Risk Control

CNA

Understanding Your EMR

It's known by several names: experience modification rate (EMR), experience modification factor (EMF), experience modifier and simply "the mod." But what is EMR? Where does it come from? Why does it matter? And, as a contractor, what can you do to impact it?

In addition to answering those questions, this guide will clear up some misconceptions about EMR and provide helpful examples to illustrate how it is calculated.

What is it?

If your company carries workers' compensation insurance and meets the minimum premium threshold to be eligible in your state, you will have an EMR. In the simplest terms, the EMR is a comparison of a company's expected workers' compensation claim costs versus the actual claim costs.

If actual costs exceed what was expected, you'll have a higher (or debit) EMR. If costs are lower than expected, you'll have a lower (or credit) EMR. These expected and actual claims costs are generally based on a historical three-year period, skipping the most recent year. For example, a 2023 EMR will not consider 2022 (the data is too green) and is based on the expected vs. actual incurred claims costs from 2021, 2020 and 2019.

Where does it come from?

The source of your company's EMR will depend on the states in which you report your payroll. As of 2023, 39 states authorized the National Council on Compensation Insurers (NCCI) to calculate the EMR. Several states with their own independent rating bureaus, such as California, Delaware, New Jersey and Pennsylvania, calculate their own experience mods. When an employer has exposure in two or more states, they may have an interstate mod in addition to an intrastate mod. Additionally, the following states are monopolistic (state run/provided workers' compensation): Washington, Wyoming, North Dakota and Ohio. Monopolistic states may have different reporting and experience rating requirements.

Example: A company with payroll in California, Texas and Oklahoma would have an EMR for Texas and Oklahoma from NCCI, as well as a separate EMR from California provided by the California Workers' Compensation Insurance Rating Bureau (WCIRB).

A company's workers' compensation insurance carrier files incurred losses and payroll data with the NCCI or state bureau 18 months after the inception of each workers' compensation policy term. California is an exception: Workers' Compensation Insurance Rating Bureau of California (WCIRB) filing is at 20 months. Once filed, the NCCI or state bureau will then calculate the EMR for the current or upcoming policy period. So if your workers' compensation insurance policy started on 1/1/2023, your insurance carrier will be filing claims and payroll data around 7/1/2024 (or 9/1/2024 for California).

Why does it matter?

Insurance costs: The average workers' compensation experience modifier is 1.00, meaning actual incurred claim costs are equal to expected claim costs.

For small and medium-sized companies, the EMR will directly impact the workers' compensation premium. The basic formula is:

(WC class code payroll) x **(WC class code rate per $100 of payroll)** x **(EMR)** = **Premium**

Debits and credits are then applied. From this formula, you see how the EMR can significantly swing insurance premiums.

Job bid screening: In recent years, owners and companies that pre-qualify contractors have increasingly used the EMR as one of the selection or screening criteria in the bid process. We know of contractors who were not allowed to bid on some potential projects because they had an EMR of 1.00 or higher. Some screening criteria have been set lower than 1.00.

Clearing up some misconceptions

- **The EMR is not tied to an OSHA recordable rate.** The EMR is driven by incurred claim dollars (medical costs from work-related injury or illness and lost time "indemnity" benefits). If there are 100 injuries that are OSHA recordable and none of those injuries incurs any claim costs, there would be no effect on the EMR.
- **There is a minimum EMR that a company can achieve.** If a company has zero claim costs for three years in a row, it will achieve the lowest possible EMR. How low an EMR can go depends on the size of the company's payroll and any changes in expected loss rates in the state(s) they operate. The larger the company, the more self-rated it becomes. For smaller companies, a significant stabilizing value is applied, which makes the EMR less predictive. As an example, a large company may be able to achieve an EMR below 0.20, while a very small company may only go as low as 0.75.

To illustrate some important takeaways, let's use a hypothetical contractor: XYZ Contractors, based in California.*

XYZ employs roofing workers (5552 & 5553), painters (5482), sheet metal workers (5542), outside sales people (8742) and clerical workers (8810)

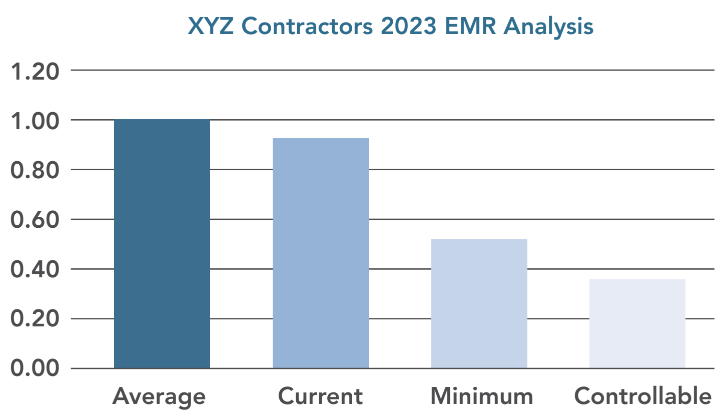
Payroll details:

WC Class Code	2021	2020	2019
5552	$477,405	$463,500	$450,000
5553	$1,326,125	$1,287,500	$1,250,000
5482	$307,661	$298,700	$290,000
5542	$318,270	$309,000	$300,000
8742	$868,877	$843,570	$819,000
8810	$695,950	$675,680	$656,000

Actual Incurred Claim Loss data (2019-2021):

- 2019 Strained shoulder – holding/carrying at $65,000
- 2019 Fall from height injuring multiple body parts at $150,000
- 2020 Strained back – pushing/pulling at $25,000
- 2021 Motor vehicle accident injuring multiple body parts at $30,000
- 10 Medical-only injuries over the three-year period

Resulting EMR:



*This hypothetical "XYZ Contractors" scenario was created using the ModMaster insurance software by Zywave.

What can XYZ Contractors do to impact this EMR?

- It starts with prevention. Based on the payroll size of XYZ Contractors, their minimum EMR is 0.56, which would mean no claim costs from 2019-2021. Their actual claims created **0.38 additional, or controllable, mod points** as follows:

$65,000 shoulder injury	0.093 mod points
$150,000 fall from height	0.093 mod points
$25,000 strained back	0.070 mod points
$30,000 MVA	0.085 mod points
10 medical-only injuries	0.039 mod points

The EMR formula penalizes companies that have a high frequency of severe claims. If XYZ Contractors had three injuries at $25,000 each (totaling $75,000), the company would be charged 0.21 mod points. These three claims have more adverse impact on the EMR than the single $150,000 injury. By enhancing safety process and reducing exposures on job sites, the minimum EMR may be achieved.

- **Manage medical-only claims.** A workers' compensation injury claim will be coded as "medical only" when it involves just medical treatment and release, with no anticipated lost time (temporary income benefits) or impairment (impairment income benefits). In many states, medical-only claims are discounted in the mod calculation, usually by 70%. In California the medical-only discount does not apply, but there would be savings from incurring no indemnity costs. As of 2019, the California WCIRB provides a $250 deduction from each claim to encourage reporting even minor medical claims.
- **Manage lost time with a strong commitment to return-to-work.** If XYZ Contractors worked with the physician, claim professional and XYZ supervisor to find modified duty or alternative duty (in the shop, yard, office or even non-profit partner) for the employee with the $25,000 back injury, enabling a medical-only claim at $2,500, then the impact would go from 0.07 mod points down to about 0.006 mod points.
- **Report claims quickly.** If no medical or lost time is involved, XYZ Contractors should report the claim as "for record only" so that no claim reserves are set up. Reporting the claim within the first 24-36 hours allows the best information, evaluation and communication with the injured worker, employer and medical provider (if one is involved).
- **Channel injuries to preferred occupational physicians.** Generally, medical costs now exceed indemnity/lost time costs for workers' compensation claims. Occupational physicians are familiar with workers' compensation claim processes. Workers' compensation insurance carriers also have medical bill review processes that often find duplicate charges or procedures that may be unrelated or unapproved under the state rules. Medical bill review savings are frequently 25% or more, which reduces incurred claim costs. Several carriers have preferred provider networks that further control claim costs.
- **Make sure payrolls are correctly coded.** XYZ Contractors needs to review with its insurance agent what workers' compensation classification codes the company is using. This varies by state. Expected loss rates are significantly different for clerical workers versus roofing workers. Under- or over-reporting payroll will cause incorrect EMR calculations, and this can be significant.
- **Check insurance loss runs.** Before the 20-month point (unit statistical filing by the workers' compensation carrier to the WCIRB), XYZ Contractors or their insurance agent should review workers' compensation claim data to be sure incurred costs are accurately reserved, claims that should be closed are indeed closed, and reserves are taken down as appropriate. The company should also make sure the claims on its loss runs really belong to the company. Since XYZ Contractors' EMR effective date is January each year, the company should be closely reviewing its loss runs in May or early June – before their workers' compensation carrier does its report to WCIRB. Note: If XYZ Contractors participates in an owner controlled insurance program (OCIP) or contractor controlled insurance program (CCIP), those workers' compensation claims will be included in the company's EMR calculations.

Helpful resources

Workers' Compensation Insurance Rating Bureau of California

Links to state workers' compensation rating and statistical bureaus

NCCI Learning Center

NCCI webinar: Basics of Experience Rating

NCCI resource: ABCs of Experience Rating

NCCI state map

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