

How E-Mods Affect The Bottom Line



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

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.

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. 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 out of three consecutive years, 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 an employer's future losses by analyzing its past losses. Generally, accident frequency is a larger component of the e-mod calculation than accident cost severity.

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. But, 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. In the formula, the primary value receives more weight than the excess.

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.

E-mod FYI

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

Medical-only claims do not have as much impact on the experience modification. Only 30% of the actual primary and excess portions of a medical-only claim is included in the calculation. 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.

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, or see NCCI'S website at ncci.com.

