SECURA PREVENTION CONNECTION™

SAFEWORKS

Risk management news to protect your world

Experience Rating and the Impact on Your Business

How Rates are Determined

An experience modifier determines the rate that you will pay for worker's compensation insurance. Modifiers are constructed with the assistance of a non profit organization, the National Council on Compensation Insurance, (NCCI). This organization collects enormous amounts of data on accident frequency and severity by industry class from all over the country. They determine statistical models and average expected loss costs for any particular industry and establish a base rate.

This base rate is then multiplied by $100 per payroll by something called the experience modifier. This is the actual loss experience of your company for the last three years, not including the last complete policy year. The latest year is not included in the calculations because some claims may still be open and not give an accurate model of loss costs. The State determines the average expected losses and costs of businesses similar to yours and assigns it a point value of 1.0

Companies whose losses are lower than expected when compared to competitors in the same case are assigned a modifier below 1.0 like a .85 and will pay lower rates. Companies with higher than expected losses when compared against similar companies in the same class will be assigned a number above 1.0 like 1.8 and required to pay higher rates for insurance.

The formula works like this Co A has a better than average safety record their base rate is $9.51 and payroll is $250,000 with a modifier of .8. 9.51 x 2500 x.8 = $19020. Company B has a poor safety record in the same industry as company A. It will use the base rate and same payroll 9.51x2500 x1.8= $42,795 more than twice their competitors premium!

What's worse, if you are a company that works offsite, like a construction or installation contractor. You may very well be excluded from bidding or coming onto another's premise to conduct business. Modifiers are considered by many Safety, Loss Control, and Risk Managers to be a report card of a company's attitude towards safety. No one wants jeopardize their operations, safety record and people by inviting a poor performer in.

In an age of thin profit margins, this means company A will be able to position themselves with wider profit margins and lower prices than their less safe competitor. In some cases, companies with unsafe work records and high modifiers have found themselves unable to compete in the market place and put themselves out of business.

The state captures a "snapshot" of your safety experience on a 3 year "rolling' basis. Every year, 6 months after the anniversary date of your policy, it captures all the claims activity of the lass three years, excluding the most recent year, and determines what your modifier will be. If you have an open reserve on an unsettled claim, it will factor that reserve into your loss experience as if the whole amount has been paid.

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This snapshot also includes a formula the state uses in measuring frequency and severity. Frequency is considered often a predictor of future events and expected losses are calculated into the new modifier. Severity can have near the same loss dollars but have a lower modifier. For example if company A had one claim for $30,000 in one year and Company B had 9 claims at 3,000 each or $27,000. Company B would have the higher modifier. One of the laws of probability is that "past events will predict future outcomes"
and state compensation bureaus take that to heart when factoring your modifiers.

Strategies to Prevent Modifiers from Spinning out of Control
About the worst thing a company do is ignore or become complacent about workers compensation modifiers**.** Worker's Compensation is a significant overhead cost to running any substantial business. Businesses can implement controls that will control or reduce their modifiers.

1). Timely reporting of claims is essential. An adjuster needs to be assigned to your employee right away to establish facts, documentation and control medical costs. Anxiety of an injured employee often leads to more frequent medical appointments and exams when they are getting no adjuster direction. Late reporting of claims leads to higher claims costs and is a contractual violation of insurance policy terms.

2.) Early Return to Work Programs have proven to be an outstanding strategy for getting employees back to work in a reduced capacity as they mend. Identify jobs within your company that could accommodate an employee with work restrictions.

3.) Operate a Safety Program that is more than lip service. Many companies have written programs but far fewer have fully functioning and engaged management leadership in Risk Management of the company. If your written plan "talks the walk" then everyone should be "walking the walk". Invite a set of outside eyes to walk through your facility or jobsites and give you ideas for improvement. Outside eyes can be from your insurance carrier, SECURA Risk Management Consultants, OSHA voluntary program inspectors, insurance agency loss control representatives or hired private safety consultants.

4.) Review your loss runs and make improvements where needed. Depending on the size of your company do a quarterly, semi-annual or annual review of loss runs obtained from your insurance carrier. Look for trends, departments or jobs that are producing frequency or severity. Ask your agent for assistance in reviewing your losses. Your SECURA Risk Management will run a loss analysis report for you that can give greater clarity to your loss picture and be happy to go over it with you.

This bulletin is designed by SECURA Insurance to inform you of important safety measures that can save you considerable business expense.