

Beginning in 2013, the National Council on Compensation Insurance is changing the formula used to calculate your business' workers compensation insurance experience modification factor, called your experience mod, or just mod for short. The results of these changes across all industries is designed to be revenue neutral overall, but taken one business entity at a time, this change will either be a win or a loss for you and your work comp insurance premiums.

So what is the change? The formula is complicated and involves two parts, one designed to measure your actual primary loss costs against the expected loss costs for a business of your type and size and one to measure the excess losses against expected excess losses. By far, the most impactful section of this formula is the section calculating your primary loss ratio. As of today, this side of the formula only considers the first \$5000 of each loss. The remaining amount over \$5000 is shifted to the excess loss side of the equation which has a much lower impact on the size of your mod. The cut off for how much of a claim is considered in the primary loss cost is called the split point and has been set at \$5000 for over 20 years. Beginning with mod calculations in 2013, this split point is going to be increased steadily each year from \$10,000 in 2013, to \$13,500 in 2014 and on to \$15,000 in 2014. After that, the split point will be adjusted for inflation on a yearly basis.

So how do you calculate if this mod formula change is a winner or a loser for you and your business? First you need to understand that for the 2013 mod calculation, the NCCI will be looking at your claims for the 2009, 2010, and 2011 policy years. This is because the NCCI wants to give each claim enough time to settle and that leaves a big lag time in how a claim impacts your premiums. Take a look at your loss history during those policy years and determine how many of those claims paid out more than \$5000 for losses occurring during that time. If all of your losses have a total payout of less than \$5000, then you will likely see your experience mod factor fall to a lower number. If, however, some of those losses exceeded \$5000, then you will likely see an increase in your mod next year.

If your mod goes up, that can have two direct impacts on the amount of money you pay for workers compensation insurance. The first impact is clear, your modification factor is a multiplier on your policy that increases or decreases your total premium to reflect the kind of loss experience you have had. When your mod goes up, then so does your workers compensation costs. But there is a more subtle effect as well. Many workers compensation insurance companies use the mod factor as a quick way to decide which companies qualify for their best rates, and which need to go into their high risk programs which carry much higher underlying rates. So an increasing mod may mean that you will have a harder time finding the low base rates for your policy that you may now be used to paying.

Going forward the winners in this new mod change process will be those companies that are able to keep their loss costs lower. Since by 2015, every dollar of loss costs under \$15,000 per loss will flow to the primary losses side of the equation, the part of the formula that can do you the most damage, then it is in your best interest to keep the overall costs of any accident as low as possible. One of the best ways to do this is to choose a specialized workers compensation insurance company, one that writes only workers compensation insurance. These companies generally have much stronger loss prevention programs that they can help you implement to keep losses from happening in the first place. They also tend to have stronger programs to reduce medical fraud and employee fraud as well as programs to get your employee back to work sooner. All of these techniques have been proven to reduce overall loss costs and now that means a lot more to you than it used to mean.

At Clinard Insurance Group, we help hundreds of small businesses all across North Carolina, South Carolina, Georgia and Tennessee with their workers compensation insurance needs. We can help you evaluate the impact of these mod changes to you and help you find an insurance carrier that can help you keep your future loss costs lower and thus save you money not just today but year after year in the future as well. If you would like our help with your workers compensation insurance, please call us, toll free, at 877-687-7557.