

# Demystifying Insurance Coverage



Let's take the mystery out of insurance for your district!

-Artie Grimes

# What is Insurance?

- Insurance is a legal indemnity contract
- It is not a “maintenance contract”
  - It is not...



# Definition of Some Important Insurance Terms

- Perils
- Exclusion
- Endorsement
- Occurrence
- Deductible
- Agent-of-Record

# Agent-of-Record Letter

- Your insurance agent is the Agent-of-Record for the insurance policies for your district.
- An Agent-of-Record Letter can be given to another agent so that he can access a market.
- This letter effectively “fires” your agent with regard to that market. **Be careful!**



What Coverage  
Do You Need?

# Property Coverage

- Buildings and Personal Property
- Inland Marine: Equipment
- Electronic Data Processing
- Auto Physical Damage
- Crime
  - Protects cash and valuable papers from employee crime

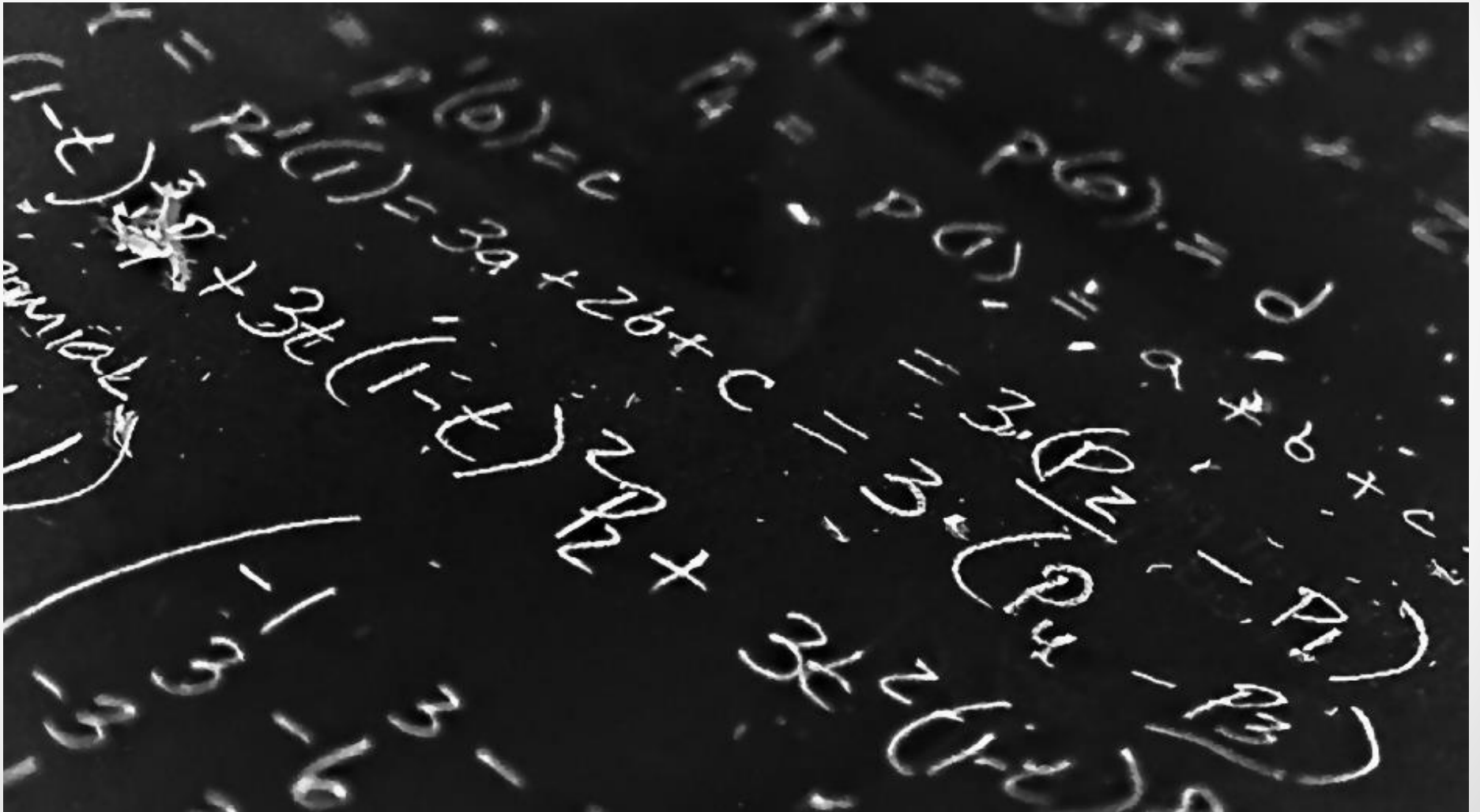
# Casualty Coverage

- General Liability
- Law Enforcement Liability
- Auto Liability
- Cyber Liability
- Educators' Legal Liability
  - D & O
  - E & O
  - Employment Practices Liability
- Worker's Compensation

# Worker's Compensation Coverage

- Loss-Driven
- Experience Modification Worksheet
  - Shows how Experience Modification Factor is calculated.
  - Factor is calculated for the three prior years.

# Overview of Experience Modification Factor



# Overview of Experience Modification Factor

## *The Formula Explained:*

- Simply expressed, the mod is a ratio of actual losses to expected losses over a 3 year period.
- If your actual losses are more than expected, then your mod is over 1.0.
- If your actual losses are less than expected, then your mod is under 1.0
- A mod of 1.0 is exactly average. How much better than average are you, or would you like to be?

# Overview of Experience Modification Factor

- Experience Modification Factor Formula:

**Actual** Primary Losses

- + (1-Weighting Value) x Expected Excess Losses
  - + Ballast Value
  - + Weighting Value x **Actual** Excess Losses
- 

**Expected** Primary Losses

- + Ballast Value
- + Weighting Value x **Expected** Excess Losses
- + (1-Weighting Value) x Expected Excess Losses

# Overview of Experience Modification Factor

- The experience rating method is called a split rating system.
- Both actual and expected losses are split into a primary portion and an excess portion.
- Primary losses are an indicator of loss frequency (number of losses) and are used at their full value in the mod formula.
- Excess losses are a measure of loss severity (the amount of each loss) and are weighted in the formula so they are less important.



# Overview of Experience Modification Factor

- The value at which an actual loss is divided into primary and excess is known as the split point and changes each year.
- In most states, the split point approved or anticipated is:
  - 2013 – \$10,000
  - 2014 – \$13,500
  - 2015 – \$15,500, plus an adjustment for claim inflation, for an anticipated total of \$17,000 or 17,500
  - 2016 and beyond – further increases to reflect claim inflation

*Example:* If your organization has three claims - \$23,000, \$16,000 and \$3,000 – the first two would be excess claims and the third would be a primary claim on your 2015 mod.

# Overview of Experience Modification Factor

- Ballast Value: This value is placed in the numerator and denominator of the mod formula to move all mods closer to 1.0. This value stabilizes the values in the formula.
- Ballast values increase with the size of the company, and is most impactful on smaller companies.
- If your company has a lower mod, the ballast decreases some of your good efforts by bringing it closer to 1.0. However, if you have a higher mod, the ballast will move your mod lower.

# Overview of Experience Modification Factor

- Weighting Value: Determines the percent of the actual excess losses for use in the formula. This factor recognizes that excess losses are less related to the operations of the business (as compared to random occurrence).
- Weighting value is smaller for small companies and increases with company size.
- Weighting value is obtained from a calculation published for each state and correlates to the expected losses of the insured.
- If your company is small, your weighting value will be small and the mod will be computed with a number close to the expected excess losses. If your company is bigger, your weighting value will be larger and the mod will be computed with a number close to the actual excess losses.

# Overview of Experience Modification Factor

- Your mod determines your final workers' compensation costs.
- Your premiums equal the basic, or manual, premium multiplied by your mod.

## Example 1 – Debit Mod

<i>Manual premium</i>	<i>\$100,000</i>
<i>Mod</i>	<i>x 1.25</i>
<i>Premium you pay</i>	<hr/> <i>\$125,000</i>

## Example 2 – Credit Mod

<i>Manual premium</i>	<i>\$100,000</i>
<i>Mod</i>	<i>x 0.80</i>
<i>Premium you pay</i>	<hr/> <i>\$80,000</i>

# Overview of Experience Modification Factor

- Controlling your mod means controlling your premium.

## Minimum Mod

- Loss-free rating
- Unique to each employer, generally decreases as payroll increases

## Controllable Mod

- Difference between actual mod and minimum mod
- Good loss control practices can save on premiums

# Overview of Experience Modification Factor

- Your mod is affected by both the number of losses that your District incurs (frequency of losses) and the amount of those losses (severity of losses).
- The loss values used in the mod calculation include reserves on open claims, so good claims management can be very important.
- The mod compares your organization with other companies in the same industry based on payroll code.

# Overview of Experience Modification Factor

- **Common Mod Issues:**
- Not keeping losses as type 6, medical-only (These are reduced by 70% in the mod calculation in most states)
- Not getting losses closed in a timely fashion, resulting in reserves hurting the mod longer than necessary
- Classifying payroll incorrectly, which can result in your expected losses being higher or lower than appropriate

# The Dreaded Quote Process

- The *Games* People Play
  - Agent-of-Record Letter
  - Freedom of Information Order
  - Loss Runs
  - Copies of your Policies



# What You Really Need!

- Statement of Values
- 5 Year Loss Runs
- Vehicle and Driver List
- Liability Exposures
  - Average Daily Attendance
  - Stadium Receipts
  - Number of Bleachers and Grandstands
  - Most Recent Financial Statement

# Your Agent Should Be Your Friend!!

- Should approach all available markets
- Should be your claims advocate
- Should be your trusted advisor
- Should offer options



# Questions?

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