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EXPERIENCE MOD 101

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Topics

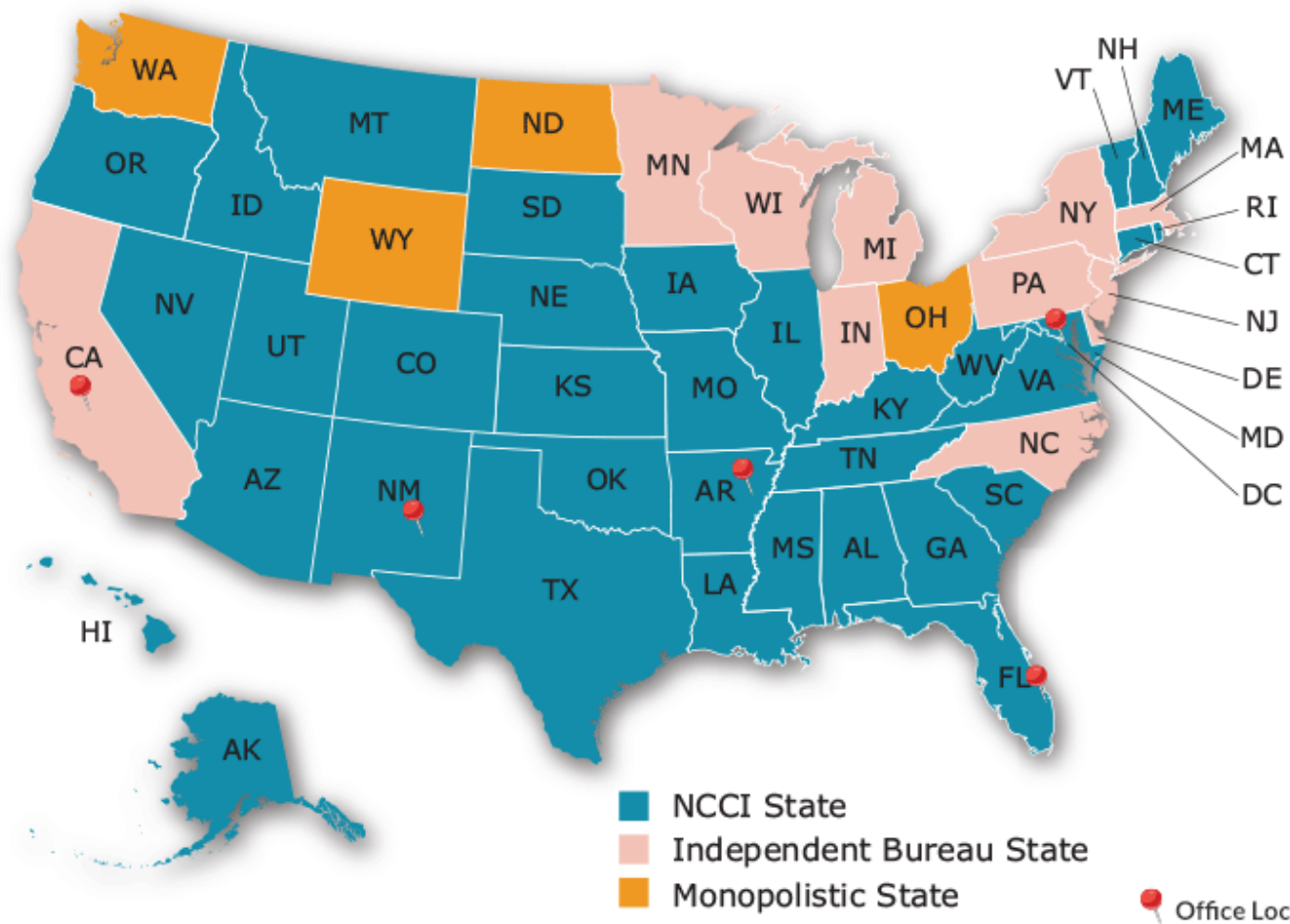
- Who creates experience mods
- Why is the experience mod important to employers
- How employers can reduce/control the mod
 - Reduced Workers Compensation premiums
 - Increase revenue/bidding opportunities



What is a Rating Bureau – NCCI in WV

- A third party that collects statistical data from carriers (premiums, exposure units, and losses)
- Computes advisory rating information (loss costs, average losses, etc.)
- Develops standard policy forms
- Revises classifications
- Provides the experience rating methodology to regulatory authority for approval
 - usually an insurance commission
- Compute the experience mod worksheet – sends to carriers

MD's Chesapeake Insurance typically does not calculate a mod



39 NCCI jurisdictions that are approved and authorized the use of the Plan.

There are four monopolistic states: North Dakota, Ohio, Washington, and Wyoming.

Independent state bureaus have their own rules:

NCCI does not apply in California, Delaware, Michigan, New Jersey, New York and Pennsylvania.

Minnesota and Wisconsin participate in an NCCI calculation if the employer has exposure in two or more participating states.

Indiana, Massachusetts, and North Carolina participate in an NCCI calculation if the employer has exposure in any other NCCI state.

NCCI STATE MAP



Purpose of Experience Rating

Compare the experience of individual insureds with the average insured in the same classification and state.

It is intended to recognize the differences in respect to safety and loss prevention and provides incentive to manage claims through cost – saving programs.

$$\text{E-Mod} = \frac{\text{Insured's actual losses}}{\text{Average's Losses for the state and classification}}$$



Why is a Mod Important?

- The mod has a direct impact on the final workers' compensation premium
 - For some insureds, it is also used for bid purposes/revenue stream
- Carriers group insured by business/operations/class to develop a Basic Premium.
 - Class code rate x \$100 of payroll = Basic Premium
 - Basic Premium x Rating Bureau Mod = Final Premium*

*other factors do go into underwriting the final Workers Compensation premium (credits/debits, lcfs, schedule rating factors)



Application to Premium Dollars

A Mod of 1.00 means the insured is average; the losses are expected for the size, type and state of operation – no premium change.

Better than Average Example

$$\text{Mod} = \frac{10,000}{20,000} = 0.50 \times \$100,000 = \$50,000$$

Worse than Average Example

$$\text{Mod} = \frac{40,000}{20,000} = 2.0 \times \$100,000 = \$200,000$$



What is the Experience Period

Typical Rule of Thumb for most Employers

- Skip the expiring policy, and include the three previous policies
 - Renewal Date 7/1/2026 (mod effective date)
 - do not use 7/1/2025 policy
 - Use Policies effective 7/1/2022, 7/1/2023, 7/1/2024

Additional Rules:

- Two policy periods need to be completed to obtain a mod
- There is a minimum premium requirement, typically \$2,750 to \$6,500 per year or \$5,500 to \$11,500 per year average if more than 1 year in the mod. (all states are different)



When the Experience Period Changes

Exceptions:

- Short-term policies
- Cancellations
- Gaps in coverage
- Changes in ownership or combinability, multiple policy effective dates
- Multiple policy effective dates
- Interstate operation
- Policies longer than 1 year, 16 days
- Late receipt of policy information

NOTE: Self Insured data can be submitted to be used in the mod (ERM-6 Form)



NCCI Experience Period Example

A mod effective date determines its experience period.

- Mod effective date 1/1/2026
- Add 3 months to the effective date 4/1/2026
- Take away two years 4/1/2024 (1/1/21 less 21 months)
- Take away three years 4/1/2021 (1/1/21 less 57 months)

The mod effective 1/1/2026 will include policy experience that occurred on or after 4/1/2021 through policies effective on or before 4/1/2024.

- 6/1/2021
- 6/1/2022
- 1/1/2023
- 1/1/2024

The Mod will NEVER include a policy effective date:

- Not less than 21 months before the mod effective date, and
- Not more than 57 months before the mod effective date.
 - A risk's experience period cannot contain more than 45 months of data but can be produced with less than 12 months of data (typically, it's 36 months of data). The oldest policy would be excluded.



Losses to be included

Incurred losses (Paid + Reserves, **expenses are excluded**):

- Worker's compensation claims (up to each state max \$ value)
- Employers liability claims (up to each state max \$ value)
- Longshore and harbor worker claims

Exclusions:

- Catastrophe - when more than one claim occurs in one event
- Covid claims coded 12 – claims that occurred from 12/1/2019 and subsequent, applies to rate effective dates of 8/16/2020 or later (9/11 also had code 87 and 48 excluded)
- Non-compensable claims
- Fraudulent claims (ruled fraudulent by the carrier)
- Black Lungs claims if the insured pays Black Lung premiums (typically contractors and those not in the business of coal mining do not)
- Small Deductible claims (specific to net reporting states)



How Losses are used in the Calculation

Medical Only Claims and (Experience Rating Adjustment or ERA)

- Implemented in 1998 because some employers were being 'unfairly' penalized for reporting medical only claims.
- Used to encourage reporting of all claims

Medical Only claims are reduced by 70% for experience rating.

\$1,000 'medical only' claim = \$300

ERA States: AL, AR, AK, AZ, CO, CT, DC, FL, GA, HI, ID, IL, IA, IN, KS, KY, LA, NM, ME, MD, MI, MN, MT, MS, MO, NE, NV, NH, NC, OK, OR, RI, SC, SD, TN, TX, UT, VT, VA, WV, and WI

PA and DE do NOT reduce med only claims in the calculation.

Know the waiting period (time before indemnity is paid) for each state!!!



Waiting Period by State

Waiting Period – the length of time an employee must miss work before indemnity benefits are paid retroactively to day 1

WV	3 days	Retro after more than 7 days
VA	7 days	Retro after more than 3 weeks
DC	3 days	Retro after more than 14 days
MD	3 days	Retro after more than 14 days
ME	7 days	Retro after more than 2 weeks
NJ	7 days	Retro after more than 7 days
NY	7 days	Retro after more than 2 weeks
OH	7 days	Retro after more than 2 weeks
PA	7 days	Retro after more than 2 weeks
DE	3 days	Retro after more than 7 days
LSHW	3 days	Retro after more than 2 weeks



How Losses are used in the Calculation

Primary losses (measurement of Frequency)

First \$16,000 incurred value of each claim (WV value, may be different in different states) – also called the split point value

Excess losses (measurement of Severity)

Incurred loss of each claim over \$16,000 up to the state loss limit. (~\$117,000 in WV, WV EL limit is \$55,000)

Weighting Value is applied to the Excess loss:

\$75,000 claim: \$16,000 primary; \$59,000 excess

Estimated weighting:

On \$50,000 premium account: ~10% of excess is used (\$5,900)

On \$500,000 premium account: ~30% is used (\$17,700).

On \$5,000,000 premium account: ~70% is used (\$41,300).

A \$75,000 claim for a \$50k premium account would be worth \$21,900 in the mod calculation.



State Max Claim Value used in Mod for 2020

WV	\$117,000	1/1/2026	DC	\$162,500	1/1/2026
VA	\$212,500	4/1/2026	TN	\$139,000	3/1/2026
KY	\$157,500	1/1/2026	IL	\$215,000	1/1/2026
MD	\$143,000	1/1/2026	AL	\$184,000	3/1/2026
NC	\$192,500	4/1/2026	GA	\$176,000	3/1/2026
CT	\$156,500	1/1/2026			

PA, NJ, and NY no longer have a state max. They only use primary and excess losses which are split based on payroll size.

This list does not include all states



Frequency vs. Severity Example

	Claims	Cost per claim	Total Incurred
Employer A	1	\$100,000	\$100,000
Employer B	10	\$10,000	\$100,000

In general, which employer's mod will likely be impacted more adversely?

EMPLOYER B – FREQUENCY HAS A GREATER IMPACT ON THE MOD



Net Reporting Small Deductible States

Small deductible is usually between \$100 and \$25,000 per occurrence.

The amount paid by the insured up to the retention is not used for experience rating purposes.

Small deductible programs typically do not require collateral.

State with Net Reporting to a Rating Bureau:

AL, CO, DE, ID, KS, KY, MA, MN, MO, NM, and SC



Unit Stat Filing

The statistical card (stat card) of claims are sent from the carrier to the rating bureau:

- NCCI, PA, and NJ - **18 months after the policy became effective**
- subsequent stat cards are valued every 12th month after the original stat card date

Example:	Policy effective	1/1/2025
	First stat card valuation within the month of	July 2026
	Stat card revalued every	July



Unit Stat Filing

Example of change in stat card review when the policy effective date changes:

Policy effective	1/1/19-6/20/19	6/20/2019
First stat card valuation within the month of	July 2020	Dec 2020
Stat card revalued every	July	December

Moving forward this insured will have two claims valuation dates – policies effective 1/1 will be in July and policy effective 6/20 will be in December.

PA’s rule is different when multiple policy dates are included: typically, short-term policy will be filed the same time as the annually policies stat card.



Basic Check Points for Mod Review

- Are all the business entities and policies shown on the NCCI worksheet?
- Do the claims and payroll on the NCCI worksheet belong to the insured?
- Are the audited classes and payrolls used?
- Is the insured properly classified?
- Know medical-only cases are coded as "6" on the worksheet (see all codes on next page)
- Are excluded claims included?
- Are claims coded to the correct state?



Injury Codes

Loss Reporting Codes:

- 1 - Death
- 2 - Permanent Total Disability
- 3 - Major Perm Partial Disability
- 4 - Minor Perm Partial Disability
- 5 - Temporary Total/Temp Partial Disability
- 6 - Medical Only
- 7 - Contract Medical/Hospital Allowance
- 8 - Compromised Death – CA only
- 9 - Permanent Partial Disability



Key Takeaways

1. Mods are manageable/controllable
2. Keeping a claim Med Only and frequency matters most
3. Early claims management and knowing the valuation date saves \$\$\$
4. Verify the mod for accuracy of data