



May 2013

Workers' Compensation Premiums Rise for Many California Employers

Many California employers are paying higher workers' compensation premiums in 2013. The reason is twofold: 1) insurance carriers have increased rates, and 2) there has been a change in the formula that experience modifications (X-mod) are being calculated by the Workers' Compensation Insurance Rating Bureau (WCIRB).

The experience rating system is used to measure an employer's actual claims experience against the expected loss rates (ELR's) for all employers in the same industrial classifications. The ELR's predict the average loss per \$100 of payroll for each individual classification and are updated annually by the WCIRB. To qualify for experience rating, an employer must pay \$27,500 in premium over a three year period at the base premium rates.

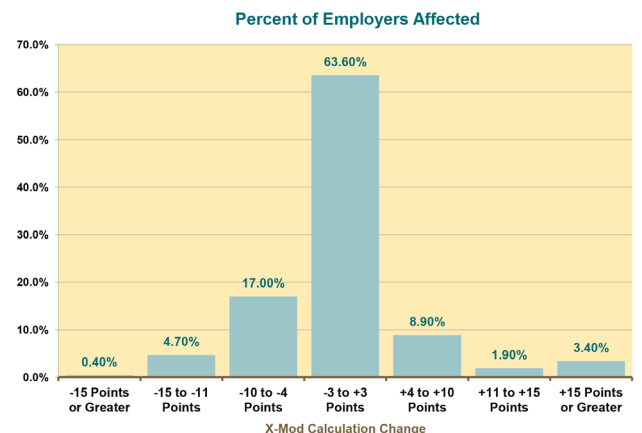
Currently, each individual claim is capped at a value of \$7,000 which is considered "primary" (or controllable) and any amount over that is considered "excess". In the past, the smallest employers in the system would receive a benefit because not all of their losses would be used in the X-mod calculation. Under the new rules approved by Insurance Commissioner Dave Jones, full credibility is given to an employer's primary losses regardless of the employers' size.

The experience rating system uses different credibility values for employers of different sizes, but as a whole more weight is being given this year to the actual claims experience of the employer, including small business employer's, which was not done in the past.

Previously, the system required expected losses of more than \$38,000 before all of an employer's primary losses would be used to determine their X-mod. Below that threshold up to 62% of an employer's primary losses were excluded from the X-mod calculation, which is no longer the case.

More small employers are also being impacted by their excess losses this year. Previously, actual excess losses only began to be contemplated when the expected losses reached \$16,442. Today, the figure decreased to \$14,723 so employers will see their excess losses begin to impact their X-mod.

Below is a chart that displays the percentage of California employer's affected by changes in the X-mod calculation.



Source: Workers' Comp Executive, March 2013

Do not hesitate to contact your Woodruff-Sawyer account executive if you have any questions regarding your experience modification.