

Does Paying Small Medical Only Claims Reduce the Experience Modification Factor?

Prepared by:
Chris Conti
RiskWise Safety Consulting LLC



LORMAN[®]



Lorman Education Services is a leading provider of online professional learning, serving individuals and teams seeking training and CE credits. Whether you're looking for professional continuing education or an enterprise-wide learning and development solution, you will find what you need in Lorman's growing library of resources.

Lorman helps professionals meet their needs with more than 100 live training sessions each month and a growing collection of over 13,000 ondemand courses and resources developed by noted industry experts and professionals.

Learn more about Lorman's individual programs, economical All-Access Pass, and Enterprise Packages:

www.lorman.com

Does Paying Small Medical Only Claims Reduce the Experience Modification Factor?

Not anymore, is the simple answer in most states. The National Council on Compensation Insurance (NCCI) is the governing body of the workers' compensation insurance industry and provides rules and rates and Mods for most states. The ratemaking part of the mission is the focus of this discussion.

NCCI wants and needs accurate data to develop actuarially sound rates, called Loss Cost Rates. This is the pure cost of injuries for each class code or type of business. This is the root basis of rates to which carrier adds their operating expenses and load for profit. So, to ensure the data is credible it is imperative to have a data set that accurately reflects the actual cost of injuries. The only way to get an accurate cost of injuries is for employers to report the injuries to the carriers, who then pay the claims and then report the data to NCCI at various intervals. Just as with computers; garbage in = garbage out.

For years, insurance agent and consultants have explained to customers that frequency breeds severity on their Mod Factor. That is to say if an employer had 1 claim that cost \$10,000 (\$10,000 in incurred losses) and 10 claims that cost \$1000 (\$10,000 in incurred losses) the Experience Mod would increase more due to the 10 individual claims. To offset this impact, insureds' were educated to pay small claims. The internal cost to the employer, \$10,000, was less than the collective three-year impact on the Mod. However, this skewed the NCCI Loss Cost as the true cost of injuries was not being reported to the carrier and therefore not to NCCI.

To correct the employers' attempts at Mod manipulation the NCCI has launched the Experience Rating Adjustment program. The Mod calculation works like this. The first \$5000 of any claim is considered primary. Any losses exceeding \$5000 is considered excess. Under the 1998 ERA program only 30% of the actual primary and excess portion of the medical only claim will be included in the calculation of the mod. This new way to input claims data discounts Medical Only claims by 70%. So, a \$1000 Medical Only claim would go into the employers' Mod as \$300. A \$7000 Medical Only claim would be split with \$5000 primary loss using 30% or \$1500 as primary loss. The remaining \$2000 excess would go into the formula at \$600 ($\$2000 \times 30\%$). This significantly decreases the impact that Medical Only claims have on the Mod factor. Therefore, the benefit to the employer has now been substantially reduced.

To level the rating filed the Weighting Value will be increased which will increase the actual excess loss used in the Mod calculation.

In summary, it is fair to say that employers would obtain more benefits to report all claims to the carrier and let the carrier pay those claims. NCCI has eliminated the benefit to employers for paying Medical Only claims. They have done this through the ERA program which only uses 30% of primary and excess losses in the Mod Calculation formula. Other benefits are that the carrier will pay the medical bill according to the State Fee Schedule, which is usually less than the employer would pay. Additionally, if a Medical Only claim becomes a Lost Time claim, the carrier could deny coverage stating that the employer had a duty to report the injury timely. By not reporting timely, the cost of the claim is elevated because, if the carrier had received timely notice it would have managed the claim with an improved

outcome. An example may be a Medical Only laceration turns into an infection and lost time. As of January 2004, this program was applicable in the following states: Alabama, Arkansas, Arizona, Connecticut, District of Columbia, Florida, Hawaii, Idaho, Illinois, Indiana, Kansas, Kentucky, Maryland, Maine, Mississippi, Montana, Nebraska, North Carolina, New Hampshire, Oklahoma, Rhode Island, South Carolina, South Dakota, Tennessee, Utah, Virginia, Vermont, Wisconsin.

The material appearing in this website is for informational purposes only and is not legal advice. Transmission of this information is not intended to create, and receipt does not constitute, an attorney-client relationship. The information provided herein is intended only as general information which may or may not reflect the most current developments. Although these materials may be prepared by professionals, they should not be used as a substitute for professional services. If legal or other professional advice is required, the services of a professional should be sought.

The opinions or viewpoints expressed herein do not necessarily reflect those of Lorman Education Services. All materials and content were prepared by persons and/or entities other than Lorman Education Services, and said other persons and/or entities are solely responsible for their content.

Any links to other websites are not intended to be referrals or endorsements of these sites. The links provided are maintained by the respective organizations, and they are solely responsible for the content of their own sites.