

**Understanding Experience Rating** 

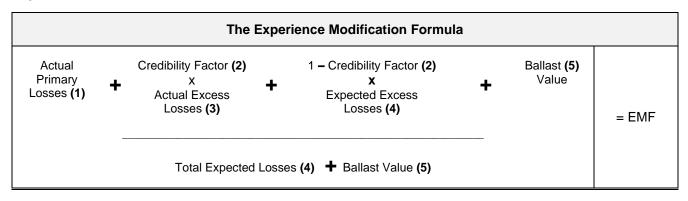
# **Experience Rating**

Workforce Safety & Insurance's (WSI) experience rating plan is a method for tailoring the costs of insurance to an employer. The plan predicts whether a qualifying employer is likely to develop loss experience that is better or worse than the average employer in a particular classification. WSI's formula compares the losses that actually occurred to the losses that were expected.

An experience rate that has an experience modification factor (EMF/mod) of 1.00 indicates an average risk. An EMF/mod greater than 1.00 indicates a risk with greater than expected loss experience and results in a surcharge. An EMF/mod less than 1.00 indicates a risk with lower than expected loss experience and results in a discount.

The experience-rating period compares the 3 most recently completed policy periods.

#### The Experience Modification Formula



#### Understanding the formula

- 1. Actual Primary Losses
  - The first \$15,000 of any loss
  - A measure of loss frequency

## 2. Credibility Factor

- The formula attempts to accommodate for the size of the risk by utilizing a Credibility Factor
- Credibility Factor is not applied to the Primary Losses, therefore Primary Losses have more of an impact on the EMF/mod than excess losses
- Multiplied by the Actual Excess Losses of the risk
- 1 minus Credibility Factor is multiplied by Expected Excess Losses
- The Credibility Factor increases as the expected losses for a risk increase

## 3. Actual Excess Losses

- All loss amounts over \$15,000, capped at \$225,000 per claim
- A measure of loss severity
- Frequency represents greater risk than severity, therefore Actual Primary Losses are not weighted and impact the EMF/mod more than excess losses
- The larger the risk, the more weight is placed on the Actual Excess Losses

## 4. Expected Excess Losses/Total Expected Losses

- Calculated using an industry average loss rate and the amount of payroll by class code
- 5. Ballast
  - A stabilizing factor which varies depending on the employer's Total Expected Losses