

## The NCCI Split Point Change – What You Need to Know

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### Summary:

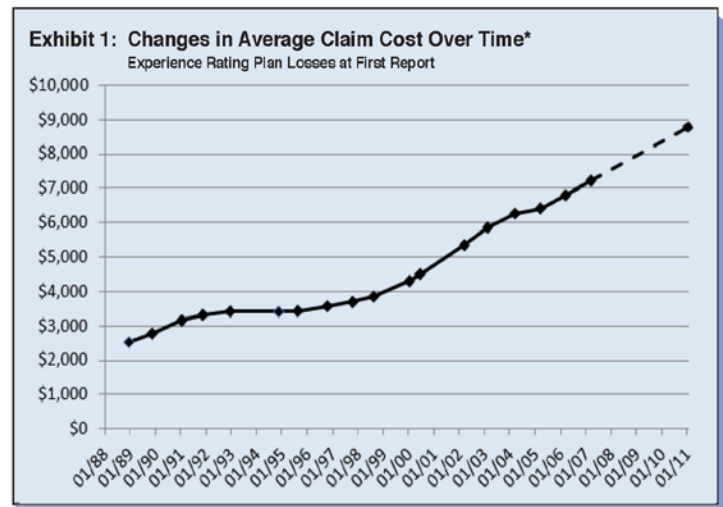
Beginning in 2013, states that rely on NCCI for workers' compensation are changing the primary/excess loss split point. The split has been at \$5000 since 1991. In 2013, it will be jumping to \$10,000. 2014 will see the split increase to \$13,500 and increasing to an estimated \$15,000 in 2015. This change will have a minimal impact on the majority of insureds but has the potential to have a dramatic impact on some. All experience rated companies need to know about what is changing in order to take advantage of the changes.

California, Pennsylvania, Delaware and New Jersey have experience rating plans that vary widely from the NCCI plan and are unlikely to make any changes.

Back in 1991, the National Council on Compensation Insurance (NCCI) rewrote the experience rating plan that determines your experience modification factor.

At that time, the formula counted the first \$5,000 of each of your employee injuries 100% in the experience mod, while all money over \$5,000 was discounted based on what you do and how much you pay your employees.

Back then, the average cost of an employee injury in the workers' compensation system was about \$3,000. Since that time, that cost has increased to almost \$9,000.



\* Assuming a 5.25% annual trend from March 6, 2007 to January 1, 2011.

Fig.1 (Source: NCCI)

This drastic change has created a situation where experience mods aren't as effective as they should be. The experience mod is designed to be a predictive indicator of future injuries 100% in the experience mod, while all money over \$5,000 was discounted based on what you do and how much you pay your employees.

Rather than make a single drastic change, NCCI has decided to transition to what they consider the appropriate split point over three years. In 2013, it will go to \$10,000; 2014 will see the split point increase to \$13,500 and finally, in 2015 they are estimating it will reach \$15,000.

The 2015 value is estimated because that value will be set based on the actual average cost of an employee injury at that time. Going forward, it is planned that the split point will change every year as the average cost of an employee injury goes up or down.

This change will not be occurring on January 1<sup>st</sup> in all states. The change will take effect on the date that each state regularly approves changes to the rating values that determine the experience mod. (A list of those dates is included at the end of this article.)

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Training and certifying insurance professionals to help employers control their workers' comp costs.

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### What does this mean to you?

This change will have a dramatic impact on your experience mod, but what that impact will be is completely dependent on your history of employee injuries.

NCCI estimates that 78% of experience mods will change  $\pm 5$  points as a result of this change. The drastic changes will be in the best and the worst mods. If your experience mod is already high, it is likely that it will increase even more. Seven percent of mods will increase more than 11 points!

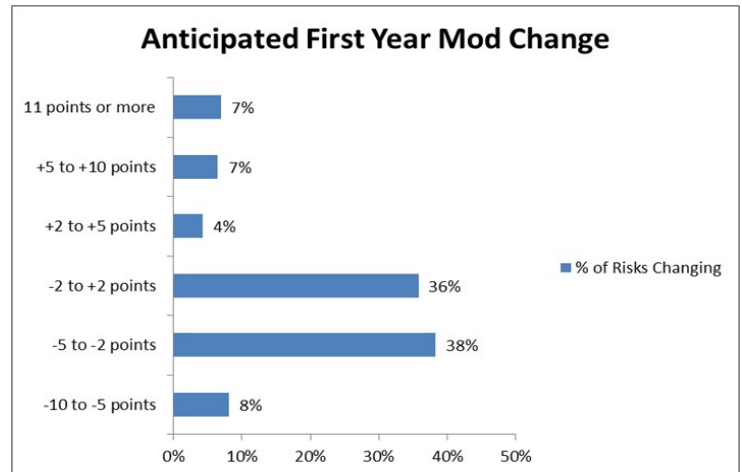


Fig.2, (Source: NCCI)

### What does this not mean?

As you can see in the previous chart (Fig. 2), this change does not mean that every experience mod will increase. As the split point goes up, the D-ratio, which determines your expected primary losses will also be increasing.

NCCI has stated that this change will be “premium neutral” across each state. The goal of this change is not to increase the premium that employers pay, but rather to assist insurance companies in determining the proper amount to charge an employer for their insurance coverage.

### How can you take advantage?

One side effect of this change is that virtually every employer will have a lower minimum experience mod. The minimum mod is the lowest that your experience mod can be in a given year. To reach your minimum mod, you would have to have a record of zero employee injuries during the period of time that is included on the experience mod. Even if you aren't at (or even close to) your minimum mod, it's critical that you know what it is because it gives you a target to aim for. Achieving your minimum mod can drastically change the money you spend for workers' compensation insurance and allow you to allocate that capital in other parts of your business.

### Summary

The split point change creates an opportunity for employers to take greater control over their workers' compensation costs than ever before. The changes are dramatic and lasting; the split point will change every year going forward, barring further changes to the experience rating plan.

Employers should be working with an insurance agent who is a workers' compensation expert who can put them on a path to achieving their minimum mod. Certified WorkComp Advisors have this expertise. With these changes, your minimum mod will be lower than ever and the amount of control you have over your workers' compensation costs at an all time high.



Take control over your workers' compensation costs and seize the opportunity the split point change presents and reap the benefits of lower workers' compensation premiums and more money to spend on your business instead of on your insurance!

### List of rate filing dates

Below is a list of the dates where states customarily file their updated workers' compensation rates. It is possible that some of the states listed will file on different dates or initially reject the change.

State	Filing Date
Alaska	1/1
Arizona	1/1
Arkansas	7/1
Colorado	1/1
Connecticut	1/1
District of Columbia	11/1
Florida	1/1
Georgia	3/1
Hawaii	1/1
Idaho	1/1
Illinois	1/1
Indiana	1/1
Iowa	1/1
Kansas	1/1
Kentucky	10/1
Louisiana	5/1
Maine	1/1
Maryland	1/1
Massachusetts	9/1
Michigan	4/1
Michigan	4/1

State	Filing Date
Minnesota	1/1
Mississippi	3/1
Missouri	1/1
Montana	7/1
Nebraska	2/1
Nevada	3/1
New Hampshire	1/1
New Mexico	1/1
North Carolina	4/1
New York	10/1
Oklahoma	1/1
Oregon	1/1
Rhode Island	6/1
South Carolina	7/1
South Dakota	7/1
Tennessee	3/1
Utah	12/1
Vermont	4/1
Virginia	4/1
West Virginia	11/1
Wisconsin	10/1





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Kevin is the Institute of WorkComp Professionals' Lead Workers' Compensation Analyst. He joined the Institute in 2003 after a stint as a systems manager for a mid-sized manufacturing company.

A licensed P&C agent, Kevin has an affinity for making the technical simple, whether it is computers or insurance. His technical Workers' Comp skills have helped Certified WorkComp Advisors (CWCA) through sticky situations (including analyzing a 68-page mod sheet). Kevin constantly works with CWCA's to deepen their knowledge of the Institute process and provides expert guidance on premium audits, experience mods and injury management.

Kevin has had articles published in insurance trades such as Risk and Insurance, Insurance Journal, Big I of various states, Insurance Record, International Association of Industrial Accident Boards, Best Practice in Compensation and Benefits, and many business journals including Verizon Small Business, Crain's Tire Business, Grading and Excavation Contractor, Salt Lake City Enterprise, Workforce Management, Industrial Distribution and Concrete Contractor.

