

SPLIT POINT EXPERIENCE RATING FORMULA EXPLAINED

In the experience rating process, each loss is divided into a primary and excess portion. The first \$16,500 of every loss is determined as a primary loss, with everything above that point considered an excess loss.

In July 2011, the NCCI announced a proposal to raise the split point from \$5,000 to \$15,000 over a three-year period to better correlate with claim inflation. The process of transitioning to the new split point began in 2013, with an increase in the split point from \$5,000 to \$10,000. In 2015, the split point included an additional increase as a result of claim inflation, and the NCCI now makes annual adjustments to the split point based on inflation.

YEAR	SPLIT POINT
2012 & Before	\$5,000
2013	\$10,000
2014	\$13,500
2015	\$15,500
2016	\$16,000
2017	\$16,000
2018	\$16,500
2019	\$17,000

The split point is used in the experience rating formula for worker's compensation. It is the dollar level at which each claim is divided into two parts, **primary** (the cost of each claim incurred **below** the split point) and excess (the cost of each claim incurred **above** the split point).

- The **primary** costs are fully weighted in the experience algorithm.
- The **excess** costs are only partially weighted in the experience algorithm.

As an example, if a manufacturing client in 2015 had one \$30,000 loss the impact to his mod would be 0.0460, but if he has three losses of \$10,000 each (totaling \$30,000) the total impact would be greater at 0.0828. The split point impacts frequency to a greater extent than severity.

STATE	CLAIM NUMBER	INJURY DATE	LOSS TYPE	INCURRED LOSS	PRIMARY LOSS	MOD W/O LOSS	IMPACT ON MOD
WI	-	1/1/2008	SEV	\$30,000	\$5,000	0.7101	0.0460
Grand Total				\$30,000	\$5,000		0.0460

STATE	CLAIM NUMBER	INJURY DATE	LOSS TYPE	INCURRED LOSS	PRIMARY LOSS	MOD W/O LOSS	IMPACT ON MOD
WI	-	1/1/2008	SEV	\$10,000	\$5,000	0.7653	0.0276
WI	-	1/1/2008	SEV	\$10,000	\$5,000	0.7653	0.0276
WI	-	1/1/2008	SEV	\$10,000	\$5,000	.07653	0.0276
Grand Total				\$30,000	\$15,000		0.0828

Now if we compare those same loss amounts to a 2019 mod, with a \$17,000 split point, you can see that the impact of a \$30,000 claim to your mod is greater, due to the larger portion of the claim being calculated as a primary loss. You will also see that the scenario with three claims totaling \$30,000 impacts the mod even more dramatically.

STATE	CLAIM NUMBER	INJURY DATE	LOSS TYPE	INCURRED LOSS	PRIMARY LOSS	MOD W/O LOSS	IMPACT ON MOD
WI	-	1/1/2016	SEV	\$30,000	\$17,000	0.6355	0.0961
Grand Total				\$30,000	\$17,000		0.0961

STATE	CLAIM NUMBER	INJURY DATE	LOSS TYPE	INCURRED LOSS	PRIMARY LOSS	MOD W/O LOSS	IMPACT ON MOD
WI	-	1/1/2016	FREQ	\$10,000	\$10,000	0.737	0.0507
WI	-	1/1/2016	FREQ	\$10,000	\$10,000	0.737	0.0507
WI	-	1/1/2016	FREQ	\$10,000	\$10,000	0.737	0.0507
Grand Total				\$30,000	\$30,000		0.1521

HOW DOES THIS AFFECT YOU?

In general, the split point increase tends to cause debit mods (those over 1.00) to gain points and credit mods (those under 1.00) to lose points.

Employers who already have a fairly significant debit mod are most vulnerable to further increases. However, the exact impact on your mod depends on a number of factors.

PREPARING FOR CHANGE

Although no one knows exactly what a future mod will be until all payroll, losses and rating values are available, your advisor can work with you to project how your organization's mod and premiums may be affected by these changes. Monitoring the impact of the split point increase is especially important for companies that are required to maintain a certain mod in order to bid on jobs or contracts. It is essential to address and control losses and become familiar with your loss profile so your organization can be proactive about these and any other changes. For more information, contact a Johnson Financial Group advisor in your area today.

Please note: rates and split points are effective 10/1 of each year.

This information is not intended to provide legal advice, or advice for any specific fact, situation or circumstance. Contact legal counsel for specific advice.

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