

General Information

Experience rating is the method in which the actual loss experience of the policyholder mathematically impacts the final premium the policyholder will pay. Essentially, carriers compare the policyholder's loss experience against the expected loss experience, based on the policyholder's classifications and payrolls. Carriers express the result of this comparison as an experience modifier (called an *e-mod* for short).

If a policyholder's e-mod is *greater than* 1.0, the policyholder has had worse loss experience than comparable employers in its industry. An e-mod that is *less than* 1.0 indicates the policyholder has had better loss experience. Underwriters use the e-mod as a multiplier to the premium calculation. A policyholder with a better than average e-mod (less than 1.0) will pay less premium than if it had a worse than average e-mod (greater than 1.0).

The largest workers compensation ratemaking organization in the country, the National Council on Compensation Insurance (NCCI) provides an excellent online brochure about experience rating. To review the *ABC's of Experience Rating*, go to https://www.ncci.com/documents/ABC_Exp_Rating.pdf.

Frequently Asked Experience Rating Questions

Where can I get an explanation of experience rating and the experience rating formula? We encourage you to review *ABC's of Experience Rating* at https://www.ncci.com/documents/ABC_Exp_Rating.pdf.

Is the Texas experience rating formula the same as the countrywide formula? No. The Texas experience rating formula differs slightly from the experience rating formula in other states. The biggest difference may be how the formula handles the cost of injuries that do not involve any lost time (medical-only injuries). In many states, only 30% of the total cost of medical-only injuries is reflected in the experience rating formula. The full cost of these losses is reflected in the Texas experience rating formula. Therefore, Texas policyholders have a greater financial incentive to control their workers compensation costs than employers in other states.

Do all policyholders have an experience modifier? No. The requirements for experience rating are determined by the Texas Department of Insurance. A risk shall qualify for experience rating if the policyholder's Texas payrolls developed during the last year of the experience rating period produced a premium of at least \$10,000 or if the policyholder's Texas payrolls developed during the last two or more years of the experience period produced an average annual premium of at least \$5000. For more information, go to <http://www.tdi.state.tx.us/consumer/wc.html> to read the *Texas Basic Manual of Rules*.

An employee at my company had an accident that did not involve any indemnity or medical payment. How will this affect our *e-mod* (experience modifier)? Accidents that do not require any workers' compensation benefits do NOT affect the policyholder's e-mod.

Should I report all accidents to Texas Mutual? Yes. It is in your best interest to report all accidents to us so we can monitor and review them. Small losses that could have been easily addressed sometimes turn out to be more costly as a result of the late report. Published studies indicate that a delay in reporting a claim may significantly increase the claim's cost. Policyholders may reduce their experience modifiers by reporting all accidents promptly.

Will a small loss impact the experience modifier? Possibly. The cost of a loss is the sum of the medical payments and indemnity payments. The smaller the loss, the less it impacts the experience modifier.

In some cases, a small loss will have absolutely no impact on the experience modifier (due to rounding in the experience rating formula). In most cases, a small loss will have a proportionately small impact on the experience modifier. For example, a \$4,000 loss might have twice the impact as a \$2,000 loss.

The best way to keep an experience modifier low is to prevent losses from occurring in the first place, but when an injury occurs, policyholders have an incentive to keep their losses as low as possible with an effective return-to-work program. See the "Safety and Return to Work" section of our website for additional information.

Where can I find more technical information on the experience rating plan in Texas? Texas Mutual adheres to the rules in the *Texas Workers' Compensation and Employers' Liability Manual* located on the Texas Department of Insurance website. For more information, go to <http://www.tdi.state.tx.us/consumer/wc.html> and see the *Texas Basic Manual of Rules*.

How can I obtain a copy of my experience modifier worksheet? Contact your insurance agent. Your agent's name is listed on Item 1 of the information page of your workers' compensation and employer's liability policy.