



Wisconsin Compensation Rating Bureau

262-796-4540 ▲ Fax 262-796-4400 ▲ www.wcrb.org

P.O. Box 3080 ▲ Milwaukee, WI 53201-3080

Located at 20700 Swenson Drive, Suite 100, Waukesha, WI 53186

CIRCULAR LETTER 591—MAY 15, 2012

Split-Point Change in the State of Wisconsin

Purpose

NCCI made a decision to change the split-point used in the experience rating formula for workers compensation policies. After reviewing the changes and contemplating them with a Wisconsin perspective, the WCRB rating committee and governing board voted in favor of submitting a proposal to Wisconsin's Office of the Commissioner of Insurance (OCI) for approval. OCI subsequently approved the split-point change and the planned effective date is October 1, 2013.

The purpose of this document is to:

1. Explain what a 'split-point' is.
2. Explain the split-point change including the plan for ongoing management of the split-point.
3. Provide Wisconsin-specific historical data and impact probabilities.

What is a 'split-point'?

Experience rating is a program that is intended to recognize an employer's own past loss experience, in part, in determining its premium. The plan, in effect, adjusts the employer's premium based on the extent to which that employer's loss experience is better or worse than the average (where average is determined as the rate for that class.)

The split-point is used in the experience rating formula for worker's compensation. It is the dollar level at which each claim is divided into two parts, **primary** (the cost of each claim incurred **below** the split point) and **excess** (the cost of each claim incurred **above** the split-point).

The **primary** costs are fully weighted in the experience algorithm.

The **excess** costs are only partially weighted in the experience algorithm.

The current split-point, which is applied to all experience rated policies both nationally and in Wisconsin, is \$5000. The \$5000 split-point has been in place for over 20 years. Because claim costs have changed (due to inflation, benefit level changes, medical improvements, etc.), the split-point of \$5,000 has become less and less responsive over time. The primary losses were not having as much of an impact in the formula as in the

past. Therefore, insureds with better experience than the industry were not given as much 'credit' for their good experience and insureds with higher losses than the industry averages were not being charged as much as their individual experience would indicate they should.

NOT changing the split-point and keeping it reflective of current costs would result in continued dulling of the impact of safety on experience on experience mods.

What's the change?

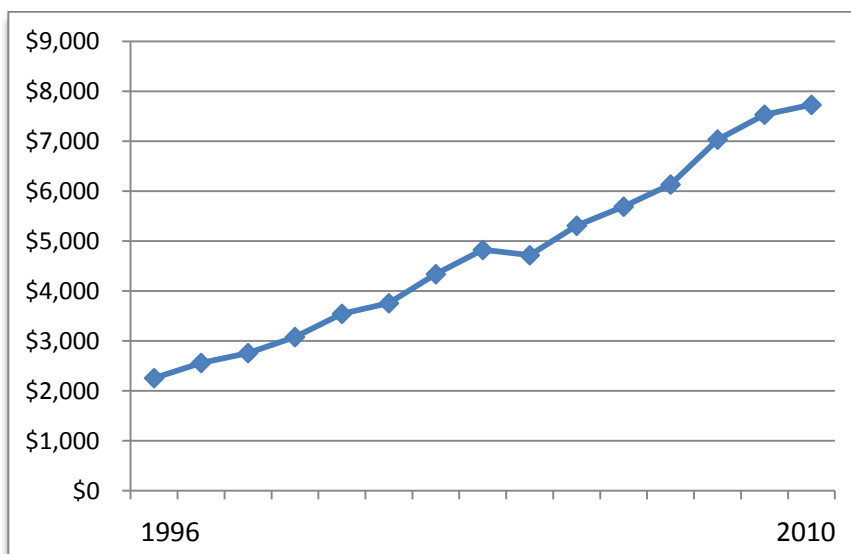
As stated, the change in split-points from \$5,000 to \$10,000 in Wisconsin will begin for filings effective 10/1/13 and remain in place for 1 year. On 10/1/14 the split-point will increase again from \$10,000 to \$13,500. On 10/1/15 it will increase to approximately \$15,000 plus the impact of 2 years' claim trends. Annual changes will thereafter be based on countrywide trends unless Wisconsin's experience shows a meaningful variance from national figures.

Wisconsin-specific historical data and impact probabilities

Wisconsin Claim Costs

Like most states, the average cost of a claim has increased over time. The chart below shows our 15 year change in total claim costs per WC claim including medical only claims. Again, while the split-point has been maintained at \$5,000 for more than 20 years, this chart shows the average cost per claim has tripled over the past 15 years.

Wisconsin – Average WC Claim Costs (including med-only)

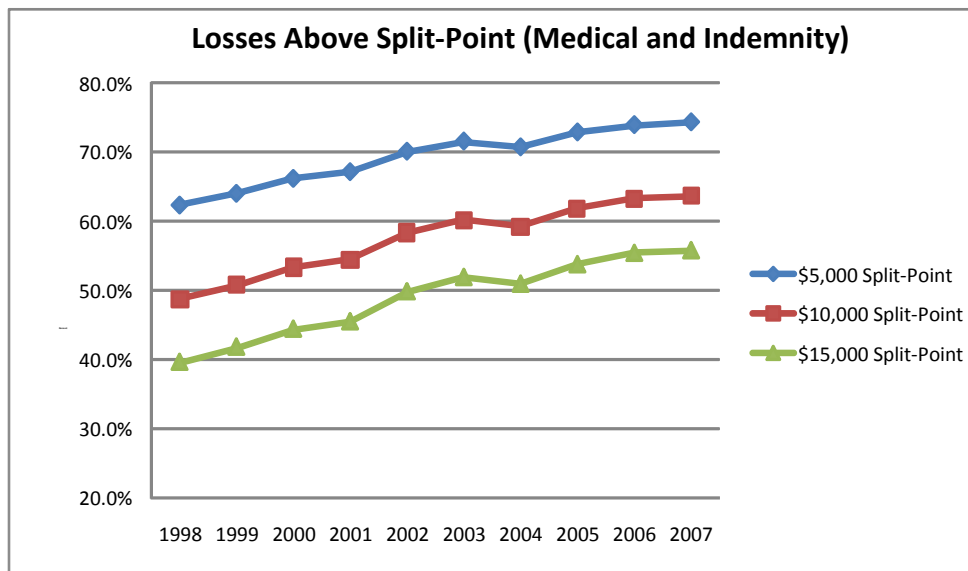


CIRCULAR LETTER 591—MAY 15, 2012—PAGE 3

The chart below shows the percentage of Wisconsin workers compensation claims that exceeded the \$5000 split-point by year from 1998 through 2007 in our study. We also added lines showing the percentage of claims that would have exceeded split-points at \$10,000 and \$15,000 levels.

Knowing that claim costs continued to increase from 2008 through present, we can say with a high degree of confidence that between 75% and 80% of claims that occur this year will exceed the \$5000 (current split-point). A split-point at around \$15,000 will help balance the impact of severity and frequency. Continued annual adjustment will ensure a proper balance over time.

It is clear that the losses below the \$5,000 split-point continue to be a smaller percentage of the total.



Percentage of Losses above Split-Point Medical and Indemnity Losses

The Wisconsin Compensation Rating Bureau (WCRB) and its actuaries conducted a comprehensive study of the impact of this change against Wisconsin’s own experience. It is very important to note that the following calculations were performed using only the most recent available information. Business changes every day. Indeed, losses are occurring as you read this document. So, please understand that this information is meant only to provide you with an approximation of the impact of the split-point change on experience modifiers in Wisconsin.

CIRCULAR LETTER 591—MAY 15, 2012—PAGE 4

INDUSTRY GROUP COMPARISON - Wisconsin

Using 2010 and 2011 data we examined the approximate impact of the split-point change 'mod groupings'. Here are the groupings we studied using 2010 mod factors:

Group	Mod Factor	Number of Insureds
Group 1	< .80	1,252
Group 2	.80 to 1.0	13,488
Group 3	1.0 to 1.3	4,635
Group 4	>1.3	2,922

The next (below) provides detail on the impact of the normal mod changes that took place between 2010 and 2011 and the change between 2010 vs. calculated 2011 mod after incorporating the split-point change.

Size of Change	2010 vs. 2011				2010 vs. 2011 @ 10,000 split			
	< .8	.8-1.0	1.0-1.3	>1.3	< .8	.8-1.0	1.0-1.3	>1.3
	less than -50%	0	0	0	3	0	0	0
-50% to -25%	0	7	220	1400	0	16	311	1319
-25% to -5%	65	1098	1855	859	335	2268	1353	519
-5% to 0%	165	3030	1075	272	491	7016	514	179
0%	165	2459	227	40	52	934	96	22
0% to 5%	492	4887	568	168	84	1212	509	167
5% to 25%	318	1472	560	157	235	1194	1479	613
25% to 55%	47	458	119	23	54	656	318	89
over 55%	0	77	11	0	1	192	55	10
	1252	13488	4635	2922	1252	13488	4635	2922

As you can see, the number of policies with decreases to their mods in the .8 to 1.0 mod category with the normal change (no split-point) was 6,594. Adding the split-point change in this example increased the number of policies with decreases to their mods in the .8 to 1.0 category from 6,594 to 10,234. Looking at the 1.0 to 1.3 mod category we see that without the split-point change, the policies with mods between 1.0 and 1.3 that received a decrease in their mods numbered 3337. Adding the split-point change to this group decreased this group's size from 3337 to 2274.

After adding the split-point change, the insureds with less than a 1.0 mod tended to see more of a credit, while those with greater than a 1.0 mod tended to receive more of a debit, which is one of the intended results of the change.

In Closing

Doubling the split-point in one year understandably draws attention of insurance professionals, especially those who care deeply about the impact on their client employers. We hope that the information contained in this brief document helps clarify why and how the change will likely impact Wisconsin. The work we performed individually, for our state, supports the change recommended by NCCI.

Important notes:

- Adding a new year of loss information resulted in more variability in the experience modification ratios than changing the split-point change.
- The overall result of the split-point change is premium neutral.
- Using 2010–2011 data, adding a split-point change resulted in an additional 42% more insureds seeing a favorable mod change with the split-point than without it.
- After adding the split-point change, the insureds with less than a 1.00 mod tended to receive more credit, while those with greater than a 1.00 mod tend to receive more of a debit.
- At current cost trends, 80% of all claims will exceed the \$5000 split-point soon.
- Balancing the impact of loss severity and frequency is an important ingredient to ensuring proper modifier impact over the long run.

Once again, it is very important to recognize that the data used for our study and the examples shown in this document were developed using snapshots of past results. The degree of confidence that the impact actually seen when the change occurs is very similar, is very high, but not absolute.