UNDERSTANDING YOUR WORKERS' COMP EXPERIENCE MODIFICATION FACTOR

One key to understanding your workers' compensation premium is the experience modification factor, also known as your mod or e-mod. Understanding your company's mod and the data used to obtain it helps you identify ways to minimize your workers' compensation premium.

Who calculates the mod factor?
Most states use the National Council on Compensation Insurance (NCCI) to collect data and calculate the experience modification factor. The NCCI is a private corporation funded by member insurance companies. The remaining states either operate an independent workers' compensation bureau or have set aside a state fund for workers' compensation. These states may or may not use the NCCI's rating system to determine experience modification factors.

Who qualifies for a mod?
Not every company qualifies to have a mod factor calculated. Those that don't qualify receive a base rating of 1.0. To qualify, a company must meet a minimum premium threshold. For example, in the state of Utah, a company must have manual premium for the last year or two years of at least $7,000 or three or more years of at least $3,500.

How is a mod calculated?
The process of calculating the experience modification factor is complex, but the underlying theory and purpose of the formula is straightforward. Your company's actual losses are compared to its expected losses by industry type. The formula incorporates factors that account for company size, unexpectedly large losses, and the incidence of loss frequency and loss severity to achieve a balance between fairness and accountability.

How does my mod affect my premiums?
The mod factor represents either a credit or debit that is applied to your workers' compensation premium. A mod factor greater than 1.0 is a debit mod, which means that your losses are worse than expected and a surcharge will be added to your premium. A mod factor less than 1.0 is a credit mod, which means losses are better than expected, resulting in a discounted premium.

What is the experience rating period?
The mod is calculated using loss and payroll data for an experience rating period. The experience rating period typically includes data for three policy years, excluding the most recently completed year. For example, if your anniversary rating date is Jan. 1, 2018, the experience period includes your 2014, 2015, and 2016 policy periods. Your 2017 policy period would be excluded. Three years of data is used to provide a more accurate reflection of the losses, smoothing out the impact of an exceptionally bad or good year for losses.

Both actual and expected losses are divided into a primary and an excess portion in what is called a split rating method. Primary losses are designed to be an indicator of loss frequency (the number of losses) and are used at their full value in the mod formula. Excess losses are an indicator of loss severity (the amount of each loss) and are weighted in the formula so that they are less important. The emphasis of loss frequency over loss severity in the formula reflects the fact that loss frequency is a more significant indicator of risk and can be improved through proactive loss control programs.

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 claims 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 claims inflation, and the NCCI now makes annual adjustments to the split point based on inflation.

In 2017, NCCI's rating system used a split point of $16,500. This means that the first $16,500 of every loss is considered a primary loss, and any amount over this point is considered an excess loss. For example, a $9,000 loss would have no excess losses, as it falls below the current split point of $16,500. However, a loss of $25,000 would have $16,500 in primary losses and $8,500 in excess losses. Additionally, medical-only claims figures may be reduced by 70 percent in approved states. Utah is an approved medical-only reduction state.

Expected losses are calculated using your payroll data by state and class code and applying the expected loss rate (ELR). The ELR is provided by each state's rating bureau. These figures are also broken down into expected primary losses and expected excess losses. The final mod calculation compares your actual primary and excess loss figures to those expected for a company of the same size and industry type.

How can you control your mod?
Your mod factor has a direct impact on your workers' compensation premium. The key to controlling your insurance costs is accident prevention.

- Safety programs, return to work programs, and appropriate prevention procedures can help to reduce loss frequency. Losses remain in the experience rating formula for three years. The experience modification factor is influenced more by small, frequent losses than by large, infrequent ones.
- Effective self-inspection and accident investigation programs are critical to managing claim frequency.
- Claims management programs can help your business manage outstanding reserves and focus on efficiently resolving open claims. Because your experience data is reported to NCCI six months prior to your new mod calculation, it is important to close out claims and request reserve reductions, if warranted, prior to the data being sent to NCCI. Helpside's claims management services are a huge benefit to clients in this process.

- Claims should be reported to your carrier immediately. Delays increase the chance of higher overall costs.
- Implement a return to work program. All injured employees should be provided with modified duty upon their release to get them back to work as quickly as possible. This helps ensure the health of your employees and minimize the cost of claims.
- Supervisory roles should have set safety performance goals. Success in achieving safety goals should be used as one measure during employee performance discussions.
- Train employees on their responsibilities for safety and enforce violations.
- You should frequently communicate with employees on a formal and informal basis regarding the importance of safety.

How is my mod impacted if I buy another company or start a new business?
The experience of businesses with more than 50% common ownership is combined into one mod factor. Common ownership is defined as the same person, group of persons or corporation that owns more than 50% of each entity.

We always encourage the companies we work with to review past loss history and mod factor worksheets as part of the due diligence process when considering purchasing an existing company. Unfortunately, we have seen several instances where companies did not do this and faced unanticipated consequences as that poor history was combined with the favorable history of the existing company.

Companies that start new businesses that share more than 50% common ownership must remember that the loss history of that new business will be combined with the existing business. They should be diligent in insuring that the same loss prevention and claims management procedures that have helped the existing company establish a favorable mod factor are also applied to the new entity.

What do I do if the ownership in my business changes?
When a change in ownership occurs, the workers' compensation carrier must be notified within 90 days of the change. Clients of A Helpside can take care of this notification by contacting the Risk Management Department where they will be asked to complete an ERM-14 Form which will be forwarded on to the carrier and NCCI.

How can your experience rating save you money?
Establishing a proactive safety program is an effective way to reduce losses, positively impacting your mod and workers' compensation premium. Contact Helpside at (801) 443-1090 to learn more. We have the loss control experience to help you promote safety and control your workers' compensation premium.