

Understanding Workers' Compensation Rating in Colorado

Workers' compensation insurance protects both employees and businesses when workplace injuries occur. But if you've ever looked at your policy, you know the premiums can feel like a black box. How are rates really set? And why can the same business get very different quotes from different carriers?

Here's a clear breakdown of how workers' compensation rating works in Colorado—and how your experience modification factor plays into it.

1. Loss Costs – The Foundation

The [National Council on Compensation Insurance \(NCCI\)](#) collects claims data across industries and sets “loss costs”—the expected cost of medical bills and wage replacement benefits for each classification code (per \$100 of payroll).

Loss costs reflect:

- Claim frequency (how often injuries happen)
- Claim severity (how expensive they are)
- Medical inflation and trends in treatment costs

Think of this as the *base recipe* for your industry's risk.

2. Loss Cost Multipliers (LCM) – Carrier Adjustments

Insurance carriers take NCCI's baseline and apply their own **Loss Cost Multiplier (LCM)** to cover operating expenses, commissions, and profit.

For example:

- NCCI loss cost = \$1.00 per \$100 payroll
- Carrier's LCM = 1.50
- Final rate = \$1.50 per \$100 payroll

This is why quotes can vary widely even when your payroll and class codes are the same—carriers have different LCMs, underwriting appetites, and service models.

3. The Experience Modification Factor (Mod) – Your Performance Score

The **Mod** adjusts your premium up or down based on your company's actual loss history compared to the industry average.

Here's how it works:

- **Mod = 1.00** → You're average for your industry.
- **Mod < 1.00** → You're better than average, so you get a discount.
- **Mod > 1.00** → You've had higher-than-expected losses, so you pay a surcharge.

What goes into the Mod?

- **Expected losses** (what NCCI projects based on your payroll and class codes)

- **Actual losses** (your real claims history, capped at certain levels to avoid one shock claim skewing things too far)
- **Frequency vs. severity** (multiple small claims often hurt your Mod more than one large claim)

👉 In Colorado, NCCI calculates and publishes your Mod annually. Even if your payroll and class codes are correct, a poor Mod can drive premiums up tens of thousands of dollars.

4. State Oversight – The Guardrails




Carriers must file their rates (loss costs + LCM) with the Colorado Division of Insurance. The state ensures rates are:

- Adequate (enough to cover claims)
- Not excessive
- Not unfairly discriminatory

Colorado's competitive market means carriers can compete on price and services, but all within regulatory guardrails.

What This Means for Employers

Understanding rating helps you see where you actually have control.

-  **Check classifications** – Make sure your employees are in the right codes. Misclassification = overpayment.
 -  **Mind your Mod** – A proactive claims and safety strategy can lower it, often saving more than shopping rates.
 -  **Compare carriers & brokers** – Not all carriers price the same, and the right broker can help you navigate differences.
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At Ascent, workers' compensation is our favorite line to work with because it offers the greatest opportunities for cost control. If you'd like us to review your Mod, benchmark carriers, or walk through your classification codes, we're here to help.

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