primary amount and an excess amount. Primary losses represent the more predictable and controllable portion of a claim, while the excess amount represents the less predictable and less controllable portion. Primary Actual Losses are the reported incurred cost of the claim limited to a maximum of \$7,000. In other words, for a large claim, the first \$7,000 of the claim value is considered primary and the remainder is considered excess.

**Actual Excess (Total)** — The total amount of all claims on the form that is beyond the \$7,000 primary limit per claim, if any. Labeled as "(c) = (a) – (b)" on the form.

**Actual Incurred Losses (Total)** — The sum of the Actual Incurred Losses arising from policies incepting during the Experience Period. Labeled as "(a)" on the form.

**Primary Actual Losses (Total)** — The sum of Primary Actual Losses arising from policies incepting during the Experience Period. Labeled as "(b)" on the form.

**"B" Value** — A standard actuarial adjustment used to stabilize the experience modification for smaller employers by diluting the impact of Actual Losses on the experience modification. The "B" values are found in Table III of the ERP.

**"W" Value** — A standard actuarial adjustment used to adjust for the reliability of the historical experience of employers of different sizes as a predictor of future claim experience. The "W" values are found in Table III of the ERP.

**Loss-Free Rating** — What your experience modification would have been if no losses were incurred during the experience period. This hypothetical rating calculation is provided for informational purposes only.

For more information, see [www.wcirbonline.org](http://www.wcirbonline.org).

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888.229.2472

## Representation of WCIRB Printed Version

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### WCIRB California

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