Understanding the Experience Modification Rate (EMR)
Review of tools to reduce Workers’ Compensation Costs

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ABSTRACT

The practice of consulting a company’s safety record to help evaluate its general competence dates back to the 1980s, when safety laws became more rigid and corporations became more committed to enforcing regulations. Lately, however, there has been a growing trend to judge a company’s commitment to safety and its overall management expertise by an indicator originally developed in the insurance industry to calculate policy premiums. Essentially the EMR has become the Credit Rating for Industry.

Insurance companies refer to this new competence indicator as the experience modification rate (EMR) or modification rate or just plain MOD.

In general insurance terminology, experience refers to a record of premiums and losses under a policy. This provides a basis to predict future rates or costs.

For workers’ compensation, experience is further defined as:

- The comparison of premium (usually payroll) and losses developed by a risk in a policy period.
- The loss record of an insured.
- The payroll appearing on the unit card. The premium paid is compared to losses paid out on an insurance policy.
- The aggregate premium/losses within a state during a period of time reflected in a financial call.

Workers’ compensation costs fall into three categories:

Understanding your experience modification rating (EMR) and monitoring it regularly is key in reducing your Workers’ Compensation costs. It is also an excellent measure of how your loss prevention and control practices stack up to others in your industry.

1) Paid Losses: Money spent on a claim
2) Reserved: Money set aside (outstanding) for future payments
3) Incurred Losses: Combined total of paid plus reserved amounts

What is an Experience Mod?
Simply speaking your Experience Modification Rating compares your workers’ compensation claims experience to other companies similar in size who operate in the same industry. Most employers who have annual premiums in excess of $3,000 receive an Experience Modification Rate. If you are at the industry average, your Experience Mod is a 1.0. If your experience is 20% better then average your Experience Mod would be a .80 or 20% worse 1.20.

How is Your Experience Modification Rate Calculated?
Each year insurance carriers report your class code, payrolls, and losses for the last five years to the National Council on Compensation Insurance (NCCI), with the exception of a handful of states that have their own calculating agencies. These agencies use three years of data ending one year prior to the effective date of the rating period. To give you an example, if they were calculating your 2008 rating they would use the years from 2004-2006.

Basic analysis of EMR is an equation that = (actual claims/expected claims)

How do different types of claims affect the formula?
The type of claims you experience and what you do to control the cost of claims has a significant effect on your Experience Mod. Obviously, if you have zero claims you have no experience going into the formula.
When we discuss severity, regarding the mod, the NCCI categorizes this as claims in excess of $5,000. Each state also puts a cap on large claims (usually around $200,000) so that one significantly large claim cannot outweigh all the others. It’s the excess losses that represent severity in the mod calculation.

Payroll – Payroll (per $100), by classification code, is multiplied by corresponding rates from carriers to determine manual premium, but this same payroll, by code, is also used by the NCCI to determine expected losses. It’s this payroll and the NCCI’s historical data that determine an appropriate value for which to compare companies. Obviously, smaller companies with less employees and lower amounts of payroll are expected to have fewer claims and less total dollars incurred to those claims. As the size of the company and payroll increase, the expectation for claims and dollars incurred also goes up. Bigger companies do have the potential for a bigger credit.

How can the Employer make a difference?
There are some key components where significant impact can be made by the Employer and independent service contractors. First of all you need to pay particular attention to the amount paid on every claim and fight for the best outcome and pay attention to indemnity payments and make sure that if lost time isn’t needed, bring the employee back to work and avoid the indemnity payments. Implement a detailed Return to Work program and monitor it for effectiveness. Pay attention to closed claims. Make sure the mod worksheet reflects the accurate amount of closed claims to ensure no mistakes have been made. Vice versa, also pay attention to reserves on open claims. Because reserves count against you as an “actual” loss, make sure that the carrier isn’t over-reserving. Even if a claim closes at a lower dollar amount, the initial reserves may push that mod up. Insurance companies report all the historical claims information to the NCCI around 6-8 months into a current policy. What this means is that any changes to reserves or claim closings in the last 4-6 months of the policy won’t be reflected in the new mod. So, review this historical information and push for necessary reserve changes BEFORE the insurance company sends the info to the NCCI. When errors are found resulting in a lower mod, the NCCI can be petitioned to make a change. If approved, the NCCI contacts the respective insurance carrier(s) and returned premium is on its way.

Choosing the right partners is invaluable in the Return to Work process. Ensure in your selection of your medical and clinical team that they have experience with workers’ comp claims and understand the rational for expediting return to duties.

The information noted above is a summary of one of the components of Fit2WRK by USPh. This integrated model is available through USPh in close to 400 facilities and 44 states nationally. For additional information on how the Fit2WRK Model could help your organization, visit: www.Fit2WRK.com or call 1-877-Fit-2WRK.

RESOURCES:
(NCCI also publishes a handbook on the procedures for reviewing and calculating your EMR)

https://www.ncci.com/NCCIMain/Education/ExperienceRating/Pages/default.aspx

https://www.cdc.gov/niosh/