What is your Ex-Mod Factor????

By Arnie Sumanis

July 2012

On January 1st, 2013, The National Council of Compensation Insurance, NCCI, will begin adjusting the Experience Modification Factors, hereby referred to as exp mod, for all new and renewal polices in the 38 states that follow the NCCI rules and regulations. And that would include Illinois…

It has been some 20 years since the NCCI has adjusted their formula. The major adjustment taking place next year is the increase in the split point. First off, what is the split point? The split point is the dollar cutoff of a specific claim so as not one large loss gravely effects your experience mod. In the past, the cutoff or split point was $5000, meaning that no claim in excess of $5000 would significantly negatively affect your mod. In January the new cutoff will be $10,000, then in 2014 $13500, then $15000 in 2015. Thereafter the split point will be increase to adjust for claims inflation.

What does this mean to you? Say that you had a claim 3 years ago that was a $30,000 claim; you have no claims since the $30,000 claim 3 years ago and let's say your last exp mod was .95. With the new formula, assuming payrolls will remain constant, your mod is going up! The old formula discounted your $30,000 loss to $5000, but the new formula will only discount such to $10,000.

Remember your exp mod is calculated going back 4 years not including the most recent year. If that $30,000 claim does not drop off your formula in 2014, your mod is going up again. If that $30,000 has not dropped off by 2015, the discount on that claim will only be $15,000. Again, your mod will see an increase.

Simply put, your exp mod is a multiplicative factor of your premium. If it increases, so does your premium. An increase in an exp mod can also prevent some insurance companies from quoting your workers compensation or at least quoting competitively.

An increase in your exp mod may not allow you to receive other discounts that maybe available to you otherwise, such as the Illinois Contractors Credit. For some contractors, the mod increase to 1.01 or greater could potentially remove as much as a 40% credit.

An increase in the exp mod may not allow you to be or participate in the bidding process for work if your exp mod rises above 1.00. Several large local general contractors will not entertain bids from subs with exp mods greater than 1.00.

Generally speaking, many companies have incurred a rise their experience modification factors over the last several years. This increase was not attributed to a change of formula, but a change to numerical data that affects the calculation…lower payrolls. Payroll data and loss experience is picked up via audit by your insurance company is shared with NCCI. The payroll portion is important as the payroll allows for some expected claim activity. The higher your payrolls, the more forgiving the calculation are of your claim activity. The lower the payrolls, the less forgiving in the exp mod calculation.

In summary, be proactive today!! Pay attention to any and all claims. Review loss data monthly or bimonthly. If a claim is open and has pending reserves, question why the reserves are set at the levels indicated. Work with the insurance company to provide a return to work opportunity when ever possible. An employee back to work, even on modified duty, lowers the reserves. Close claims wherever possible and have reserves drawn down. Pay attention to little claims as little claims can escalate rapidly into big claims. Be active with your safety program in avoiding claims.

Industrial Insurance Agency is investigating the acquisition of the exp mod formula software. With such a tool, we maybe able to assist clients in forecasting the exp mod fluctuations and begin applying some remedy recommendations.