



## PCRB EXPERIENCE RATING WEBINAR (DEC. 13, 2023)

### Q&A

**1. How will we (as agents) know which variable will be used to calculate the mod?**

The PCRB redesigned the Mod worksheet and that is one element of the new worksheet that is prominent.

**2. Can you explain what the split points mean again?**

- A. The split point is the amount of a single loss used in the calculation that goes into the formula. Today it's \$42,500 regardless of the size of the account. So for a small account that barely qualifies for the experience rating you take the first \$42,500 of each and every loss and you use it in the calculation. If you are a huge account, you still take the first \$42,500 of every loss.
- B. Under the new plan, the smallest accounts that qualify for experience rating will just use the first \$10,000 of each and every loss to use in the mod formula, and the largest accounts will use the first \$300,000 of every loss in the mod formula. There are 88 iterations of this (various split points based on account size. Account size being based on premium (not payroll)).

**3. It seems that the mod calculation is going back to pre-2004 methodology. Is that correct?**

To an extent, it is. It did have a variable split point at the time. However, this new version is refreshed and modernized on credibility. Some of the other changes are helping with predictive accuracy.

**4. Split points are determined by the Expected Losses, so the split point for an account will change each year, as Expected Losses change. correct?**

Yes, if an account's payroll drives expected losses, and the payroll increases to the next threshold, the split point could be higher the following year. The amounts will be in the manual and were part of the filing submitted. A risk's specific prior loss experience does not impact the expected losses (therefore does not impact the split point). Expected losses are a result of the Expected Loss Rate (calculated by the Bureau) specific to each class code, that is multiplied by a risk's payroll.

**5. Will the PCRB website have the Mod Calculator portal updated over the next two years? We provide mid-term Mod Projections to our insureds. How accurate is the portal currently?**

The 4/1 mods are not published yet, they are dependent on the 4/1 rate filing, which should be approved in early 2024, likely January. There is an effort underway to provide those earlier than has been traditionally done.

The PCRb developed a brand-new system that should allow them to provide mods more promptly. They now provide them as soon as they have the data available, so timeliness should be greatly improved.

**6. Are the 4-1 mods being published now?**

Not yet. They are dependent on the 4/1 rate filings. These rate filings usually get approved in early Feb. The PCRb is limited by the filing rules in what they can do and when, but there is an effort to accelerate that process to the extent they can. This year, they will likely have approved loss costs, and then they will be able to promulgate mods, sometime in January.

**7. Do you happen to know? Many use ModMaster to project Mod's. Any idea if ModMaster has incorporated these changes into their platform for effective dates after 4/1?**

IA&B reached out to ModMaster. Here is their response: Our Teams update the Experience Rating data and split points every year for each State in ModMaster. We do not currently have an estimate of when this will occur. However, if you use ModMaster, we recommend keeping an eye on email notifications and notifications in-products as our team will send out an update any time new data has been uploaded. This can be located by selecting your name in the top-right corner > Notifications.

**8. So any mod projection calculated on the portal currently for anything after 4/1 effective date is incorrect?**

For the mod calculator, the tool in the PCRb website is not using 4/1 factors. You can run a test mod, but that won't be based on the factors (expected loss ratios) that will be approved for 4/1 so it would not be an accurate mod. PCRb will be producing mods immediately after the approval of the loss costs (expect no later than by late January)

**9. How long would a "shock loss" take to become a debit mod?**

It has to make it into the experience period, being the most recent 3 years excluding the immediate year. E.g. 4/1/24 mod, 4/1/23-4/1/24 would not make it into the mod because it is still live and active while the mod is promulgated. A 4/1/22-4/1/23 loss would make it into the 4/1/24 mod for the very first time and would stay on that mod for 3 years.

**10. What is the main factor that is driving mods from the .8-1.0 range to the .6-.8 range?**

The credibility is what is driving this. In this instance as well, as the split points go up, the limit charge goes down. In each exhibit, the limit charge is unchanged, but as split points go up and the limit charge

goes down, the impact of that balancing piece becomes a smaller piece of the numerator and the insured's actual losses have more credibility.

**11. Will anything be published that will show the reasoning behind the split point figure?**

The PCRB has already published abundant material on the subject that is available on their website (<https://www.pcrb.com/>). There is a slide at the end of the presentation that goes over some of the material available. There are also other webinars. This webinar was developed from IA&B's outreach to the PCRB to provide a more tailored perspective for agencies.

**12. Will there be any talking points released to assist with communicating these changes to clients?**

A number of resources explaining the change in more technical detail are available at this page

<https://www.pcrb.com/industry-resources/pricing-programs/experience-rating-plan/>

**13. How do you get the MOD worksheets other than asking the underwriter?**

See question #19

**14. Did Peter state the Experience period uses the most recent 3 years, excluding the current year?**

Yes, that's typical of experience rating for all bureaus. With short-term policies, it can be different, but for the average account, it will be 3 years, excluding the current year.

**15. Is the two-year transition period based on the insured's anniversary date or does it end April 1, 2026?**

This is based on the Rate Effective Date. It is a two-year transition based on the rating effective date of the insured's mod. As an example: If for a 10/01/24 mod, the old capping will be used for 10/01/24 and 10/01/25, and the 10/01/26 renewal will use the new capping methodology.

**16. Is the 2-year transition period applied to both split capping and the 25%+/- cap or just the 25%+/- cap?**

Both.

**17. Regarding the capping rules that will be in place for the 2-year transition period, what is the current Secondary Capping rule?**

If indicated modification is less than 1.00 and the capped modification is greater than 1.00, final modification will be 1.00. A reminder that the primary capping rule restricts mod changes to a maximum swing of +/-25% from the prior year's Experience Rating factor.

**18. Just to clarify, every claim has to be entered into the worksheet for the year? Not bundled?**

In the tool, you do enter every claim. If you want to "cheat your way" through the tool, you can bundle losses up to a split point or even over a split point. If you're doing the calculation, and you know it's going to have a high split point and you have a lot of \$100 losses, you can add all those together, and enter once. It's not going to change the math. The actual production of the mod worksheet by the PCRB will show each and every loss. A lot of data to look at but also very easy to validate what went into the mod

**19. Will mod worksheets still only be accessible to carriers and not agents?**

IA&B reached out to the PCRB following the webinar. Below is their response.

There is a method for agents to secure a worksheet. However, it is still a formal/non automated process. Agent(s) who wish to receive a worksheet would need to go through PCRB, Special Services, the individual who handles this is Joann Ferry. Here, they do need a letter of authority from the insured and there is a \$15.00 fee per rating worksheet. There is presently a list of about 80 agencies who have accounts with us and if they ask for a worksheet or worksheets, we bill them monthly.

At present, the experience modification worksheets are not available directly on our website. Our website does provide an inquiry that displays the effective date of the rating and the final modification, this is via an enrolled area of the website accessed with an "Application Login". Worksheets are obtained and electronically provided via the CDX website, which is only for carriers, not agents. We have a pending project/enhancement to also provide the worksheets via our website at a future time.

**20. During the transition, if an insured earns a more beneficial mod under the new plan, do they get that?**

Subject to the existing swing limits. I don't think the minus 40 will supersede the minus 25 over the two years.

**21. So the amount of loss for each individual claim which counts as a Primary Loss may change each year, as the Split Point for the account changes?**

The split point will be based on expected losses. And expected losses are based on the actual audited payroll reported to the PCRB. As an account grows, their split point is going to change. If they get larger,

the split point will go higher and more loss will be used in the calculation; as accounts get smaller, less loss will be used for the calculation. Just recognizing that larger accounts are more credible.

**22. How is the credibility calculated?**

The credibility is part of the filed plan, but it's the variables that are available by split point. Those are in manual values that are in the PCRB filing and manual pages.

**23. Are the "losses" summed for the year?**

In the exhibit presented, it is the total losses for all years. The PCRB circular shows Maximum Value of one Accident for the split point on Table B.

**24. The credibility didn't change, did it?**

The new plan does have updated credibility values.

**25. Are the mods promulgated on data six months prior as in the past?**

All mods are based on a valuation date. Data is reported to the PCRB each year at 18 months after the effective date of a given policy period. For a 1/1/22 that expired 1/1/23 the data reported is valued as of 6 months after that 1/1 date. It is a snapshot that is reported. For annual terms, 6 months after expiration is when carriers value the losses, take the audited payroll and report that data. They will also update the prior years going back 10 years or more.

**26. How are the split points impacted by multiple employees injured in a single accident?**

Split points are based on expected losses. So they have no bearing whatsoever on loss activity. It is simply a table based on expected losses. And expected losses are reported payroll for the 3-year period times the expected loss rate. Whatever the audited payroll was that was reported to the PCRB on the fiscal card is taken by class to calculate the expected losses, and based on expected losses the split point is determined.

**27. Will the new mod formula be applied to ALL accounts effective 4/1, or will there be a rollout on applying the new formula based on specific time periods/x-dates, etc?**

For rating effective dates, for mod effective dates 4/1 and after, the new formula applies.

**28. Is there a chart that shows the split points in comparison to the manual premium?**

Split points are based on expected losses so there really is no exhibit. There is some correlation, but the premium is really just the eligibility requirement.

**29. So it is impossible for us to know the split points prior to the calculation of the mod being published?**

Yes, though with the split point based on Expected Loss amounts that would need to be calculated first (class code payroll X class code expected loss rate). Expected Loss factors are included in PCRB Manuals.

**30. Will there be a tool on the PCRB website for us to use to try and figure out split points?**

Unknown, though Split Point info will be included on the new worksheets and is available in the Manual.

**31. Can we “play” with the PCRB experience rating calculator, knowing the rates are not finalized?**

Yes,. You only need to be a registered user to do so. Registering will give you access to the modification calculator and allow you to do “what if” scenarios to consider what the mod would be if an insured had not had a specific loss. With access to the calculator, agents can do simulations and general scenario testing or they can load in specific loss data from a policy both individually (if the loss is over the split point) or as a group (if all losses are under the split point) to get a more precise mod for a given policy.

**32. Would you go over the 2-year transition one more time?**

During the transition period based on the RED between 4/1/2024 to 3/31/2026, the current capping rules will remain in effect, which limit changes (up or down) to no more than +/-25% of the prior Final Modification and the application of the Double Swing Cap (Secondary Capping). The Double Swing Cap recognizes the favorable experience of the risk by setting the Final Modification to 1.0 in specific situations. When the -25% swing limit is applied to a previous experience modification factor that is above 1.0 but the Indicated Modification is below 1.0, the Final Modification shall be set at 1.0. The Double Swing Cap will be eliminated once the two-year transition period concludes.

**33. How will the new rating affect the Volunteer Fire Company and Volunteer Ambulance factors. As both class codes are not based on payroll.**

We have no insights at this time. TBD

**34. How many years in business do you qualify for Experience Mod?**

It depends on the size of the account. If they come out of the gate as a fairly large account, they may qualify very quickly. It depends on how quickly they get to the experience rating eligibility plus having

experience that can feed the calculation in the experience period. A brand-new account, even if it is large, can't have a mod because they don't yet have experience, but if they hit the eligibility and there is data to use, they will qualify. As a minimum and maximum amount of experience that is used in the formula, I think it's 12 months of experience, but you have to go *back* to that 12 months.

**35. When an insured is eligible for an experience rating can they decline to take that rating and accept manual rating?**

The experience rating plan is mandatory. There is no opt-out for experience rating.

**PCRB EXPERIENCE RATING RESOURCES AND LINKS**

<https://www.pcrb.com/industry-resources/pricing-programs/experience-rating-plan/>