

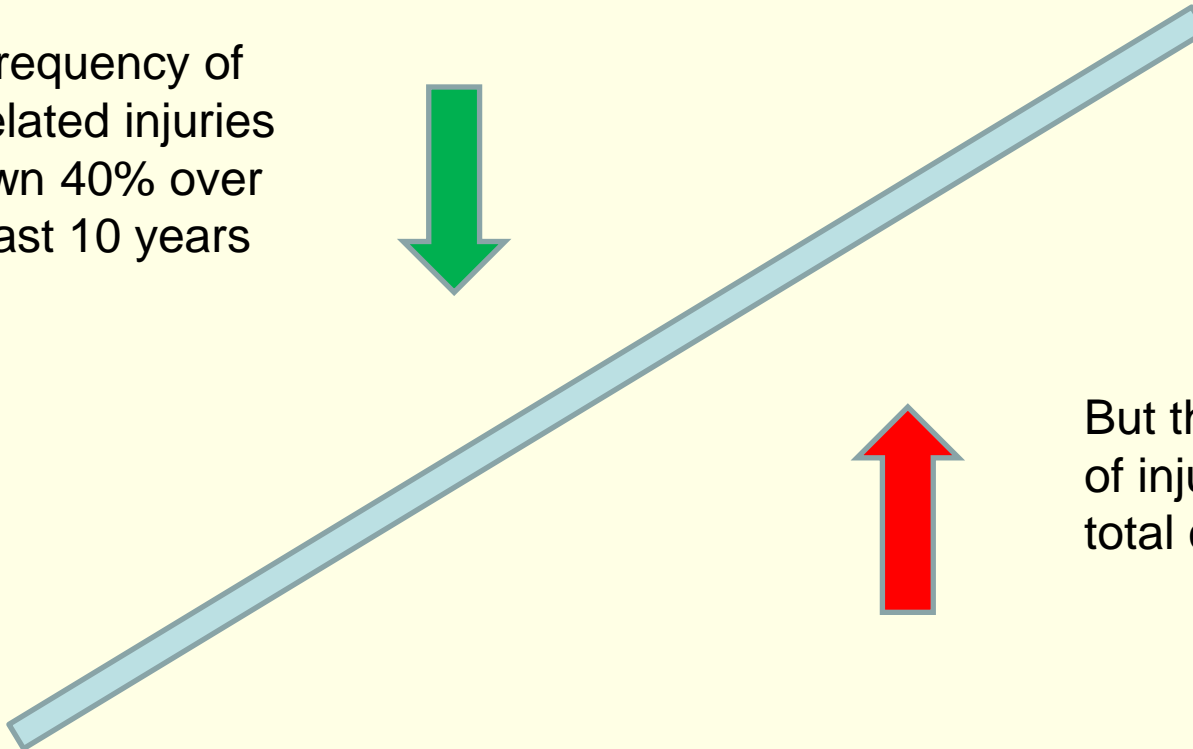
Taming Your Mod

*MAKE YOUR MOD WORK FOR
YOU*

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

What exactly is a Mod?

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

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

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

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

A Day In The Life of a WC Claim...

What Percentage of WC Claims Can Be Avoided?

- 88% of All employee injuries, liability and vehicle losses are caused by unsafe acts of employees
- 10% of all employee injuries and vehicle losses are caused by unsafe physical conditions
- 60-80% of lost time cases can be avoided

Let's Take a Step Back

- Claim Prevention

Prior

Preparation

Prevents

Poor

Performance

-Charlie True

Indian Hill Junior High
1970

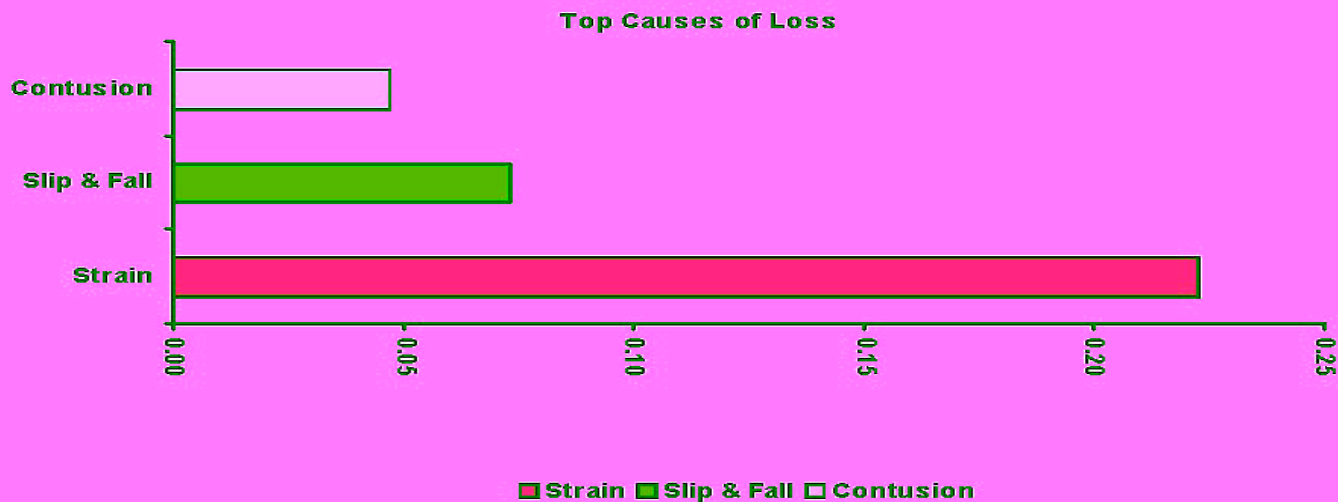


Let's Take a Step Back

- MAKE LOSS CONTROL A TOP PRIORITY!
- Prevent accidents and claims before they occur.
- Trends-identify departments, locations and injury types

Let's Take a Step Back

What if I am not big enough to see trends?



Cause of Loss	Total Loss Amount	Total impact on mod factor
Strain	\$152,358	0.2227
Slip & Fall	\$49,702	0.0731
Contusion	\$25,793	0.0472
Grand totals	\$227,853	0.3430

The Key

- **The Key to Claims Reduction and the Development of a Safety Culture is Loss Prevention**
 - **A Way of Doing things within a Company**
 - **An attitude from the top to the bottom of the organization**
 - **A no-loss tolerance policy – Make it one of your Key Performance Indicators (KPIs), like quality control, customer satisfaction and productivity**

What about After a Loss

- MAKE LOSS CONTROL A TOP PRIORITY!
- 1. Investigate accidents immediately and thoroughly; take corrective action to eliminate hazards, and be aware of fraud.

Timely Reporting

What difference does it make??

Timely Reporting

What difference does it make??

The Impact of Days in Injury Reporting

<u>Reporting Days Lag</u>	<u>Claims Cost Index</u>
0	1.13
1-7	1.00
8-14	1.18
15-21	1.29
22-28	1.31
29 +	1.45

Hartford Research Study

What about After a Loss

2. Report all claims to your carrier immediately. Alert the carrier to any serious, potentially serious or suspect claims.
3. Frequently monitor the status of the claim, and communicate with the adjuster to resolve them as quickly as possible.

What about After a Loss

4. Take an aggressive approach to providing light duty to all injured employees upon their release from treatment. Supervise light duty employees to ensure their conformance with restrictions.

What about After a Loss

5. In serious cases that involve lost time, communicate with the claims adjuster to demonstrate your interest in returning the injured employee back to gainful employment.

What about After a Loss

6. Set safety performance goals for those with supervisory responsibility. Success in achieving safety goals should be used as one measure during performance appraisals.

What about After a Loss

7. Develop a written safety program, and train employees in their responsibilities for safety. Incorporate a disciplinary policy into the program that holds employees accountable for breaking rules or rewards them for correctly following safety procedures.

What about After a Loss

8. Frequently communicate with employees, both formally and informally, regarding the importance of safety.
9. Make safety a priority – senior management must be visible in the safety effort and must support improvement.

What about After a Loss

10. Evaluate accident history and near-misses at least monthly. Look for trends in experience, and take corrective action on the worst problems first.

Direct vs. Indirect Costs

What Are They and How Do They Affect My Bottom Line?

- Fewer than 10% of work-related injuries should require employees to take more than 3 days off for medical reasons (Managed Comp Survey)
- Nationally, 24% of workplace injuries result in lost time greater than 3 days

Direct vs. Indirect Costs

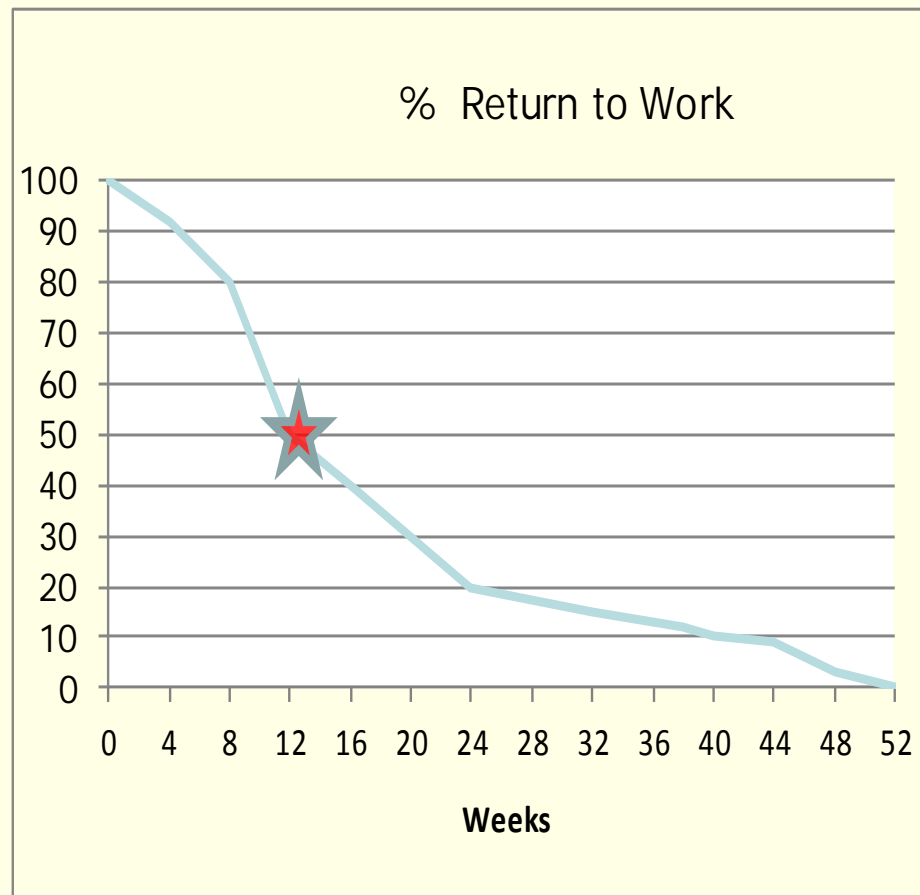
What Are They and How Do They Affect My Bottom Line?

- How many days would you guess an injured and off work employee must be off work before there is a 50/50 chance that they will never return to work for that employer?

Direct vs. Indirect Costs

What Are They and How Do They Affect My Bottom Line?

- How many days would you guess an injured and off work employee must be off work before there is a 50/50 chance that they will never return to work for that employer?



Direct vs. Indirect Costs

What Are They and How Do They Affect My Bottom Line?

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

Direct vs. Indirect Costs

What Are They and How Do They Affect My Bottom Line?

Direct Costs

```
graph TD; DC[Direct Costs] --> M[Medical]; DC --> I[Indemnity];
```

Medical

- Doctors
- Hospitals
- Tests
- Rehabilitation
- Physical Therapy
- Occupational Therapy
- Retraining

Indemnity

- Temporary Total Disability
- Temporary Partial Disability
- Permanent Disability Awards

Indirect Costs

What Are They and How Do They Affect My Bottom Line?

Hire & Retrain
Replacement
Worker

Investigate the
Accident & Take
Corrective Action

Repair Damaged
Property from Accident

Indirect Costs

Schedule Delays

Shutdown Costs

Lower Employee
Morale

Poorer Customer
Relations

StartUp Costs

Maintain Insurance Coverage
for Absent Employees

Increased
Absenteeism

Indirect Costs

What Are They and How Do They Affect My Bottom Line?

The Smaller the Claim

The Higher the Percentage of Indirect Costs

Claim Cost	Indirect Costs
\$10,000 +	1.1 times
\$5,000 - \$9,999	1.2 times
\$3,000 - \$4,999	1.6 times
\$0 - \$2,999	4.5 times

Where does the money to pay for these indirect costs come from?

Indirect Costs

What Are They and How Do They Affect My Bottom Line?

**Where does the money to pay for
these indirect costs come from?**

YOU!

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.**
- **Mod factor compares your organization with other companies in the same industry (SIC) and NAICS codes.**

The Mod gets a facelift

- What Changes are Coming to the Mod calculation and why?

The Mod gets a facelift

- What Changes are Coming to the Mod calculation and why?
 - 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

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.

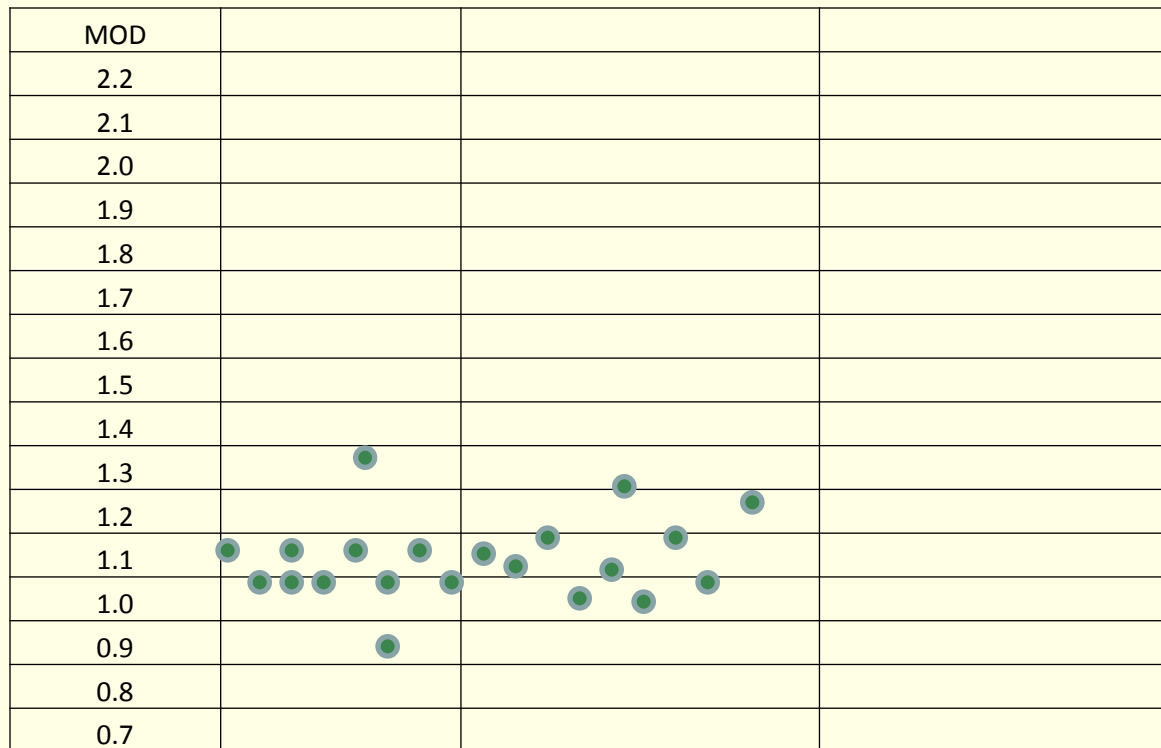
Understanding the Mod

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*
- *Currently the split point is \$5,000*

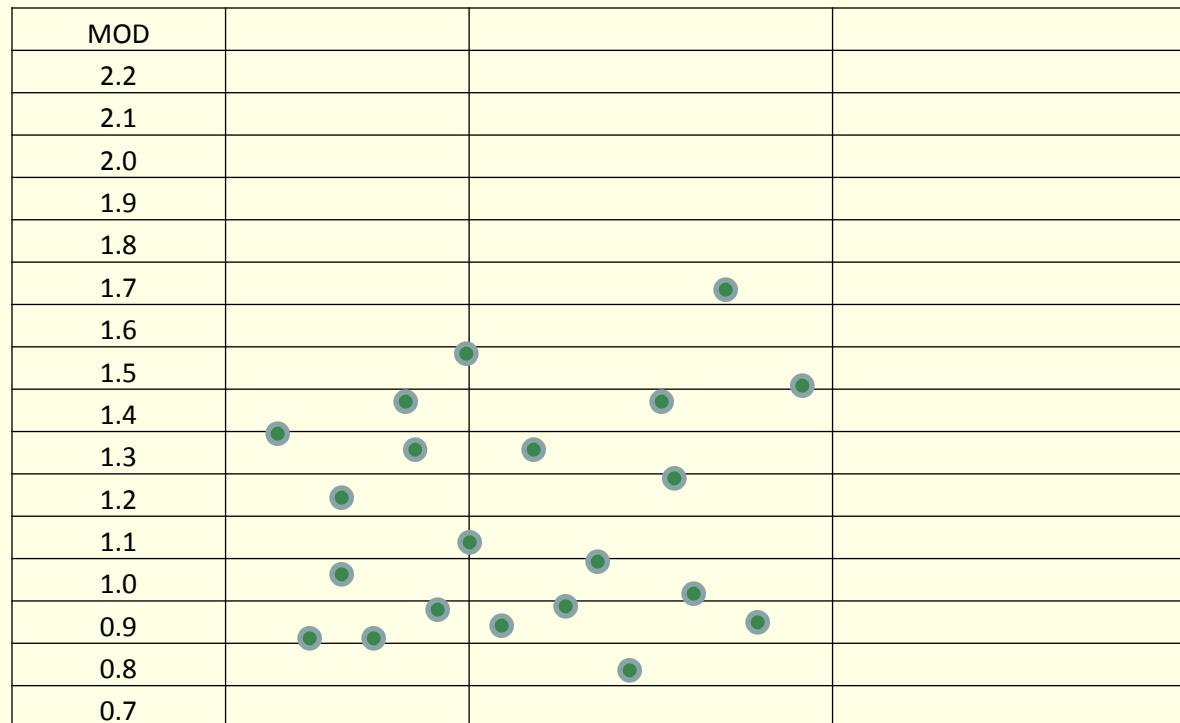
The Mod gets a facelift

- 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



The Mod gets a facelift

- What Changes are Coming to the Mod calculation and why?
 - Currently the Split Point is \$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

Split Point		Current \$5,000	Year 1 \$10,000	Year 2 \$13,500	Year 3* \$17,000
\$4,000 Claim	Primary	\$ 4,000	\$ 4,000	\$ 4,000	\$ 4,000
	Excess	\$ 0	\$ 0	\$ 0	\$ 0
\$12,000 Claim	Primary	\$ 5,000	\$10,000	\$12,000	\$12,000
	Excess	\$ 7,000	\$ 2,000	\$ 0	\$ 0
\$50,000 Claim	Primary	\$ 5,000	\$10,000	\$13,500	\$17,000
	Excess	\$45,000	\$40,000	\$36,000	\$33,000

*Estimated split point value during transition period

The Mod gets a facelift

- **Generally, Larger Employers Receive Larger Credits and Larger Debits than Smaller Employers with Similar Experience Due to Credibility Considerations**
- **Under the Higher Split Point, this Gap will Widen**

The Mod gets a facelift

- Impact of the Split Point

Impact of Split Point Change

Impact of \$10,000 Split Point on Latest CW Intrastate Mods

% Change in Mod	% of Risks	Average Mod	
		Current	Proposal
Change <-15%	0.0%	--	--
-15%≤Change<-10%	0.3%	0.76	0.68
-10%≤Change<-5%	11.2%	0.84	0.79
-5%≤Change<0%	65.3%	0.92	0.89
No Change	2.6%	0.96	0.96
0%<Change<5%	7.5%	1.06	1.09
5%≤Change<10%	7.7%	1.19	1.28
10%≤Change<15%	4.2%	1.28	1.44
15%≤Change<20%	1.0%	1.41	1.65
20%<Change	0.2%	1.59	1.95
All	100.0%	0.98	0.98

Over 76% of risks will see a decrease in mod

Less than 6% of risks will see an increase ≥10%;

0.7% of risks will move from a debit to a credit mod
 0.5% of risks will move from a credit to a debit mod

* Revised on September 11, 2012

The Mod gets a facelift

- In NC, the changes will be implemented on April 1, 2013
- Overall, the changes will be Premium Neutral
- 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

Real Life Scenarios with ModMaster

ModMaster is a powerful analytics tool that TriSure uses to help you discover, refine and implement cost-saving workers' comp solutions

- Understand what the experience rating (or mod is), how your loss history affects the mod and how the mod impacts your bottom line
- Identify and analyze problem areas
- Create a plan to improve problem areas and reduce costs
- Develop targeted solutions to save money on your workers' compensation premiums and claims

Real Life Scenarios with ModMaster

- Quickly calculate and project costs associated with your modification factor
- Identify opportunities for improvement
- Analyze losses to show what specific losses cost in increased premiums and full costs
- Reveal cost drivers and the impact of the mod

Real Life Scenarios with ModMaster

- Locate key factors affecting the mod
- Focus on identifiable problem areas, such as frequency or severity of injuries
- Examine loss trends for types of injuries, departments and other demographic data
- Isolate certain areas to target with loss control and risk management resources

Taming Your Mod

*MAKE YOUR MOD WORK FOR
YOU*

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.