

CITY OF MOUNT VERNON

EXPERIENCE MODIFICATION RATING



OVERVIEW OF EXPERIENCE MODIFICATION RATING

The Formula Explained:

- Simply expressed, the mod is a ratio of actual losses to expected losses over a 3 year period.
- If your actual losses are more than expected, then your mod is over 1.0
- If your actual losses are less than expected, then your mod is under 1.0
- A mod of 1.0 is exactly average. How much better than average are you, or would you like to be?

PRIMARY LOSSES VS. EXCESS LOSSES

The Formula Explained:

- The experience rating method is called a split rating system.
- Both actual and expected losses are split into a **primary** portion and an **excess** portion.
- **Primary** losses are an indicator of loss frequency (number of losses) and are used at their full value in the mod formula.
- **Excess** losses are a measure of loss severity (the amount of each loss) and are weighted in the formula so they are less important.

OVERVIEW OF THE EXPERIENCE MODIFICATION FACTOR

Example:

If your organization has three claims - \$23,000, \$16,000 and \$3,000 – the first two would be excess claims, which weights **post** split-point amounts differently and the third would be a primary claim on your 2015 mod.

Claim	Primary	Excess	
\$23,000	\$15,000	\$8,000	↙ weighting value will be applied
\$16,000	\$15,000	\$1,000	↙
\$3,000	\$3000	\$0	↙

Weighting Value: Determines the percent of the actual excess losses for use in the formula. This factor recognizes that excess losses are less related to the operations of the business (as compared to random occurrence).

Weighting value is smaller for small companies and increases with company size.

PRIMARY LOSSES

- Plan gives greater weight to accident frequency than to accident severity

10 Small Losses			1 Large Loss		
Claim(s)	Primary	Excess	Claim	Primary	Excess
\$50,000	\$50,000	\$0	\$50,000	\$15,000	\$35,000

- Because of the relative weightings, 10-injury employer receives a much higher modification than the 1-injury employer, even though its total losses are the same.

OVERVIEW OF THE EXPERIENCE MODIFICATION RATING

Time Period measured

- Based on three years of payroll and loss data
- You pay 3 years for a claim

A rating effective 7/1/16 would use the following data:

Policy Periods	Reported
7/1/15 – 7/1/16	Lag Year – Not Included
7/1/14 – 7/1/15	Yes
7/1/13 – 7/1/14	Yes
7/1/12 – 7/1/13	Yes

OVERVIEW OF EXPERIENCE MODIFICATION RATING

- Your mod is affected by both the number of losses that your company incurs (frequency of losses) and the amount of those losses (severity of losses).
- The loss values used in the mod calculation include reserves on open claims, so good claims management can be very important.
- The mod compares your organization with other companies in the same industry based on payroll code.

TRUE COST OF INDEMNITY

Example

- EE FELL TO GROUND DUE TO CRACKED DRIVEWAY AND TWISTED ANKLE AND KNEE. HAS INJURIES TO RIGHT KNEE, SHOULDER AND RIBS.

Medical Only – 70% decrease		Premium Costs		
Incurring Loss	Impact on Mod	1 yr.	2 yr.	3 yr.
\$3,004	0.0016	\$581	\$1,163	\$1,744

Medical & Indemnity		Premium Costs		
Incurring Loss	Impact on Mod	1 yr.	2 yr.	3 yr.
\$7,906	0.0137	\$4,978	\$9,956	\$14,934

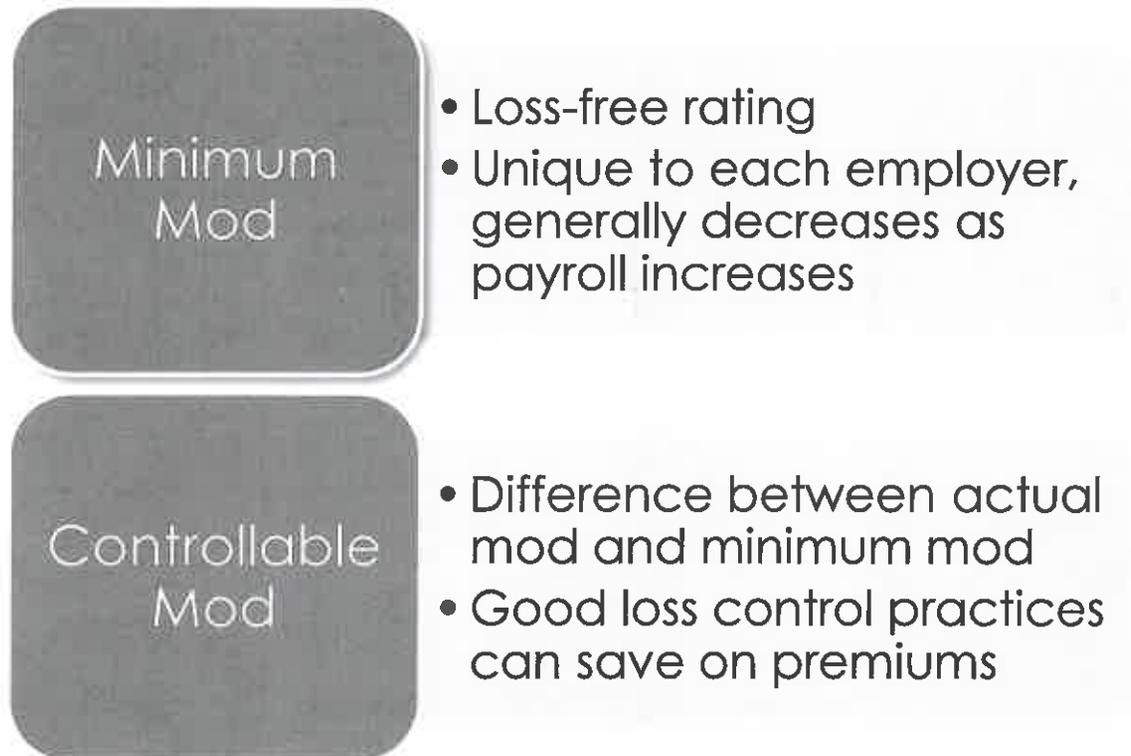
EXPERIENCE MODIFICATION RATING

City of Mount Vernon

Policy Year	Premium	Incurred Losses	Experience Mod
2011	\$55,491	\$20,865	1.14
2012	\$57,002	\$26,417	1.14
2013	\$55,983	\$97,443	1.03
2014	\$68,015	\$208,600	1.14
2015	\$63,856	\$18,118	1.18
2016	\$81,703	-	1.41

OVERVIEW OF EXPERIENCE MODIFICATION RATING

- Controlling your mod means controlling your premium.



DEBIT MOD VS. CREDIT MOD

- Your mod determines your final workers' compensation costs.
- Your premiums equal the basic, or manual, premium multiplied by your mod.

2015 Current – Debit Mod

<i>Manual premium</i>	<i>\$73,205</i>
<i>Mod</i>	<i>x 1.41</i>
<i>Discount</i>	<i>(x 0.79)</i>

Premium you pay *\$81,543*

2015 Minimum – Credit Mod

<i>Manual premium</i>	<i>\$73,205</i>
<i>Mod</i>	<i>x 0.74</i>
<i>Discount</i>	<i>(x 0.79)</i>

Premium you pay *\$42,796*

OVERVIEW OF EXPERIENCE MODIFICATION RATING

Common Mod Issues:

- Not keeping losses as type 6, medical-only (These are reduced by 70% in the mod calculation)
- Not getting losses closed in a timely fashion, resulting in reserves hurting the mod longer than necessary
- Classifying payroll incorrectly, which can result in your expected losses being higher or lower than appropriate

PREVENTION

- Timely Report of Claims
- Active Return-to-Work Program
- Personal Accountability and Responsibility for Safety
- Safety Training