

THE EXPERIENCE MODIFIER FAQS



What is an experience modifier?

In determining each member's Worker's Compensation contribution, we match the contribution charged with the risk of loss for each member. Naturally, the chances of a firefighter or garbage workers being injured greatly exceed the chances of an office worker being hurt. We account for this difference via the class code rates charged for different positions. The class code rates are the same for each member of the pool. Yet, there remains a difference in risk in municipalities that pay little attention to safety and loss prevention and those who make it a priority. The experience modifier accounts for this difference by adjusting the contribution up or down based upon the *individual member's* loss experience.

How is the experience modifier calculated?

We use a combination of class codes and payroll amounts to statistically estimate losses for each of the three years included in the calculation. The estimated losses are then compared to the actual losses.

ESTIMATED LOSSES



ACTUAL LOSSES

A modifier of 1.00 means that estimated losses closely match actual losses. When actual losses are less than estimated losses, the modifier would be less than 1.00; conversely, a modifier greater than one means that actual losses exceed estimated losses.

Still want more?

Losses are broken down into primary and excess amounts. This measures frequency and severity of losses. Statistically speaking, it is easier to predict that a loss will occur than to predict the ultimate cost of that loss. Thus, we give more weight to the amount of primary loss than to excess loss.

What if we have on extremely bad loss?

Using loss information for a three-year period gives a clearer picture of a member's losses in addition to limiting the effect of a shock loss. The formulas contain a factor which limits the effect of any one loss.



We are a small municipality with few or no losses; but, our modifier never seems to drop much lower than one. Why? Remember that the modifier compares estimated and actual losses. In the smaller municipalities with only a few or even one employee, the estimated losses are so low that the modifier will rarely drop lower than .97.

How does the experience modifier affect my contribution? In calculating the Workers' Compensation contribution, we first apply the classes code rates to the estimated payroll provided by the member which gives us the manual contribution. We then multiply the manual contribution by your experience modifier to give us the earned contribution. Thus, members with good loss experience actually pay less than those members with poor experience.



Ultimately, the experience modifier is dollars and cents. It is an incentive to do all you can to limit your losses!