

USES OF DATA REPORTED

USES OF DATA REPORTED OVERVIEW

This section provides information on the primary uses of the data reported to the DCOs. They are as follows:

- Experience Rating
- Merit Rating
- Ratemaking
- Schedule Z
- Proof of Coverage

Experience Rating is a term given to the procedure that compares an insured's previous payroll and loss data during an experience period (generally a three-year period) against other employers within the same industry. The result is an experience modification factor. If an insured has good experience, the factor will usually result in a credit to the premium. Likewise, poor experience may result in a debit to the premium.

Merit Rating is a general term that encompasses several types of rating plans for adjusting premium based on an individual policyholders experience. These include experience rating and retrospective rating. Some states also have plans specifically for employers that do not qualify for experience rating. These plans often are collectively referred to as "Merit Rating Plans." In some states merit rating applies to assigned risk policies only.

Ratemaking is a term that applies to the actuarial process used by DCOs to develop premium rates or loss cost rates for each classification of risk within a given state. The actual data and factors used to develop the rates and the applicability of such rates in determining actual policyholder premium is determined by each state's rating law. Rates developed by DCOs usually are submitted to a state regulator for approval and may be either mandatory or advisory. For each individual state, two data types are used in ratemaking:

- Aggregate/Financial data
- Unit Statistical Report data

The Schedule Z (Sched Z) Summary is a compilation of reported unit statistical report data organized by class code and composite policy year. Most Sched Zs include payroll, earned premium, incurred losses and incurred claim counts. Incurred losses and claim counts are broken down by benefit (indemnity and medical) and injury type.

Proof of Coverage is a process that is utilized by Industrial Accident Boards and Commissions to verify that the employer is covered by workers' compensation insurance.

EXPERIENCE RATING

Experience Rating is a term given to the procedure that compares an insured's previous payroll and loss data during an historical experience period (generally three years) with other employers within the same industry. The result is an experience modification factor.

The experience modification factor, also called E-MOD, X-MOD or Mod, is determined by comparing the insured's actual losses to the insured's expected losses. The Experience Rating Plans explain the calculation used to develop experience rating modification factors. If an account has experience that is better than expected, the factor will usually result in a credit to the premium. Likewise, poor experience results in a debit to the premium. A credit mod is less than 1.00; a debit mod is greater than 1.00; a unity mod equals 1.00.

For example:

An insured develops a premium of \$10,000. This would result in the following:

		<u>Credit</u>		<u>Debit</u>		<u>Unity</u>
Premium	=	10,000		10,000		10,000
Mod.	X	.078	X	1.50	X	1.00
Mod. Premium	=	\$7,800		\$15,000		\$10,000

(A simple example has been shown. There are other factors involved in determining the premium.)

Intrastate experience ratings for the states of California, Delaware, Massachusetts, Michigan, Minnesota, New Jersey, New York, North Carolina, Pennsylvania and Wisconsin are produced by the respective state rating organizations. Experience Ratings for the states of North Dakota, Ohio, Washington and Wyoming are produced by the respective exclusive state fund. Intrastate ratings for all other states are produced by NCCI.

NCCI produces interstate ratings (two or more states that qualify) for all states except California, Delaware, Michigan, New Jersey, North Dakota, Pennsylvania, Ohio, Washington and Wyoming.

Contingent Mod

A contingent mod, where permitted by law, can be produced using less than three years of data. Data can be missing because (1) the company is delinquent in its reporting; (2) the insurer or insured is having financial difficulties; (3) an audit of the insured's records was not completed; (4) a lapse of coverage during the experience period; or (5) the Data Collection Organization is unable to link the information together, e.g., due to an ownership change. DCO will update the contingent mod if reason for producing contingent mod is resolved.

Preliminary Mod

A preliminary mod, where permitted by law, is produced when the loss rates and D ratios are not available. When the rates are approved, the DCO will produce the experience mod that will replace the preliminary mod.

Communication Methods

- Hard-copy Experience Rating worksheets are mailed to insurers and (from some DCOs) to insureds.
- Experience Rating worksheets can be viewed on most DCO websites.
- WCRATING is used by DCOs to send Experience Ratings to insureds. NCCI also uses WCRATING to send Interstate Ratings to insurers and to DCOs.

Key-facts about Experience Rating Plans

- Plans are usually mandatory for insureds that qualify.
- Plans have a qualification level based on premium.
- Plans define an “experience period”. An experience period usually includes three years of payroll and loss data that can be covered by one or more insurers. You should consult the DCOs manuals for exact definitions.

Example: Mod. effective 1/1/2000 is calculated using data from the following policy periods:

1/1/96 to 1/1/97
1/1/97 to 1/1/98
1/1/98 to 1/1/99

The data used in the above example would be:

1/1/96 to 1/1/97 3rd report
1/1/97 to 1/1/98 2nd report
1/1/98 to 1/1/99 1st report

MERIT RATING

The term “merit rating” is a general term that applies to prospective experience rating, retrospective experience rating, and many other loss-based rating programs that may be available in various states. True merit rating impacts an insured’s premium based upon claim or loss history.

Some states have merit rating programs similar to experience rating in that a modification factor is developed that adjusts premium, but which are applicable only to insureds that do not qualify for experience rating. The same “experience period” as defined under the Experience Rating section in this handbook is used in merit rating. In some states merit rating applies to assigned risk policies only. The number of claims reported for an insured dictates the merit rating modification.

The rules vary from state to state.

Communication Methods

- Hard-copy Merit Rating worksheets are mailed to insurers and (from some DCOs) to insureds.
- Merit Rating worksheets can be viewed on most DCO websites.
- WCRATING is used by DCOs to send Merit Ratings to insureds.

RATEMAKING

Ratemaking is a term that applies to the actuarial process used by DCOs to develop premium rates or loss cost rates for each classification of risk within a given state. The actual data and factors used to develop the rates and the applicability of such rates in determining actual policyholder premium is determined by each state's rating law. Rates developed by DCOs usually are submitted to a state regulator for approval and may be either mandatory or advisory. For each individual state, two data types are used in ratemaking:

- Aggregate/Financial data
- Unit Statistical Report data

A state's aggregate/financial data is used to determine the required overall change in the statewide premium level. This information is submitted by insurers via the annual financial calls. Similar financial information is submitted to the state insurance departments as part of Annual Statements and Insurance Expense Exhibits.

In contrast, unit report data contains detailed policy information. The unit report includes individual employer payrolls, premiums, and details of all compensable claims. The information in the unit report plays no part in determining whether the overall level of premium in the state is too high or too low.

The aggregate/financial data is used in determining, whether the overall level of premium in the state is too high or too low. The unit report data is used to apportion the average loss cost change among the various industry classifications. The same data is also used to modify the price of coverage for larger, qualifying employers by means of a mandatory experience-rating program.

SCHEDULE Z (SCHED Z)

The Schedule Z Summary is a compilation of reported unit statistical report data organized by class code and composite policy year. Most Sched Zs include payroll, earned premium, incurred losses, and incurred claim counts. Both manual and standard earned premium amounts are displayed. Incurred losses and claim counts are broken down by benefit (indemnity and medical), and further by injury type (fatal, permanent total, major partial, minor partial, temporary total, and medical only). Claim counts and incurred losses include paid amounts plus case reserves. Sched Zs may include or exclude large deductible experience.

For each class code or industry group, the report displays data by composite policy year at the latest five evaluations. A composite policy year extends for twelve months. Each policy written during the experience period is valued at intervals beginning eighteen months after policy inception. Since each composite policy year on this report is evaluated at latest report, the older the composite policy year, the longer the length of valuation. Thus, the valuation points are 18 months (first report), 30 months (second report), 42 months (third report), 54 months (fourth report), and 66 months (fifth report).

Most Schedule Z (Sched Z) is a report that contains the following:

- Classification Code
- Report Number (1-5 normally)
- Injury Code – on some Sched Zs, this field has a dual purpose and may be called a Transaction Code, where the first position of the Transaction Code is a 1, indicating losses. Therefore, Medical Only (Injury Code 6) would be shown as Transaction Code 16.
- Policy/Claim Count
- Exposure/Indemnity
- Manual Premium/Medical
- Standard Premium

Sched Z data and format vary by DCO.

PROOF OF COVERAGE (POC) GUIDELINES

Proof of Coverage is a process that is utilized by state industrial accident boards and commissions to verify that an employer is covered by workers' compensation insurance. Some states utilize a coverage notice; (a form usually containing the Account Name, Insurer, Policy Number, Effective and Expiration Dates, and other pertinent information). This form is completed and sent to the state's board.

As requirements for proof of coverage information expanded, third party vendors started offering their services in the various states. By using the WCPOLS, (or a similar format) and hard copy, the vendor produces the proof of coverage information to be sent to the states' boards.

The various states' databases are updated by the vendor. The state board can access the information. Some states are supplied with forms or electronic files by the vendor.

The vendors charge for proof of coverage service.

In most jurisdictions; i.e., California, Delaware, Massachusetts, Minnesota, North Carolina, New Jersey, Pennsylvania and Wisconsin, where the insurer submits policy data to an independent DCO, the DCO provides the Proof of Coverage information to the state board. This is accomplished either by sending data to the state board or providing the state board with access to the DCOs database.

Many industrial accident boards and commissions use NCCI's POC service. There are other vendors providing proof of coverage services to states.

All of the states have requirements detailing when policies must be reported to the data collection organization or the state. Requirements range from:

Policy: Due within 5 to 60 days after policy effective date.

Cancellations: Due 45 days prior to or 45 days after cancellation date.

Many POC states require FEIN and have unique rules on the reporting of FEIN. Some states require only the primary FEIN of insured, others require a FEIN for every location.

Fining: Some states fine for late reporting or missing data. Although some states have a fining program, not all such states are currently fining for late reporting or missing data. Maryland, South Carolina, and Wisconsin do fine for late reporting and/or missing data.