

Understanding the Arizona Rate-Making Process

Ever wonder where Arizona workers compensation rates come from and who determines what they should be? Or maybe, you'd like to know what time periods are included in determining the rates for your employees?

Where Do Rates Come From?

A national rating organization, the National Council on Compensation Insurance (NCCI), serves Arizona's workers compensation insurance marketplace. To determine appropriate rates, NCCI evaluates statewide payrolls and loss data for each job classification. Arizona's workers compensation insurance carriers report the data, which is monitored for accuracy to ensure appropriate rates are determined.

What Is An Experience Rating?

NCCI formulates an experience modifier (e-mod) according to a fixed formula designed to measure the performance of a particular employer compared to the average of all employers in similar businesses. The experience rating is a method NCCI uses to measure a business' loss ratio and to compute a factor that when multiplied by premium, can reward policyholders with lower losses.

A policyholder's payroll and losses are evaluated when determining the loss ratio and the resulting e-mod. A business with few or no claims may have a favorable e-mod, resulting in lower premiums. Conversely, if a business has suffered numerous costly claims, it may have an unfavorable e-mod, resulting in a higher premium.

Participation in the NCCI experience rating program is mandatory for all policyholders that qualify. To qualify, a policyholder must meet minimum requirements for premium size within specified time periods.

The e-mod is expressed as a factor with the norm being 1.00. Higher than average losses result in an e-mod rating higher than 1.00, such as 1.15; lower than average losses would result in an e-mod of less than 1.00, such as .85.

How Does My E-Mod Change My Premium Amount?

Your final premium is affected directly by your e-mod. For instance, if your premium is \$25,000 and you have had higher losses than expected for similar businesses, you may be assigned an e-mod of 1.10. The effect on your final premium would be:

$$\$25,000 \times 1.10 = \$27,500$$

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On the other hand, if you have had fewer than expected losses, you may be assigned an e-mod less than 1.00 – for example 0.90. The effect on your final premium would be:

$$\$25,000 \times 0.90 = \$22,500$$



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As you can see, controlling losses can help limit your workers' compensation expenses.

It is why we say safe companies save money.

How Often Is My E-Mod Evaluated?

E-mods are recalculated every year on the renewal date of the policy. The calculation includes payroll and loss information for three of the most recent four years. Information for the current policy year and the year prior are not included in e-mod calculations.

In other words, in 2014, the years that will determine a business' e-mod are: 2010, 2011 and 2012

What If My Business Is A New One?

It is possible for new employers to qualify for an e-mod at the beginning of their third policy year – if they met minimum requirements for premium size in the first policy year.

In many instances, averaging of premium for up to three years is necessary to qualify.

How Can I Improve My E-Mod?

Preventing accidents is the key. Your e-mod rating is influenced by three considerations:

- Number of accidents in a year
- Cost of those accidents
- Size of the premium for your policy

How Can I Save Money?

Controlling the number of workplace injuries and illnesses is the key component in attaining a more favorable e-mod rating.

