DCRB

DELAWARE
Compensation Rating Bureau, Inc.

TRUSTED | ESSENTIAL | OBJECTIVE

INSIDE THE EXPERIENCE RATING PLAN

UPDATE

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Introduction

The Experience Rating Plan is designed to predict whether qualifying insured will develop better or worse loss experience than the average risk in a particular classification.

It modifies standard premium by a factor designed to more equitably price plan participants or qualifying insureds. The Plan uses the insured's past to predict future losses.

Why, then are we changing the Experience Rating Plan (ERP)?

The answer is simple; we found a better way.

The previous Plan remained intact for more than 20 years, functioning well. However, the DCRB took up the challenge of developing a sounder actuarial solution to make the experience rating more responsive to the specific loss experience of an insured. We found a better way, and trust this pamphlet explains why the ERP is being changed and what you can expect from it.

The revised ERP has many of the same features as the original version. While the rating worksheets may look slightly different from previous versions, we continue using the basic formula, experience data, and rules.

William Taylor

President & CEO, DCRB

Why the ERP is Changing

There are two primary reasons for the revised Experience Rating Plan:

➤ **The updated Plan enhances plan performance through improved predictive accuracy and promotes greater equity among insureds in the same classification**. Calculation of an experience modification under the revised Plan will more accurately reflect an insured's experience. As a result, a more equitable debit or credit modification will be produced, effectively addressing concerns that the current rating plan does not adequately adjust premiums for a majority of risks. The revised ERP provides a suitable response for all insureds in all industries.

➤ **The updated ERP provides increased safety incentives.** Promoting workplace safety has always been integral to the ERP, and the revised ERP enhances this feature. Extensive actuarial research showed that the performance of the current plan is acceptable, but there is potential for enhancement. The updated ERP increased the credibility for small employers along with lowering the split point to achieve a better balance based on the size of risk and actual claim experience. The apparent rewards for controlling losses and workplace safety will be enhanced for both larger and smaller employers. In addition, a capping rule will balance the revised ERP's responsiveness with added year-to-year stability.

Implications for Workplace Safety Program

In Delaware, the Workplace Safety Program (WSP) focuses on promoting and maintaining safe working environments across various industries. This program should work in concert with the ERP as part of the state's efforts to reduce workplace injuries and illnesses through proactive measures and incentives for employers who prioritize safety.

Under the current program, employers qualify for the WSP if they have a Delaware-only annual premium of $3,161 or more at residual market rates. The program shares eligibility criteria with the ERP. Additionally, the WSP utilizes the credibility of qualified employers based on the ERP.
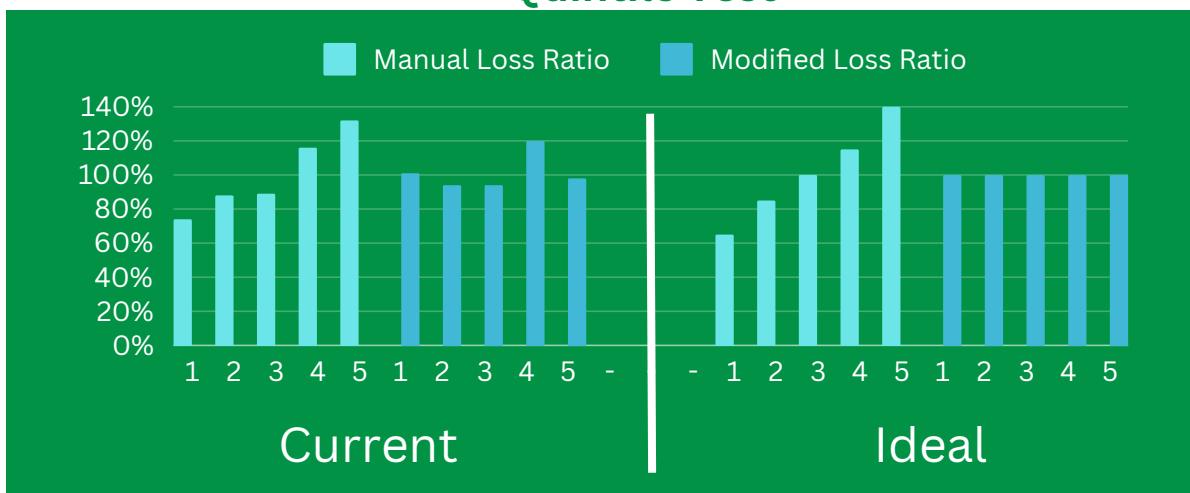
Under the updated WSP, employers qualify if they qualified for the ERP, which is $5,000 or more of Delaware-only premium at residual market rates over the three-year experience rating period and uses the same credibility 'C' table as the Experience Rating Plan. The updated eligibility criteria are projected to qualify an additional 2,100 employers, a potential for an 15% increase in participation, with approximately 1,300 of these projected to participate based on historical levels.

In addition, many smaller risks will receive reduced WSP credits due to the changes in ERP credibility, however often will receive larger offsetting credits in the revised ERP.

These enhanced program mechanics will enable more employers to benefit from reduced insurance costs, improved safety practices, and enhanced worker well-being.

Why the ERP is Changing

Quintile Test

Manual Loss Ratio ▮ Modified Loss Ratio ▮

Chart showing loss ratios (0% to 140%) for Current and Ideal scenarios across quintiles 1-5 for both Manual and Modified Loss Ratios.

Current — quintiles 1, 2, 3, 4, 5 (Manual), then 1, 2, 3, 4, 5 (Modified)

Ideal — quintiles 1, 2, 3, 4, 5 (Manual), then 1, 2, 3, 4, 5 (Modified)

The current ERP performance test indicates that the existing rating plan falls short in accurately adjusting premiums for all risks.

The current ERP performance indicates that the plan's performance is relatively acceptable for the 1st and 5th quintiles. However, the 2nd, 3rd, and 4th quintiles show modified loss ratios exceeding the +/-5% target deviation from unity. Particularly concerning is the significantly high loss ratio observed in the 4th quintile, suggesting that risks with high modifications are paying less than they should. This outcome is undesirable as it indicates that the current ERP does not adequately adjust premiums for a majority of risks.

An ideal plan would yield equal loss ratios for all quintiles after the application of the mod. Notable findings from the performance test of the current plan include:

- Performance testing showed declines in predictive accuracy since the last major update.
- Variable Maximum Value plan outperforms Single Value plan.
- Assigns too little credibility to most risks.
- Inadequately promotes workplace safety.
- Swings between Experience Rating Plan and the Merit Rating Plan are often large.

Unlocking Benefits of the Updated ERP

Premium Accuracy
The updated ERP accurately reflects an employer's past loss experience, ensuring that premiums are more closely aligned with the actual risk profile of the insured.

Loss Control Incentive
The revised ERP encourages employers to implement effective loss control measures and promote workplace safety to reduce accidents and minimize losses.

Market Competition
The updated ERP promotes competition among insurance providers. Insurers are motivated to offer competitive rates and coverage terms in order to attract employers with favorable experience modifications. This competition can lead to more options for employers, better service, and potentially lower premiums.

Updated ERP Optimization and Comparison

To improve the accuracy and stability of the experience mod, we have focused on optimizing four crucial components of the ERP:

- Credibility
- Split Point
- Expected Loss Ranges
- L Factor (Limit Charge)

What's new?
What hasn't changed?

The experience rating formula remains unchanged

$$\frac{Ap \times C + E \times C \times L + E(1.000 - C)}{E}$$

Ap=Actual Primary Loss
E=Expected Loss
C=Credibility
L=Limit Change

Changed	Not Changed
Eligibility Threshold The minimum premium threshold that an employer must meet in order to qualify for participation in the plan has changed to $5,000 over the three-year experience period from a single-year annual amount of $3,161 .	**Formula** $\frac{Ap \times C + E \times C \times L + E(1.000 - C)}{E}$
Split Point Threshold value that determines the maximum amount of primary losses.	**Medical Only Claim** Includes 100% of the amount of medical-only claims.
Credibility Statistical weight assigned to an employer's own experience data.	**Experience Period** Time frame during which an employer's loss and claims data is collected and analyzed to determine their experience modification factor.
Capping Rule Application of maximum limits or restrictions on the modification factor.	

A New Rating Worksheet

The modification worksheet has been refreshed and enhanced. Changes in format were made to make it easier to read and more consistent with other states.

New information was added, such as:

▶ The Final Modification can be easily located in the header section of the worksheet.

▶ A listing of all individual losses rather than only the losses that were above the split point/loss limit

▶ Modification "Status" to show if the modification has been revised

▶ Other additions to the worksheet include maximum modification, loss free modification, indicated mod, and description of class codes, while payroll is now also listed by policy number.

Section 1 | Header section with addresses and policy information including the Split Point and Final Mod:

DCRB DELAWARE
Compensation Rating Bureau, Inc.
Experience Rating Calculation

Any Company		
	File Number	001234567
Mailing Address	Policy Number	PN12345679
123 Main St	Rating Effective Date	12/15/2024
Wilmington DE 19801	Issue Date	12/01/2024
	Carrier Number	12345
	Split Point	41,000
Primary Address	Final Modification	0.894
456 Walnut Rd		
Dover DE 19902	**Message**	

Key Definitions

Rating Effective Date: The earliest data that a specific experience rating is applied to a policy.

Issue Date: The date that a specific experience rating modification is published.

Split Point: The specific dollar threshold used to separate primary losses from excess losses.

Final Modification: Final modification refers to the modification after the application of capping rules.

A New Rating Worksheet

Section 2 | The formula that calculates the indicated mod, experience period totals and other factors:

$$\frac{A_p \times C + E \times (L \times C) + E \times (1 - C)}{E}$$

Ap: Actual Primary Losses	C: Credibility	E: Expected Losses	L: Limit Charge	C: Credibility	E: Expected Losses	C: Credibility	Indicated Mod
43,088	* 0.737	+ 138,997	* (0.546	* 0.737)	+ 138,997	* (1 - 0.737)	= 0.894

all divided by **E: Expected Losses** 138,997

Experience Period Totals

Number of Claims	Actual Losses	Loss Free Mod	Maximum Mod
3	488,298	0.665	5.73

Key Definitions

Actual Losses: Total reported losses from all claims (indemnity and medical) as of the valuation data.

Actual Primary Losses (Ap): Total reported losses from all claims that are limited by the split point for individual claims exceeding this amount. Previously, it was referred to as "Losses As Used" in the current worksheet.

Credibility (C): Credibility refers to the statistical weight or level of confidence assigned to an employer's own loss experience.

Expected Losses (E): Expected losses are determined by multiplying total payroll (per $100) for each classification (with a few exceptions) by the Expected Loss Rate factors.

Limit Charge (L): Limit charge is used to divide Expected Loss into primary and excess loss portions. Previously, it was referred to as "L x C" in the current worksheet.

Loss Free Mod: Modification factor assigned to an employer who have had no losses during the experience rating period.

Maximum Mod: Highest modification factor that can be assigned to an employer based on a formula specified in the experience rating plan. It serves as a cap on the modification factor calculation.

Section 3 | Authorized Classes Section:

Authorized Classes	Description	Loss Cost
0811	Trucking N.O.C.	4.38
0822	Telecommuting Clerical Employees	0.06
0951	Salesperson - Outside	0.23
0953	Office	0.06

Key Definitions

Authorized Classes: Only the classifications shown on a Data Card issued by the DCRB shall be used in auditing the payroll for that employer. Previously, it was included in Part III, Exhibit of Payrolls, Expected Losses, Authorized Classes and Rating Values.

Premium Adjustment Classes: Premium for the policy may be adjusted by a Delaware Construction Classification Premium Adjustment factor or Delaware Workplace Safety Credit.

A New Rating Worksheet

Section 4 | Exposure and Expected Losses:

Exhibit of Exposure and Expected Losses

Policy Period 12/15/2020 – 12/14/2021 Policy: PN12345677 Carrier: 12345				
Class Code	**Cov**	**Exposure**	**Expected Loss Rate**	**Expected Losses**
0811	01	1,235,534	2.94	36,325
0951	01	111,230	0.16	178
0953	01	110,218	0.04	44
TOTAL		1,456,982		36,547

Key Definitions

Coverage (Cov): The code indicates the Act (Law) under which the exposure for the record's class code is associated.

Expected Loss Rate: Expected Loss Rate Reflects the anticipated average cost of benefits, per $100 of payroll, for a classification during the experience period. Previously, it was referred to as "Expected Loss Factor" in the current worksheet.

Expected Losses (E): Expected losses are determined by multiplying total payroll (per $100) for each classification by the Expected Loss Rate factors.

Exposure: Amount of risk or potential liability an employer has for workers' compensation claims based on factors such as the number of employees, their job classifications, and payroll.

Section 5 | Claims and Losses:

Exhibit of Claims and Actual Losses

Policy Period 12/15/2020 – 12/14/2021 Actual Losses							
Claim Nbr	**Cat. Nbr**	**Inj. Type***	**Open/ Closed**	**Indemnity**	**Medical**	**Actual Loss**	**Actual Primary Loss**
C000123444		9	CLOSED	348,231	137,979	486,210	41,000
1 TOTAL				348,231	137,979	486,210	41,000

Key Definitions

Catastrophe Number (Cat. Nbr): Any accident resulting in two or more reported claims must be reported as a catastrophe.

Injury Type: 1- Death, 2 - Permanent Total, 5 - Temporary, 6 - Medical Only, 9 - Permanent Partial

Open: Indicates the status of the claim that is currently active and ongoing.

Closed: Indicates the status of the claim that has been resolved and no longer requires ongoing treatment or benefits.

Treatment of Subrogation: Losses that enter the plan formula will be reduced by the subrogated amounts and then limited by the split point if applicable.

A New Rating Worksheet

Overview | Full view of rating worksheet

DCRB DELAWARE
Compensation Rating Bureau, Inc.

Experience Rating Calculation

Any Company		
Mailing Address	File Number	001234567
123 Main St	Policy Number	PN12345679
Wilmington DE 19801	Rating Effective Date	12/15/2024
	Issue Date	12/01/2024
	Carrier Number	12345
Primary Address	Split Point	41,000
456 Walnut Rd	Final Modification	0.894
Dover DE 19902	**Message**	

Ap: Actual Primary Losses		C: Credibility		E: Expected Losses		L: Limit Charge		C: Credibility		E: Expected Losses		C: Credibility			Indicated Mod
43,088	*	0.737	+	138,997	* (	0.546	*	0.737	) +	138,997	* (1 -	0.737	)	=	0.894

all divided by   **E: Expected Losses**   138,997

Experience Period Totals

Number of Claims	Actual Losses	Loss Free Mod	Maximum Mod
3	488,298	0.665	5.73

Authorized Classes	Description	Loss Cost
0811	Trucking N.O.C.	4.38
0822	Telecommuting Clerical Employees	0.06
0951	Salesperson - Outside	0.23
0953	Office	0.06

Exhibit of Exposure and Expected Losses

Policy Period 12/15/2020 - 12/14/2021 Policy: PN12345677 Carrier: 12345

Class Code	Cov	Exposure	Expected Loss Rate	Expected Losses
0811	01	1,235,534	2.94	36,325
0951	01	111,230	0.16	178
0953	01	110,218	0.04	44
TOTAL		1,456,982		36,547

Policy Period 12/15/2021 - 12/14/2022 Policy: PN12345678 Carrier: 12345

Class Code	Cov	Exposure	Expected Loss Rate	Expected Losses
0811	01	1,457,504	2.68	39,061
0951	01	221,696	0.14	310
0953	01	45,881	0.04	18
TOTAL		1,725,081		39,389

Policy Period 12/15/2022 - 12/14/2023 Policy: PN12345679 Carrier: 12345

Class Code	Cov	Exposure	Expected Loss Rate	Expected Losses
0811	01	2,627,998	2.39	62,809
0951	01	193,782	0.13	252
TOTAL		2,821,780		63,061

Exhibit of Claims and Actual Losses

Policy Period 12/15/2020 - 12/14/2021   Actual Losses

Claim Nbr	Cat. Nbr	Inj. Type*	Open/ Closed	Indemnity	Medical	Actual Loss	Actual Primary Loss
C000123444		9	CLOSED	348,231	137,979	486,210	41,000
1 TOTAL				348,231	137,979	486,210	41,000

* 1=Death, 2=Permanent Total, 5=Temporary, 6=Medical Only, 9=Permanent Partial

Policy Period 12/15/2021 - 12/14/2022   Actual Losses

Claim Nbr	Cat. Nbr	Inj. Type*	Open/ Closed	Indemnity	Medical	Actual Loss	Actual Primary Loss
0 TOTAL				0	0	0	0

Policy Period 12/15/2022 - 12/14/2023   Actual Losses

Claim Nbr	Cat. Nbr	Inj. Type*	Open/ Closed	Indemnity	Medical	Actual Loss	Actual Primary Loss
C000123455		5	CLOSED	1,824	0	1,824	1,824
C000123456		6	CLOSED	0	264	264	264
2 TOTAL				1,824	264	2,088	2,088

* If the final mod differs from the indicated mod, capping has been applied.
**12/01/2023 factors used in this example.

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About

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The updated Experience Rating Plan (ERP) is the result of many months of diligent work led by DCRB's Actuarial Research team. DCRB would also like to recognize various stakeholders that helped contribute to the development of the updated ERP. This includes, but is not limited to, the Governing Board and Board Committee members, member carriers, Delaware regulators, agent and broker representatives, and other industry groups.

Founded in 1917, the Delaware Compensation Rating Bureau, Inc. (DCRB) is a nonprofit data collection organization serving as a trusted, essential, and objective resource that supports a healthy workers' compensation system for Delaware. DCRB provides data-driven products and services that anticipate and respond to marketplace conditions and identify emerging trends, including accurate and valuable statistical and actuarially-based information, marketplace knowledge, and rating plans. DCRB also conducts innovative research, provides educational services, and engages in outreach that delivers knowledge to empower actionable decisions.

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