

# WORKERS' COMPENSATION EXPERIENCE MODIFICATION FACTOR



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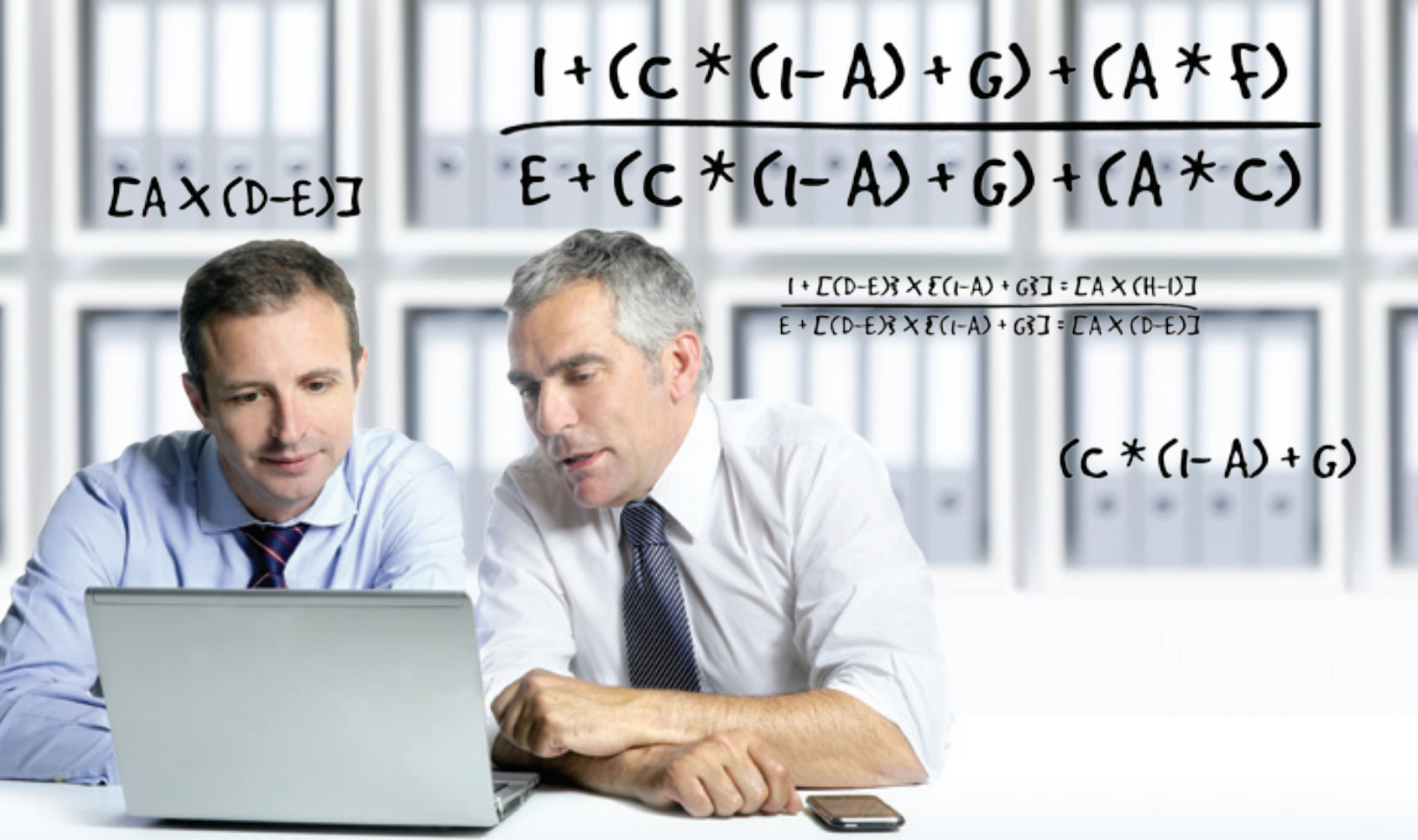
# WHAT'S A WORKERS' COMPENSATION EXPERIENCE MODIFICATION FACTOR?

**Your Work Comp Experience Modification Factor (E-Mod) is a primary factor you can control to help lower your insurance premium.**

An E-Mod is a credit or debit applied to your work comp premium. It reflects your company's work comp accident history as compared to others within the same industry and state. This credit/debit could significantly change what you pay for work comp insurance.

Simply speaking, E-Mods are loss prevention incentives for business owners.





## Who Determines a Company's E-Mod?

E-Mods are calculated by organizations known as "rating bureaus," not your insurance carrier, and are automatically created when a business reaches an established work comp premium threshold. The rating bureau used by most states is The National Council on Compensation Insurance (NCCI); however, a number of states have independent rating bureaus.

## How Is the E-Mod Calculated?

All states require work comp insurance carriers report the following policyholder data to designated rating bureaus:

- Job type or classification (class)
- Payrolls
- Work comp losses

For each state, bureaus analyze reported information within every class to determine:

- Average losses
- Insurance rate

The work comp loss history for all qualifying businesses is then individually compared against the average to establish each company's E-Mod.



# How Does the E-Mod Impact a Company's Work Comp Premium?

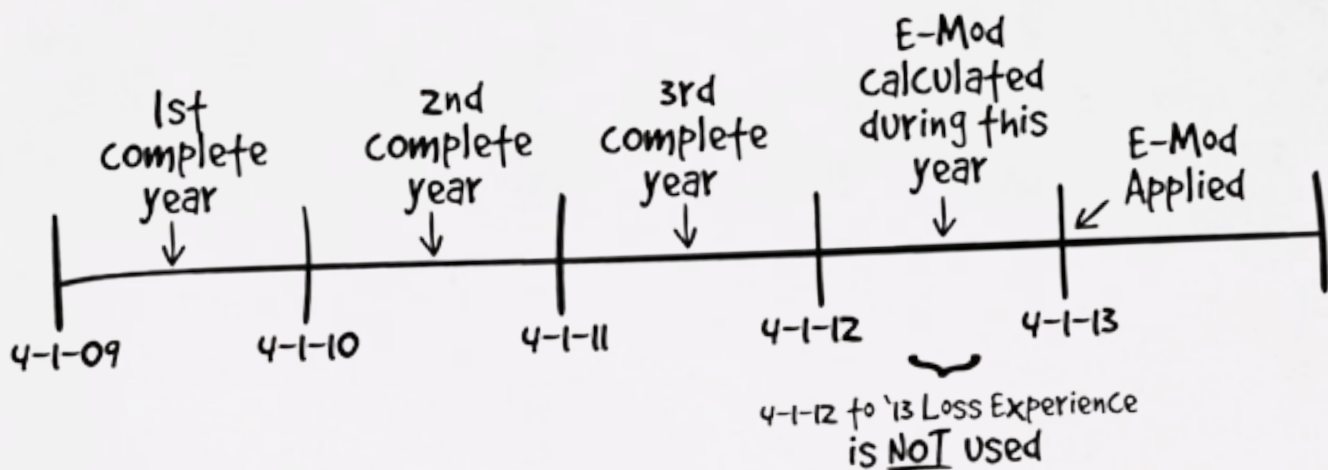
An E-Mod of 1.00 means no adjustment is performed before the insurance carrier calculates the final work comp premium. An E-Mod above or below 1.00 identifies the percentage which must be applied to the work comp premium. For example, a 1.25 E-Mod increases premium by 25% and a 0.75 E-Mod reduces premium by 25%.

Companies with an E-Mod below 1.00 gain a competitive advantage due to the cost savings generated by the credit. For example, Company A and Company B run similar businesses in the same state, each having a base work comp premium of \$25,000. Company A's credit E-Mod results in less work comp premium compared to Company B which has a debit E-Mod:



# How Many Years of Work Comp Information Are Included in the E-Mod Period?

Rating bureaus use three complete years of work comp loss, payroll, and class data to compute an organization's E-Mod:



E-Mods are recalculated annually using updated data to reflect the new three-year experience period:

Policy Year 2014  
Includes data from years 2012, 2011, 2010

Policy Year 2015  
Includes data from years 2013, 2012, 2011

Policy Year 2016  
Includes data from years 2014, 2013, 2012

# How Do Different Losses Affect the E-Mod?

Work comp pays all expenses associated with your employee's injury according to the applicable state law. Rating bureaus separate benefit payments between two categories.

As a business owner, it is important to understand these categories:

- **Medical-Only** – A loss which only results in payments made for medical treatment
- **Other-than-Medical** – A loss which includes any payment made beyond medical treatment, such as monetary wage replacement, disability, and rehabilitation

Once a payment is made to cover anything more than medical treatment, the entire loss is deemed Other-than-Medical.

When rating bureaus calculate an E-Mod, Medical-Only losses are reduced by 70%.

Other-than-Medical losses are factored at full cost. For example:

	Company Y	Company Z
Work Comp Loss	Medical-Only Losses	Other-than-Medical Losses
\$ 500	\$ 150	\$ 500
\$1,000	\$ 300	\$1,000
\$4,000	\$1,200	\$4,000
<b>Loss Amount Included in E-Mod Calculation</b>	<b>\$1,650</b>	<b>\$5,500</b>

## How Does Frequency and Severity Affect the E-Mod?

The E-Mod formula is statistically designed to achieve fairness and accountability, recognizing:

- ✓ Occupational accidents do occur, and the larger a business becomes, the more likely an accident will take place
- ✓ Frequency leads to severity, and numerous, lower-cost injury incidents (frequency) are a strong indicator of a larger accident (severity) potentially occurring
- ✓ Financial incentives are powerful and encourage employers to implement long-term safety measures and manage work comp losses

### Therefore, the E-Mod calculation:

- ✓ Applies added weight to a company's loss frequency
- ✓ Places a cap on claims severity, such that one large loss does not skew the E-Mod



# What Is the E-Mod Formula's Split Point?

Rating bureaus assimilate loss frequency and severity into the E-Mod calculation through a "split point." Specifically designed to limit the degree to which a severe loss impacts the E-Mod, the split point separates losses into two portions:

- **Primary: The first \$5,000 of each loss**
- **Excess: The amount exceeding \$5,000**

Primary loss amounts are included in the E-Mod calculation at 100%. Excess loss amounts are proportionately reduced based on the company's work comp premium size.

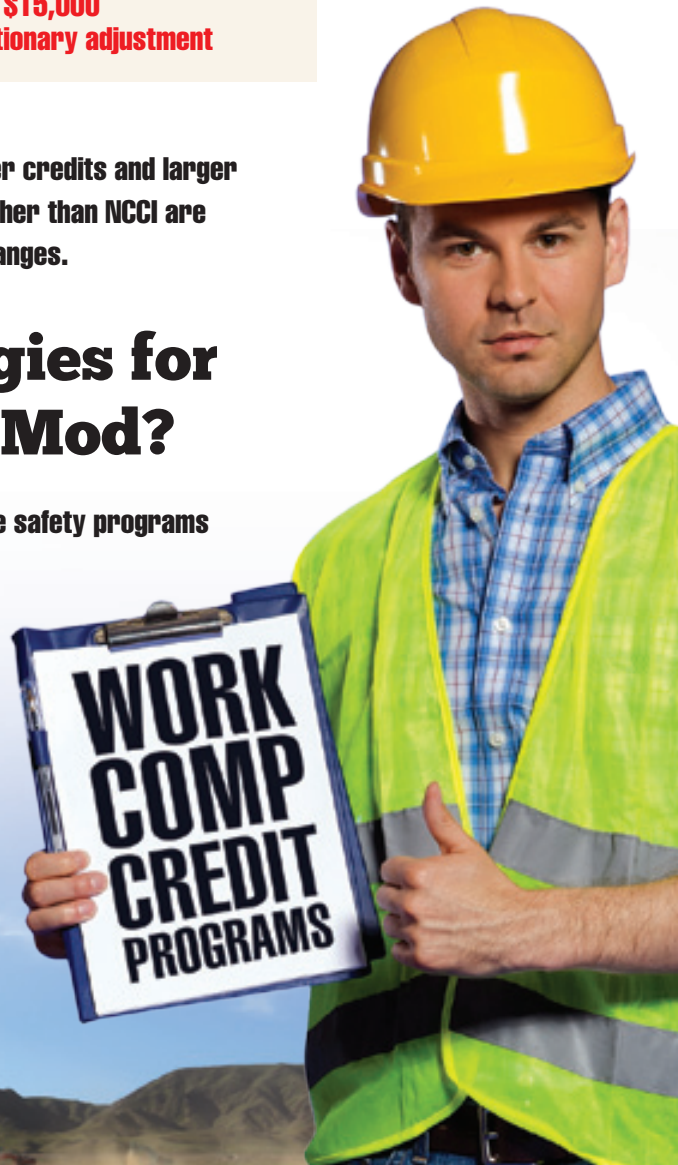
Beginning in 2013, NCCI is progressively raising the split point in response to increasing medical costs:

Effective Year	Revised Split Point
2013	\$10,000
2014	\$13,500
2015 and after	\$15,000 plus inflationary adjustment

The split point revisions may result in higher credits and larger debits. States utilizing a rating bureau other than NCCI are expected to adopt similar changes.

## What Are the Key Strategies for Achieving a Desirable E-Mod?

- ✓ **Strive to prevent workplace injuries through ongoing employee safety programs**
- ✓ **Educate employees at all levels regarding injuries and how to effectively manage each incident**
- ✓ **Implement effective return-to-work programs, which reduce the cost of wage-loss benefits**
- ✓ **Report occupational accidents to your work comp insurance carrier promptly, ensuring the employee receives timely treatment to prevent avoidable medical costs and prolonged recovery periods**





## Your Insurance Carrier Matters!

*ACUITY* is knowledgeable in every aspect of work comp insurance. We are committed to providing a broad range of professional services, helping both the policyholder and the injured worker. Our proven approaches, including the unique *ACUITY* M.A.S.H. program, give your injured employees the care they need while managing your company's E-Mod!

Contact an agent today to learn more about how *ACUITY* can help your business!

Information presented is a high-level summary and subject to the laws in your state. Please contact your agent for specific coverage detail.

