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WORKERS' COMPENSATION

EXPERIENCE MODIFICATION: BEYOND THE BASICS

WHAT IS AN EXPERIENCE MODIFICATION (E-MOD)?

An experience modification factor (known as an E-Mod, experience mod, ex mod, e mod, mod, etc.) is a rating factor calculated using an individual insured or combinable group of insureds' loss experience over a period of time as it correlates to the expected loss values for the industry or classification.

CAN AN INSURED HAVE MORE THAN ONE E-MOD?

Yes, insureds who operate in more than one state may have more than one experience mod.

If an insured operates in one state, they receive one experience rating factor called an intrastate mod.

If an insured operates in more than one state and all the states involved are NCCI states, NCCI would promulgate an interstate mod. An interstate mod would consider premium and loss experience for all the states and one combined mod would be generated.

If an insured has operations in more than one state and any of those states use an independent rating bureau, the insured may have multiple experience mods on their policy. For example, consider a risk that operates in CA, FL, NC and TX. Provided the insured has sufficient prior experience and premium size to qualify for a mod in each state, insured would have a CA mod promulgated by WCIRB, a NC mod promulgated by NCRB, and a combined mod for FL and TX promulgated by NCCI.

It is possible to not qualify for a mod in one state (DNQ) and qualify for a mod in others depending on how payroll is dispersed in different states.

CAN MORE THAN ONE BUSINESS SHARE AN E-MOD?

Yes, combinability as it relates to experience mods is determined by ownership. Any risk that shares 51% or more common ownership is considered combinable and should share a mod.

Examples of combinability:

1. Multiple businesses have exactly the same ownership structure. All the following (a, b and c) are combinable:

    a. Business 1 is 100% owned by John Smith.
       Business 2 is 100% owned by John Smith.

    b. Business 1 is 50% owned by John Smith, 50% owned by Bob Jones.
       Business 2 is 50% owned by John Smith, 50% owned by Bob Jones.

    c. Business 1 is 25% owned by John Smith, 25% owned by Bob Jones, 50% owned by Joe Johnson.
       Business 2 is 25% owned by John Smith, 25% owned by Bob Jones, 50% owned by Joe Johnson.

2. Multiple businesses have varying ownership structures, but 51% or more is in common. All the following (a, b and c) are combinable:

    a. Business 1 is 100% owned by John Smith.
    Business 2 is 75% owned by John Smith, 25% owned by Bob Jones.

    b. Business 1 is 50% owned by John Smith, 50% owned by Bob Jones.
    Business 2 is 75% owned by John Smith, 25% owned by Bob Jones.

    c. Business 1 is 25% owned by John Smith, 25% owned by Bob Jones, 50% owned by Joe Johnson.
    Business 2 is 50% owned by Bob Jones, 50% owned by Joe Johnson.

3. Alternatively, the following examples are considered not combinable, as they do not share 51% or more common ownership.

    a. Business 1 is 100% owned by John Smith.
    Business 2 is 50% owned by John Smith, 50% owned by Bob Jones.

    b. Business 1 is 50% owned by John Smith, 50% owned by Bob Jones.
    Business 2 is 25% owned by John Smith, 25% owned by Bob Jones, 50% owned by Joe Johnson.

    c. Business 1 is 50% owned by John Smith, 50% owned by Bob Jones.
    Business 2 is 50% owned by John Smith, 50% owned by Joe Johnson.

CAN THERE BE MULTIPLE POLICIES PER YEAR REPORTED TO THE SAME E-MOD PROFILE?

Yes, although many carriers prefer all combinable entities sharing an experience mod to be written on the same policy, it is not required by rating bureaus for combinable businesses to share a policy.

It is possible for Business 1 and Business 2 to have different carriers issue their policies or for the same carrier to issue each business a separate policy. In these instances, there would be multiple batches of claims data for a single policy year included on the experience mod report.

Another case of multiple sources of data is if an insured holds short term policies instead of annual policies. All policies with dates within the annual year being reviewed would need to provide claims data.

Similarly, there may be multiple batches of claims data for a single policy year if an insured moves their coverage to a different insurance company midterm.

Due to multiple varying scenarios, it is possible for a rating bureau to use more or less than the standard 3 years of loss history prior to the expiring term.

WHEN IS AN E-MOD PROMULGATED?

Experience modification factors should be published approximately 90 days prior to an insured's annual renewal date. Sometimes there is a delay in promulgation due to the prior insurance carrier's failure to report claims data in a timely manner. Accounts may be flagged by the rating bureau if data is missing, and it is generally helpful for agency representation to follow up with the carrier of record for the data needed to complete insured's e-mod calculation. The carrier would need to report data directly to the rating bureau once available.

WHEN SHOULD ONE MAKE UPDATES TO AN INSURED'S E-MOD PROFILE?

When a change in ownership occurs, the business must notify the insurance carrier of record in writing within 90 days of the date of the change. Depending on the rating bureau, this may be done online, via a specific form (such as NCCI's ERM-14 Form) or via written narrative on the insured's letterhead signed by an officer of the business.

Sometimes claims data from an expired policy can change dramatically during the year. In these cases, it is possible to request a re-promulgation of experience mod. The carrier of record would re-submit unit statistical data and the rating bureau would re-calculate the mod accordingly. Note, that some insurance carriers may apply the new mod midterm with no adjustment to schedule rating while others may adjust their schedule rating once the new mod is applied to retain the original pricing structure.

HOW CAN A CLIENT LOWER / IMPROVE THEIR E-MOD RATING?

The most direct way a client can impact their e-mod is by ensuring their workplace emphasizes safety and loss control to reduce the number of incidents that may lead to a claim. When an employee is injured, consider offering alternative duties as part of a return-to-work program.

Opting for a carrier who prioritizes claims handling and response will also lead to reduction in claim cost because the faster the claim is resolved, the lower the total incurred cost tends to be. Some markets are also more successful in identifying fraudulent claims, which may lead to claim denial and therefore less overall claim cost.

The experience mod factor is an incentive for loss reduction as opposed to a punishment for reporting claims. The e-mod allows for workers' comp pricing more tailored to the individual employer's experience than what manual classification rating provides, giving individual employers some influence over the premium they will pay. Providing a well-organized workplace promoting occupational health and safety can lower incident frequency which can contribute to a more favorable experience mod rating factor.

Please reach out to RT Specialty's knowledgeable workers' compensation team for additional information regarding experience modifications and other work comp-related questions.

CONTACT

For more information, please contact your local RT Specialty WC broker or underwriter.