Are You Experienced?

Do you have experience with your EMR? If not, you should.

By Lana Straub

As an environmental drilling company, safety is very important to our business. Our customers rely heavily on safety data to determine whether our drilling company can work for them or not. They want copies of our OSHA 300 logs, our near-miss data, and a letter from our insurance carrier verifying our EMR rating.

If you're like I used to be, you never really give your EMR much thought—until someone threatens to fire you over it. When it comes to safety numbers, small business owners are often at a disadvantage over companies with 200 employees or more. But one factor that is supposed to be the same whether the business is big or small is the EMR. So let's discuss what an EMR truly is and what it can mean to your customers.

EMR is the industry abbreviation for "experience modification rate," which gauges both past cost of injuries and future chances of injuries. It is calculated by rating bureaus, with most states using the National Council on Compensation Insurance as their rating bureau. According to the NCCI Web site, it is the "nation's largest provider of workers compensation data."

NCCI "analyzes industry trends, prepares workers compensation insurance rate recommendations, determines the cost of proposed legislation, and provides a variety of services and tools to maintain a healthy workers compensation system."

NCCI sell its manuals to insurance companies as well as agents. You can pick up your own copy, but it's written in "insurance speak" and comes with a hefty price tag. Some states don't use NCCI, but their manuals are based on NCCI rules and calculations. So it's safe to say NCCI is the industry leader in determining how EMRs are calculated.

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Go to ngwa.org for even more information on safety. See this article, others from past *Water Well Journals*, and links to NGWA's online safety content. Go to www.ngwa.org/publication/wwj/index.aspx.

Losses Are Expected

Insurance companies expect you to have losses. Losses to a point are good for their business because the more losses you have, the higher premiums you pay, and the more money the insurance company makes.

To calculate your EMR, the rating company looks at your payroll and your losses, using a complex formula. They compare your previous three years of actual losses to your expected losses vs. what you had in payroll vs. what they collected in premiums from you. See Figure 1. It is an example of the formula

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Figure 1. The experience rating modification formula is used to determine the experience rating modification for all risks eligible for an experience rating. For the experience modification factor, divide Total A by Total B and round to two decimal places.
Courtesy of New York Experience Rating Plan Manual for Workers Compensation and Employers Liability Insurance

Experience Rating Formula

Primary	+	Ratable Excess	+	Stabilizing Value			=	Totals
Actual Primary Losses	+	**Weighting Value** × **Actual Excess Losses**	+	**Ballast Value**	+	(1 Minus Weighting Value) × Expected Excess Losses	=	**Total A**
Expected Primary Losses	+	**Weighting Value** × **Expected Excess Losses**	+	**Ballast Value**	+	(1 Minus Weighting Value) × Expected Excess Losses	=	**Total B**

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with words instead of numbers so you can understand what is literally used for the calculations.

Several factors are used to determine the EMR. Factors you need to be aware of are your number of injuries and the dollar amount your insurance company spends on claims. NCCI acts like a crystal ball that insurance companies and safety managers use to foretell the future likelihood of your company experiencing losses or injuries.

And believe it or not, they give less weight to one large almost catastrophic injury than several small injuries. An insured with the single large injury (a $50,000 claim) is safer than the insured with several consecutive small injuries or near misses (all less than $1000 each). The logic is that the company with the large injury has been safe up until the one incident, while the company with several small injuries has the tendency to be unsafe and could experience a company-crippling catastrophic injury. It may seem hard to believe a company with claims all equaling less than $3000 could be considered more unsafe than a company that just cost their insurance company $50,000—but this is how the system works.

Starting at Block One

This tendency for claims causes your EMR to rise. The more claims you have, the larger your EMR. The industry standard is 1.0. This is what you start with when you have a brand new workers compensation policy and a history of no claims. If you continue injury free, your EMR shrinks to a decimal number below 1. An EMR of 0.80 or below is considered exceptional. However, at the opposite end of the spectrum, if your company experiences losses, especially several losses over several consecutive years, your EMR grows and can be more than 1.

"If you have fewer claims, you are considered safer and are rewarded with lower premiums."

In the environmental drilling industry, if your EMR goes higher than 1, you might as well sell your rigs or change your market because you won't be doing any environmental drilling for a while.

Your company is compared only to other companies of similar size, which is why the EMR becomes so important. If you have fewer claims, you are considered safer and are rewarded with lower premiums. If you are more unsafe or have more claims, you pay more money in premiums.

Someone from Western National Insurance who has written about experience modification rates explains the importance of your EMR like this: "It rewards companies that practice effective safety and claims management techniques over those who do not."

There are ways to lower your EMR.

First, make sure you have a good employee policy with regard to accidents. Employees need to know to report the accidents to you in a timely manner. Second, make sure you understand the OSHA matrix for reporting injuries. Sometimes we report every claim—thinking it will cover our interests, only to discover later that what we reported wasn't a reportable injury under OSHA. Work with your compensation carrier to understand what types of injuries they want reported.

Edward J. Priz, of Advanced Insurance Management, specializes in getting money back for employers who have been overcharged for their workers compensation insurance due to incorrectly calculated EMR data. Priz and his associates have found more than $20 million in overcharges for their customers since 1983.

Priz says overcharging results "partly from the complexities of the rules that govern workers compensation premiums, and partly from the fact that employers are often at a disadvantage when disputing how the premiums are calculated." This advice comes in his book *Workers Compensation Insurance: A Field Guide for Employers and Others*. It offers a nuts-and-bolts approach to the workers compensation game and is

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available from Advanced Insurance Management (*www.cutcomp.com*) in downloadable PDF form for $10.

Advanced Insurance Management has found discrepancies in businesses across the spectrum. It has helped small businesses, Fortune 500 companies, and even an NFL football team. If you think it's possible you've been overpaying for years, AIM might be your answer.

Watch Things Regularly

You should watch your EMR annually. Priz advises: "Employers should check their mod calculation every year, because the rating bureaus that calculate these don't check the data that is provided by the insurers. They just feed whatever they get in into their computer—and as the old saying goes, 'Garbage in, garbage out.'"

Your payroll numbers are also important as well. "The calculation uses past years' audited payrolls, but if the wrong payroll data has been reported, it will produce an inaccurate modifier," Priz advises. "The higher the reported payroll, the lower the modifier (everything else being equal), so if the payroll data on the mod worksheet is lower than the actual audited payroll for past years, it should be corrected, as payrolls that are lower will make the mod higher than it should be."

Your claims data should be reviewed annually. Claims data that is higher will produce a higher mod, so if the claims data is higher than proper, it will make the mod higher than it really should be. Claims data used on mods includes not just what's been paid out on claims, but also the loss reserves set by the insurer for open claims. Medical-only claims should also be reviewed.

"If the insurer has gotten subrogation on any claims," Priz says, "the employer should make sure corrected reports are filed so that past modifiers can be reduced to reflect the subrogation obtained by the insurer."

One of the easiest ways to pay too much for your premiums and get EMRs that are too high is for your employees and your business to be classified incorrectly. Premiums and risk levels are set by the jobs you do, and some job classifications are considered more dangerous than others.

"Each particular classification will carry a particular rate per hundred dollars of payroll," advises Priz in his field guide on workers comp insurance. "So making sure that a business is classified properly is vital to making sure your premiums are calculated properly."

I know this as a fact. Our company does predominately environmental drilling, and has a lower classification rate than standard water well drilling—almost by one-third. By correcting this error alone, I have been able to save our company thousands per year in premiums.

In this era of tightening our belts, it's a good idea to audit all of your insurance policies for errors and overpayments. As my mother-in-law says, "Watch the pennies and the dollars take care of themselves."

We found $10,000 in one audit a few years ago. What happened? The insurance company didn't give us proper credit for our overtime salary. We overpaid in premiums over a five-year period. We pointed it out and got a $10,000 refund that year.

You can too. You just have to be proactive and familiarize yourself with the system. Get some experience with your modification rate. WWJ