How to Calculate Your Minimum Experience Mod, Controllable Premium & the Revenue Impact

The lowest possible mod or minimum mod is the experience modification factor an employer would have if there were zero losses during the experience period *(typically three years, reference Years Included In Current Year Mod Calculation below.)* This minimum mod is also known as the loss-free rating.

CALCULATING THE MINIMUM MOD

The minimum mod is calculated by dividing the Stabilizing Value by the Expected Total on an NCCI rating worksheet.

Stabilizing Value = 3,500,000
Expected Total = 13,250,000

Minimum mod = 0.26

WORKERS COMPENSATION EXPERIENCE RATING

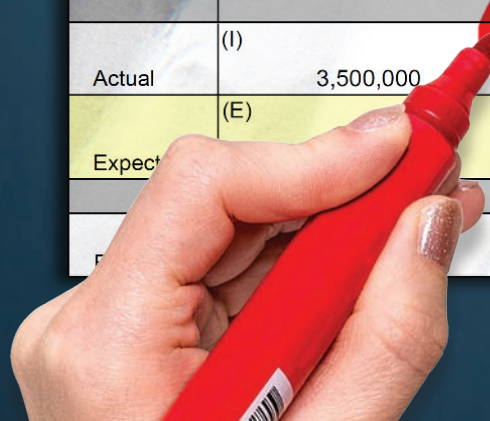
Risk Name: XYZ Company **Risk ID:** 999999999

Rating Effective Date: 01/01/2018 **Production Date:** 09/29/2018 **State:** INTERSTATE

(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
.75		9,000,000	12,000,000	3,000,000	5,500,000	1,250,000	9,000,000	3,500,000

	Primary Losses	Stabilizing Value	Ratable Excess	Totals
Actual	(I) 3,500,000	C * (1 - A) + G 3,500,000	(A) * (F) 4,500,000	(J) 11,500,000
Expect	(E)	C * (1 - A) + G 3,500,000	(A) * (C) 6,750,000	(K) 13,250,000

	FLARAP	SARAP	MAARAP	Exp Mod
	1.00		1.00	(J) / (K) .87



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CONTROLLABLE MOD & CONTROLLABLE PREMIUM

The controllable mod is the difference between a company's current mod and its minimum mod. This figure is used to calculate the controllable premium, or potential for workers' compensation premium savings by preventing and controlling losses.

Example:

Current mod = 0.87
Minimum mod = 0.26

10,000,000 (Payroll) x .05 (Rate)
x **0.87 *(current mod)***
x 1 (no adjustments)
= $435,000 (current premium)

10,000,000 (Payroll) x .05 (Rate)
x **0.26 *(minimum mod)***
x 1 (no adjustments)
= $130,000 (current premium)

$435,000 — $130,000 = $305,000 *(controllable premium)*

The minimum mod and controllable premium calculations are an effective tool for employers and service providers to demonstrate potential savings with workers' compensation program improvements quickly.

REVENUE IMPACT

Once the controllable premium has been calculated, use the Sales to Pay for Accidents Formula to calculate the impact on company revenue.

Sales to Pay for Accidents Metric

The Sales to Pay for Accidents metrics calculates the amount of revenue a company needs to general to pay for workers' compensation costs.

The formula is:

$$\frac{\text{Incurred Losses or Controllable Premium}}{\text{Profit Margin}}$$

Example: Acme Corporation

- Controllable Premium = $300,000
- Profit Margin = 5%

$$\frac{\$300{,}000}{.05}$$

= Acme Corporation needs to sell $6,000,000 in revenue to cover controllable workers' compensation costs. Tie this number to something meaningful at the organization.

Example: Acme Corporation

- The ACME corporation annually produces $45,000,000 in revenue across its 15 locations, with each location averaging $3,000,000 in revenue.
- Doing this calculation, the organization realizes that 100% of the revenue of 2 of their locations is earned simply to pay for controllable workers' comp costs.

The MINIMUM MOD is calculated by dividing the Stabilizing Value by the Expected Total on an NCCI rating worksheet.

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