NINE POINT STRATEGIES
A PCF INSURANCE PARTNER

Have any questions?
Ask An Expert:
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What's Driving Your Mod?

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

Determination of the minimum mod

The minimum mod, or the loss-free rating, is the lowest possible mod for your company. This value can be ascertained by inputting zero actual primary and excess losses into the mod formula while maintaining the values for expected losses, ballast and weighting value. This gives the theoretically lowest mod value achievable by your company. The minimum mod is different for most companies. Small companies (as measured by expected losses) might see the minimum mod in the range of 0.90. The minimum mod decreases as the size of the company increases. For very large companies, the minimum mod could be 0.40 or even lower. Knowing your minimum mod is important for large and small companies alike. A big company with a mod of 0.95 may still be capable of achieving significant savings through loss control and loss prevention activities.

While this company may perceive the 0.95 mod as "good," 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 be unable to achieve it under even the most ideal circumstances if the minimum mod is 0.85.

Determining the controllable mod

The controllable mod is the difference between your current and minimum mod. This variable piece of your mod fluctuates with losses. The controllable mod can be separated into the contribution made by primary losses and by excess losses. This helps identify the exact contribution of loss frequency and loss severity to your mod. By estimating your basic premium (the premium before application of the mod), you can figure the cost of primary and excess losses in terms of increased premium. To calculate this, multiply the premium by the increase in the mod resulting from primary or excess losses. This will help you determine the potential value of loss control, loss prevention, and safety programs.

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Ratio of actual to expected losses

By calculating a simple ratio of actual to expected losses (both primary and excess), you can get an idea of the degree to which your company's losses differ from the expected loss values. You can track this statistic over time to identify improvements, trends, or problems relating to loss experience.

Specific loss sensitivity

This analysis will identify the particular impact that a single loss has on your mod and on the premium you pay during the three years of the loss calculation. This can be an extraordinarily helpful tool to quantify the cost vs. benefit of loss prevention programs you may be considering. For example, if your organization has seen an increase in carpal tunnel syndrome claims and you are trying to justify the expense of keyboard holders to make workstations ergonomically comfortable, you can look at how much your mod (and therefore your premium) went up as a result of these claims. The results can be striking. For instance, a single $4,000 claim may bump up a small company's premium by $10,000 to $12,000 over a three-year period. Imagine how much more impactful your funding requests for safety programs will be when backing them up with these types of numbers. For example, you could tell senior management that, "it will cost us $20,000 to install ergonomic keyboards at every workstation, but we could have already saved $65,000 if we had implemented this change four years ago, and our claims are continuing to rise by 15% a year." To come up with this calculation, you need to subtract the primary and excess (if any) portions of the loss from the totals from the mod calculation.
The result will be the mod without the loss. The difference between this calculation and the actual mod will be the mod impact of the loss. This difference multiplied by the estimated premium gives you the dollar cost of the loss in terms of increased premium. Multiply this value by 3 (the number of years that the loss is in the calculation) for 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 will highlight the relationship between losses and your company's mod. This aggregate loss sensitivity analysis results in a table that shows how the mod would vary with increases and decreases in total losses. To get this analysis, vary both the actual primary and excess losses and then compute the resulting mod. It may help you set a goal for a specific percentage decrease in losses and achieve the corresponding mod.

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A note about primary and excess values

Because mod analysis often involves both excess and primary losses, it is noteworthy that the "split point" is currently experiencing a significant transition. In some independent states and all NCCI 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 started in 2013, with an increase in the split point from $5,000 to $10,000. In 2014, most states increased the split point to $13,500. In 2015, the split point rose to $15,500 and was adjusted for claim inflation. These split point increases should be worked in when making year-to-year comparisons of specific loss sensitivity. Related rate changes may also tend to cause a decrease in minimum mods over time.