



Your Experience Modification Factor

Why is this Important for You?

Presented by: Colburn Group

Experience Modification Factor

In this presentation:

- Overview of Workers' Compensation Coverage
- Overview of the Experience Modification (MOD) Factor
- Risk Management's Role



Overview of Workers' Compensation



Overview of Workers' Compensation

- Workers' Compensation (WC) Insurance began in 1915 and is a regulated, mandatory benefit to protect individuals injured on the job.
- Pays for medical bills and lost wages from work-related injuries.
- WC is a no-fault system; employees cannot sue their employers for work-related injuries when receiving benefits.

Overview of Workers' Compensation

- Experience Modification Factor Formula:

Actual Primary Losses

+

Ballest Value

+

Weighting Value x **Actual** Excess Losses

+

(1-Weighting Value) x Expected Excess Losses

Expected Primary Losses

+

Ballest Value

+

Weighting Value x **Expected** Excess Losses

+

(1-Weighting Value) x Expected Excess Losses

Overview of Experience MOD Factor

The Formula Explained:

- Primary versus Excess Losses: Losses are divided into two categories to determine the loss frequency (number of losses). For most states, the first \$5,000 in a loss is called the primary loss. Then, everything after that is called the excess loss.
 - Primary losses are a measure of the frequency of losses.
 - Excess losses are the measure of the severity of losses since the dollar amounts over \$5,000 are allocated as excess losses.

Example: If your organization has three claims - \$12,000, \$16,000 and \$3,000, the first two would be excess claims and the third would be a primary claim.

Overview of Experience MOD Factor

The Formula Explained:

- **Ballest 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.
 - Ballest values increase with the size of the company, and is most impactful on smaller companies.
 - If your company has a lower MOD, the ballest decreases some of your good efforts by bringing it closer to 1.0. However, if you have a higher MOD, the ballest will move your MOD lower.

Overview of Experience MOD Factor

The Formula Explained:

- **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 MOD Factor

- Your MOD determines your final workers' compensation costs.
- Premiums will equal the basic premium multiplied by your MOD. Example: If your basic premium was \$10,000 and your MOD was 1.20, then your workers' compensation premium would be \$12,000.

Overview of Experience MOD Factor

- Your experience MOD factor is based on the number of losses that your company incurs (frequency of losses).
- Your factor considers the money reserved on claims (severity of losses and amount paid).
- MOD factor compares your organization with other companies in the same industry (SIC) and NAICS codes.

Overview of Experience MOD Factor

Types of Claims:

- *Excess Loss*: Ratable individual loss that is greater than \$5,000 reflecting the severity of losses.
- *Primary Loss*: Balance reflecting the frequency of losses.

Example: If your organization has three claims - \$12,000, \$16,000 and \$3,000, the first two would be excess claims and the third would be a primary claim.

Overview of Experience MOD Factor

Common Mathematical Errors:

- Totaling losses incorrectly.
- Classifying losses incorrectly (example: classifying a medical-only loss as a lost time claim).
- Using outdated data to calculate losses. Claims may be closed after the Unit Stat report has been submitted. This may be prior to the beginning of the next policy year. If the claim were to close at least 25 percent below the prior reserved level, your business is entitled to a recalculation of your MOD rating under the **AGGRAVATED RULE**.

Risk Management's Role

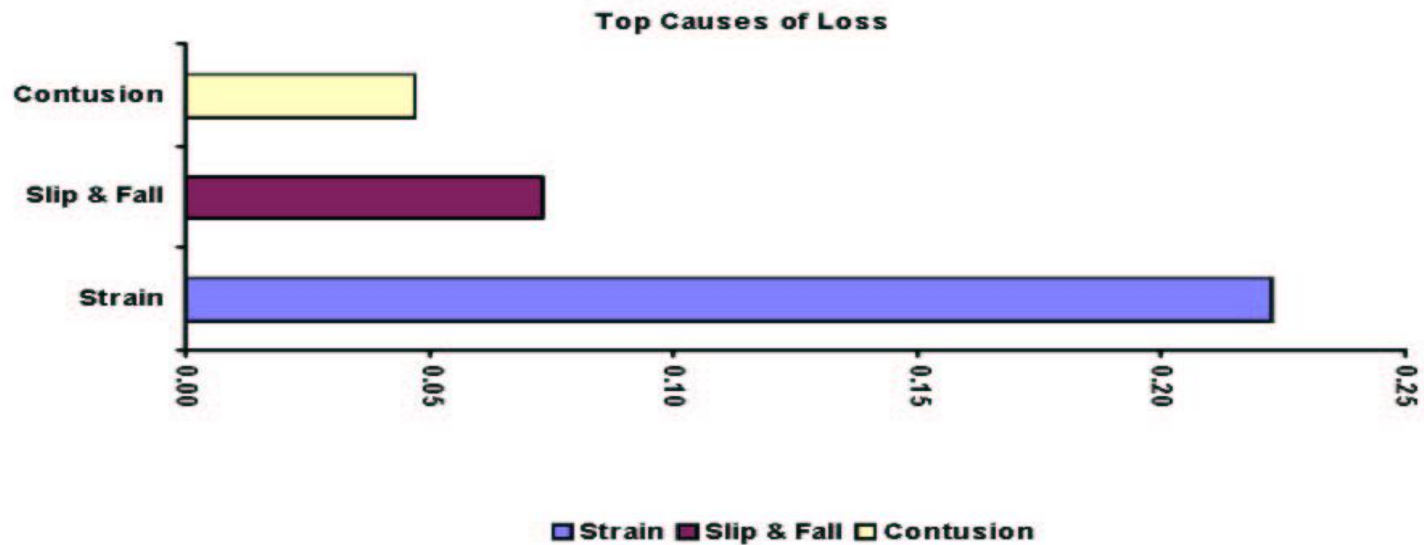


Risk Management's Role



- **MAKE LOSS CONTROL A TOP PRIORITY!**
- Allocate funds to incidents that occur frequently at your facility.
- Prevent accidents and claims before they occur.
- Implement risk management programs that directly address common losses that are driving up your MOD factor.

Risk Management's Role



Cause of Loss	Total Loss Amount	Total impact on mod factor
Strain	\$152,358	0.2227
Slip & Fall	\$49,702	0.0731
Contusion	\$25,793	0.0472
Grand totals	\$227,853	0.3430

Source: Comprehensive Risk Services, Inc. 2008

Risk Management's Role

- Reduce your frequency of incidents – the number of claims per year through loss control programs.
- Ensure that your loss calculations are correct.
- Ensure that your reserves are not overstated.
- Remain aggressive with adjusters so that they work on your claims.
- Have your experienced MOD factor reviewed for accuracy.
- Correct reserve errors prior to the Unit Stat Filing (this occur six months after the policy expiration date).

Risk Management's Role

- Assure that your WC classifications are correct.
- Assure that you are using the right risk financing program.
- Bring employees back to work on light duty until they are fully recovered.
- Encourage employees to remain safe on the job and educate them on common workplace injuries.
- Create an accident review committee for accidents and near misses.

Experienced MOD Factor

Colburn Group has the resources to keep you on top of your experience MOD factor and to keep your employees safe!

Playing It Safe Newsletter

WORKPLACE SAFETY: IT'S NOT JUST ABOUT THE MONEY

It's not just about the money, time and so much more for the employer when an employee is injured or disabled. In fact, the cost of a workplace injury or disability can be staggering. In fact, the average cost of a workplace injury or disability is \$100,000. This is why it's so important for employers to take steps to prevent workplace injuries and disabilities.

Get the most out of your workers' compensation policy

The Department of Health and Human Services (HHS) has issued a new rule that requires employers to provide a copy of their workers' compensation policy to their employees. This rule is effective as of January 1, 2014. Employers who do not comply with this rule may be subject to civil penalties.

Do You Know Your Workers' Compensation Policy?

Workers' compensation is a complex system. It's important for employers to understand their policy and how it works. This includes knowing the types of injuries and disabilities that are covered, the benefits that are available, and the process for filing a claim.

WHAT DO YOU KNOW ABOUT SAFETY?

Ready to test your safety skills? Answer the following questions by clicking "Y" for "Yes" or "N" for "No" to determine your level of safety savvy.

Safety Cornerstones

A Newsletter of Practical Compliance & Safety Tips

IN THIS ISSUE

- DO NOT MISS
- OSHA's New Hazardous Waste Site Safety Rule
- Safety Program Spotlight



Coverage Insights

Understanding Your Workers' Compensation Experience Modifier Factor

The experience modifier (EM) is a key factor in determining your workers' compensation insurance premium. It is a ratio that compares your company's actual loss experience to the industry average. A ratio of 1.0 indicates that your company's loss experience is exactly average. A ratio below 1.0 indicates that your company's loss experience is better than average, which can result in a lower premium. A ratio above 1.0 indicates that your company's loss experience is worse than average, which can result in a higher premium.

How is the experience modifier calculated?

The EM is calculated by dividing your company's actual loss experience by the industry average. The actual loss experience is calculated by adding up all of the workers' compensation claims paid by your company over a three-year period. The industry average is calculated by adding up all of the workers' compensation claims paid by all companies in your industry over the same period.

Workers' Compensation Claim Status Update

Employee Name: _____ Date: _____

State of Birth: _____ Rate of Loss: _____

Occupation: _____ FICA: _____ Compensation: _____

Accident/Injury: _____

Body Part: _____ Return to Work Date: _____

NEEDS	PAY	REMAINING	TOTAL
INCIDENT:			
REMAINING:			

Maximum Rating: _____

Current Status: _____

Notes: _____

Date of Entry: _____

Adjusted: _____

Payment Rate: _____

Daily Compensation: _____

Provided by: _____

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It's Proactive - Not Reactive

OSHA's New Hazardous Waste Site Safety Rule

OSHA has issued a new rule that requires employers to take steps to prevent hazardous waste site accidents. This rule is effective as of January 1, 2014. Employers who do not comply with this rule may be subject to civil penalties.

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Contact us today to learn more.