

Experience Modification Factors

Frequently Asked Questions



Did you know that an accident that happens today will affect your company for several years? This is because workers' compensation insurance utilizes an experience modification factor (e-mod) to determine the amount of premium paid in a policy year. Use this frequently asked questions resource sheet to help you better understand how your e-mod affects your insurance premium.

What is an experience modification factor?

An experience modification factor is a comparison of an employer's past loss experience to the expected experience for a specific period of time. It can be either a debit or credit and is applied to the premium before discounts. Therefore, depending on the past loss experience, the factor will either increase or decrease the standard premium. For instance, a company with an e-mod of 1.23 will pay 23 percent more for workers' compensation insurance, whereas the same company with an e-mod of .90 would pay 10 percent less for insurance. New businesses are assigned an e-mod of 1.00 because there is no loss experience.

How is the experience modification factor determined?

When a workers' compensation premium amount reaches a certain size, the company becomes eligible for experience rating. The requirement is based on manual premium and varies from state to state. But typically, a company that has been paying \$5,000 in manual premium for the past few years or has paid \$10,000 or more in a single recent year qualifies.

Who determines the experience modification factor?

In Oregon, Idaho, Montana and Alaska, experience modifications are determined by the National Council on Compensation Insurance (NCCI), a private corporation created and funded by member insurance companies. Once NCCI determines the experience modification factor, it is then approved at the state level and is used to calculate each employer's experience regardless of which insurance company provides coverage.

Where does experience data come from?

Experience modification data comes from information that has been reported to NCCI by an employer's past insurer. It is a good idea for employers to review these calculations to make sure the information is complete and accurate. Incorrect or incomplete data can cause incorrect experience modification factors.

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How is the experience modification factor calculated?

Several considerations are taken into account when calculating an e-mod:

- Actual losses are compared to expected losses for the experience period based on the employer's premium size and industry classification. That means that office clerical employees are compared only to other office clerical employees; a restaurant operation is compared to other restaurant operations.
- The employer's payroll is also used to determine expected losses. It would be expected that an employer with 20 employees would have more claims than an employer with two employees. For example, a construction business is only compared to other construction companies with approximately the same gross premium amount.
- The formula adjusts the actual losses used so that frequency is given greater weight than the severity of an injury or illness. In other words, six claims that occur over a three-year period totaling \$20,000 have a greater impact against the e-mod than one claim in three years totaling \$20,000. Again, both industry and business size are considered.
- Costs of claims included in the calculation are limited, which varies by state, and all claims greater than \$5,000 are discounted. Some states, like Idaho and Montana, allow for a 70 percent reduction in medical only claims. Oregon has a medical reimbursement option which allows interested employers to reimburse medical only claims up to \$1,500 and those losses that are reimbursed are removed (or reduced) from the experience rating.
- Claims with zero costs are not included in the experience modification calculation.

Is there anything I can do to favorably affect my experience modification factor?

Be proactive rather than reactive when it comes to employee safety. In an effort to help employers be proactive and reduce the impact of work-related injuries and illnesses, Liberty Northwest offers a wide range of tools, like workshops and Webinars, return to work practices, alcohol and drug free workplace programs, etc. By simply taking advantage of tools like these, you'll make a difference by reducing the frequency and/or the severity of work-related injuries and illnesses, resulting in a more favorable experience modification factor.

Where can I get more information?

If you'd like more information about experience modification factors, talk with your Liberty Northwest independent agent, your workers' compensation account executive or you can contact the Liberty Northwest customer service center by phone at 800-463-6381 or by e-mail at CustomerService.Center@libertynorthwest.com.

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