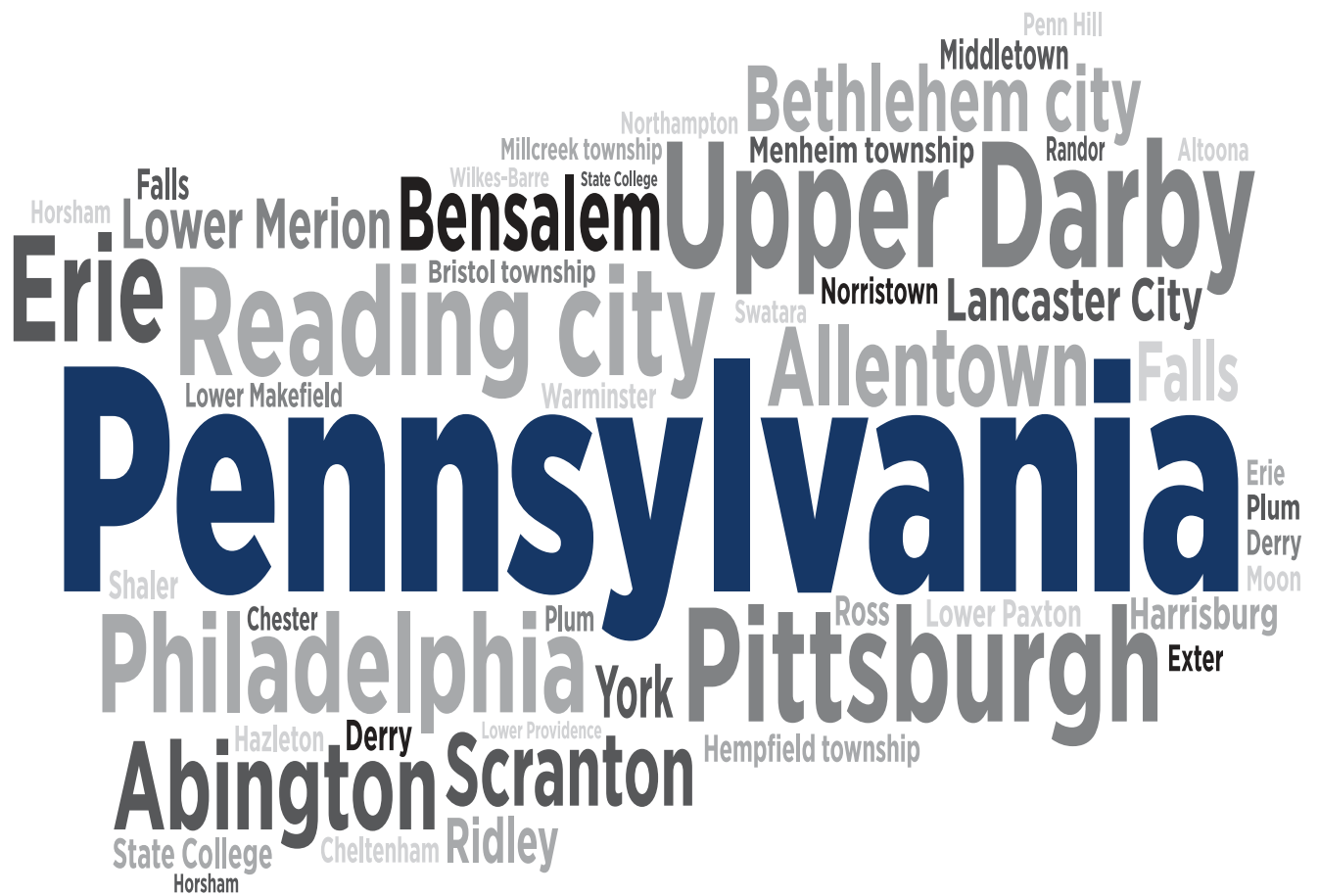




CHANGES COMING TO THE EXPERIENCE MOD IN PENNSYLVANIA IN 2024

Pennsylvania will witness significant changes in the calculation of the Experience Mod for workers' compensation, effective April 1, 2024. Determined by the Pennsylvania Compensation Rating Bureau (PCRB), these updates represent **the first substantial revision in the past 20 years and are poised to impact how Municipalities manage their workers' compensation costs.**

Impacting the 60,000+ employers with experience mods in Pennsylvania, some credit modifiers will transition to surcharge modifiers under the new system. In short, best-performing employers can anticipate lower modifiers, while poorer performers will see higher modifiers. **These changes will amplify the financial implications of employee injuries on your experience mod and premium.**

The Experience Mod system uses three years of historical data on employee injuries to help predict an employer's future risk. It plays a crucial role in determining workers' compensation insurance premiums. Under the current system, all employee injuries are counted in the Experience Mod calculation up to a cap of \$42,500, with the mod's annual increase or decrease limited to 25%. A secondary rule also exists to set the experience mod at 1.0 if it falls below this threshold but the adjustment exceeds the 25% cap.

Pennsylvania also has a Merit Rating program for employers who are too small to be eligible for Experience Rating. Employers under Merit Rating see only a +5% surcharge if they have 2 lost-time claims in 2 years, a -5% credit if they have no lost-time injuries, and a 0% (no credit or surcharge) if they have 1 lost-time injury.

However, the PCRB lowered the premium eligibility for employers participating in the Experience Rating versus Merit Rating. **According to the PCRB, 363 municipalities will move from Merit Rating to Experience Rating, and 260 Volunteer Fire Departments will do the same. This could significantly impact your workers' compensation experience**

mod and premium.

These changes will address imbalances in the existing system. This means the PCRB determined that the best-performing employers were funding the worst-performing ones from an actuarial standpoint. The new system aims to achieve a more uniform rating structure across all employers.

The implications of these changes are significant. Your **Minimum Mod – the lowest possible rating with zero claims – will decrease**, providing a new, lower starting point. Conversely, when an employer has injury costs, the changes to the formula will amplify the impact on their mods, leading to faster increases in your experience modifier than before and potentially more significant financial burden over time.

The upcoming Key Changes include:

- **Mod Eligibility Threshold Lowered:** Reducing the premium threshold for experience rating eligibility from \$10,000 to \$5,000, will result in 21,000+ additional employers becoming eligible for experience rating. We have already discussed how many municipalities this will affect.
- **Variable Claim Caps:** Based on each employer's size (using expected losses), a sliding scale maximum injury cap will replace the fixed injury cap of \$42,500. The new cap will range from \$10,000 to \$300,000, aligning the experience mod more closely with a company's actual injury history and size. The larger the employer, determined by payroll data and job classifications, the larger the individual injury claim cap.
- **Revised Swing Limits (Effective**

4/1/26): The new plan will remove the cap on mod decreases and introduce a +40% cap on increases, complemented by a unique maximum modification formula tailored to each employer.

- **Maximum Modifier Cap:** A new formula will limit how high an employer's Experience Mod can go. The PCRB expects fewer than 5% of all rated employers will reach their Maximum Modifier. It will mainly affect the smallest employers, particularly those moving from Merit Rating to Experience Rating. Maximum Modifiers will start at 1.30 and increase based on an employer's size.
- **Work Comp Payback Ratio®** - Each dollar the insurance company spends for an injury increases your experience modifier, and each point increase in your modifier increases your premium. The Work Comp Payback Ratio® is how much you pay back to the insurance company, typically with interest, for that injury over the three years it impacts your experience modifier. Under the new formula, the Payback Ratio of all employers has increased, meaning you will pay more back to the insurance company, dollar for dollar.

These reforms will create a more equitable and accurate reflection of an employer's injury costs. While most employers in Pennsylvania with experience mods will see minor changes, many will see significant changes. Also, some employers will transition from having a credit to a surcharged modifier and others from a surcharged to a credit modifier under the new rules. Generally, the best-performing employers will

benefit from a lower mod, whereas the poorest performers will face a higher mod.

If you want to minimize the financial impact of employee injuries on your experience modifier and premium, there are two things you should focus on as an employer:

- **Improve the safety of your municipality.** Not having injuries is the best way not to have to pay higher premiums caused by those injuries.
- **Take control of injuries after they occur.** Having doctors on your Employee Injury Panel of Physicians that you know will return employees to work faster is essential. However, having employees perform temporary, transitional duty (recovery on the job) is critical for keeping control of the situation. Once an employee is sent home and is not working, they control their destiny and the impact on your budget.

Employers must understand these substantial changes won't necessarily revolutionize the entire system. However, they will have a notable impact on financial outcomes related to employee injuries. Employers should stay informed about these developments and seek guidance from a Certified WorkComp Advisor. This proactive engagement is vital for navigating the changing landscape of workers' compensation in Pennsylvania and achieving the lowest possible experience mod.

To download a Detailed Summary of the changes that will affect your municipality, go to www.PremiumReductionCenter.com/Learning-Center.

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