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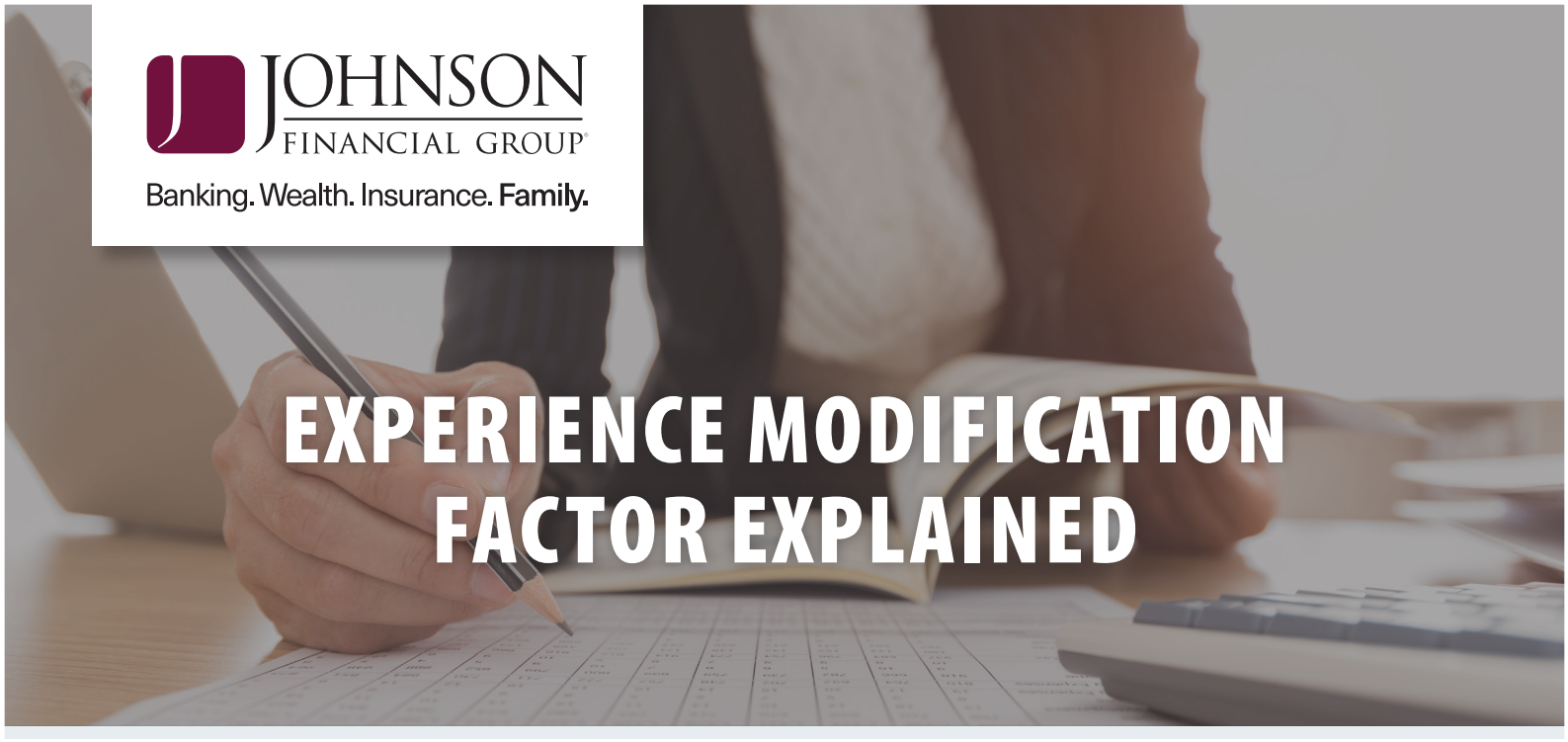


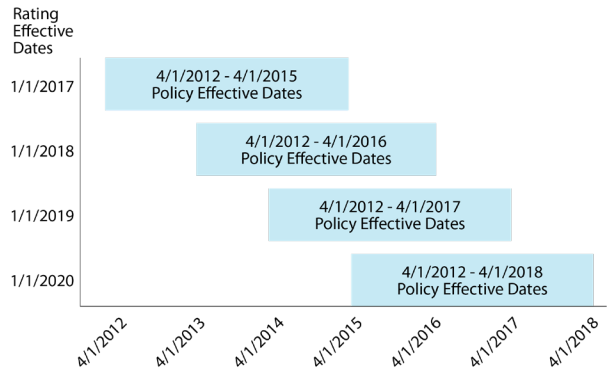
EXPERIENCE MODIFICATION FACTOR EXPLAINED

Your Experience Modification Factor can be explained as follows:

- Mod is a ratio of actual losses to expected losses over a 3 year period
- If your actual losses are more than expected, your mod is over 1.0
- If your actual losses are less than expected, your mod is under 1.0
- A mod of 1.0 is exactly average

EXPERIENCE PERIOD

The years used in the mod factor are the last three audited policy terms. This means there is a one year gap between your mod year and the years of claim and payroll data used. This is to assure accurate payrolls and provide an opportunity to finalize and close claims when possible.



THE MOD FORMULA

The actual Experience Modification formula is shown below. Fortunately, it is not as important to understand the mathematics as much as we understand the key factors within this formula that we can control.

Two factors within this calculation are designed to balance out the mod calculation between large and small employers, and factors in data from the states you have payroll in and the expected losses in your class of business. The two factors are:

1. **Ballast Value:** This value is placed in the numerator and denominator of the mod formula to move all mods closer to 1.0. This value stabilizes the values in the formula. Ballast values increase with the size of the company, and is most impactful on smaller companies. If your company has a lower mod, the ballast decreases some of your good efforts by bringing it closer to 1.0. However, if you have a higher mod, the ballast will move your mod lower.
2. **Weighting Value:** Determines the percent of the actual excess losses for use in the formula. This factor recognizes that excess losses are less related to the operations of the business (as compared to random occurrence). Weighting value is smaller for small companies and increases with company size. Weighting value is obtained from a calculation published for each state and correlates to the expected losses of the insured. If your company is small, your weighting value will be small and the mod will be computed with a number close to the expected excess losses. If your company is bigger, your weighting value will be larger and the mod will be computed with a number close to the actual excess losses.

$$\frac{\text{Actual Primary Losses} + \text{Ballast Value} + \text{Weighting Value} + \text{Actual Excess Losses} + (1 - \text{Weighting Value}) + \text{Expected Excess Losses}}{\text{Expected Primary Losses} + \text{Ballast Value} + \text{Weighting Value} + \text{Actual Excess Losses} + (1 - \text{Weighting Value}) + \text{Expected Excess Losses}} = \text{Current Mod}$$

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KEY CONSIDERATIONS

· Your mod determines your final workers' compensation costs

· Your premiums equal the basic, or manual, premium multiplied by your mod

- Example 1 – Debit Mod

Manual premium	$100,000
Mod	x 1.25
Premium you pay	$125,000

- Example 2 – Credit Mod

Manual premium	$100,000
Mod	x 0.80
Premium you pay	$80,000

· Controlling your mod means controlling your premium

- Minimum Mod
  + *Loss-free rating*
  + *Unique to each employer, generally decreases as payroll increases*
- Controllable Mod
  + *Difference between actual mod and minimum mod*
  + *Good loss control practices can save on premiums*

· Your mod is affected by both the number of losses that your company incurs (frequency of losses) and the amount of those losses (severity of losses).

· The loss values used in the mod calculation include reserves on open claims, so good claims management can be very important.

· The mod compares your organization with other companies in the same industry based on payroll code.

WHAT YOU CAN DO TO CONTROL MOD

· Develop a Return to Work plan to keep claims medical-only when possible (medical-only claims are reduced by 70% in the mod calculation in most states)

· Develop a claims review process to assure claims are closed in a timely matter and reserves are set appropriately

· Develop an audit review process to confirm payroll is classified correctly. Incorrect payroll classification could result in your expected losses being higher or lower than appropriate

A TEAM OF EXPERTS

At Johnson Financial Group we have the knowledge and expertise to help you implement risk management programs that identify and address common losses that are effecting your mod. For more information, contact a Johnson Financial Group advisor in your area today.