Workers compensation insurance is unique in that there is a direct link between the rates that you pay and the losses that you have had in the past. This process is handled with the experience modification factor, a rate modifier on your work comp policy that adjusts the price that you pay up or down. To learn more about experience modification factors and how they are calculated, read my earlier blog here.

The NCCI (National Council on Compensation Insurance) is in charge of maintaining the experience modification factor process. The formula that is currently in place has remained unchanged for many years. This formula attempts to estimate what the expected losses will be for each business, based on their class codes and their payroll levels. The formula has two main components, one that assigns a weighting to loss frequency and another to loss severity. The loss frequency side of the equation caps the amount of all losses at $5000. So, if your company has a $5000 loss and another loss that is $100,000, they will both carry the same weight in this half of the modification calculation. This can mean that a company with 4 losses, all under $5000 can conceivably have a higher modification factor than a company with one $20,000 loss, although in each case each had total losses of $20,000.

The new modification calculation formula changes the $5,000 cap on the frequency side of the equation. This cap will rise over time but by the time the phase in is complete; the cap will have been increased to $17,000. After 2015 this cap will be indexed for inflation.

So what will these changes mean for you? The charts that we are seeing with estimates of recalculated mods seems to indicate that if your mod is less than 1.0, then you will probably see an even lower mod under the new formula. The further you get below 1.0, the more change you will see on your mod. For instance it is expected that a mod of .83 today would translate to roughly a mod of .77 in 2013. For one at .99 today, the expected change will only be down to .98. On the other hand, mods above 1.0 should get even larger under the new rules. The farther away from 1.0 you get, the larger the change in the mod from the old formula to the new one. For instance, a 1.14 mod is expected to be more like 1.18 while a 1.69 mod will translate to a 2.01 mod. The net result here is that those with losses are going to pay more for their work comp and those that control and reduce their losses will see lower mods.

So what is the take away for you, the business owner? Well your interest in keeping workers comp claims lower will now be even more magnified. You have more to gain and more to lose. You should be careful to select a workers compensation insurance company with significant loss control and return to work programs. Workers compensation insurance in NC is a specialty

line and I would advise that you take a good look at using an insurance company that writes only workers compensation insurance and nothing else. The advantages that these companies will have in loss control and back to work support should come back to pay you dividends over the long run.

Clinard Insurance Group is an independent insurance agency handling hundreds of workers compensation policies for our clients all across North Carolina. We understand workers compensation and we know how to save you big money on your workers compensation policy, both today and 5 years from now. Give us a call today, toll free, at 877-687-7557 or visit us on the web at www.ClinardInsurance.com and let us get to work for you right away, helping you carve away some of your workers compensation expenses.