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## Understanding Your Workers' Compensation Experience Modification

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The Workers' Compensation Experience Rating System recognizes an insured's past loss experience and uses it to impact your current Workers' Compensation premium. An insured that has historically experienced higher losses than average for its industry group will have a "debit modifier." Conversely, an insured with better-than-average experience will have a "credit modifier." This system of credits and debits is designed to encourage safety practices by rewarding employers who control their losses, while penalizing employers who have adverse loss experience.

Unfortunately, many insurance buyers and some agents do not thoroughly understand how the experience rating process works. To effectively control insurance costs, it is very important to closely monitor the development of your company's Experience Modifier.

To calculate an Experience Modifier, the individual loss experience of an insured is compared to the expected experience of the insured's industry group. The experience period used in developing Experience Modifiers is three years but the most current year is not counted. It is important to note that modifiers are not a function of loss ratios, or past losses divided by past premiums. Instead, "expected loss rates" are multiplied by past payrolls and compared to past "actual" losses. As long as your organization can maintain low losses, it can earn substantial credits.

Now what can be done to help and improve your Experience Modification?

The three main areas are:

- **Risk Management** - It is incumbent on your company to control claims, both from the standpoint of preventing claims from occurring as well as in minimizing the dol-

lar amount of those claims after a loss has occurred.

- **Claims** - Once Workers' Compensation claims have occurred, the manner in which they are handled can have a dramatic effect on their ultimate cost to your organization. Having a good "Return to Work" Program is essential here.
- **Review** your final modification for mistakes which include:

**Improper Reserves** - The insurer(s) involved during the three year experience period to be used is required to report payrolls and incurred losses (paid and reserve claims) for each year. Please note claim reserves are used and count as if they have been paid.

**Check Payroll and Losses Used** - In the process of entering information, it is possible for the data entry clerk to make a mistake.

**Subrogation Recoveries and Denied Claims** - Many injuries to workers are caused by the negligence of third parties or take place away from work. As the claim is proceeding in the legal process, the outstanding claim is charged to you under the Experience Rating Plan. The experience rating rules allow immediate revision of the current modifier at the time of a successful recovery or court decision.

The Workers' Compensation Experience Rating process is complicated. Your Account Executive at Lee F. Murphy Insurance can help you understand this process and possibly improve your bottom line.

Portions taken from ©International Risk Management Institute, Inc. Publication 101 Ways to Cut Business Insurance Costs

