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WORK COMP INSIGHTS

What's Driving Your Mod?

A mod analysis can provide valuable insight into your business operations and workers' compensation losses. If you have a basic understanding of how a mod is calculated, you can use a few simple equations to gain a deeper understanding of the factors contributing to your number.

Determination of the minimum mod
The minimum mod, also known as the loss-free rating, is the lowest mod possible for your company. This value can be determined by plugging in zero actual primary and excess losses into the mod formula while maintaining the values for expected losses, ballast and weighting value. This gives the lowest mod value theoretically achievable by your company.

The minimum mod is not the same for all companies. For small companies (as measured by expected losses), the minimum mod can be in the range of 0.90. As the size of the company increases, the minimum mod decreases. For very large companies, the minimum mod may be 0.40 or even lower. Knowing your minimum mod is important for large and small companies. A large company with a mod of 0.95 may still be able to achieve significant savings through loss control and loss prevention activities. The company may perceive the 0.95 mod as "good." However, if the minimum mod is 0.50, there is significant room for improvement. For a small company, the minimum mod can be used for setting realistic expectations; for example, a small company that sets a goal of having a 0.80 mod will not be able to achieve it under any circumstance if the minimum mod is 0.85.

Properly analyzing your mod can help you identify loss areas, set accurate goals and validate the cost of safety initiatives.

Determining the controllable mod
The controllable mod is the difference between your current mod and your minimum mod. This is the variable piece of your mod that fluctuates with losses. The controllable mod can be broken into the contribution made by primary losses and by excess losses. This helps you to identify the exact contribution of loss frequency and loss severity to your mod. By estimating your basic premium (the premium prior to application of the mod), you can calculate the cost of primary and excess losses in terms of increased premium. You calculate this by multiplying the premium by the increase in the mod caused by primary or excess losses. This will assist you in determining the potential value of loss prevention, loss control and safety programs.

Ratio of actual to expected losses
By computing a simple ratio of actual to expected losses (both primary and excess), you can measure the degree to which your company's losses differ from the expected loss values. This is a statistic that can be tracked over time to identify trends, improvements or problems relating to loss experience.

Specific loss sensitivity
This analysis identifies the specific impact that a single loss has on your mod and on the premium you pay during the three years that the loss is in the calculation. This can be an extremely helpful analysis to quantify the cost vs. benefit of loss prevention programs you are considering. For example, if your company has had an increase in carpal tunnel syndrome claims and you are trying to justify the purchase of keyboard holders to

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make workstations ergonomically correct, you can look at how much your mod and therefore your premium increased as a result of these claims. The results can be striking; for example, a single $4,000 claim may increase a small company's premium by $10,000 to $12,000 over a three-year period. Imagine how much more powerful your funding requests for safety programs will be if you can back them up with these types of numbers. For instance, you might say to senior management, "It will cost us $20,000 to install keyboards at every workstation, but we could have already saved $65,000 if we had made this change four years ago, and our claims are continuing to rise by 15 percent a year." To perform this calculation, you must subtract the primary and excess (if any) portions of the loss from the totals used in the mod calculation. The resulting mod will be the mod without the loss. The difference between this mod and the actual mod will be the mod impact of the loss. This difference multiplied by the estimated premium yields the cost of the loss in terms of increased premium dollars. Multiplying this value by 3 (the number of years that the loss is in the calculation) will provide an estimate of the ultimate three-year cost of the loss.

Aggregate loss sensitivity
Calculating the sensitivity of the mod to aggregate (total) changes in losses highlights the relationship between losses and your company's mod. The aggregate loss sensitivity analysis yields a table showing how the mod would vary with increases and decreases in total losses. This analysis is generated by varying both the actual primary and excess losses and then computing the resulting mod. It will help you set a goal for a specific percentage decrease in losses and achieving the corresponding mod

A note about primary and excess values
Since mod analysis often involves both primary and excess losses, it is noteworthy that the "split point" is currently undergoing a significant transition. In all NCCI states and some independent states, the split point has increased from $5,000 to $15,500 in graduated increments over a three-year period. The process of transitioning to the new split point began in 2013, with an increase in the split point from $5,000 to $10,000. During 2014, most states increased the split point to $13,500. In 2015, the split point increased to $15,500 and will also be adjusted for claim inflation. The split point changes should be factored in when making year-to-year comparisons of specific loss sensitivity. Related rate changes may also tend to make minimum mods decrease over time.