



HOW E-MODS AFFECT THE BOTTOM LINE

If you do not understand the definition of an experience rating modification factor (e-mod), you are not alone. However, it is a critical part of many employers' workers compensation insurance costs. While this article attempts to explain how e-mods are determined in simple terms, it is not inclusive of every detail or aspect that could affect your company's e-mod.

When an employer applies for workers compensation insurance, the premium is determined by many factors including classification of payroll, manual premium calculation and adjustments.

Classification

Many insurance carriers use a basic business and industry classification system developed by the National Council on Compensation Insurance (NCCI). Under the system, each classification groups employers with similar exposures for loss. Many employers have multiple classifications on their policies because not all employees do the same job.

For example, a printing company might employ printing staff, office personnel, delivery drivers and sales people who all face different workplace hazards and therefore, different classifications.

NCCI assigns each classification a rate that is based on collective loss experience of companies within that code.

Adjustments to Premium

With the manual premium determined, adjustments (discounts or surcharges) are made to reflect the individual characteristics of the policyholder, and used to help create the final premium. One such adjustment is the e-mod.

Like classifications, e-mods are calculated by NCCI. Employers must meet certain criteria to qualify for an e-mod. Generally, employers paying \$3,500 in annual premium for two of a three year period, or \$7,000 in premium in one year are eligible. The e-mod calculation is generally based on the last three years' losses and payroll per classification excluding the most recent year.

E-mods are intended to predict future losses of an individual employer by analyzing its past losses. Generally, the frequency of accidents is a larger component of the e-mod calculation than the severity cost of the accidents.

For example, Company A has one loss of \$100,000 and Company B has 20 losses of \$2,000 each. Company A will probably have a lower e-mod than Company B. However, cost cannot be completely ignored in the calculation. To achieve this blend of frequency versus cost, e-mods are 'split rated.'

Split rating divides the actual costs of a claim between two buckets: basic/primary and excess. For each claim, the first \$5,000 is primary. Any additional costs are excess. In the formula, the primary value is given more weight than the excess. In the example above, Company A's primary value is \$5,000 and Company B's primary value is \$40,000.

The expected losses are estimated and also split between the primary value bucket and the excess bucket. The actual losses are divided by the expected losses. The resulting number is the e-mod.

Medical-only claims do not have as much of an impact on the experience modification. Only 30% of the actual primary and excess portions of an individual medical-only claim is included in the calculation of the modification factor. As a result, medical-only claims are reduced by 70%.

An employer with an e-mod below 1.00 has had less than expected losses during the experience period. An employer with an e-mod above 1.00 has had losses that were more than expected compared to other employers in the same industry.

In the manual premium example on the other side, if the employer has an e-mod of .85, the final premium would be \$43,000 x .85= \$36,550. If the employer had an e-mod of 1.15, the final premium would be \$43,000 x 1.15= \$49,450—almost a \$13,000 difference.

An e-mod can be a reward for a good safety record or a penalty for a poor one. To keep your premiums and e-mod as low as possible, it is essential to create a safe workplace.

For more information on e-mods, contact your agent or WCF marketing representative, or see NCCI'S website at www.ncci.com.

Facts about E-mod

- E-mods are mandatory for any company that qualifies to be rated.
- E-mods are calculated by NCCI, not by insurance carriers.
- E-mods include all businesses under common ownership and in all states of operations.
- E-mods are re-rated once a year, usually at policy renewal time.
- Employers retain their e-mod even if they change insurance carriers.
- E-mods can be transferable to new owners if the business is sold.

Company A	Estimated Payroll	Rate / \$100 of Payroll	Premium
	\$500,000	\$10	\$50,000
Experience Modifier		1.71	x 1.71
Total Premium			\$85,500

Company B	Estimated Payroll	Rate / \$100 of Payroll	Premium
	\$500,000	\$10	\$50,000
Experience Modifier		.67	x 0.67
Total Premium			\$33,500

TOTAL SAVINGS for Company B over Company A: \$52,000