Workers' compensation: Calculating the mod rate

Your safety program has a direct effect on your company's mod rate. The mod rate directly affects the cost of workers' compensation insurance, yet many people don't understand how it is calculated.

The average experience modification rate is 1.00 and simply means that a company has average workers' compensation losses for their industry and will pay 100 percent of the manual premium that is set by their state. A higher than average experience modifier would be any number greater than 1.00. A company with a 1.43 experience modifier will pay 143 percent of their manual premium. The 43 percent surcharge reflects the higher than average claims the company has experienced. The experience modifier can also be lower than 1.00. If a company has an experience modifier of .73, they will pay only 73 percent of their manual premium. This effectively gives the company a 27 percent discount for having lower than average losses, claims, and injuries. The following chart compares different experience modifiers with varying results.

Manual Premium - $63,106

Experience Modifier - .73
Discount/Surcharge - $16,769 discount
Modified Premium - $45,337

Experience Modifier - 1.00
Discount/Surcharge - Neither
Modified Premium - $63,106

Experience Modifier - 1.43
Discount/Surcharge - $26,706 Surcharge
Modified Premium - $88,812

As this chart shows, the experience modifier has a significant impact on what a company actually pays for insurance. The difference between the low-experience modifier and the high-experience modifier in this example is more than $43,000!

The experience modification rate is recalculated each year using a combined claims history from a three-year rolling period. Each year, the rolling period drops off the oldest policy year and adds the most recent policy year. If a company has unusually high claims during one policy year, their rate will be affected for three years. There is a one-year lag before a year is included in the experience modification calculation. The one-year lag is necessary because the entire cost on claims resulting from serious injuries may not be fully realized for a year.