



## How Carriers Set Your Rates

While carriers sometimes vary in their methods for determining rates, it generally works like this:

The Workers' Compensation Insurance Bureau, a nonprofit association of insurance companies, divides all California workers into approximately 425 job classifications, and rates each one. A higher risk classification will result in higher premiums, and vice versa. Your carrier will prepare an estimate for your nonprofit based on the types of jobs your staff holds, and the rates for those classifications. Carriers often give discounts to organizations providing services they want to cover, and, conversely, surcharge organizations whose services they consider more of a risk.

But the estimate you receive from a carrier isn't necessarily what you'll pay at the end of a year. Say you've chosen ABC carrier for the year. After deciding which classifications your employees fit into, ABC sets your annual premium at \$2,000, based on your projected payroll. After receiving an estimate, your organization will then provide actual payroll information to ABC carrier during or at the end of the policy year. If you're like most organizations, the number and types of staff members on your payroll is likely to change throughout the year, and this will change your costs.

When the year has passed, you will pay based on your actual, not your estimated payroll, regardless of what you were quoted. Your rates will stay the same, but your costs will go up or down based on your payroll (i.e. the rate is applied to every \$100 spent on a payroll). *Note: As you add and drop employees through the year, they are automatically covered and uncovered through your workers' comp policy.*

### Experience Modification

Despite how it sounds, experience modification isn't some new West Coast enlightenment program. It's actually a system used by the Workers' Compensation Rating Bureau to statistically compare your policy history (and claims experience) with that of similar organizations. To qualify, organizations must pay a minimum premium of \$18,000 over a period not exceeding three years, with the experience rating assessment beginning after the first year of qualification.

Simply stated, this experience modification rating, called an "ex-mod," is calculated by dividing your claims into your premium. This renders a percentage factor that modifies your future premium. If the "ex-mod" shows that your claims are less than average for other California organizations in the same field, your premium will be lowered. If, on the other hand, your claims are above average, your carrier may consider you high risk and raise your premiums.

If your premiums have been in excess of \$6,000 for the last three years, the Rating Bureau will automatically begin calculating an experience modification for your account. Upon request, the Bureau will provide the ex-mod to you and your broker. If you can lower your claims, you'll have a lower ex-mod which, in the end, will save you money. ■