

EXPERIENCE MODIFICATION EXPLAINED

An experience modification, commonly called an “e-mod,” is an important factor used to adjust your workers’ compensation premium.

What is an experience modification factor?

An experience modification rating (aka an EMR or e-mod) factor is a multiplier applied to the premium of a qualifying policy and is meant to provide an incentive for loss prevention. The e-mod represents either a credit or a debit that is applied to the premium before adjustments. If your company’s loss experience is more costly on average than another company’s loss experience in your industry, the result is a debit e-mod or surcharge on your premium. If your company’s loss experience is less costly than the industry average, you will receive a credit e-mod or discount on your premium. The same e-mod factor will be applied to all businesses that share common majority ownership. Additionally, an e-mod will remain with a business even if the business is sold to another owner.

Who determines experience ratings?

The National Council on Compensation Insurance is the rating bureau responsible for collecting and analyzing workers’ compensation data in Colorado, among other states. It will determine rates for all class codes in addition to being responsible for calculating e-mod ratings. The factors used by NCCI to calculate each employer’s experience modification are applied consistently, regardless of which insurance company provides coverage. In addition, NCCI’s Experience Rating Plan is a mandatory plan, so if an e-mod is calculated for a business, it must be applied to the workers’ compensation policy for that business.

Who qualifies?

Every employer whose premium meets the premium eligibility threshold established by NCCI are eligible for an experience modification rating. Employers that do not meet the premium threshold to qualify for an e-mod will pay the basic industry rate for their coverage, net of any applicable adjustments from Pinnacol Assurance. The premium threshold changes annually and is set by NCCI. If you would like to know the current premium threshold for eligibility, please contact your Pinnacol agent or underwriter.

How is an e-mod calculated?

The e-mod is determined by comparing actual losses the customer experienced to the loss amounts NCCI expected during the experience period for the employer’s industry. The size of a business as it relates to the amount of payroll paid during the experience period is also considered a factor in the e-mod calculation. This is important since an employer with 20 employees and a larger amount of payroll would be expected to have more claims than an employer with two employees and a smaller amount of payroll. Similar businesses by size and industry are compared to one another, so an accounting firm would be compared to other accounting firms of similar size and not to retail stores or home builders, since their exposures and expected losses will be different.

In addition, the formula used by NCCI adjusts the actual loss amounts so that the frequency of claims is given greater weight than the severity of the claims. This is because the cost of a specific accident is often left to chance and is statistically less predictable than the fact that the accident occurred. The important fact is that the accident occurred, so NCCI’s Experience Rating Plan gives greater weight to accident frequency than to accident severity.

What years are included in e-mod calculations?

An employer's rating effective date determines the experience period. The experience period is generally based on three years of experience, though it could vary depending on a number of factors. The three years used are the past three years prior to the rating effective date, not including the current policy period or the most recent policy period. The most recent policy period is considered an interval year and is excluded because ultimate claims costs and final premium amounts are not yet known at the time of e-mod calculation.



Is anything not included in the e-mod calculation?

Claims that are denied/non-compensable, claims with zero medical or indemnity costs, and fraudulent claims are not included in the experience modification calculation. In Colorado, claim costs used in the e-mod calculation are net of deductible, so if there is a deductible assigned to the policy, that deductible amount will be removed from the cost of the claim before being used in the calculation.

There is also something called a per-claim accident limitation set by NCCI per state. Very large losses are less likely to occur and are so infrequent that including the entire portion of the loss beyond a certain level in the experience period reduces the predictive ability of NCCI's Experience Rating Plan. One very large loss does not imply a pattern of claim frequency. So, a state accident limitation caps each individual loss (or occurrence if multiple claims arise out of the same incident). The state accident limitation amount differs by state and may change year over year. If you have questions about state accident limitations, please contact your Pinnacol agent or underwriter.

How can I keep my e-mod low?

A sound safety program, a return-to-work plan and loss prevention procedures will help keep your e-mod low and are crucial to helping you effectively manage your workers' compensation costs. Carrying a deductible may also have a positive impact on your e-mod since Colorado is a net-of-deductible state. If you'd like to discuss that in more detail, please contact your Pinnacol agent or underwriter.

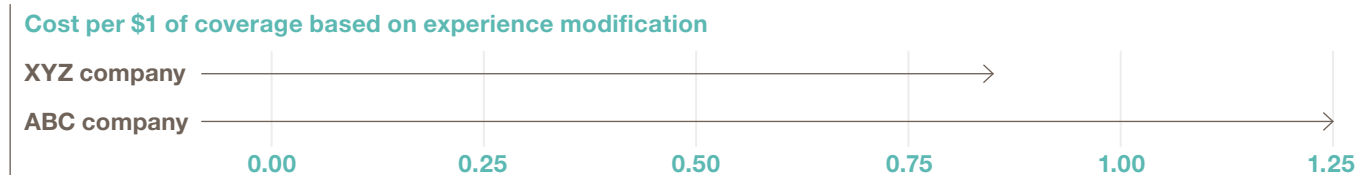
The following example compares two companies that perform the same services and employ the same number of workers:

XYZ company

- The XYZ company has a strong safety program, a good claims history and a low e-mod.
- The XYZ company has an e-mod of 0.85, which results in a 15% discount on its workers' compensation premium compared to other companies in the same industry. Because XYZ has a credit e-mod, the company only pays \$0.85 for every dollar of coverage received.

ABC company

- The ABC company has an inadequate safety program, a large number of claims/losses and a high e-mod factor.
- The ABC company has an e-mod of 1.25. ABC pays 25% more for its workers' compensation insurance than other companies in the same industry classification. For every dollar of insurance coverage received, ABC will pay \$1.25.



Understanding how an e-mod is calculated and how it applies to your premium can help you determine if your company's loss prevention efforts are effective and if there are further steps your company can take to lower the e-mod. For more information about e-mods and how to lower your workers' compensation insurance costs, contact your Pinnacol agent or underwriter.