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How Workers' Compensation Premiums Will Change in 2013

For many union construction contractors, 2013 may bring some good news: Workers' compensation premiums may decline if you have a strong safety program and few on-the-job injuries.

Come January 1, 2013, the National Council on Compensation Insurance (NCCI), the trade association that provides data to insurance companies for calculating workers' compensation rates, will implement a major change to what's called the Experience Modification Rating or "Ex Mod" for short. Within the workers' compensation insurance industry, this is significant. For more than 20 years, the basic formula for calculating workers' compensation rates has remained unchanged.

Why are these changes especially important for union contractors compared with non-union contractors? It is common practice for contractors with an Ex Mod rating of more than 1.00 to be barred from bidding on new or renewal contracts.

How Workers' Compensation Premiums are Calculated and What is Changing

Workers' compensation premiums are determined based on the size of the contractors' payroll and kind of jobs that the employees perform (the

payroll class code). Because union contractors pay union wages and benefits, the payroll costs tend to be higher than non-union contractors. That, in turn, can make workers' compensation premiums higher.

The second factor in the premium calculation is the payroll code classification. There are more than 400 payroll class codes, each representing a different occupation and various levels of risk associated with each. The occupational code rate is multiplied by the payroll cost to calculate the basic premium.

Then the underwriters apply the Ex Mod factor, which is a measure that compares the actual level of losses over the past three years to the expected losses for companies of similar size and classification codes. An Ex Mod of 1.00 represents an average mark for a company specific industry class. An Ex Mod of less than 1.00 means the employer has had fewer injuries and losses than the average company. An Ex Mod of greater than 1.00 generally means the company has a higher than average number of claims and losses.

The Ex Mod factor accounts for two types losses: primary losses and excess losses. Until now, the first \$5000 of losses on an individual claim is considered to be primary losses. Excess losses on an individual claim are after the first \$5000.

What is changing is the “split point” – the point at which primary losses become excess losses. Today that is \$5000. In 2013, the split point will be \$10,000 and it will continue to increase every year, based on an inflation index for workers’ compensation loss costs, to \$13,500 in 2014 and \$15,000 in 2015.

How the Changes Will Affect Union Construction Contractors

Obviously, how these changes will affect a particular contractor will vary. In general, the fewer claims that are considered to be primary losses, the lower the Ex Mod because primary losses carry a heavier weight in determining the Ex Mod than excess losses.

Although individual results may vary, for contractors with fewer new claims the Ex Mod will tend to improve and drop even lower, yielding a reduction in the workers’ compensation premium. For contractors who see an increase in claims, the Ex Mod will probably get higher and workers’ compensation premiums will increase.

What Contractors Can Do to Lower Their Premiums

Here are a few strategies that a contractor can use to lower workers’ compensation premiums and claims:

On-the-Job Safety: Those commitments to safety and loss control in collective bargaining agreements are important. Preventing work-related injuries will translate into a lower Ex Mod rating and lower workers’ compensation premiums overall.

Return-To-Work: A contractor’s Ex Mod improves if employees return to work quickly or don’t lose any time on the job. In many states the workers’ comp wage replacement benefit doesn’t begin until seven days have passed since the injury occurred. If the worker is back on the job before the seven days, then the loss is considered “medical only” and the cost of a claim is reduced by 70 percent for experience rating purposes.

Report Claims Quickly: Timely reporting of claims can be one of the most important factors in reducing workers’ compensation costs. For example, the longer a strain goes unreported and medical treatment is delayed, the worse the injury and more costly the claim can become. Prompt reporting also benefits workers because it helps to speed the timely delivery of benefits.

Training: This is especially important because studies show that low-wage and less experienced employees account for a disproportionately large portion of claims. Well-trained employees have fewer on-the-job accidents and will improve a contractor’s Ex Mod and reduce premium costs.

The coming changes to the Ex Mod rating calculation can help union contractors compete with non-union contractors. But contractors need to watch their Ex Mod rating closely and take the steps necessary to improve it.

It can be the difference between a successful and unsuccessful bid.

Additional information about the Ex Mod changes can be found on the NCCI website, www.NCCI.com. NCCI published an “Experience Modification Update” which is also available:

<https://www.ncci.com/nccimain/industryinformation/industryreports/pages/er-update-2012.aspx?s=Experience%20Rating%20Update>