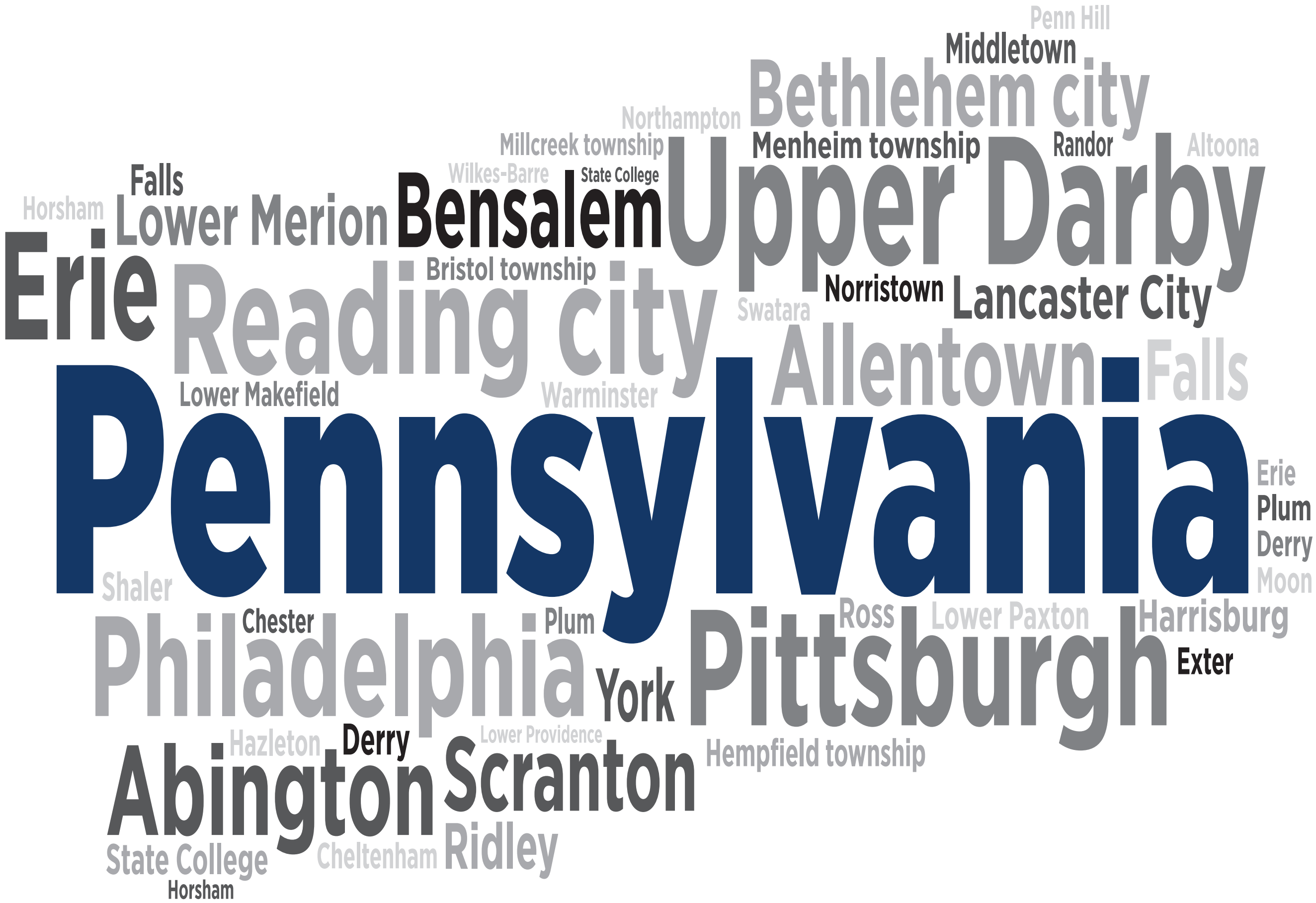


CHANGES COMING TO THE EXPERIENCE MOD IN PENNSYLVANIA IN 2024

Whoever said “What you don’t know can’t hurt you,” obviously never had to interact with the Pennsylvania Compensation Rating Bureau (PCRB). The PCRB is responsible for creating the rules for Experience Rating in Pennsylvania. For policies effective on or after 4/1/24, they are making sweeping changes to how the Experience Mod is calculated. Any employer that fails to keep up-to-date on these changes could experience a shock the next time they review their experience mod.

BACKGROUND

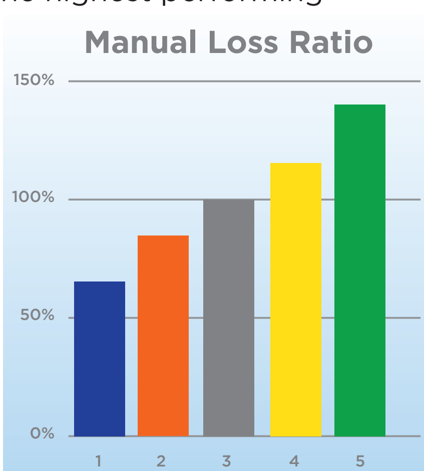
The purpose of experience rating in workers' compensation is to use an employer's past experience of employee injuries as a gateway to predicting if that employer is likely to have above or below-average performance in the coming year. This is designed to help insurance companies price policies appropriately.

In 2004, the PCRB changed to the current mod calculation. Every employee injury is included on the experience mod up to $42,500. Any injury costs above the $42,500 cap are thrown out. Along with this change, they adopted a mechanism where the mod can not increase or decrease more than 25% from one year to the next. There is also a secondary capping rule that allows a mod to be set at 1.0 if the mod should be below 1.0, but that shift in the mod would exceed 25%.

WHY ARE THINGS CHANGING?

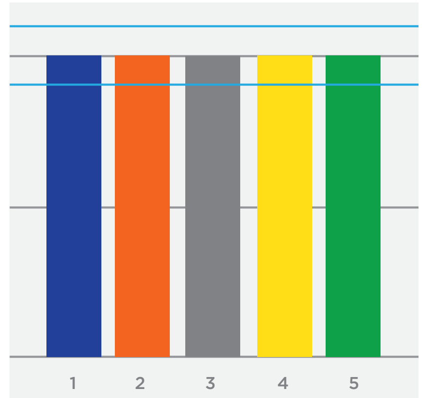
When rating bureaus measure the effectiveness of an experience rating plan, they group all experience rated businesses into five groups, ranging from the best 20% of mods up to the worst 20% of mods. From there, they examine the ratio between the cost of injuries for each group against the premium that the group paid. This is called the "Loss Ratio."

When you look at this before the experience mod is applied, the highest performing businesses would pay far more premium than they have injury costs, while the worst performing group is the opposite. It looks like this when you put it on a graph:



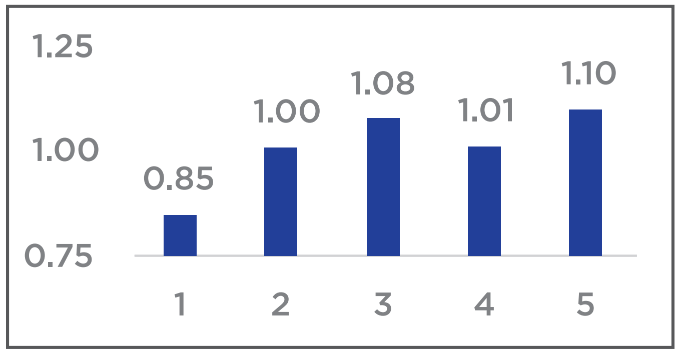
Source PCRB.

With a perfect experience rating plan, the loss ratio for each of the five groups is at exactly 100% like this:



Source PCRB.

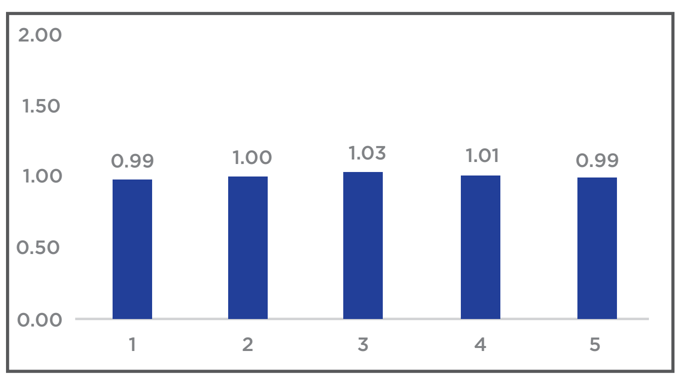
No experience rating plan is perfect. The current PCRB plan returns these results:



Source PCRB.

The best 20% have a loss ratio of 85%, which means their mod is not low enough and are paying more than their share. The worst 20% has a loss ratio of 110%, which indicates their mod is not high enough and are paying less than they should.

With the updated plan, the results will be much more uniform and closer to a 100% loss ratio for each group:



Source PCRB.

WHAT IS CHANGING?

There are three items that are being changed in this revision to the experience rating plan:

1. Mod Eligibility
2. Claim Cap(s)
3. Swing Limits

MOD ELIGIBILITY

Currently, businesses that pay more than $10,000 in workers' comp premium are eligible to be experience rated. That threshold is dropping to $5,000. This will expand the number of employers who receive experience mods rather than a "merit rating," where your premium can be adjusted ±5%..

This won't have any impact on employers who already have a mod, but over 20,000 employers who have not previously had a mod will get one on their first workers' comp renewal after 4/1/24.

CLAIM CAP(S)

The most substantial change to the rating plan is a complete overhaul of how employee injuries are included on the experience mod.

Currently, every injury is included on the mod up to $42,500. The updated plan removes this static number that applies to all experience rated employers in favor of a sliding cap that is dependent on the amount of expected losses for an individual employer.

Expected losses are a number that is derived from your payroll and the classifications that are applied to that payroll. The PCRB assigns "Expected Loss Rates" to that payroll to calculate your expected losses.

There is a large table of claim caps, but on the low end claims will be capped at $10,000 (for businesses with less than $5,000 in expected losses) and up to $300,000 (for businesses with more than $4.34M in expected losses). Having your cap sitting higher or lower than the current $42,500 level is not inherently good or bad. With the other updates to the mod, it simply means that your experience mod will be more in line with your history of employee injuries.

SWING LIMITS

This change will not actually take effect until 4/1/26, but it is included in the changes that have been filed for 4/1/24.

Currently, the rules limit the change in an experience mod from one year to the next at ±25% with a secondary cap that resets the mod to 1.0 if it should be a credit. But the cap prevents the mod from moving that much.

This capping plan is being replaced with a system that removes the cap on downward movement of the mod and implements a +40% cap alongside a new maximum modification formula that limits how high any experience mod can go. The maximum mod will be different for every business and the PCRB estimates that fewer than 5% of all experience rated risks will hit their maximum mod, and those will be almost exclusively businesses on the low end of qualifying for experience rating.

If a mod is due to increase substantially, the mod will be limited to the +40% or the maximum mod, whichever is lower.

CONCLUSION

These changes are the most substantial revisions to the Pennsylvania experience rating plan in 20 years, but they will not revolutionize the system.

Of the roughly 50,000 businesses across Pennsylvania that currently have experience mods, The PCRB estimates that there are 1,872 businesses with credit experience mods will become surcharge mods with the new rules.

Similar to other rating bureaus that have updated their experience rating plans over the years, the very best businesses will see their mod get better, while the worst performers will see their mod increase. Most businesses will see only a small change.

Experience rating for workers' compensation is evolving in 2024. Actuarially, the mathematical changes to the formula will *amplify* (maybe *magnify*) your employee injury results compared to before. Here's the crux:

Pros:

- **Better Performance means Better Mod:** Your Minimum Mod, the lowest your rating can be with $0 claims, is decreasing for every employer.
- **Result?** Every employer has a new, lower starting point. That is how the top 20% best-performing employers can expect a reduction.

Cons:

- **Worse Performance means Worse Mod:** Employee injury costs will now magnify (or amplify) the calculation of your mod more than before.
- **Result?** Your modifier will climb faster than before.
- **Result?** You will repay the insurance company the full injury cost over three years, and then some...

Bottom line: Employee injury costs will impact your financial bottom line even more.

If your experience mod does go up or down substantially in 2024, don't jump to the conclusion that these new rules are the culprit. The information on your experience mod changes each year and it is more likely that the rating moved because of the new information on your mod.

Like death, taxes and socks lost in the dryer, these changes to the Pennsylvania Experience Rating plan are important and they **will affect your business.** Be proactive and talk with your Certified WorkComp Advisor in order to break down the impact the changes will have on your business and make a plan to get to your lowest possible experience mod.

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