Understanding the Experience Modification Rate (EMR)

Review of tools to reduce Workers' Compensation Costs

R.GAGNE, EET, CFE, NADEP

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 history established by a risk as disclosed by the losses and 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 (Experience Mod) 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.

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

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.

DU PONT

This is not only a tool for Insurance and Claims Management, it is also used by companies who are proactively seeking sub contractors who practice a safe working environment. A prime example is DuPont's policy: They will not work with any company that hasn't "demonstrated its ability to work safely," as reflected by an EMR of 0.99 or below. Anything above 0.99, and you're not able to secure a contract with Dupont.

Companies who effectively manage their Safety Programs not only understand how this works, but they also have assigned someone to monitor this on a regular basis. It has a direct correlation to how much you pay in Workers' Compensation Premiums.

How does this affect the Employer's premium?
Companies that practice effective safety and claims management techniques are rewarded with the EMR. The example below illustrates the difference between companies with a .80 Experience Mod versus a 1.20 Experience Mod. As you can see from the example, controlling your Experience Mod can have a big impact on your insurance premium.

Class Code	**Payroll**	**Rate Per $100**	**Premium**
5183	$800,000	$8.25	$66,000
Experience Mod	.80		($13,200)
Modified Premium			$52,800

Class Code	Payroll	Rate Per $100	Premuim
5183	$800,000	$8.25	$66,000
Experience Mod	1.2		$13,200
Modified Premium			$79,200

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.

<u>A brief overview of the type of claims and individual results are as follows:</u>

Medical only claims - Claims that require medical treatment only are usually less severe so employers are not penalized when they occur. Consequently, any medical only claims are reduced by 70% before they enter the formula. You can take advantage of this by ensuring that injured employees remain at work when possible or return to work within the waiting period. This is where an effective claims management and return to work program can have a dramatic effect.

Lost time claims - The first $5,000 of a lost time claim is counted at full value. The dollar amounts after $5,000 is discounted. There is also a large claim cap limit to protect you from a catastrophic loss. Because the first $5,000 of each loss goes into the formula dollar-for-dollar, severity is a factor. A single claim valued at $20,000 has less effect on your Experience Mod then 10 claims valued at $2,000.

"Companies seeking to minimize their workers' compensation premiums need to focus their safety efforts on reducing the frequency of lost time claims."

It is also recommended that companies review their losses periodically. Pay particular attention to open claims with outstanding reserves. Work with your claims administrator to bring these claims to closure. In some instances, outstanding claims may be closed resulting in reserve reductions that ultimately may affect your Experience Mod. Don't forget about your current year's claims. These usually present the greatest opportunity for cost reductions. Remember this year's claims will affect your Experience Mod next year.

Where do I find my Experience Mod?
Typically you will receive an Experience Modification Rating Sheet each year prior to your policy renewal date. If you are unclear of your company's current Experience Mod your insurance agent can help you locate this. Your Experience Mod is also listed on the declarations pages of your workers' compensation policy.

How do I learn more about the Experience Mod Formula?
The National Council on Compensation Insurance (NCCI) has published a booklet entitled "ABCs of Experience Rating". It is available on their website at www.ncci.com. This brochure explains the experience rating plan in greater detail. Many states that use independent agencies to calculate the experience modification also have prepared brochures to explain the Experience Modification Rating Process.

"20% of workers' comp claims account for 80% of what insurance companies pay out – it is extremely important to monitor and manage each and every injury appropriately. Managing an injury means getting the worker to a medical provider you've selected because they know about work injuries. They'll take your injured worker right away, they'll give a medical report to the company, and they will inform you about the restrictions of the injury and what the worker can and can't do so you can get them back to work doing modified or light duty."

Why is it important?
The EMR is important because it offers the ability to get a credit or debit in the rating of the WC policy, and this credit/debit could significantly change the final premium. Because of this influence over final premium, it provides employers with an incentive to provide safety and loss prevention programs as well as an incentive to have injured employees return to work as quickly as possible.

What are the variables?
Frequency – Is it better to have a lot of little claims or one big one? Well, as far as the mod calculation goes, frequency weighs much heavier than severity. Because frequency of claims is a byproduct of poor safety controls and lack of management oversight, the mod equation is created to elevate the mod faster for frequency rather than severity. The mod equation also breaks up all claims into primary losses and excess losses. The frequency is going to be significant in the primary losses (those claims under $5,000).

Severity – 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 me 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)

NCCI National Council on Compensation Insurance, Inc

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

CDC Centers for Disease Control and Prevention
Your Online Source for Credible Health Information

http://www.cdc.gov/niosh/