

## **Worker's Compensation Insurance: What you need to know**

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Why should you care about your Worker's Compensation Insurance renewal six months in advance? Did you know that what happens now will effect what you pay in six months!

Unit Statistical Data is filed six months ahead of the time your company's premiums are calculated for the coming year. Mistakes and reserves for claims that have not been paid yet can make a big impact. You may be asking, "What is "Unit Statistical Data?" Read on.

In Oregon, a company's actual workers compensation insurance premiums are linked to the company's actual loss experience (claims) through Experience Rating. Experience Rating increases or decreases a company's premium for the current policy period based on the company's actual losses during previous policy periods.

Experience Rating uses a formula that compares your company's actual losses with the losses expected for an average company of your size and type. Your future workers compensation insurance rates are adjusted up or down based on how well you do against the average. The result of the calculation of the formula is called your company's **experience modification factor**, or simply, the "experience mod." This is multiplied by the standard rates for your job classifications to determine what rate your company pays.

To provide statistically accurate results, the State of Oregon Experience Rating plan has the following characteristics:

- It uses three years of experience as the basis for modification
- It does not depend entirely on the company's own loss experience
- It gives more weight to small losses than to large losses
- It caps the maximum surcharge that can be applied

Calculations of experience modification factors is very automated, however, errors can occur. Some of the possible errors include:

- Using incorrect classification codes or payroll allocations
- Failing to include all payroll data when calculating expected losses
- Incorrectly reporting loss reserves
- Failing to remove the reserves for closed claims from the rating data
- Failing to revise claim values to reflect subrogation recoveries, second injury fund recoveries, and loss apportionment among different insurers

Unit Statistical Data is audited exposure, premium, and loss information for a policy. Each year the company responsible for doing the calculations for the State of Oregon and many other states (National Council on Compensation Insurance, Inc. or NCCI) collects:

- Data from about 2.6 million policies
- More than 4 million unit statistical reports
- Detailed claim information on more than 248,000 claims

The Unit Statistical Data for every policy year needs to be reported based on a valuation 18 months after the inception date of the policy. This means that if your policy renews on January 1, the data important to what you will be paying for your insurance is valued as of June 30.

Montgomery & Graham's Property & Casualty Division has developed an exclusive new HBA Workers' Compensation Analysis Tool (HBA-WCAT), which is available free to members currently paying for workers compensation insurance.

The new HBA-WCAT allows HBA members to review important experience mod calculation factors and provides a road-map for companies to drive costs even lower by reaching the minimum possible experience modification factor.

The cost to non HBA members for an analysis of this type is \$485. The WCAT is provided free to current members of the HBA. The WCAT provides to the member company:

- A projection of workers' compensation insurance pricing at the next renewal
- A projection of the experience modification factor
- A target for the lowest possible pricing and modification factor
- A 10 page company-specific report on workers compensation pricing and accident factors
- A free one-hour, on-site training for owners and managers on factors included in workers' compensation pricing in Oregon conducted by a certified workers' compensation insurance expert

**There is no need to change your current workers compensation insurance company or agent to take advantage of this new HBA member benefit.** The WCAT service is provided by the HBA exclusively endorsed insurance and risk management professionals at Montgomery & Graham in partnership with the staff of the Portland HBA.

To get your company's WCAT or for more information, contact Jeff DeHaan, President, Montgomery and Graham's Property and Casualty Division at 971-327-5793.