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Dispelling the mystery of the mod calculation

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The workers' compensation experience modification factor is designed to either reward or penalize employers' current and future premiums based upon historical loss experience. A unity mod of 1.00 is considered the standard. A mod greater than 1.00 indicates that an insured's workers' compensation loss experience was worse than the average employer's with comparable operations and payroll classifications; and the opposite is true of a mod less than 1.00.

The basic mechanics of the mod calculation include Expected Loss Rates (ELRs), Actual Payroll, Expected Losses and Actual Losses.

ELRs are factors used to determine the amount of expected losses for each payroll classification. They vary by state and are expressed as a rate per \$100 of payroll. Actual Payroll is the amount of annual payroll by classification that is reflective of workers' compensation payroll audits produced by insurance companies. Expected Losses are equal to Expected Loss Rates times per \$100 of Actual Payroll. Actual Losses are per your loss run reports produced by your insurer and submitted to the National Council on Compensation Insurance (NCCI) in the form of unit statistical filing.

A mod of greater than unity 1.00 results from your Actual Losses exceeding NCCI Expected Losses.

Hence, when all else is held constant:

• As your payrolls increase, your expected losses increase

• As your expected losses increase, your mod decreases

• As your actual losses increase, your mod increases

• When overall industry-wide losses decrease, expected loss rates published by NCCI decrease

• When expected loss rates decrease, your actual versus expected losses increase and your mod goes up

Given all these variables, it is not surprising that mistakes are made which can result in higher modification factors, and ultimately increased premiums. Having your modification worksheet reviewed annually to ensure the correct payroll by classification and loss experience has been provided to NCCI is important. Identifying and correcting errors could lead to substantial savings in your premium!

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