



North Dakota Workforce  
Safety & Insurance

# 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

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Actual Primary Losses (1)	+	Credibility Factor (2) x Actual Excess Losses (3)	+	1 - Credibility Factor (2) x Expected Excess Losses (4)	+	Ballast (5) Value	= EMF
<hr/> Total Expected Losses (4) + Ballast Value (5)							

## 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