

# You and your e-mod

## UNDERSTANDING THE ARIZONA RATE-MAKING PROCESS

**B**usiness owners often fail to understand and take advantage of an important cost control: The e-mod factor.

“Your e-mod is your greatest opportunity to reduce your workers’ compensation premium,” says Sharon Contreras, assistant underwriter for SCF Arizona. “If you understand what your e-mod means, you’ll understand why injury prevention matters.”

### WHAT IS AN E-MOD?

E-mod is short for “experience modification” factor.

“E-mod ratings compare one organization’s workers’ compensation experience to the experience of other businesses similar in size and types of jobs,” Contreras says.

“An e-mod rating of 1.00 is exactly average for an industry. If your e-mod is greater than 1.00, your company’s losses are greater than the industry’s average and you know you’ve got work to do because your competitors are doing better than you. Think of your e-mod as a grade. Below 1.00 is above average, and the lower, the better.”

If employees are injured repeatedly on the job, more claims are filed. More claims mean more risk. More risk means a higher e-mod rating.

“The highest e-mod that I know of is around 4.10,” says SCF Arizona Loss Control Specialist Carl Hamilton. “That’s not an award I would wish on my worst enemy.”

“Imagine paying premiums 400 percent greater than the average like policyholder in your classification. That creates numerous hardships for any business.”

Some corporations only will contract with companies that have an e-mod of less than .95, Hamilton adds. Having a high e-mod can make it difficult to attract new business.

The National Council on Compensation Insurance serves Arizona’s workers’ compensation insurance marketplace. An experience rating is a method NCCI uses to measure a business’ computed loss ratio and determine a factor, which, when multiplied by the premium, can reward policyholders with lower losses.

A policyholder’s payroll and losses (claims with certain limits) are evaluated in determining this loss ratio and the resulting e-mod rating.

“Participation in the NCCI experience rating program is mandatory for all policyholders who qualify,” Contreras says. “To qualify for an e-mod, a policyholder must meet minimum requirements for premium size within specified time periods.”

E-mods are recalculated every year on the policyholder’s anniversary date, says Contreras. “The calculation includes payroll and loss information for three of the most recent four years. Information for the current policy year and the year prior is not included in e-mod calculations.”

### JUST THE FACTS

There are many misconceptions about e-mods, Hamilton says.

“From my experience the one that is the most damaging is the perception that policyholders can’t do much to manage their e-mods,” he

says. “Typically they don’t have a clue what kind of effect a high e-mod rating can have on their business until they see their new premium.”

One common misconception is that these factors are calculated by the state. In most states, this is not true. Another misconception is that the experience modification factor compares a company’s past premiums with past losses.

“That’s not true either,” Hamilton says. “Instead, the formula compares actual reported loss information for that particular employer with average loss data for all employers in that state who are also in the same classification codes.”

Typically, companies that are successful at keeping their premiums under control are savvy about their e-mods. They use it to benchmark their progress at controlling injury costs. They know if their e-mod hits a level that’s not acceptable for their business.

“Some even use it to their competitive advantage in attracting business,” Hamilton says.

Controlling the number of workplace accidents is the key component in attaining a more favorable e-mod rating. SCF is eager to help policyholders lower their workers’ compensation insurance costs. SCF’s loss control consultants are only a phone call away. ●

## E-mod FAQ

### Q » WHAT IF I AM A NEW BUSINESS?

**A »** It is possible for new employers to qualify for an e-mod rating at the beginning of their third policy year – if they have met minimum requirements for premium size in the first policy year. In most instances averaging of premium for up to three years is necessary to qualify.

### Q » HOW CAN I IMPROVE MY E-MOD?

**A »** Preventing accidents is the key. Your e-mod rating is influenced by three considerations:

1. Number of accidents in a year
2. Cost of those accidents
3. Size of your business



## How it works:

If the modification is effective Jan. 1, 2007, the experience rating uses injury experience under policies for the calendar years of 2003, 2004 and 2005.

If the e-mod is higher than 1.00, past losses have been greater than expected. If the rating is lower than 1.00, past losses have been lower than expected. An employer’s premium is increased or decreased based on the company’s loss record.

The premium is multiplied by the modification factor. For instance, if the standard premium is \$10,000, a .90 modification would reduce a company’s premium to \$9,000. A 1.10 modification rating increases the premium to \$11,000 for the same coverage.

To get a copy of SCF Arizona’s brochure, “You and your e-mod,” go to [scfaz.com](http://scfaz.com) or call 602.631.2809.