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Manage Your Mod

EMPLOYERS, YOU'RE PAYING THE BILL … CONTROL YOUR EXPERIENCE MOD OR IT WILL CONTROL YOU

By Frank Pennachio

One of the most confusing components of an employer's workers compensation policy is the experience modification factor, often simply called the mod or ex-mod. Higher mod factors generally increase costs while lower factors reduce costs. Employers intuitively suspect that if they have injuries, their mod goes up, and if they reduce or eliminate injuries, the mod goes down. At a basic level, this intuition is correct, but there is much more to know and actually do to control workers compensation costs.

Employers buy workers compensation insurance for two reasons. First, it is usually required by state law. Second, a workers compensation policy levels out the peaks and valleys of injury costs by financing them over a three- to four-year period. Notice that I use the term financing: the application of the experience mod causes workers compensation policies to behave more like a line of credit than an insurance policy. In almost all instances, the employer, not the insurance company, ultimately pays for their employees' injuries. In effect, because of how the experience mod is applied to the manual premium, employers are simply financing their injuries, not insuring them.

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In many cases, employers pay back more than the cost of injuries because each loss impacts the mod for a three year period. Although this may seem punitive, the designers of the formula for calculating the experience mod reject that suggestion. They emphasize the mod as a predictive

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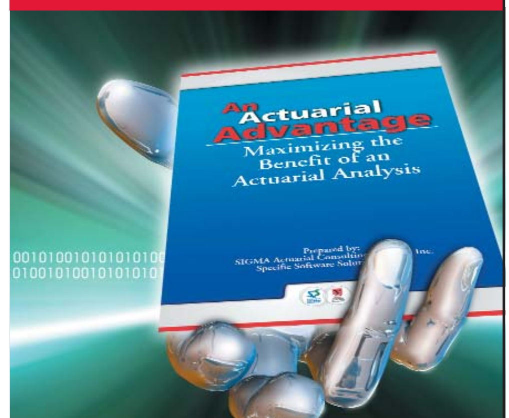

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Inside This Issue

indicator of future losses. In other words, your past injuries mean that you are more likely to have future injuries, so you should pay more. Like it or not, that's how the system works. But you can work the system to your advantage by:

- Analyzing the losses in the mod
- Knowing the lowest possible mod for your organization
- Implementing changes to reduce the mod factor

Analyzing the Losses

An employer's perception of workers compensation changes when they grasp how specific losses impact the mod factor and premium costs. Every employer should have access to a mod analysis that shows:

- The cost of the injuries by employee name
- The number of modification points attributed to each injury
- The current year increase in premium cost due to that specific injury
- The cumulative increase in premium cost due to that specific injury over a three-year period, which is the length of time an individual claim has an effect on the mod.

Employers must foster a change in the predominant view of employees that "accidents happen, that's why we have insurance."

The difference between costs generated by the current mod and the best possible mod is a controllable cost.

Such an analysis enables employers to recognize quantifiably how they themselves ultimately pay for employee injuries. As a result, employers become motivated to drive down injury costs and thus become more profitable and competitive.

This shift in understanding must be driven through the employer's entire organization. It's critical that not only management, but also supervisors and front-line staff, are aware that it is the employer's money that is being spent, not the insurance company's. Employers must foster a change in the predominant

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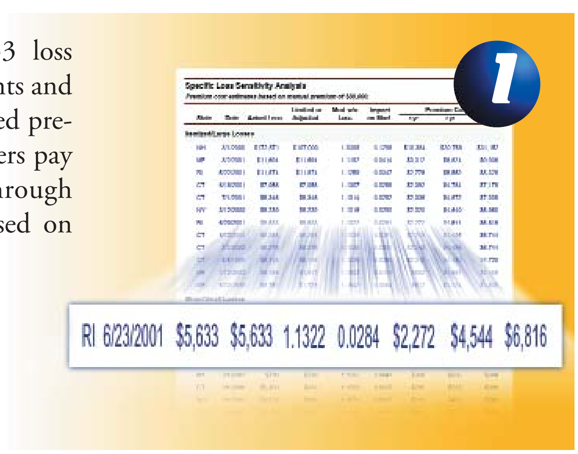
Specific Loss Sensitivity Report

In this report sample, a $5,633 loss increased the mod by 0.0284 points and cost the clients $6,816 in increased premiums over three years. Employers pay for most of their losses through INCREASED PREMIUMS passed on by the insurance carrier.



Mod Impact on Premium Analysis

This report features the estimated premiums for the calculated mod (1.16 in this sample), the minimum mod (the mod with no losses), and the controllable mod (the portion of the mod due to losses). The controllable mod clearly identifies the cost of the losses to the employer, which is great motivation for reducing workers compensation costs!

view of employees that "accidents happen, that's why we have insurance."

Knowing the Minimum Mod

Another mod analysis that employers need to know is the lowest possible, or minimum mod. When employers see their minimum mod compared to their current mod, their focus shifts even more. Many are amazed to discover that their mod could be as much as 80 points lower than it is. The difference between costs generated by the current mod and the best possible mod is a controllable cost. Approaching or attaining the lowest possible mod factor is a solid business objective.

When this controllable cost is exposed, it becomes apparent that "getting quotes" on workers compensation has little to do with reducing costs. Going out to bid limits the employer's cost reduction method to what the insurance marketplace and pricing cycle offers them. A reduction in a "rate" from one year to the next may have minimal or no impact on the employer's total "cost." For example, the rate may decline by 15 percent, but the costs increase by 30 percent because of an increase in the mod.

> **Going out to bid limits the employer's cost reduction method to what the insurance marketplace and pricing cycle offers them.**

In order to reduce costs, employers must move beyond the bidding process and the basic commodity mindset of placing insurance. They need and should demand assistance with the implementation of practical and proven methods for reducing the experience mod factor.

Implementing Changes to Reduce the Mod Factor

The most obvious but often over-hyped solution is the prevention of injuries through a focus on safety programs. Certainly a safe workplace and safe work practices are essential to reducing injuries, but safety programs alone are far from sufficient in driving down injuries and their related costs. Employers must also address these areas:

- Effective hiring practices and employee relationships
- Modified duty and return to work programs
- Supervisor training
- Medical clinic relationships

When a challenging injury occurs, employers often say, "I should have never hired that person" or "I should have gotten rid of him when I had the chance." In other words, they knew – either intuitively or experientially – that this employee was a risk. Dealing with human resource problems inside the workers compensation system is usually a costly endeavor. Hiring an employee who is both mentally and physically fit for the job is a major step in reducing costs.

> **...safety programs alone are far from sufficient in driving down injuries and their related costs.**

Supervisors often resist bringing an injured employee back to work before he is fully recovered. They typically want a "whole person, or no person." However, the longer an injured employee is away

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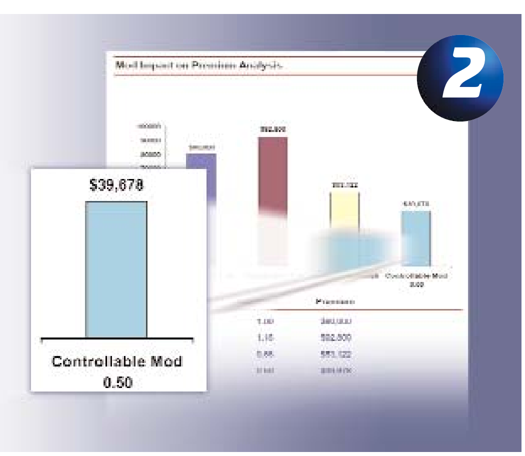
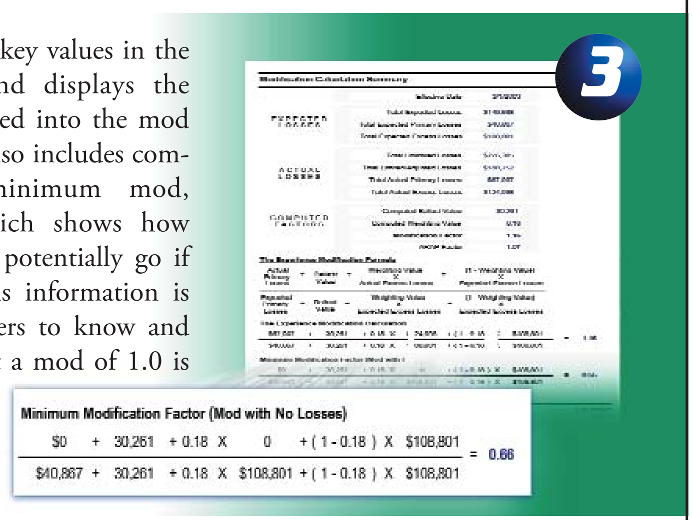
Summary Report



This report shows the key values in the mod computation and displays the client's numbers plugged into the mod formula. The report also includes computation of the minimum mod, excerpted below, which shows how LOW the mod could potentially go if losses were zero. This information is important for employers to know and destroys the myth that a mod of 1.0 is "good."



> **...the psychological impact of a treatment plan that doesn't emphasize the expected timetable for recovery and return-to-work cannot be underestimated**

from the workplace, the more injury costs rise. Supervisors are far more likely to support an injured employee with frequent communication and modified work if they know the money is coming from the employer's pocket instead of some faceless insurance company. In addition, employers should evaluate whether supervisors compensated on a production-only basis are actually operating their unit at a loss due to injury costs; furthermore, they should consider tying compensation and performance bonuses to injury costs by departments.

Another key to controlling costs is to have the right physician providing the right treatment at the right time. Not all doctors are skilled in job-related injury care, and the psychological impact of a treatment plan that doesn't emphasize the expected timetable for recovery and return-to-work cannot be under-estimated. Careful attention should be taken in selecting medical providers and having a relationship with the provider during the treatment of injured employees. Otherwise, you may be handing the provider a blank check, and the injured employee may be receiving less than optimum care.

In Summary

Employers who shift their thinking and view workers compensation insurance as a financing mechanism are on their way to reducing a mandatory cost. My advice to them: pay less attention to "going out for bids" and be more devoted to those factors that actually reduce costs and increase profits. Those who change their perception of workers compensation and take action to reflect that perception can make a dramatic difference in reducing injuries, reducing the mod, and controlling costs.

Frank Pennachio is director of curriculum for the Institute of WorkComp Professionals. A former schoolteacher, he is now a consummately skilled workers compensation producer, president of WorkComp Partners, an agency dedicated to workers compensation insurance, and a Certified WorkComp Advisor. Pennachio is also a published author, having written several books and articles on the subject of workers compensation. He can be contacted through the Institute of WorkComp Professionals at frank@workcompadvisors.com.

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