Aon Risk Solutions

Experience Modification Rating
An Accurate Measure of Safety?
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The Construction Experts
Objectives

- Part 1: Explain EMR concept and how it works
- Part 2: Why, by itself, it is not an accurate measure of a company’s safety efforts
- Part 3: Some ideas to help manage EMR
What is an Experience Modification Rate?

- **Called by many names:**
  - EMR
  - “E – Mod”
  - Ex Mod
  - Experience rating

- . . . very confusing

- Clients often do not understand

- Insurance account executives often caught off guard

- The EMR changes every year
EMR’s over 1.00 (compares like businesses in state)

- **Adds/Subtracts** the % over/below 1.00 to/from overall WC insurance premium.
- 1.0 EMR = $1,000,000 WC premium
- 0.75 EMR = $750,000 WC premium
- 1.25 EMR = $1,250,000 WC Premium
- Over 1.0 EMR may limit bidding opportunities. Pre-qualification stage many owners/agencies ask for EMR. Many have EMR cut off of between 1.00 and 1.25 – require an explanation of why over the cut off and what steps taken to help lower.
• Cal OSHA defines a “high hazard” business having an EMR of 1.25 or greater. These company’s are entered into Cal OSHA’s special “high hazard” unit – many owners/agencies do not want companies with 1.25 or greater to draw unwanted attention to their project sites from Cal OSHA inspectors.

• Every year Cal OSHA issues a WC surcharge penalty to all firms over 1.25 EMR (payroll). $20m payroll = $10K
• **If it’s under 1.00 – no one pays attention to it.**

• **If it’s over 1.00 – it is now a hot topic:**
  - “How did it get to over 1.00?”
  - “What’s wrong with our safety program?”
  - “How could this happen to us – I thought we had a pretty good safety program – our incident rates are below BLS averages for our industry?”
How is a Mod Calculated?

A = Actual Primary Losses
B = Ballast Value
C = Expected Losses
D = Expected Primary Losses
E = Actual Excess Losses: (T - A)
F = Expected Excess Losses: (C - D)
T = Actual Incurred Losses
W = Weighting Value

Formula:

\[ A + B + (E \times W) + (F \times (1 - W)) \]
\[ D + B + F \]

In general, the rating is a ratio of actual losses to expected losses.
Calculation

- ... if expected losses are $150,000
- ... and the actual losses are $200,000
- ... $200,000 / $150,000 = 1.33 ... EMR
EMR Concept

• Applied to a company’s manual premium to reflect an employer’s variation from the average of others . . . or competitors . . . with the same NAISC * code.

* North American Industrial Standard Code
Definition 1: It is the ratio of actual losses to expected losses over a rolling three-year period average.

Definition 2: A measure of a Workers’ Compensation loss experience using a baseline of “1.00.”

This rolling three-year period ends one year before the EMR becomes effective, and each year the oldest loss experience year is eliminated . . . and a new year is added.

Watch this critical time for Workers’ Compensation claim reserving – total incurred costs are used.
OSHA & EMRs

- Cal/OSHA defines a “high hazard” business having an EMR of 1.25 or greater. These companies are entered into Cal/OSHA’s special “high hazard” unit.

- 15,588 companies’ EMRs were over 1.25 in California in 2009.
Who issues Experience Mod Ratings?

- EMRs are calculated and published annually by a state or national rating board. Payroll & Losses.

- Interstate Ratings are developed when a company operates in more than one state by the National Council on Compensation Insurance (NCCI).
Who Issues Experience Mod Ratings?

- NCCI: Independent Bureau (Combinable)
- Independent Bureau (Non-Combinable)
- Monopolistic States

Not Pictured:
- AK
- HI
How is a Mod Calculated? Check with your state.

- In California, $175,000 maximum per claim is applied to EMR. New York = $249,500.

- In California, all claims under $2,001 are added up for a single number.

- NCCI States: Max. applied $155,000 for any one claim

- NCCI: Losses under $2,500 are added up
Who issues Experience Mod Ratings?

- California, Delaware, Michigan, New Jersey, and Pennsylvania DO NOT allow combinable experience with other states and issue their own EMRs.
Who issues Experience Mod Ratings?

- A company that works in all 50 states will have 10 experience ratings.

<table>
<thead>
<tr>
<th>Risk Name to Apply Mod</th>
<th>Risk ID</th>
<th>Rating Eff Date</th>
<th>Mod Factor</th>
<th>Eff Date of Mod</th>
<th>Exp Date of Mod</th>
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<tr>
<td></td>
<td></td>
<td></td>
<td>.88</td>
<td></td>
<td></td>
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<td></td>
<td>05/31/2010</td>
<td>.96</td>
<td></td>
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901 Peninsula Corporate Circle, Boca Raton, FL 33487
Telephone: 800-822-4123
Notice: NCCI Holdings Inc. is a service provider on behalf of the National Council on Compensation Insurance Inc. ("NCCI").
Importance of the Experience Modification Rate

- Pre-qualification requirements with construction owners (the ability to bid on projects)
- General selection criteria for marketing insurance coverage
- Lower Workers’ Compensation costs in bids: Competitive Advantage
EMR Values – Generally Speaking

- **Excellent**: 0.40 – 0.75
- **Good**: 0.76 – 1.00
- **Average to At Risk**: 1.01 – 1.25
- **At Risk to Adverse Projections**: 1.26 – 2.00
Experience Modification Value Impact in Dollars

- Consider two contractors with different EMRs bidding a job with $10,000,000 direct labor cost and a manual insurance rate of $15.00 ($15 per $100 of payroll for insurance costs).

- Contractor A has an EMR of 0.60

- $10,000,000 / $100 ($15) (.60) = $900,000
• Contractor B has an EMR of 1.40

• $10,000,000 / $100 ($15) (1.40) = $2,100,000
Results

Insurance Costs

- Contractor A = $900,000
- Contractor B = $2,100,000

- The safety dividend to contractor A is $1,200,000...12% of the direct labor cost.

- $100M project = 1.2% of bid.
<table>
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<tr>
<th>WC Premium</th>
<th>EMR</th>
<th>Net Premium</th>
<th>+ -</th>
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<td>$1,000,000</td>
<td>0.78</td>
<td>$780,000</td>
<td>-$220,000</td>
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<tr>
<td>$1,000,000</td>
<td>1.00</td>
<td>$1,000,000</td>
<td>$0</td>
</tr>
<tr>
<td>$1,000,000</td>
<td>1.25</td>
<td>$1,250,000</td>
<td>+$250,000</td>
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<tr>
<td>$1,000,000</td>
<td>2.00</td>
<td>$2,000,000</td>
<td>+$1,000,000</td>
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</tbody>
</table>
• Part 2: Why, by itself, it is not an accurate measure of safety
Workers’ Compensation Claims and OSHA Recordable are Two Separate Issues

- WC is a no fault system
- OSHA “Injuries & Illnesses”
- Workers’ Compensation “Claims”
- Low OSHA Recordable Rates and EMR over 1.0?
- OSHA Recordable Rate over National Average and EMR below 1.0?
• Third parties cause the injury.

• An employee is seriously injured while traveling on business.
Job is Almost Over

- Cumulative trauma (CT, RMI, Soft Tissue, Strains / Sprains)
WC Claims that go into EMR Rating Formula

- Two employees are involved in a fist fight.
- A construction worker is hit by a truck in the work zone.
- A flagger is struck by a utility truck. Driver using cell phone – state limits recovery.
• EXAMPLE:

• Hospital Bill = $25,000.

• Carrier only allows $20,000 for that procedure.

• Carrier informs you they saved $5,000 from their bill review process and the fee to review was $2,500.

• That $2,500 is then added to the claim cost and into EMR calculations (as of July 1, 2010 not allowed in California). Moved to expense line of claim costs – expense costs are not part of EMR calculation.

• In some states insurance carrier medical bill review fees are / were used in EMR calculations.
• An employee falls out of a portable toilet while it is being relocated on the job site.
• An employee who was a sales rep died of cardiac arrest at his desk.

• VP died in vehicle crash – fell asleep at wheel.

• The rolling chair incident.

• RMI injury to office worker – carpal tunnel surgery.
Poor Medical Care

- “Laborer foremen injured back while shoveling dirt…”
- Claim #1: Failed back surgery $1,107,359
- Claim #2: Same person cumulative trauma (CT) $644,894
- Both capped at $175K
Insurance Carriers are Different

- Companies are at the mercy of the insurance claims representative to handle claims effectively

or

- You get what you pay for
Common Errors

- Typos on claims and payrolls
- Reserves reported improperly
- Wrap-Ups not included
- Wrap-Up claims coded to General Contractor
- Credits for recoveries and reserve reductions not applied / slow recovery
- Multiple claims on one loss date
• Part 3: What you can do to help control EMR
Pre-Qualification

- EMRs should be used in pre-qualification with verifiable explanation of why under or over 1.00.
Insurance Broker Assistance

- Insurance broker’s claims professional and safety professional letter included with pre-qualification.
Some Safety Pre-Qualification Requirements

In addition to EMR’s for last three years (w/ explanations)

- Incident rates for three years.
- Severity / DART rates for three years.
- Close review the company’s safety program with supporting documentation.
- Review OSHA citations – OSHA Establishment Search.
- Review OSHA 300 logs for three years.
Mod Analysis – Anatomy of a Mod

Table 1 Anatomy of a Mod – Current Mod = Low Mod (payrolls) + Controllable Mod (losses).

<table>
<thead>
<tr>
<th>Component</th>
<th>Mod Points</th>
<th>Premiums</th>
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</thead>
<tbody>
<tr>
<td>Average</td>
<td>100</td>
<td>$1,727,100</td>
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<tr>
<td>Current</td>
<td>130</td>
<td>$2,250,411</td>
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<tr>
<td>Low</td>
<td>47</td>
<td>$818,559</td>
</tr>
<tr>
<td>Controllable</td>
<td>83</td>
<td>$1,431,766</td>
</tr>
</tbody>
</table>

In theory
Mod Analysis – Savings Goals

Frequency Reduction – *You can lower your number of loss occurrences by:*

1. Developing a loss prevention program focusing on key areas like back or repetitive injuries. Soft Tissue Claims.

2. When hiring, check potential employee safety and injury records whenever possible.

3. Developing a company philosophy where loss prevention is essential.

4. Tracking losses to identify their source eliminates trends before they become costly.

5. First Aid and Net Deductible plans (consult state rulings) may be financially advantageous. RTW.
Severity Reduction – *You can control the size of your losses by:*

1. Verifying your Experience Mod and correct clerical, injury coding and subrogation errors.
2. Reporting incidents promptly and staying in close touch with injured workers.
3. Getting injured workers back on the job as quickly as possible reduces medical, legal and temporary disability payments / reserves.
4. Insuring prompt treatment reduces your overall cost of claims.
Mod Analysis – Savings Goals

Severity Reduction – You can control the size of your losses by (Continued):

5. Monitoring open claims insures reserves are at their lowest amounts prior to unit statistical submission.

6. Analyzing losses for incident repeaters and suspected fraudulent claims.

7. Getting the commitment of senior management with Premium Allocation programs, i.e. insurance premium and loss chargeback.

8. Management of your EMR should be a key priority of everyone in your company.
Conclusion
“The EMR is an incentive for safety, but not a measure of it”

• DIRECT QUOTE FROM California Workers’ Compensation Insurance Rating Bureau (WCIRB)

  “The purpose of experience rating is to provide a financial incentive for safety and to objectively and equitably distribute the costs of Workers’ Compensation claims. Improved safety practices and fewer workplace accidents will tend to decrease an experience modification over time.”
However, safety is just one consideration that can impact an experience modification. The fact that one employer has a higher experience modification than another employer within the same classification does not necessarily imply that the first employer is less safe....
The EMR is an Incentive for Safety, but Not a Measure of It

- An individual employer can have higher than average loss experience for a variety of reasons such as location, level of automation, and wage levels that have little to do with safety practices.

- For these reasons, the WCIRB cautions against using EMR as a direct measure of safety or using it in any way beyond its intended purpose.
End

- Questions?
- Comments?