

# WORK COMP INSIGHTS

## How Ballast Value Affects Your Mod

The dictionary defines ballast as “material carried in a vessel to provide stability.” That same principle applies to the ballast value used in the experience rating formula. The ballast value is placed in the top and bottom part of the formula to move all mods closer to 1.0. In other words, it stabilizes the values.

As a result, if you have a low mod, the ballast takes away some of that good news by moving the mod higher and closer to 1.0. However, if you have a high mod, the ballast will move your mod lower and closer to 1.0. The ballast value increases as the size of the company (as measured by expected losses) increases. However, the impact of the ballast is still greatest for small

companies. The table that is shown demonstrates the mod for several scenarios with and without the ballast value in the formula.

As is evident from the table shown below, for a large company, the ballast moves the mod a couple of points closer to 1.0. However, for a smaller company, the ballast has a more dramatic impact. The mod for the example small company was lowered 25 points by including the ballast value in the calculation. Also, the low mod for the small company was raised by 10 points by including the ballast value.

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**Limiting the effect of any single loss on your mod, the ballast value increases as your expected losses increase, but does so at a slower rate.**

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One area where the ballast value can have a surprise impact is in mergers and acquisitions. Since the ballast value changes with the size of the company, the merger of two companies may result in an unexpected change in the mod due to the change in the ballast value.

Expected Losses	Actual Losses	Ballast	Mod	Mod w/o Ballast	Impact of Ballast
<b>LARGE COMPANY</b>					
\$ 208,378	\$ 183,000	34450	0.88	0.86	0.02
\$ 208,378	\$ 460,000	34450	1.56	1.65	-0.09
<b>SMALL COMPANY</b>					
\$ 14,540	\$ 3,180	13250	0.9	0.8	0.10
\$ 14,540	\$ 26,000	13250	1.27	1.52	-0.25