Experience Modification Rate



ARE YOU MAXIMIZING EFFORTS TO REDUCE YOUR WORKERS' COMPENSATION COSTS?

Understanding your experience modification rating (Experience Mod) and monitoring it regularly is key in reducing your Workers' Compensation costs. It is also an excellent measure of how your loss prevention and control practices stack up to others in your industry.

Companies who effectively manage their Safety Programs not only understand how this works but also have assigned someone to monitor this on a regular basis. It has a direct correlation to how much you pay in Workers' Compensation Premiums.

Many safety conscious corporations are refusing to use the service of venders or subcontractors who do not control their Experience Mod or have an experience modification in excess of the industry average.

WHAT IS AN EXPERIENCE MOD?

Simply speaking your Experience Mod compares your workers' compensation claims experience to other employers of similar size operating in the same type of business. Most employers who have an annual premium in excess of $3,000 will receive an Experience Mod.

Your Experience Mod is calculated by the National Council on Compensation Insurance (NCCI) or in some states an independent agency. Your independent insurance agent can advise you where yours is calculated.

In general, each year insurance carriers report to the calculating agency your class codes, payrolls and losses for the last five years. The computing agency uses three complete years of data ending one year prior to the effective date of the rating period. For example, a rating in 2005 normally will not use 2004 but would include 2003, 2002, and 2001 in the formula.

While the formula may appear complex, it compares your specific payrolls and losses to the industry average losses for like business of similar size. If you are at the industry average, your Experience Mod is a 1.0. If your experience is 20% better than average your Experience Mod would be a .80 or 20% worse 1.20.

HOW DOES THIS AFFECT MY PREMIUM?

It makes sense to reward companies that practice effective safety and claims management techniques over those who do not. In effect, the Experience Mod does

just that.

HOW DO DIFFERENT TYPES OF CLAIMS AFFECT THE FORMULA?

The type of claims you experience and what you do to control the cost of claims has a significant effect on your Experience Mod. Obviously, if you have zero claims you have no experience going into the formula. Not all of us are that fortunate, however.

MEDICAL-ONLY CLAIMS

Claims that require medical treatment only are usually less severe so employers should not be penalized when they occur. Consequently, any medical only claims are reduced by 70% before they enter the formula. You can take advantage of this by ensuring that injured employees remain at work when possible or return to work within the waiting period.

This is where an effective claims management and return to work program can have a dramatic effect.

LOST TIME CLAIMS

The first $5,000 of a lost time claim is counted at full value. The dollar amounts after $5,000 is discounted. There is also a large claim cap limit to protect you from a catastrophic loss. Because the first $5,000 of each loss goes into the formula dollar-for-dollar, severity is a factor. A single claim valued at $20,000 has less effect on your Experience Mod then 10 claims valued at $2,000.

Companies seeking to minimize their workers' compensation premiums should focus their safety efforts on reducing the frequency of lost time claims.

It is also recommended that companies review their losses periodically. Pay particular attention to open claims with outstanding reserves. Work with your claims administrator to bring these claims to closure. In some instances, outstanding claims may be closed resulting in reserve reductions that ultimately may affect your Experience Mod.

Don't forget about your current years claims. These usually present the greatest opportunity for cost reductions. Remember this year's claims will affect your Experience Mod next year.

WHERE DO I FIND MY EXPERIENCE MOD?

Typically you will receive an Experience Modification Rating Sheet each year prior to your policy renewal date. If you are unclear of your company's current Experience Mod your insurance agent can help you locate this. Your Experience Mod is also listed on the declarations pages of your workers' compensation policy.

HOW DO I LEARN MORE ABOUT THE EXPERIENCE MOD FORMULA?

The National Council on Compensation Insurance (NCCI) has published a booklet entitled "ABCs of Experience Rating". It is available on their website at www.ncci.com.This brochure explains the experience rating plan in greater detail. Many states that use independent agencies to calculate the experience

modification also have prepared brochures to explain the Experience Modification Rating Process.