

All employers in North Carolina with 3 or more employees are required to purchase a workers compensation insurance policy. And over time, most employers will learn of a modifier to their workers compensation rates called the experience modification factor. Those of us in the business call it the experience mod for short and this little tool can be a huge money saver for you or it can cost your company big money. Understanding how it works can help you load the odds in your favor. This article is a short overview of the experience mod, how it works, and how you can use it to drastically reduce your workers compensation insurance costs.

The experience modification factor is the tool that implements the concept of experience rating in [North Carolina workers compensation insurance](#). Experience rating is generally a very good thing for employers who want to protect their workers and keep injuries at a minimum. For those who aren't focused on keeping losses low, the experience mod can bite pretty hard. But let's face it, we do want to reward careful employers and not force them to pay for all those losses that the careless ones generate. For this reason, I'm very much on board with the concept of experience rating for NC work comp insurance.

Your experience mod is simply a modifier on your premium that is applied to your policy to help reflect the loss experience that you have had recently. If your mod is over 1, then you will be paying an additional surcharge on your policy for your past losses. If your mod is lower than 1, then you are receiving a discount for good past loss experience. I have seen mods as high as 3.25 and as low as .72, so the range from reward to punishment is very large.

So which workers comp policies in NC are eligible for experience rating? There are two factors involved, time and premium size. First of all, you must have a policy in place for at least 2 years in order for there to be an experience period to be evaluated. If you are new in business and buying your first workers compensation policy, then you won't be experience rated during the first two years. The second criterion is size. Very small work comp policies may never reach a large enough size to be eligible for experience rating. To be eligible you must have had an average annual premium of more than \$2500 for the past two years, or have payrolls in the last year, or two years that would develop a premium that exceeds \$5000. Once those thresholds are hit, your policy will be experience rated by the NC Rate Bureau.

The experience rating process will look at losses during the experience period. That period is usually 3 full years, ending one year prior to the effective date of the modification. For example, a modification done on January 1, 2011, would look at the payrolls and losses for the prior policies effective January 1, 2007, January 1, 2008 and January 1, 2009. You can quickly see

that a year of bad losses on your workers compensation policy is going to hang around and drive up your mod and thus your rates for a long time to come.

The last thing to understand about the experience rating process for workers compensation policies in North Carolina is just how your modification factor is calculated. The formula itself is fairly complex but as an employer, you should know several things about this process. First of all, small losses have the greatest impact on determining your mod. The formula classifies all losses under \$5000 as primary losses and these losses carry the greatest weight in the formula, especially for small employers. Larger losses are capped and then given increasing importance for larger employers, but for the small guy, the small losses will hurt the most. The message to small employers is clear - loss frequency is the strongest measure by which the [NC Rate Bureau](#) will punish you via your experience modification factor.

In the past, some employers would pay the small medical only claims out of their own pocket in order to keep from reporting them to their workers comp company and risk driving up their mods. This practice is dangerous for both the employer and the employee and to remedy this, NC now only applies 30% of the medical only losses to the rating formula. Please remember, file all work comp claims with your insurance company promptly. Paying them yourself could leave you in dangerous territory vis-à-vis your financial health.

Your best approach to your experience modification factor is to work to help keep claims from happening, then when they do, do what you can to help your employee get back to work as quickly as possible. My advice to achieve both of those goals is to purchase your workers compensation insurance policy from a specialty insurance company that only writes workers compensation insurance. These companies tend to have more streamlined claims processes and they also often have on staff doctors, nurses and case managers. This kind of proactive approach to keeping your claims costs low will help you keep your experience modification factor as low as possible. Also, these specialty workers compensation insurance companies will also have loss control services that you can implement right away to prevent other claims from happening at all.

Your experience modification factor is a way to help make sure that those causing the accidents and injuries are the ones who pay the greatest share of their costs. You should take advantage of this opportunity to make sure that you move yourself and your company to the credit side of the experience mod equation. At Clinard Insurance Group, in Winston Salem, NC, we help our clients all across NC save money on their workers compensation insurance. We understand this coverage and will take as much time as you need to understand all of your options and how

to best leverage the marketplace to better protect your employees while reducing your insurance expenses. If we can help answer your questions about NC workers compensation insurance, please call us, toll free, at 877-687-7557 or visit us on the web at www.ClinardInsurance.com.