

# You and your e-mod

## Understanding the Arizona rate-making process

### *Ever wonder...*

*...where Arizona workers' compensation rates come from and who determines what they should be?*

*...what time periods are included in determining the rates for your employees?*

### **Where do rates come from?**

A national rating organization, the National Council on Compensation Insurance (NCCI), serves Arizona's workers' compensation insurance marketplace. To determine appropriate rates, NCCI evaluates statewide payroll and loss data for each workers' compensation work classification. These data are reported by Arizona workers' compensation insurance carriers and are monitored for accuracy to ensure appropriate rates are determined.

### **What is an experience rating?**

NCCI formulates an experience modifier (e-mod) according to a fixed formula designed to measure the performance of a particular employer compared to the average of all employers in similar businesses. Simply stated, experience rating is a method NCCI uses to measure a business's computed loss ratio and to compute a factor, that when multiplied by premium, can reward policyholders with lower losses.

A policyholder's payroll and losses (claims costs with certain limits) are evaluated in determining this loss ratio and the resulting e-mod.

A business with few or no claims may have a favorable e-mod, resulting in lower premiums. Conversely, if a business has suffered numerous costly claims, it may have an unfavorable e-mod and higher premiums.

Participation in the NCCI experience rating program is mandatory for all policyholders that qualify. To qualify for an

e-mod, a policyholder must meet minimum requirements for premium size within specified time periods.

The e-mod is expressed as a factor with the norm being 1.00. Higher than average losses would result in an e-mod rating higher than 1.00, such as 1.15; lower than average losses would result in an e-mod of less than 1.00, such as .85.

### **How does my e-mod change my premium amount?**

Your final premium is affected directly by your

e-mod. For instance, if your premium is \$25,000 and you have had higher losses than expected for similar businesses, you may be assigned an e-mod greater than 1.00 – for example 1.10. The effect on your final premium would be:

$$\$25,000 \times 1.10 = \$27,500$$

On the other hand, if you have had fewer than expected losses, you may be assigned an e-mod less than 1.00 – for example 0.90. The effect on your final premium would be:

$$\$25,000 \times 0.90 = \$22,500$$

As you can see, controlling losses can help limit your workers' compensation expenses.

### **How often is my e-mod evaluated?**

E-mods are recalculated every year on the renewal date of the policy. The calculation includes payroll and loss information for three of the most recent four years. Information for the current policy



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year and the year prior is not included in e-mod calculations.

### What if my business is a new one?

It is possible for new employers to qualify for an e-mod at the beginning of their third policy year – if they met minimum requirements for premium size in the first policy year. In many instances, averaging of premium for up to three years is necessary to qualify.

### How can I improve my e-mod?

Preventing accidents is the key. Your e-mod rating is influenced by three considerations:

- Number of accidents in a year
- Cost of those accidents
- Size of the premium for your policy

### How can I save money?

Controlling the number of workplace injuries and illnesses is the key component in attaining a more favorable e-mod rating. Loss control consultants at SCF Arizona are available to help you reduce your workers' compensation insurance costs. We are only a phone call away.



#### Claims Call Center

602.631.2300  
800.231.1363

#### Policy Call Center

602.631.2600

#### Certificate of Insurance Call Center

602.631.2570  
866.284.2694  
Fax 602.631.2599  
Fax 866.617.5680

#### Employer's & Physician's Initial Report of Injury Fax

602.631.2888  
800.356.4867

#### Preferred Connection Network (PCN)

602.631.2230

#### Fraud Hotline

800.526.5226

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