

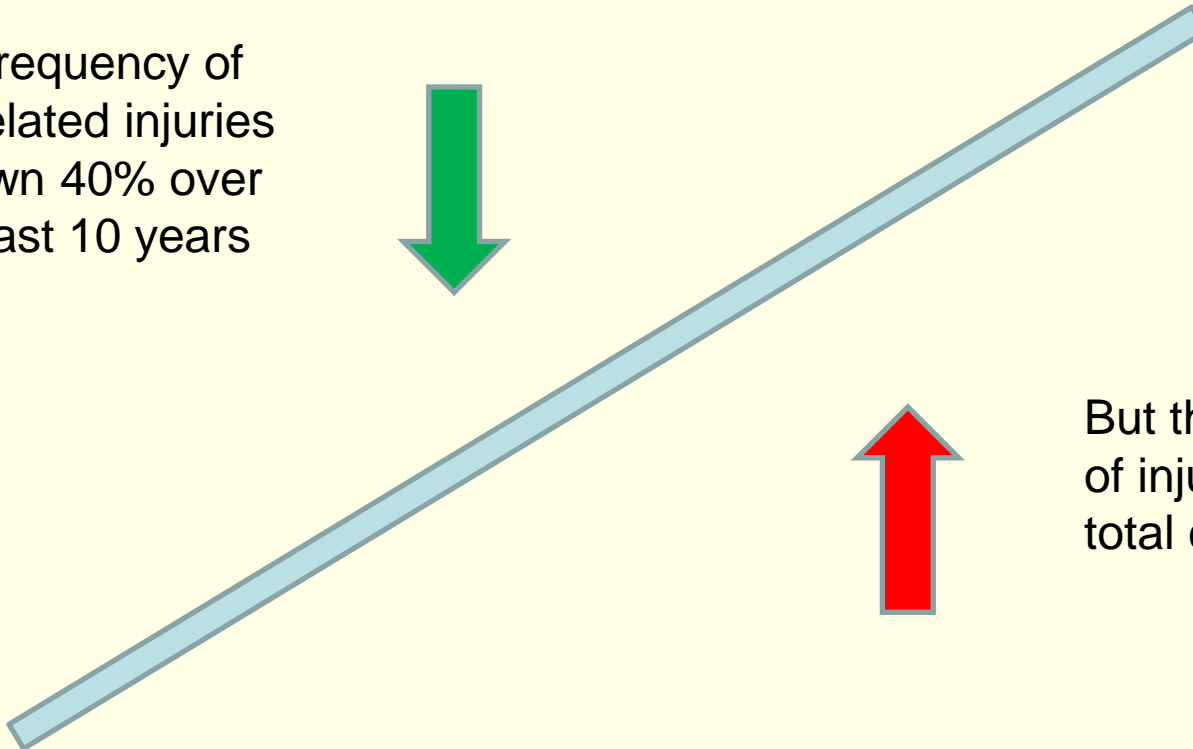
# Maneuvering the Human Resource Landmines in Handling Workers' Comp Claims

*This presentation is not intended to be exhaustive, nor should any discussion or opinions be construed as legal advice. Attendees should contact an Employment Law counselor for legal advice.*

# Where is WC today vs. 10 years ago?

## *The Worker's Compensation Paradox*

The frequency of job-related injuries is down 40% over the past 10 years



But the severity of injuries and total costs are up!

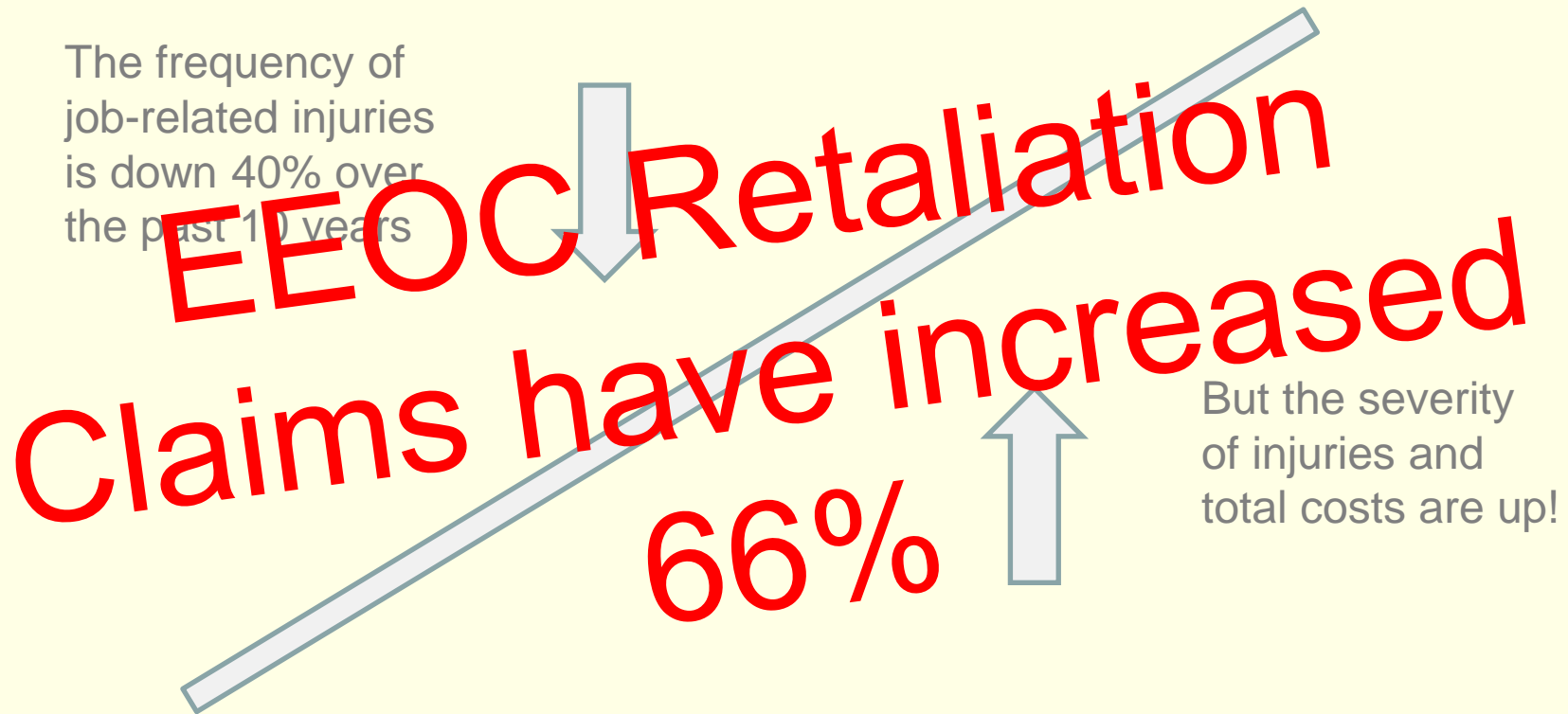


With medical costs averaging a 9% increase each year

# Where is WC today vs. 10 years ago?

## *The Worker's Compensation Paradox*

The frequency of job-related injuries is down 40% over the past 10 years



With medical costs averaging a 9% increase each year

# Mod Crash Course

# Understanding the Mod

- What exactly is a Mod?
  - Experience Modification Factor
    - Experience rating that assesses whether your company's claims are greater than or less than average by comparing your company's payroll and claims history with other businesses in the same industry
    - It uses the last 3 years of loss history excluding the current year and compares this with the same results and period from the same industry for your particular payroll classes
    - If your experience is better than the industry, you will be assigned a **Credit Mod**
    - If your results are worse than the industry, you will be assigned a **Debit Mod**

## Understanding the Mod

- **What is the Purpose of My Mod?**
  - **Your mod determines your final workers' compensation costs.**
  - **Premiums will equal the basic premium multiplied by your mod. *Example:* If your basic premium was \$10,000 and your mod was 1.20, then your workers' compensation premium would be \$12,000.**

## Understanding the Mod

- **What is the Purpose of My Mod?**
- **Your experience mod factor is based on the number of losses that your company incurs (frequency of losses).**
- **Your factor considers the money paid and reserved on claims and factors in anticipated future claims.**
- **Your factor is modified by the amount of your payroll**
- **Mod factor compares your organization with other companies in the same industry (SIC) and NAICS codes.**

## Understanding the Mod

### Types of Claims:

- *Excess Loss*: Ratable individual loss that is greater than \$5,000\* reflecting the severity of losses.
- *Primary Loss*: Balance reflecting the frequency of losses.
- *Example*: If your organization has three claims - \$12,000, \$16,000 and \$3,000 – the first two would be excess claims and the third would be a primary claim.

\* adjusting annually in 2013



## Understanding the Mod

$$\text{Rate} \times \text{Payroll } \$ \times \text{Mod} = \text{Premium}$$

**Actual** Primary Losses + Ballast Value + Weighting Value x **Actual** Excess Losses +  
(1-Weighting Value) x Expected Excess Losses

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**Expected** Primary Losses + Ballast Value + Weighting Value x **Expected** Excess Losses +  
(1-Weighting Value) x Expected Excess Losses

## Understanding the Mod

What determines if a loss is considered primary or excess?

- ***The Split Point***
- The MOD calculation uses a split rating approach
- *The split point separates actual losses into primary and excess components*

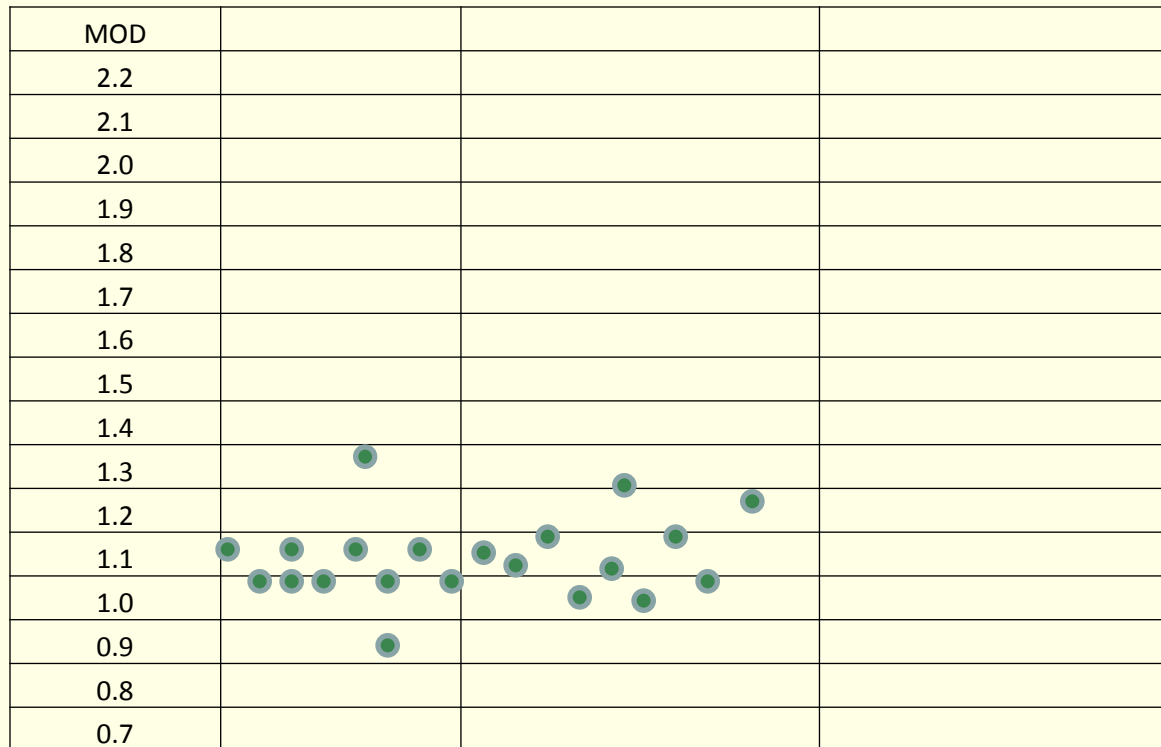
## What is the purpose of the Split Point?

- One of the basic assumptions is that claim **frequency** is more critical than claim **severity**

	Claims	Cost per Claim	Total Losses
Employer 1	1	\$50,000	\$50,000
Employer 2	10	\$5,000	\$50,000

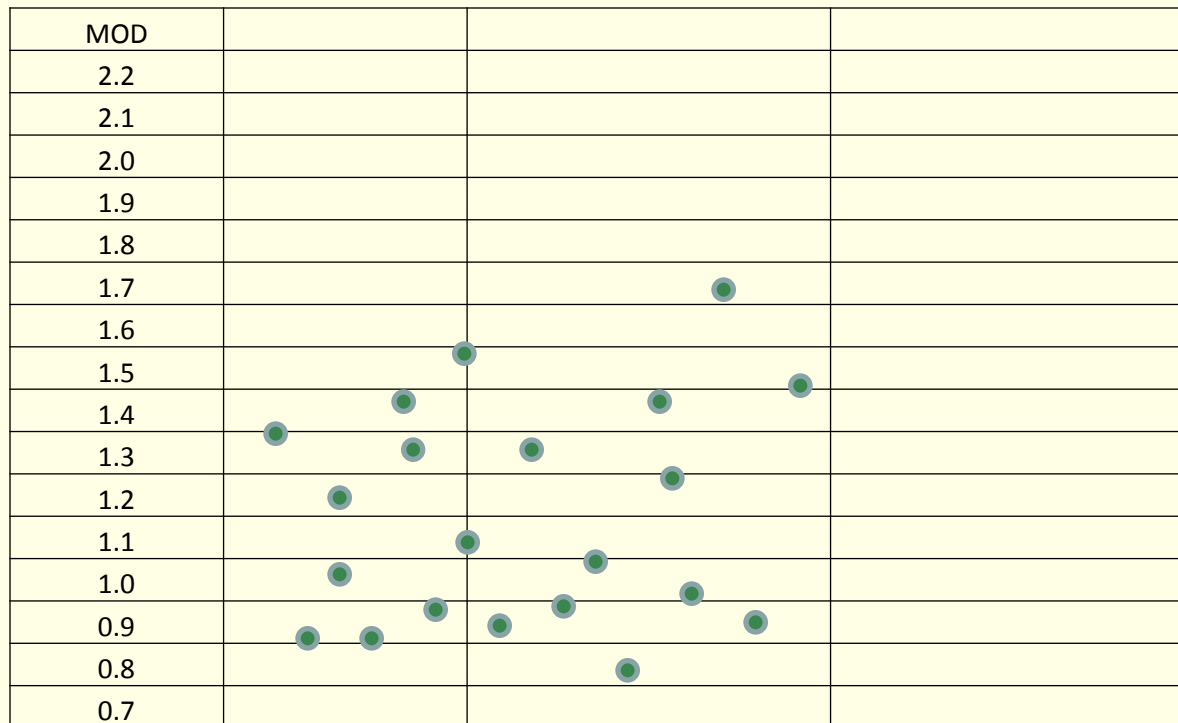
## The Mod gets a facelift

- What Changes are Coming to the Mod calculation and why?
  - ✓ **The split point has not changed in 20 years**
  - ✓ **As a result, the majority of risks are grouped together with a diminishing reward for those who have managed well**



## The Mod gets a facelift

- What Changes are Coming to the Mod calculation and why?
  - ✓ Expands the differences between primary and excess loss components
  - ✓ Larger difference between those who manage well and those who don't



- **What Changes are Coming to the Mod calculation and why?**
  - For the past 20+ years the Split Point has been \$5,000
  - In 2013, the Split Point will be \$10,000
  - In 2014, the Split Point will be \$13,500
  - In 2015, the Split Point will be \$15,000 Plus 2 Years of Inflation Adjustment
  - Each year following will be adjusted for Inflation

## The Mod gets a facelift

- In NC, implementation began on April 1, 2013
- Individual Employer Mods will be Affected Based on the Individual Employer's Payroll and Loss Experience
  - Generally, Employers with Favorable Loss Experience will Receive Larger Credits
  - Generally, Employers with Less than Favorable Loss Experience will Receive Larger Debits

## Mod Crash Course

- **The ERA**
- Expense Rating Adjustment
- Med Only Claims are discounted 70% when figuring your MOD



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