



Loss History

The Experience Modification Factor, and the factors used to calculate it, are described in this section. This “Mod Factor” directly impacts how much is paid in insurance premiums and reflects the policyholder’s loss history. Preventing accidents, managing claims, and reducing losses are key elements in achieving a low experience mod factor.



REMEMBER: All workers' compensation systems are perfectly designed to get the results that they get!

If you want to change the results, you must focus on your system. This includes you as the employer, the injured worker, claims administrators, medical providers, rehabilitation workers, safety inspectors and attorneys.

The only way the basic premium rate for workers' compensation insurance in your job classification can decline is for your industry to have fewer and/or less severe (costly) injuries than other industries.

The basic premium rate for your industry is manual rate times \$100 of wages. This is then given a modification factor rate of 1.0. Your experience modification will decrease if, over a period of three years, you have few or no injuries (certainly no severe injuries). However, if you have numerous injuries, your experience modification factor will increase.

Below is a sample timetable involved in calculating a modification factor (you need to insert your own policy anniversary date):

Policy January 1, 2010 — January 1, 2011
Experience and payroll covering years 06, 07 and 08

Policy January 1, 2011 — January 1, 2012
Experience and payroll covering years 07, 08 and 09

Policy January 1, 2012— January 1, 2013
Experience and payroll covering years 08, 09 and 10

Policy January 1, 2013 — January 1, 2014
Experience and payroll covering years 09, 10 and 11

Policy January 1, 2014 — January 1, 2015
Experience and payroll covering years 10, 11 and 12

So you can see that the system you have in place in 2010 will be reflected in your business costs through and including the year 2014!

For more information, contact the Michigan Economic Development Corporation at (517) 373-9808.



In the final analysis, the quality of the claims department is a true reflection of the quality of the company.

After all, what is the customer buying? The product IS the service provided by the claims and the loss preventions department.

Remember: Price is NOT Everything!

Bad Service from your Carrier or Agent will result in *higher* net cost

Good Service can result in *lower* net cost

The following statement talks about frequency versus severity and is often misunderstood. Basically this applies to claims with indemnity (lost wages) and *does not include* your small (under \$2,000) medical only claims. Be careful of things taken out of context!

Frequency vs. Severity

“ It is recognized that the *severity* of a claim is subject to happenstance. The **most important part is not the size of the claim, but the fact that an accident occurred.**”

Therefore, to accommodate the smaller employer the modification formula is adjusted so it gives *primary* consideration to the number of claims and secondary consideration to the *severity* of the claim.

...the experience rating plan gives **greater weight** to *accident frequency* than to *accident severity*.”

Source: National Council on Compensation Insurance