# Minnesota Workers Compensation Changes
# How the 2013 NCCI Primary-Excess Split Point Change Affects Your Organization
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As I mentioned in the July issue of Corporate Cranium about “Why” your worker’s comp rates are raising, the state of Minnesota has adopted the new split mode rating factors. The National Council on Compensation Insurance (NCCI) recently announced its plan to increase the primary-excess split point over a three-year transition period. The first stage of the transition will take effect with each state’s approved rate and loss cost filing on or after January 1, 2013.

### Understanding the Primary-Excess Split

In the experience rating process, each loss is divided into a primary and excess portion. Currently, the first $5,000 of every loss is allocated as a primary loss with everything over and above considered an excess loss. For example, a $3,000 loss has no excess value. On the other hand, a loss of $15,000 would have $5,000 in primary losses, as well as $10,000 in excess losses. Primary losses are used as an indicator of frequency and are counted in full as part of the mod calculation. Conversely, excess losses receive partial weight in the mod calculation. This means that primary losses affect the mod more than excess losses do.

The rationale behind assessing primary and excess loss amounts is that “severity follows frequency,” or in other words, an organization that displays a continual pattern of loss has an increased chance of a severe loss in the future. Thus, a company with a large number of primary losses will have a higher mod than a company with the same amount of losses split between primary and excess.

### Reasoning

NCCI has 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, which has almost tripled since the last split point change nearly two decades ago. Because of this, the portion of each claim that flows into the experience rating formula at full value (primary loss amount) is much smaller than 20 years ago giving less weight to each employer’s actual experience. Consequently, the Plan formula has become less responsive and individual risk experience rating modifications have gravitated toward the all-risk average over time

## Affect on Organizations

The potential for a mod increase or decrease will depend on whether you have an above or below average number of losses under the split point. If most of your losses are under $5,000, you are likely to see a decrease in your mod. If many of your losses exceed $5,000, you should prepare for an increase.

***If you're not prepared, an NCCI increase of the primary-excess split point could raise your primary losses and negatively influence your mod.***

Now is the time to speak to an Insurance Brokers of MN, Inc. representative to receive more information and learn how this will affect you and what can you do as a employer to get the BEST rate and experience mod possible.