

# Experience Modification Rating

## Understanding the Value & Limitations

By Russell M. Clayton

### IN BRIEF

- By better understanding the experience modification rating, OSH professionals can advocate for meaningful metrics that provide vision to an organization.
- Performance metrics add value to a safety program when a proper balance is maintained between lagging and leading indicators.
- Watching the right metrics not only directs a company's focus, but also provides real-time perspective on the overall quality of a company's safety culture.

**M**easuring performance is an essential function of safety management. When used correctly, safety metrics can provide great vision to a company's safety program. Some metrics may indicate a need for improved employee training and development. Others may necessitate the creation of an emphasis program or standard operating procedure. A proper assessment of performance indicators can help OSH professionals identify negative trends or areas in the company with declining safety performance.

The variations of data that can be collected are seemingly endless. In any case, OSH professionals should seek to maintain the right balance between lagging and leading indicators. This means that equal consideration should

be allocated to past experiences and current preventive activities. By doing so, management can ensure that efforts are properly distributed to the most value-adding aspects of the business.

A common metric used to measure safety performance is the experience modification rating (EMR). EMR is a workers' compensation calculation insurance companies use to predict a company's potential for future losses. EMR is ultimately calculated by dividing actual losses by expected losses. The rate produced is used to determine insurance premiums. For example, if the average rate in a given industry is 1.0, then a company with an EMR of 0.78 would be given a credit modification, which equates to a reduced insurance premium. In contrast, a company with an EMR greater than 1.0 would be given a debit modification resulting in an increased premium cost.

From the perspective of insurance cost, this metric makes sense. Use of EMR attempts to ensure that an insurer appropriates the right amount of premium to correlate with the amount of coverage that can be expected. Establishing such a prediction requires due consideration of past performance. While not perfect, past performance is an irrefutable baseline metric.

When selecting the core safety metrics that will guide a safety program, an OSH professional should consider EMR benefits and limitations.

### Benefits

Traditional safety metrics often fall into two separate categories: cost and quantity. Each category serves its own independent purpose. Metrics that are based on quantity provide insight on incident frequency. Metrics established on accumulated cost demonstrate incident severity. Both of these

**Russell M. Clayton, M.S., CSP**, is director of safety and health for Sunroc Corp. in Orem, UT. His experience as a safety professional spans several industries including heavy civil construction, mining, manufacturing, transportation and retail. He holds an M.S. in Occupational Safety and Health from Columbia Southern University, and a B.S. in Construction Management from Brigham Young University-Idaho. He is a member of ASSE's Utah Chapter.



From the perspective of insurance cost, the EMR metric makes sense. When selecting the core safety metrics that will guide a safety program, an OSH professional should consider EMR benefits and limitations.

measurements are important. They each point to a company's specific needs. Rarely does a metric couple these two characteristics into a single figure. Fortunately, EMR does just that. Combining frequency and severity of losses suggests that companies should focus on both factors concurrently.

The original intent of EMR was to allow an insurance company to establish a premium. However, its popularity and general acceptance have grown rapidly. Many companies now use EMR as a prequalification for performing work. For example, to be eligible to work on-site at a North American DuPont facility, a service supplier must have an EMR of 0.99 or less (DuPont, 2016). Such a criterion adds value to the safety profession. When managers understand that safety performance has a direct impact on their ability to perform work, a favorable shift in priorities occurs. OSH professionals could benefit from emphasizing this essential correlation.

Another benefit of EMR is the use (in approved states) of the experience rating adjustment (ERA). This adjustment offers a 70% reduction to claim cost for all medical-only claims. This is important to understand because, as Gallagher (2008) explains, "as soon as an indemnity (lost wages) payment is included, the entire medical portion of the claim goes into the experience modification formula." The benefit of only including 30% of the primary and excess losses (of medical-only claims) in the EMR calculation can be significant. The rationale for this adjustment is that National Council on Compensation Insurance (NCCI) wants to provide an incentive for employers to

submit all claims to be processed by the insurer; the adjustment thereby rewards a company's efforts to reduce severity.

#### Limitations

EMR hinges on the premise that a company's past performance is compared to similar companies in the same industry. As the leading provider of workers' compensation information in the U.S., NCCI created and maintains a comprehensive classification system. However, even with hundreds of class codes, the system will never find a perfect match for any given company. NCCI (2014) recognizes this limitation. On the impossibility of identifying exact matches, it explains:

Under the current NCCI system, each classification groups together employers that have similar exposures to losses so that the overall cost of the system is distributed fairly among employers. . . . [I]t is the business of the employer (the insured) within a state that is classified and not the separate employments, occupations or operations of individual employees within the business. . . . Each classification includes all of the various kinds of labor typically found in a business.

This approach may have sufficed a few years ago, but circumstances have changed. These days, it is a generous assumption to suggest that two different manufacturers are the same merely because they both manufacture products.

Manufacturing processes are constantly evolving and automation is increasingly being introduced into the workplace. Experts predict workplace auto-



Workers' compensation losses are capped at a state-approved accident limitation amount. This means that only a portion of the actual claim cost is rated. For example, if a state's accident limitation is \$300,000, then no costs above that amount will be included in the actuary loss amounts. In addition to that limitation, EMR employs a split rating system, wherein primary losses are weighted more heavily than excess losses. Primary losses are "individual losses up to \$15,500. . . . The amount in excess of \$15,500 is known as excess loss" (NCCI, 2015). These caps and limitations can create a false sense of security for executive managers who speak the language of money. If a company experiences a \$3 million loss, the loss would not be represented as such because the rating is protected by the split rating system.

The goal of this article is not to encourage abandoning the use of EMR. Such an objective would be unwise and misguided: Insurance ratings have an important role in the OSH profession. Rather, the author suggests that to effect positive change within an organization, OSH professionals must begin to better understand the metrics we use, and how they are affected and defined by other variables.

### Actions Can Influence EMR

Careful analysis of the EMR shows that companies are not without recourse. A company can positively influence its rating. Among the most significant claims that hurt an EMR are those that necessitate indemnity payments. These payments are a replacement of lost wages for an injured worker who can no longer work as a result of an incident. The more serious the incident, the more likely that a claim will include an indemnity reserve.

According to Utterback, Meyers and Wurzelbacher (2014), "indemnity payments to the [injured] worker who misses work for greater than the minimum waiting period are provided tax free." The minimum waiting period is a statute established by each state. This means that there is a period granted during which companies should do everything possible to help injured employees to return to work.

It is recommended that companies have formal return-to-work programs wherein they offer light-duty options. OSH professionals should maintain close communication with medical professionals to convey the organization's commitment to helping the worker return to work as soon as possible. These efforts can have a significant effect not only on the EMR, but also on the welfare of the injured employee.

Another way to positively affect EMR is to reduce the organization's employee turnover.

Statistics show a good portion of workers' compensation claims are due to new employees who have been on the job for [fewer] than 90 days. . . . Therefore, a positive correlation exists between a high employee turnover rate and a high workers' compensation claim frequency. (Staff One, 2016)

To the extent possible, employers should continually develop and engage the workforce, treating workers as the most valuable asset to the organiza-

tion. Reducing employee turnover can reduce injury claims and lower a company's EMR.

### Conclusion

When thinking about the workplace, OSH professionals should consider several questions: Does the employer truly understand the meaning of the EMR? Does the company understand its purpose and ultimate effect on an insurance premium? Do company executives consider *only* the EMR and, if so, do they understand its limitations?

The real condition of a company's safety culture extends far beyond the information provided in the EMR. Leading indicators work to provide a new perspective. Their use represents forward thinking and is on the rise. Some popular metrics in this category are safety training, safety audits, pretask planning, root-cause analysis and employee perception surveys. These activities can be measured and quantified, and are proactive efforts to achieve a superior safety culture.

As OSH professionals better understand the metrics used, we will make better decisions that elevate safety for companies and individuals alike. Our judgment is only as good as our understanding. **PS**

### References

Clayton, A. (2004). Workers' compensation: A background for Social Security professionals. *Social Security Bulletin*, 65(4). Retrieved from [www.ssa.gov/policy/docs/ssb/v65n4/v65n4p7.html](http://www.ssa.gov/policy/docs/ssb/v65n4/v65n4p7.html)

DuPont. (2016). Minimum criteria to work on-site at a DuPont facility. Retrieved from [www.dupont.com/general/suppliers/supplier-center/Supplier\\_Library/OnSite\\_Criteria\\_Suppliers.html](http://www.dupont.com/general/suppliers/supplier-center/Supplier_Library/OnSite_Criteria_Suppliers.html)

Elkins, K. (2015, May 1). Experts predict robots will take over 30% of our jobs by 2025—and white-collar jobs aren't immune. *Business Insider*. Retrieved from [www.businessinsider.com/experts-predict-that-one-third-of-jobs-will-be-replaced-by-robots-2015-5](http://www.businessinsider.com/experts-predict-that-one-third-of-jobs-will-be-replaced-by-robots-2015-5)

Gallagher, M. (2008, Nov. 12). Small medical-only claims: To pay or not to pay? *WorkCompEdge*. Retrieved from <http://workcompedge.blogspot.com/2008/11/small-medical-only-claims-to-pay-or-not.html>

National Council on Compensation Insurance (NCCI). (2014, Jan. 16). The classification system. Retrieved from [www.ncci.com/Articles/Pages/AU\\_NCCI\\_Services\\_ClassificationSystem.aspx](http://www.ncci.com/Articles/Pages/AU_NCCI_Services_ClassificationSystem.aspx)

NCCI. (2015). ABCs of experience rating 2016. Retrieved from [www.ncci.com/Articles/Pages/UW\\_ABCs\\_ofExperienceRating.aspx](http://www.ncci.com/Articles/Pages/UW_ABCs_ofExperienceRating.aspx)

NCCI. (2016). NCCI state map. Retrieved from [www.ncci.com/Pages/AU\\_NCCISTateMap.aspx](http://www.ncci.com/Pages/AU_NCCISTateMap.aspx)

Schulz, T. (2013, May 3). Man vs. machine: Are any jobs safe from innovation? *Spiegel Online*. Retrieved from [www.spiegel.de/international/business/speed-of-innovation-and-automation-threatens-global-labor-market-a-897412.html](http://www.spiegel.de/international/business/speed-of-innovation-and-automation-threatens-global-labor-market-a-897412.html)

Staff One. (2016, April 27). Employee turnover: Costs and causes. Retrieved from [www.staffone.com/employee-turnover-costs-causes](http://www.staffone.com/employee-turnover-costs-causes)

Utterback, D.F., Meyers, A.R. & Wurzelbacher, S.J. (2014, Jan.). Workers' compensation insurance: A primer for public health. Washington, DC: Centers for Disease Control and Prevention. Retrieved from [www.cdc.gov/niosh/docs/2014-110/pdfs/2014-110.pdf](http://www.cdc.gov/niosh/docs/2014-110/pdfs/2014-110.pdf)