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Mod your Mod! Understanding and Managing Your Workers' Compensation Experience Modifier

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As an employer, if you have had a workers' compensation claim you are probably aware of and keenly sensitive to your workers' compensation experience modifier. Not only does it have a direct impact on the cost of workers' compensation insurance, but also having a favorable experience modifier is often required to work on certain projects. Given the importance of the "mod" to your business, we thought it would be important to review some basic information about how it is calculated and equip you with some strategies for making sure it is at the lowest possible.

At the most basic level, your organization's experience modifier is a measure of whether your organization is likely to have either more or less claims than another company performing similar operations based on claims history. Having a low mod, below a 1.00, results in a credit on your workers' compensation premium and having a high mod, or above a 1.00 results in a debit on your workers' compensation premium. While the calculation is somewhat complex, knowing some key facts about how it is calculated can help your risk management strategy maximize its impact on your mod and workers' compensation cost.

Frequency vs. Severity

When talking about experience mods you often encounter the terms "frequency" and "severity". Frequency refers to the number of claims that occur in a given time period and severity refers to the total cost of those claims. The general school of thought in risk management is that of the two, frequency is more controllable by the employer. It is much harder to control the total cost of a claim than it is to lower the frequency. This is reflected in the way that experience mods are calculated. A good illustration of this is the impact of 10 claims of \$5,000 each will result in a more negative way to your mod than having one claim of \$50,000, even though the total amount of paid losses is the same. For these two

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similar scenarios, the claims issues resulting from higher frequency of claims will generally have a higher modifier.

Medical Only Claims

Many states apply an Experience Rating Adjustment (ERA) to claims that do not have an indemnity, or “lost time” component. If the injured employee did not miss any work due to the injury, then the employer receives a *70% credit* to the loss for rating purposes (depending on your states adoption of NCCI and workers’ compensation laws). This makes lost time injuries much more detrimental to your experience mod rating than medical only claims and highlights the importance of a robust return-to-work program for injured workers. A Return-to-Work program provides a means of allowing an injured employee who is unable to perform their usual job, to return to work in a temporary, limited light duty capacity while they recover.

Unit Statistical Date

The Unit Statistical Date is the actual day that the workers’ compensation claim reserves and incurred values are reported to calculate your Experience Modifier. This date is separate from your policy renewal date and is typically 6 months prior to your renewal date. Reviewing the open claims and the claim reserves prior to this date can be a very important tool in keeping your Experience Modifier as low as possible. This means that even if an open claim with a \$50,000 reserve closes after the Unit Stat date it will still show on the next years’ Experience Modifier even if it is closed prior to the renewal. In addition, working with your claims adjuster to ensure all open claim reserves are adequately projected or adjusted prior to the Unit Statistical Date can help ensure your Experience Modifier is accurate and up to date.

What can you do to “Mod your Mod”?

Although this has been a brief and simplified summary of the way experience mods work, a few things should be clear with respect to ways you can minimize the effect of claims on your mod.

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First, your safety or loss control program should focus on reducing the total number of accidents. Putting focus on eliminating small claims improves the overall safety culture and keeps losses off your mod calculation.

Secondly, there should be additional scrutiny on the types of claims your organization is having that result in lost time payments. Identifying and reducing these types of exposures is key to keeping your modifier as low as possible. A written and well-planned Return-to-

Work program is a key part of this strategy. There are numerous benefits to utilizing a Return-to-Work program beyond controlling your cost. Studies have shown that injured workers recover faster and suffer less permanent disability when given the opportunity to participate in transitional light duty work.

Finally, you should closely monitor all open claims and reserves to be sure the adjuster and insurance carrier are managing them effectively. All of the mod calculations are done using data supplied by the carrier and it is crucial that this data is correct, up to date, and being aggressively managed.

Learning about your experience modifier and how it affects the cost to your organization is important for every employer. There are many possible steps that can be taken to mitigate the negative impacts it can have and managing it effectively can even turn it into a major asset for your business.

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