
Most people have a pretty good understanding of the basic concept of insurance. Everyone contributes a relatively small amount to a risk pool, so that a larger amount is available when they face a loss. On the other hand, how insurance companies determine the premiums they charge is quite complex and confusing ' and workers compensation policies are probably among the most difficult to decipher. When insurers determine premium amounts for workers comp policies, they factor in a mysterious multiplier called the Experience Modification Rate. Known as an EMR, that multiplier can either make your premium sky-high or downright affordable. You may have more control over it than you realize.

Explaining EMR requires some understanding of how workers comp rates are computed. In simple terms, manual premium is computed by dividing a company's payroll in a given job classification by 100. Then multiplied by a 'class rate', determined by the National Council on Compensation Insurance (NCCI) or Rating Bureau, that reflects the inherent risk in that job classification. For example, structural ironworkers have shown a greater amount of injury than receptionists, so their class rate is significantly higher.

The Rating Bureau next uses your company's past claims history to see how your claims compare to those of similar companies in your industry. Specifically, Rating Bureaus use your history for the three full years ending one year before your current policy expires. For example, if you're getting a quote for coverage that expires on January 5, 2008, the rating plan will look at 2004, 2005 and 2006. NCCI has developed a formula that measures the ratio between expected losses in your industry and what your company actually incurred, as well as both the frequency of losses and the severity of those losses. A company with one big loss is going to be 'penalized' less severely than a company with many smaller losses, because the formula limits losses over \$5000.

The result of that calculation is your EMR, which is then multiplied against the manual premium to determine your actual premium (before any special discounts or credits from your insurer). Essentially, if your EMR is higher than 1.00, your premium will be higher than average; if it's 0.99 or lower, your premium will be less.

The toughest part of dealing with EMR is that it carries any claims history for three years. You may have had a great claims history for a decade, but suffered a couple bad accidents during 2006. Even if your company has been accident-free since then, those claims will be reflected in your EMR as you negotiate policies through 2010.

But I mentioned that you may be able to exert some control over your company's EMR. How you respond to injuries suffered by your workers can have a significant impact.

As an example, I noted that multiple small claims can be more damaging than one big claim. So you should analyze all of your claims to see why you have so many, and where they are occurring. It may be that workers are suffering small injuries because they're failing to wear the proper protective equipment for specific tasks. Those small injuries may not be life-threatening, but their cost will add up, so it's in your best interest to encourage safety compliance.

Rushing all injured employees to hospital emergency rooms may not be in your best interest, either. Many companies will negotiate agreements with local care providers such as occupational care centers. In return for a promise to have all employees with non-life-threatening work-related injuries treated there, you may be able to negotiate a smaller per-visit fee. If your jobsite is large enough, it may pay to have an on-site clinic staffed by a nurse and/or part-time doctors, because your insurance (and downtime) savings may outweigh the payroll costs. Remember, all medical only claims under \$5,000. are discounted 70% in the EMR formula.

Another key factor is reducing the time employees miss because of injury. Typically, if the doctor tells the employee that he cannot perform a work-related activity for a certain time (such as no lifting for ten days), many employers will send the employee home for the duration. Instead, why not assign him to some sort of lighter duty at the jobsite? That way, the employee isn't sitting around the house, and your EMR will take much less of a hit. If one day of lost wage is paid then 100% of the entire claim will be included in the rating formula.

The bottom line is:

- 1.) Prevent the loss from happening.
- 2.) Control the loss if it does happen through medical utilization and return to work.
- 3.) Be sure the facts of you payroll and claims history is reported accurately on your EMR.

Understanding EMR and taking an active role in managing the factors involved in its computation takes some effort, but the payoff can be significant.

About The Author

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