



*A Workers' Compensation Insurance Agency*

## The NCCI Proposes Significant Changes to Your Experience MOD Factor Calculation

The National Council on Compensation Insurance (NCCI) develops your experience MOD annually and insurance carriers use it as a tool to compare your claims experience to that of your industry. To qualify for a MOD rating, an insured must have had coverage of a minimum premium of \$10,000 for one policy period or \$5,000 for two consecutive policy periods.

The NCCI annually produces a MOD Worksheet that outlines the calculation and the data that was used to develop your MOD factor. Typically, the MOD worksheet contains three years of claims and payroll data. The most recent policy year is not included in the three years. For example, for a 1/1/2012 MOD, the worksheet would contain the 2010, 2009, and 2008 policy year's data (not 2011).

In layman's terms, your MOD is simply the amount of your actual work comp losses divided by your expected losses based on your industry. For the past twenty years, the first \$5,000 of a claim has been considered the "primary" portion and any amount above \$5,000 has been considered the "excess" portion of the claim. This magic \$5,000 line is known as the "split point" of claim. In the formula the NCCI uses to calculate your MOD factor, there is a big difference between the "primary" and "excess" parts of a claim. The formula counts the entire \$5,000 "primary" portion of a claim against your MOD but only counts a small portion (typically 5% - 15%) of the "excess" portion of the claim against your MOD. Using a \$10,000 lost time claim for a company whose MOD formula only uses 10% of the "excess" portion of the claim, just \$5,500 of the \$10,000 claim would count against your MOD calculation i.e. the first \$5,000 "primary" portion is fully counted but only 10% of the rest of the claim ( $\$5,000 \times 10\% = \$500$ ) is used in the MOD calculation.

**The major change that the NCCI is proposing is they will be raising the "split point" of claims from \$5,000 to \$15,000 over the course of three years.** Starting 1/1/2013 the "split point" will be increased from \$5,000 to \$10,000, and then will be increased to \$13,500 in the second year and finally to \$15,000 (plus two years of inflation adjustment) in the third year. Looking back at the above example, starting in 2013, that \$10,000 lost time claim will have the full \$10,000 "primary" portion of the claim fully count against your MOD factor calculation.

**How will the "split point" change impact your MOD factor?** Your MOD will be largely impacted by the number of claims you have that are over \$5,000. If none of your claims exceed \$5,000, you will generally see a decrease in your MOD because no additional losses will flow into the MOD formula even with the higher "split point". Following that same logic, it is safe to predict that for companies that have an above average amount of claims over \$5,000 in losses, they can expect to see an increase in their MOD factor.

Keep in mind that even though these proposed changes won't become effective until 2013, the claims data that the NCCI will be using for your 2013 MOD is from your 2009, 2010, and 2011 policy years. Some may say change is coming in workers' comp...we say that change is here! At Work Comp Specialists Agency, we are out in front of these changes and are discussing ideas with our clients that will help offset some of the potential negative impacts of the MOD formula change. If you would like to learn about these solutions, please contact us.

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*Work Comp Specialists Insurance Agency is the largest exclusive workers' compensation agency in Florida. With over 500 clients, we know the challenges you face in these unstable economic times. While a successful business understands that they cannot control their sales, they do understand that they can control their expenses. This is why we offer an expert second opinion to highlight the areas where your valuable profits are being wasted by over paying for your coverage and help you correct them. We look forward to showing you how we are different.*