Overview
On July 1, 2015, Texas became an NCCI state—changing the way experience modification factors (ex-mods) are calculated for businesses. ICW Group has compiled these FAQs to help you better understand the new regulations through this transition year, and in the future.

1. **What is the National Council on Compensation Insurance (NCCI)?**
   NCCI analyzes industry trends, prepares workers’ compensation insurance rate recommendations, assists in pricing proposed legislation, and provides a variety of data products to more than 900 insurance companies and nearly 40 state governments.

2. **What does it mean that Texas has become an NCCI state?**
   In late March 2014, Texas Insurance Commissioner Julia Rathegeber approved a staff petition to adopt the NCCI Basic Manual, with Texas exceptions, and the national and Texas-specific endorsements and forms in the NCCI Forms Manual.

   The petition allows NCCI to take over certain workers’ compensation system administrative functions in Texas that TDI is not statutorily required to perform.

   On December 5, 2014, the Texas Department of Insurance (TDI) signed order 3708 adopting NCCI’s Experience Rating Plan Manual for Workers’ Compensation and Employers Liability Insurance, including Texas exceptions. Effective July 1, 2015, this changes the way an ex-mod is calculated for businesses in Texas.

3. **How is the NCCI calculation different than the way the Texas Department of Insurance calculated ex-mod?**
   NCCI’s experience rating rules allow for an experience rating adjustment (ERA) of 70% for medical-only claims in the experience rating calculation. This means that only 30% of a medical-only claim is used in the experience rating calculation.

   The experience rating values used in the ex-mod formula will reflect the latest approved NCCI values.

   A maximum debit modification cap has been established for risks of all sizes.

4. **What are the most important aspects of the change that policyholders should be most concerned about?**
   Only 30% of medical-only incurred loss amounts will be used in the experience rating calculation rather than the current standard of 100%.

   The expected loss rates, discount ratio, weight and ballast values used in the experience rating calculations will be revised annually along with the NCCI loss cost filing.

   The split point between primary and excess losses will be revised from $5,000 to $15,500 to reflect a more current average cost of claim.
5. **How will the new 30% medical-only incurred loss amount affect ex-mod calculation?**

Only 30% of a medical-only claim will be used in the ex-mod calculation. Under the previous TDI ex-mod calculation, the entire loss from medical-only claims was used in the calculation.

Reducing medical-only claims by 70%, means only 30% of a business’ medical-only claim is being used in the calculation of its ex-mod. This underscores the need for an effective return-to-work program so that medical-only claims do not become indemnity claims resulting in the loss of the ERA on the claims dollars.

6. **How do the new rules affect a business’ ex-mod after an ownership change?**

A business’ previous experience will generally continue to be used in the future ex-mod rating, even after an ownership change.

7. **What is a split point (or split rating), and why is it important for an employer to know?**

Used in the promulgation of a business’ ex-mod, a split rating is used to reflect both the frequency and severity of losses. As of July 1, 2015, the split of actual incurred losses used to calculate ex-mod is $15,500:

- The amount of the loss up to $15,500 is known as the primary loss, which reflects frequency
- The amount of the loss in excess of $15,500 is known as the excess loss, which reflects severity

Using this split rating method, reduces the effect of a single large loss on a business’ ex-mod, as the actual primary losses are given full weight in the calculation—while actual excess losses only receive partial weight.

The dollar value, which splits a loss into its primary and excess portions ($15,500 as of 7/1/15), is known as the primary/excess split point.

This is important for an employer to know, as the experience rating plan formula gives more weight to primary losses. Losses up to $15,500 will be a primary loss, and this reflects frequency of claims for a policyholder.

8. **What are the new loss limits? Should businesses be concerned about this?**

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The loss limit is used as a cap to limit the losses used in the experience rating plan. Increasing the loss limit means a larger portion of the loss is considered in the calculation of the ex-mod and are considered “ratable losses.”
9. How can ex-mod be explained in simple terms?
   Ex-mod is a calculation work comp carriers use to adjust business’ annual premiums based on previous loss experience (workers’ comp claims)—a tool used by carriers to guide rate decisions.

10. Why is it important for businesses to understand how their ex-mod is calculated?
   It is an important factor affecting their insurance costs and something employers should not ignore.

11. How does ex-mod affect an employer’s premium?
   In the work comp insurance market, groups of businesses share the risk of experiencing a workplace injury or illness—a loss. The losses of the entire group can be predicted with a fair degree of accuracy; however, it is not possible to predict which of the group members will actually have a loss. Because of this, the cost of insurance is apportioned to each member on the basis of average cost for the group. It is assumed that each member’s own experience will approximate the average. In reality, some company's loss records are much worse than average, and some are much better.

   If an employer's loss record is better than the average, the employer will have an ex-mod below 100%, or a “credit.”

   For example, if “Company A” has a starting premium of $50,000 and an ex-mod of 75% (or .75) based on its loss record, the company would pay $37,500 in net premium.

   However, if that same company experienced a worse loss record than its industry classification average, it would have a higher ex-mod, or a “debit.” If its ex-mod was 125% (or 1.25), then it would pay $62,500 in premium.

12. Under the new NCCI calculation, what is the overall impact on ex-mods?
   The calculation of ex-mods has undergone several changes all at once, which could have a material impact—up or down—on a policyholder's ex-mod. The TDI is predicting that:
   1. Slightly more businesses will have a credit ex-mod
   2. The majority of ex-mods in the state will remain between 0.80 and 1.00
   3. Roughly 88% of ex-mods are expected to increase or decrease by less than 5%
   4. Of the remaining businesses, approximately half of the risks will move from credit to debit (about 2,700 total)

13. Will the new formula trigger increases in ex-mods for many companies, even if there are no changes in loss experience?
   Yes—the changes to the calculation could trigger increases in many companies’ ex-mods, even if there are no changes in loss experience. This is especially true for contractors, as some contractors are currently able to negotiate their ex-mod downward with their insurers. Effective July 1, 2018, negotiation of ex-mods will be prohibited in Texas. That change may leave some contractors and subcontractors unable to bid on projects.
14. **What factors will now be used to evaluate safety?**
   The experience rating plan is an incentive for safety programs and enforcements of those programs to help reduce on-the-job injuries—placing the employer in a better position to reduce the cost of their workers’ compensation insurance.

15. **When evaluating a company's ex-mod, do carriers rely on what the company did two to four years ago, or do they look at their performance over the last 12 to 18 months?**
   The prior three years of experience, not including the current policy term, are used to calculate a client’s ex-mod.

16. **Is it true that what businesses do, or don't do, will affect their ex-mod score for the next four years?**
   Yes. This means for a 1/1/2016 policy, loss experience from policy years 2012, 2013 and 2014 will be used in the ex-mod calculation.

17. **How can a policyholder positively manage their ex-mod?**
   Firstly, employers can reduce the number of work comp claims by taking a strategic, proactive risk management approach to workplace safety. By building a culture of safety, policyholders will lower the risk of injury or illness. Overtime, achieving fewer claims can lead to a lower ex-mod.
   
   ICW Group's claim frequency reduction is 24% better than the industry (as of 12/31/14).
   
   Secondly, businesses can reduce the severity of claims. Having less costly claims overtime will also positively impact a client's ex-mod. ICW Group, on average, closes claims faster and beats industry costs by 43% (as of 12/31/14).
   
   Policyholders can also work with their carrier to ensure that payroll reporting is accurate, and employees are properly classified.

18. **What factors are out of a business' control?**
   NCCI calculates the following factors based on industry experience, and are beyond an employer’s control:
   - Expected loss rates
   - Ballast, D-ratio and weighting factors

19. **How could a return-to-work program help improve a company’s ex-mod?**
   Under the new NCCI ex-mod calculation, only 30% of a medical-only claim will be used in the calculation. By establishing a return-to-work program, businesses are eligible to reduce or eliminate the indemnity (loss of wages) portion of a claim—lowering the total cost or severity of a claim.

20. **What does a score higher than 1.00 mean?**
   An ex-mod of greater than 1.0 signifies that a company experienced a worse loss record than its industry classification average.

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