

Understanding and Controlling Your E-MOD:

To help control your workers' comp premiums

Presented by:
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SCF Arizona



Effort = Possible Savings

- If you could reduce your annual workers' compensations costs by 20 to 25%, would you try?
- If you could save up to 70% by getting your employees back to work, would you do it?



SCF Wants to be Your Partner

- SCF Arizona presents saving products/service opportunities that help you to control claims costs and to lower your e-mod. Here are ways we can help you do this:
 - ✓ Preferred Connection Network (PCN)
 - ✓ Return to Work /Stay at Work Program
 - ✓ Online Claims Viewing
 - ✓ Loss Control Consultations
 - ✓ Safety Works Expos
 - ✓ Association Safety Committee
 - ✓ Drug and Alcohol Program Credit
 - ✓ Free safety literature & Safety Plan Template at SCFAZ.com



The Experience Rating

- Payroll amounts are used to ensure consistency among all businesses
- The e-mod is expressed as a factor with the norm, or baseline, set at 1.00
 - Higher than average losses would have a debit e-mod, such as 1.20, increasing your premium
 - Credit e-mod or lower e-mod, such as .75 decreases your premium



The Experience Modification Formula

- In looking at the formula below, you have basically six values that you need to be concerned with.
- Actual Primary + (Weighting x Actual Excess + (1 – Weighting Value) x Expected Excess + Ballast
- Expected Primary + (Weighting Value x Expected Excess) + (j – Weighting) x Expected Excess + Ballast
- **Actual Primary Losses:** This is the first \$5,000 of each loss
- **Actual Excess Losses:** This is for loss amounts more than \$5,000 on each loss.
- **Expected Actual Losses:** The difference between the sum of expected and the sum of expected primary losses



- **Expected Primary Losses:** Actuaries at the rating bureau calculate expected loss rates for each classification, which are multiplied by the insured's payroll to get the expected losses for the insured in each class code. The expected losses are multiplied by a "Discount Ratio", which represents the amount of expected losses that are expected primary losses.
- **Ballast Value :** This will limit the effect of any single loss on your experience modification. The ballast value increases as the expected losses increase but at a rate slower than expected losses.
- **Weighting Value :** This value is a ratio and limits the effect of your excess losses on the experience modification factor. The weighting value increases as the as the expected losses for a risk increase.



The Experience Rating

Example:

- \$10,000 premium X 1.00 = \$10,000 (Baseline premium without e-mod)
- \$10,000 in base premium X .75 e-mod factor = \$ 7,500
Working safer = \$2,500 in savings
- \$10,000 in base premium X 1.20 e-mod factor = \$12,000
- Higher e-mod = \$2,000 in higher premium

The above example comes from commonly seen policyholder accounts, illustrating the benefit to a safe work environment.



Safety Impacts Rates Nationwide

- Arizona jobs are similar to jobs nationwide
- The National Council on Compensation Insurance (NCCI) categorizes like jobs into classification codes
- Safe/unsafe workplaces in Arizona or in any other state affect classification codes nationwide

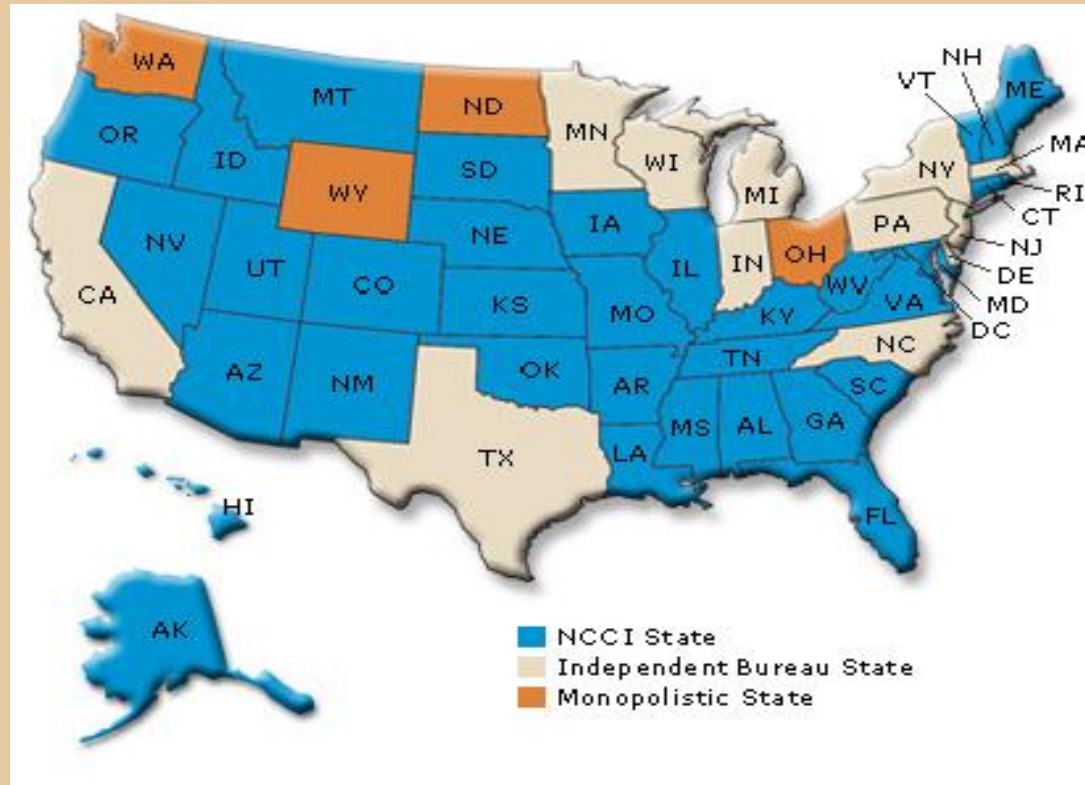


Rate Setting through NCCI

- Workers' compensation carriers send policyholder data to NCCI for monitoring, analysis and to determine recommended rates
- NCCI evaluates statewide payroll and loss data for each classification code; makes rate recommendations to Arizona's Department of Insurance (DOI)
- DOI accepts, rejects or modifies



NCCI States



The Experience Rating

- NCCI's e-mod formula measures each policyholder's performance compared to the average of all employers in a similar classification
- NCCI computes expected losses for class codes based on industry averages
- The variance of actual vs. expected losses plays a significant role in e-mod determination



Frequency vs. Severity

- The e-mod system penalizes more for accident frequency than total accident cost (severity)
- Evidence shows that frequency rather than severity is a better predictor of losses



Frequency vs. Severity (Cont.)

Here is an example:

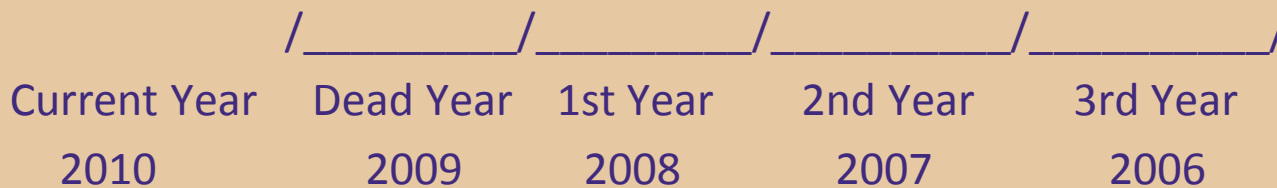
- Employer A: one loss of \$50,000
- Employer B: similarly sized employer with 15 accidents, each costing \$3,000 per claim, for a total of \$45,000
- Employer B pays less in total claims, but can be expected to develop more future claims, which results in a higher e-mod and higher premiums down the road



Policy Years That Apply

Important

- This table shows the e-mod for the 2009 policy year.
 - Current year does not factor into the equation
 - Year prior to current year is “dead” year, which does not factor into the equation
 - The prior 3 years/policy periods are the years the loss experience data are captured



Experience Rating

State	Wt	Exp Excess Losses	Expected Losses	Expected Primary Losses	Actual Excess Losses	Ballast	Actual Incurred Losses	Actual Primary Losses
YR #1	0.19	22,114	29,571	7,457	110,020	24250	127,283	17,263
YR #2	0.19	1,713	2,317	603	0	24250	0	0
YR #3	0.19	63,341	84,941	21,600	72,846	24250	92,576	19,730
		87,169	116,829	29,660	182,866		219,859	36,993

State	Wt	Exp Excess Losses	Expected Losses	Expected Primary Losses	Actual Excess Losses	Ballast	Actual Incurred Losses	Actual Primary Losses
	0.19	87,169	\$116,829	29,660	182,866	24250	219,859	36,993

	Primary Losses	Stabilizing Values	Ratable Excess	Totals	Expected MOD
Actual	36,993	94,857	34,745	166,594	
Expected	29,660	94,857	16,562	141,079	1.18



The Experience Rating

State	Wt	Exp Excess Losses	Expected Losses	Expected Primary Losses	Actual Excess Losses	Ballast	Actual Incurred Losses	Actual Primary Losses
YR #1	0.13	13,197	18,127	4,930	0	16975	2,258	2,258
YR #2	0.13	12,522	17,178	4,656	0	16975	913	913
YR #3	0.13	19,642	26,890	7,248	41,298	16975	49,253	7,955
		45,360	62,195	16,835	41,298		52,424	11,126

State	Wt	Exp Excess Losses	Expected Losses	Expected Primary Losses	Actual Excess Losses	Ballast	Actual Incurred Losses	Actual Primary Losses
	0.13	45,360	\$62,195	16,835	41,298	16975	52,424	11,126

	Primary Losses	Stabilizing Values	Ratable Excess	Totals	Expected MOD
Actual	11,126	56,439	5,369	72,933	
Expected	16,835	56,439	5,897	79,170	0.92



Real policyholder: Actual Losses

IJ	OF	Actual Incurred Losses	Actual Primary Losses	Premium as of October 2008
6		2,337	701	62256.84
6		2,442	733	76427.60
6		2,534	760	0.00
6		15,636	4,691	0.00
9		19,763	5,000	
9		96,307	5,000	0.00
		122,955	16,885	138,684.43

IJ	OF	Actual Incurred Losses	Actual Primary Losses	Premium as of October 2008
6	F	3,539	1,062	78,754.24
6		3,699	1,110	143,285.72
6		14,282	4,285	-
9	*	121,000	5,000	-
		127,456	11,456	222,039.96

IJ	OF	Actual Incurred Losses	Actual Primary Losses	Premium as of October 2008
6		12,081	3,624	31,186.87
6		2,058	617	42,907.12
6		2,153	646	55,559.98
6		2,818	845	76,387.56
6		3,346	1,004	
9		19,999	5,000	
		26,736	11,737	206,041.53



Real policyholder: Losses Reduced by PCN

Claim Data	IJ	OF	Actual Incurred Losses	Actual Primary Losses	Premium as of October 2008
		6	2,337	701	62,256.84
		6	2,442	733	76,427.60
		6	2,534	760	-
		6	15,636	4,691	-
		9	19,763	5,000	-
		9	96,307	5,000	-
			88,527		138,684.43
<div style="border: 1px solid black; padding: 5px; display: inline-block;"> eredmond: Actual Incurred reduced by 28%. </div>					
Claim Data	IJ	OF	Actual Incurred Losses	Actual Primary Losses	Premium as of October 2008
		6 F	3,539	1,062	78,754.24
		6	3,699	1,110	143,285.72
		6	14,282	4,285	-
		9 *	121,000	5,000	-
Total Actual Incurred Losses			91,768	11,456	222,039.96
Claim Data	IJ	OF	Actual Incurred Losses	Actual Primary Losses	Premium as of October 2008
		6	12,081	3,624	31,186.87
		6	2,058	617	42,907.12
		6	2,153	646	55,559.98
		6	2,818	845	76,387.56
		6	3,346	1,004	-
		9	19,999	5,000	-
Total Actual Incurred Losses			19,250	11,737	206,041.53



Real policyholder: Losses Reduced by RTW

IJ	OF	Actual Incurred Losses	Actual Primary Losses	Premium as of October 2008
6		2,337	701	62256.84
6		2,442	733	76427.60
6		2,534	760	0.00
6		15,636	4,601	0.00
9		12,846		
9		62,600		0.00
		82,330		138,684.43
IJ	OF	Actual Incurred Losses	Actual Primary Losses	
6	F	3,539	1,062	78,754.24
6		3,699	1,110	143,285.72
6		14,282	4,285	-
9	*	78,650	5,000	-
		85,106	11,456	
				222,039.96
IJ	OF	Actual Incurred Losses	Actual Primary Losses	
6		12,081	3,624	31,186.87
6		2,058	617	42,907.12
6		2,153	646	55,559.98
6		2,818	845	76,387.56
6		3,346	1,004	
9		12,999	5,000	
		19,736	11,737	206,041.53

Redmond:
RTW has reduced potential indemnity expenses by 35%.



Sample Scenario

2009 Dead Year					
Scenario	Without SCF	LC	RTW(-35%)	PCN(-28%)	
Policyholder Payroll	20,367,553	Same	Same	Same	
EMOD	1.12	0.96	1.01	1.03	
Premium	\$230,279.51	\$196,807.29	\$208,414.74	\$211,421.55	
Savings	\$0.00	\$33,472.23	\$21,864.78	\$18,857.96	
% Change	0%	15%	9%	8%	
Class Code Illustrated	8868 - Colleges/School				
Class Code Illustrated	9101 - Schools-Trade or Voc				

Savings from Loss Control	33,472.23
Savings from Return to Work	21,864.78
Savings from Use of Preferred Care Network	18,857.96

TOTAL ANNUAL SAVINGS

74,194.96



Real policyholder: Losses Reduced by Prevention

IJ	OF	Actual Incurred Losses	Actual Primary Losses	Premium as of October 2008
	6	2,337	701	62256.84
	6	2,442	733	76427.60
	6	2,534	760	0.00
	6	15,636	4,691	0.00
	9	19,763	5,000	
	9	96,307	5,000	0.00
		122,955	16,885	138,684.43
IJ	OF	Actual Incurred Losses	Actual Primary Losses	
	6 F	3,539	1,062	78,754.24
	6	3,699	1,110	143,285.72
	6	14,282	4,385	-
	9 *	0		-
		6,456		
				222,039.96
IJ	OF	Actual Incurred Losses	Actual Primary Losses	
	6	12,081	3,624	31,186.87
	6	2,058	617	42,907.12
	6	2,153	646	55,559.98
	6	2,818	845	76,387.56
	6	3,346	1,004	
	9	19,999	5,000	
		26,735.80	11,736.80	206,041.53

Redmond:
Loss Control has prevented a large loss of \$121,000 in year 2



Sample Scenario

2009 Dead Year				
Scenario	Without SCF	LC	RTW(-35%)	PCN(-28%)
Policyholder Payroll	20,367,553	Same	Same	Same
EMOD	1.12	0.96	1.01	1.03
Premium	\$230,279.51	\$196,807.29	\$208,414.74	\$211,421.55
Savings	\$0.00	\$33,472.23	\$21,864.78	\$18,857.96
% Change	0%	15%	9%	8%
Class Code Illustrated	8868 - Colleges/School			
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Savings from Loss Control 33,472.23

Savings from Return to Work 21,864.78

Savings from Use of Preferred Care Network 18,857.96

TOTAL ANNUAL SAVINGS

74,194.96



Real policyholder: Losses Reduced by Prevention

IJ	OF	Actual Incurred Losses	Actual Primary Losses	Premium as of October 2008
	6	2,337	701	6450.00
	6	2,442	733	39000.00
	6	2,534	760	0.00
	6	-		0.00
	9	-		
	9	-		0.00
		2,194	2,194	45,450.00
IJ	OF	Actual Incurred Losses	Actual Primary Losses	
	6 F	3,539	1,062	7,590.00
	6	3,699	1,110	34,680.00
	6	0	0	-
	9 *	0	0	-
		2,171	2,171	42,270.00
IJ	OF	Actual Incurred Losses	Actual Primary Losses	
	6	0		15,400.00
	6	2,058		11,440.00
	6	2,153		22,253.00
	6	0	0	7,293.00
	6	0	0	
	9	0	5,000	
		1,263.30	6,263.30	56,386.00

eredmond:
Loss Control has prevented a large loss of \$15,636 in year 1

eredmond:
Loss Control has prevented a large loss of \$12,081 in year 3



Sample Scenario

2009 Dead Year

Scenario	Without SCF	LC	RTW(-35%)	PCN(-28%)
Policyholder Payroll	6,890,000	Same	Same	Same
EMOD	0.93	0.78	0.91	0.91
Premium	\$52,393.53	\$44,062.18	\$51,268.87	\$51,493.80
Savings	\$0.00	\$8,331.35	\$1,124.66	\$899.73
% Change	0%	16%	2%	2%

Savings from Loss Control 8,331.35

Savings from Return to Work 1,124.66

Savings from Use of Preferred Care Network 899.73

TOTAL ANNUAL SAVINGS

10,355.74



Sample Scenario

2009 Dead Year

Scenario	Without SCF	LC	RTW(-35%)	PCN(-28%)
Policyholder Payroll	1,200,000	Same	Same	Same
EMOD	1.61	1.37	1.55	1.56
Premium	\$13,820.73	\$11,736.54	\$13,296.79	\$13,401.58
Savings	\$0.00	\$2,084.19	\$523.94	\$419.15
% Change	0%	15%	4%	3%

Savings from Loss Control 2,084.19

Savings from Return to Work 523.94

Savings from Use of Preferred Care Network 419.15

TOTAL ANNUAL SAVINGS

3,027.28



The Experience Rating

- Primary losses are indemnity losses and are capped at \$5,000. Injury codes (IJ) are 2-PTD, 5-TTD ,9-PPD
- Medical Only, injury code (IJ) 6, losses are reduced by 70% when computed in the e-mod formula

Injury Code	OF	Actual Incurred Losses	Actual Primary Losses
5		5,884	5,000
6		3,174	952
6		4,370	1,311
9		11,419	5,000
9		107,717	5,000



Do I Qualify For An E-MOD?

- Premium qualifications for Arizona policyholders
 - \$6,000 in premium for the last year or the last 2 years
 - Premium average of \$3,000 for the last 3 years
- All policy, payroll and loss information is sent to NCCI annually
- NCCI determines if you have earned an e-mod



SCF Wants to be Your Partner

- SCF Arizona presents saving products/service opportunities that help you to control claims costs and lower your e-mod. Here are ways we help you do this:
 - ✓ Preferred Connection Network (PCN)
 - ✓ Return to Work /Stay at Work Program
 - ✓ Online Claims Viewing
 - ✓ Loss Control Consultations
 - ✓ Safety Expos
 - ✓ Association Safety Committee
 - ✓ Drug and Alcohol Program Credit
 - ✓ Free safety literature & Safety Plan Template at SCFAZ.com



Questions



This presentation represents an overview of the Experience Modification process and formula. Please contact us with additional questions:

Ed Redmond, 602.631.2983 or e-mail eredmond@scfaz.com.

Put SCF Arizona to work for you



SCF ARIZONA

Thank You!!

