

How Your Experience Mod is Calculated

$$\underline{APL + B + (W \times AEL) + (1-W) \times EEL}$$

$$EPL + B + (W \times EEL) + (1-W) \times EEL$$

This division isn't too scary, is it? Certainly not scary if you know what all the abbreviations mean. Here, let's see if this helps...

Experience Modifier Term Definitions

APL – Actual Primary Losses

AEL – Actual Expected Losses

EEL – Expected Excess Losses

EPL – Expected Primary Losses

B – Ballast Value

W – Weighting Value

What we have above is the equation for the NCCI Experience Mod calculation, but there are certainly a few more pieces of information you'll need if you want to have a better understanding of how this equation is calculated, if it's correct, and how you can influence it to reduce Workers' Compensation premium.

Let's start at the beginning, with the NCCI mod worksheet that is sent to qualifying companies in [NCCI approved states](#). When a company receives the mod worksheet either from their carrier, agent/broker, or directly from the NCCI, they will find everything they need to calculate the mod right on the cover page.

It looks a little like this...

State	Wt	SRP	Exp Excess Losses	Expected Losses	Exp Prim Losses	Act Exc Losses	Ballast	Act Inc Losses	Act Prim Losses
FL	.27	1775	32,527	42,745	10,218	751,602	49,700	782,230	30,628
GA	.19	2040	53,523	67,070	13,547	17,750	52,975	39,749	21,999
IN	.33	1250	35,823	49,680	13,857	10,762	45,000	38,124	27,362
ME	.31	1360	82,744	114,668	31,924	23,582	46,325	53,975	30,393
SC	.21	2810	42,032	49,408	7,376	10,306	61,875	17,989	7,683
(A) Wt	(B)	(C) Exp Excess Losses (D - E)	(D) Expected Losses	(E) Exp Prim Losses	(F) Act Exc Losses (H - I)	(G) Ballast	(H) Act Inc Losses	(I) Act Prim Losses	
.27		246,812	323,811	76,999	297,846	50,317	385,364	87,518	
Primary Losses			Stabilizing Value		Ratable Excess		Totals		
Actual	(I)			$C * (1 - A) + G$	$(A) * (F)$			(J)	
		87,518		230,490	80,418			398,426	
Expected	(E)			$C * (1 - A) + G$	$(A) * (C)$			(K)	
		76,999		230,490	66,639			374,128	
		ARAP	FLARAP	SARAP	MAARAP	Exp Mod			
Factors		1.03	1.06					$(J) / (K)$	1.06

Definitions of Variables

Obviously, name, effective dates, and the Risk ID have been removed, but this is an illustration of all the data on the cover sheet. Everything you need to calculate the NCCI mod is right here, so let's examine the top row of our column headings.

(A) Wt – this is the “weighting value,” and it’s a statistic provided by the NCCI which increases as the payroll and expected losses increase. What this means is that the larger a company is in terms of employees and payroll, the more its own claims experience influences the result.

(C) Expected Excess Losses – EEL is the difference between the Expected losses and the Expected Primary Losses (EPL)

(D) Expected Losses – is derived by using expected loss rates, and is a function of classification codes and payroll within those codes

(E) Expected Primary Losses – EPL is derived by taking a discounted portion of all the expected losses. Primary Losses are considered any claims valued <\$5,000.

(F) Actual Excesses Losses – AEL is the difference between Total Actual Losses and Actual Primary Losses (APL)

(G) Ballast – this is another NCCI statistic that varies based on company size, it’s designed to keep the mod close to 1.0.

(H) Actual Incurred Losses – is the total amount of claims (medical and indemnity only, no expenses). This total has per claim limits that vary by state. A \$150,000 or \$200,000 per claim limit is common. The Actual Incurred total can also have another significant limitation called the Experience Rating Adjustment (ERA), which provides a 70% discount for medical only claims. I will elaborate on ERA at the bottom of this article.

(I) Actual Primary Losses – APL is the total of the first \$5,000 of all claims.

Expected and Actual Losses

Examining any one of the other pages of the mod worksheet will provide state specific, annual results. Below is a snapshot for one year of one state's results...

Code	ELR	D-Ratio	Payroll	Expected Losses	Exp Prim Losses	Claim Data	IJ OF	Act Inc Losses	Act Prim Losses
4299	1.15	.24	1,307,347	15,034	3,608	48312875	3 F	698,250 #	5,000
8742	.18	.19	174,287	314	60	38651675	5 O	55,313	5,000
8810	.11	.23	303,582	334	77	NO. 6	6 *	6,039	6,039
9807	ADDITIONAL PREMIUM			0	0	79159875	6 F	3,172	3,172
Policy Total:			1,785,216	Subject Premium:	49,762	Total Act Inc Losses:		762,774	

The columns here help us understand where EEL and EPL come from.

Code – is simply the classification code that describes the type of work that is being done, for example “8810” is for clerical work.

ELR – is the expected loss rate, meaning for every \$100 of payroll (in this class code) other companies, on average, have experienced this amount of workers compensation claims (medical and indemnity). Multiplying the (payroll/\$100) times the ELR will give you the Expected Losses.

D-Ratio – is the Discount Ratio, which is the portion of expected claims that will be considered “primary,” or under \$5,000. Multiplying the Expected Losses times the D-Ratio will give you the Expected Primary Losses (EPL). Subtracting the EPL from the Expected Losses provides the Expected Excess Losses (anything >\$5,000).

Claim Data – this is the claim number from the insurance carrier that describes a specific case file. Specific claims will be listed individually if they are open, include any indemnity, or >\$2,000. The worksheet will add together any closed, medical only claims under \$2,000 and put them all on one row. In this example there were six closed, medical only claims under \$2,000, added together.

IJ – this is the “injury” code that describes the severity of the claim; here are the definitions of the nine different injury codes:

1 – Death

2 – Permanent Total Disability

3 – Major Permanent Partial Disability

4 – Minor Permanent Partial Disability

5 – Temporary Total or Temporary Partial Disability

6 – Medical Only

7 – Contract Medical or Hospital Allowance

8 – Compromised Death – CA only

9 – Permanent Partial Disability

OF – is an identifier whether the claim is “open” or “final” (meaning closed)

Actual Incurred Losses – is the value of the claim provided by the insurance carrier, and includes medical and indemnity payments and reserves

Actual Primary Losses – represents the first \$5,000 of each claim

Experience Rating Adjustment (ERA)

The ERA is a discount of 70% applied to claim values for claims that are medical only (no indemnity payments and no permanent disability). This discount, which is approved in most NCCI states, was first applied in 1998 as an incentive for employers to provide return to work programs, light duty, and get injured employees back on the job. The ERA is approved in the following states:

AL, AZ, AR, CO, CT, DC, FL, HI, ID, IL, IN, KS, KY, ME, MD, MI, MN, MS, MT, NE, NV, NH, NC, OK, RI, SC, SD, TN, UT, VT, VA, WV, and WI.

There was a lot of technical detail in this article, and I hope it was helpful. Understanding how to read the NCCI Experience Mod Worksheet isn't clear without a roadmap like this, and it becomes much easier to check for errors on individual claims if you know where to look. After you have an understanding what the details of the worksheet pages show you, it becomes much easier to influence the mod by making procedural changes within the company.