



Wisconsin Compensation Rating Bureau

CIRCULAR LETTER 3087—FEBRUARY 29, 2012

TO: Members of the Bureau

FROM: Donna Knepper

RE: Proceedings of the Wisconsin Governing Board
NCCI Proposal Item E-1402 – Revisions to the Experience Rating Plan
Primary/Excess Split Point Value and Maximum Debit Modification Factor.

The Office of the Commissioner of Insurance approved the recommendation of the Governing Board and adopted the following to the WI Experience Rating Plan:

1. Increase the primary/excess split point to an inflation-adjusted \$15,000 over a three-year transition period, and continue to increase this amount thereafter on an annual basis using a countrywide inflation index.
 - a. In year one, initially increase the primary/excess split point from \$5,000 to \$10,000 effective with the October 1, 2013 rate revision.
 - b. In year two, increase the primary/excess split point to \$13,500 to be effective in conjunction with the annual rate revision.
 - c. In year three, and annually thereafter, increase the primary/excess split point to the indexed value of \$15,000. The index would estimate annual countrywide severity changes between the average loss date for experience rating modification in the initial year of implementation and the effective year. The changes will be in conjunction with the annual rate revision.
2. Revise the maximum debit modification formula to $1.10 + 0.0004 \times E/G$. This proposed formula improves on the current formula as follows:
 - a. The proposed formula has a hard minimum of 1.10 rather than 1.00. A maximum debit that approaches 10% is more reasonable than a 0% debit.
 - b. The proposed formula more fully accounts for differences across states in claim severities. The variable term in this formula ($0.0004 \times E/G$) incorporates the G-value and produces an experience rating modification cap that fully accounts for state differences in claim severities. Under the proposed formula, two identical employers in two different states would be subject to the same experience rating modification cap.

Attached are amendments to the Wisconsin Experience Rating Plan Manual pages 7 and 11.

This filing is effective in conjunction with the October 1, 2013 rate revision.

B. EXPLANATION OF TERMS

1. Expected Loss Rate

The Expected Loss Rate is the factor used to determine the amount of expected losses by classification for each \$100 of payroll. These factors can be obtained from the WCRB Web site on the Circulars tab in the annual rate revision circular, in the rate table column labeled "ELR".

2. Expected Losses

Expected losses for each classification are obtained by multiplying the Expected Loss Rate by the payroll divided by \$100. Total expected losses for the risk are obtained by adding the expected losses for each classification.

3. Discount Ratio

The Discount Ratio is the factor used to determine the amount of expected losses for each classification that are Expected Primary Losses. These factors can be obtained from the WCRB Web site on the Circulars tab in the annual rate revision circular, in the rate table column labeled "D RATIO".

4. Expected Primary Losses

The Expected Primary Losses are obtained by multiplying the expected losses by the Discount Ratio.

5. Expected Excess Losses

Expected Excess Losses are obtained by subtracting the expected primary losses from the expected losses.

6. Actual Primary Losses

~~Actual Primary Losses reflect claim frequency. The maximum primary value for each loss is \$5,000. For each loss equal to or less than \$5,000, the entire amount is used as the primary value. For each loss over \$5,000, the primary value is \$5,000. Actual Primary Losses are the portion of the actual incurred losses that are used at full value in the experience rating calculation. For each actual incurred loss, the amount up to the primary/excess split point value is considered primary.~~

For medical only losses (injury type 6), the primary value will be reduced by 70%.

7. Actual Excess Losses

Actual Excess Losses are obtained by subtracting the actual primary losses from the actual incurred losses.

For medical only losses (injury type 6), the excess is calculated by first subtracting the actual primary losses before the medical only reduction from the actual incurred losses. The excess value is then reduced by 70%.

3. Limitation on Total Losses Employed in a Rating

a) Accident Involving One Person

An accident involving an injury to one person will be limited to the Per Claim Accident Limitation in the Table of Weighting Values. The actual primary loss for such an accident is subject to the maximum ~~primary value of \$5,000~~ primary/excess split point value.

b) Accident Involving Two or More Persons

An accident involving injury to two or more persons will be limited to the Multiple Claim Accident Limitation in the Table of Weighting Values, which is twice the normal accident limitation. The actual primary loss for such accidents is limited to ~~\$10,000~~ — twice the normal maximum ~~primary value~~ primary/excess split point value.

c) Disease Losses

Disease losses for each policy year will be limited to triple the Per Claim Accident Limitation shown in the Table of Weighting Values, plus 120% of the risk's total expected losses for the experience period. For each policy year, the actual primary loss for disease losses is limited to ~~\$10,000~~ — twice the normal maximum ~~primary value~~ primary/excess split point value, plus 40% of the risk's total expected primary losses for the experience period.

Note: To determine the limitation on total disease losses employed in a rating as described in c), the following procedure will apply:

1) Latest policy year –

Combine the disease losses of all policies within the experience period, having an effective date within 24 months prior to and valued at least 3 months prior to the experience rating date.

2) Middle policy year –

Combine the disease losses of all policies having an effective date more than 24 months, but not exceeding 36 months prior to the experience rating date.

3) Earliest policy year –

Combine the disease losses of all policies within the experience period, having an effective date more than 36 months prior to the experience rating date.