



Workers' Compensation – Controlling Your Cost

Experience Modification Factor (NCCI & Similar States)

The price you pay for workers' compensation insurance is a cost of doing business. The lower the cost, the better! Your price, or premium, is based on a number of factors, including: your Experience Modification Factor (EMF), the cost of healthcare, economic conditions, market performance, regulatory changes, competition and court decisions. The **only** one of these factors that you can control is the **EMF**. Employers pay for – or reap the benefits of – their loss experience through their EMF. That is the bottom line.

Preventing, and preparing for, workplace injuries and illnesses is always a top priority. Unfortunately, not all injuries and illnesses can be prevented. When a workplace injury or an illness occurs, two of the most important things you can do to bring about successful claim resolution while controlling your EMF are:

- \$ **Rapid Claim Reporting** – Report claims to our centralized Claims Reporting Center, at 877-242-2544, within 24 hours; and
- \$ **Stay At Work/Return To Work (SAW/RTW)** – Provide temporary alternative work at regular wages for injured employees.

Understanding Your Experience Modification Factor

Your current EMF is calculated from the three full years of losses prior to the most recently expired policy period. The formula develops a ratio of your actual losses to the expected losses for your industry, based on class codes. The ratio will be 1.00 if your company's actual losses are identical to that of your industry. A ratio greater than 1.00 indicates that your losses exceed the expected losses for your industry. A ratio less than 1.00 indicates the opposite. Both the frequency and severity of claims impact the EMF. The total dollars paid on each claim and whether or not indemnity payments (lost wages) are made on each claim have the greatest impact.

The EMF Formula

The actual formula is more complex, but this represents the basic concept.

- **Your Actual Losses** – The total of your losses for the rating period. Actual losses are split into primary losses and excess losses (see Split Point below). Primary losses are a measure of claim frequency. Excess losses are a measure of claim severity.
- **Expected Losses** – The expected losses for your industry, which is based on how much payroll you had under each class code, is derived from claim data that insurance carriers must submit to each state's rating bureau (NCCI or other).

$$EMF = \frac{\text{Your Actual Losses}}{\text{Expected Losses for Your Industry}}$$

Terms to Know

- **Split Point** – The threshold between primary losses and excess losses, which was \$5,000 as of December 31, 2012, for all participating states. Beginning in January 2013, the split point increases to \$10,000. It will increase again in 2014 to \$13,500, and again in 2015 to about \$17,000. Missouri's split point will increase in four steps instead of three, but will arrive at the same end-point. Annual increases will occur after that and will be indexed to inflation.
- **Primary Losses** – The loss amount for each claim, up to the split point. Claims that are kept medical-only are significantly discounted before they are included in the EMF calculation (see the ERA, below). Claims that have indemnity (wages paid) receive no discount at all on the primary loss amount.
- **Excess Losses** – The loss amount for each claim that exceeds the split point. There is some discounting of the excess loss amount, even if there were indemnity payments. The level of the discount depends on the size of your business.
- **Experience Rating Adjustment (ERA)** – Each claim that is kept medical-only is discounted by 70 percent prior to being included in the EMF calculation (not available in CA, CO, DE, MA, NJ, NM, NY, OR, PA, TX). The discount is a valuable incentive for employers to provide *Stay at Work/ Return to Work (SAW/RTW)*, thereby eliminating indemnity, and to discourage employers from paying claims out of pocket. A claim with just \$1 of indemnity loses the ERA benefit. *The example on Page 2 shows the potential savings.*
- **Per Claim Cap** – The maximum amount (varies by state) that any one claim, regardless of size, impacts the EMF.

The Numbers Tell the Story

There are three components of the EMF that must be understood. The example below shows how they are related.

- **Current EMF** – Your EMF for the current policy term, based on the three years of historical losses prior to the most recent expiring year (*aka the rating period*).
- **Minimum EMF** – This is what the EMF would be if there had been zero losses for the rating period.
- **Controllable EMF** – The difference between the current EMF and the minimum EMF.

	EMF	Premium
Current EMF	1.27	\$127,000
- Minimum EMF	0.82	\$ 82,000
= Controllable EMF	0.45	\$ 45,000

If you are at or near your minimum EMF already, that is great news! However, consider how much more you will pay for workers' comp insurance if your EMF goes up because you have more losses this year or don't control your losses through best practices.

The Importance of Stay At Work/Return To Work (SAW/RTW) and the Experience Rating Adjustment (ERA)

The example below makes it clear just how important RTW is in terms of capitalizing on the ERA and protecting your EMF. Even if the ERA does not apply in your state, SAW/RTW is still the best tool you have to protect your EMF and control your costs.

Steve is a supervisor for Allen's Custom Cabinetry. He suffered a moderate shoulder strain while helping his crew install cabinets in a home. The doctor ordered "no work until rechecked in one week." After one week, Steve saw the doctor and is cleared to return to work the following Tuesday with the temporary restriction of "no overhead work for two weeks." After x-rays, an MRI, a month of physical therapy and three office visits, the total was \$7,000 for the medical part of the claim. The lost wages, or indemnity, was for one day only and was \$120 (waiting period is 7 days in this example, and Steve missed 8 days). A total of \$7,120 goes into the EMF calculation for Allen's Custom Cabinetry.

If the doctor had known that Steve is a supervisor and that he can avoid lifting overhead, or lifting altogether for that matter, he wouldn't have prescribed "no work until rechecked in one week." If that had been the case, Steve wouldn't have lost a full week's wages, AND the impact to Allen's EMF would have been significantly reduced by the ERA. \$7,000 would have been discounted by 70 percent, and there wouldn't have been any indemnity payments for Allen's lost wages. PLUS, Allen's business would have suffered little or no lost productivity since his valuable employee would not have been away from work unnecessarily.

This claim will cost Allen approximately \$7,120 in premium over three years. Had he utilized SAW/RTW and gotten the ERA discount, he would have reduced the impact to his EMF by 70 percent, making the net impact to his future premiums only \$2,100. That's a savings of \$5,020! Steve's injury could be just one of several claims that occur during the rating period. As you can imagine, the cumulative effect of claims with indemnity can be devastating.

	EMF Impact without ERA	EMF Impact with ERA
Medical \$7,000	\$7,000	\$2,100
Indemnity \$120	\$120	\$0
Total \$7,120	\$7,120	\$2,100

What can Allen do to better protect his EMF and his finances?

These best practices require only a nominal amount of time to implement, and you only have to do that part once. After that, it is just a matter of maintaining the controls that have been put in place.

- **Prevention** – Invest in and use a safety program that includes rules, supervisor responsibilities, protective equipment, etc.
- **Injury & Illness Management** – Assign one knowledgeable person to diligently coordinate and monitor injuries and claims. See our *Technical Bulletin on Injury & Illness Management* for more details.
- **Medical Provider Referral Form** – Send a note along with the injured employee that explains his/her job duties, that a SAW/RTW program is in place and that medical restrictions will be accommodated. Let the doctor know that you value your employees and need them back right away! Include a contact name and phone number to facilitate communication.
- **Employee Education** – Educate all employees on injury management procedures, the value of SAW/RTW and expectations.
- **Understanding Waiting Periods** – Know what the waiting period for indemnity is in your state and make sure SAW/RTW is in place as soon as possible, but no later than the last day of the waiting period.
- **Understanding the ERA** – Know how the ERA works. Just \$1 of wages paid disqualifies the claim for the 70 percent ERA discount.

What other tools are available to help protect my EMF and minimize my costs?

In addition to rapid claim reporting, SAW/RTW and injury and illness management, these other tools and strategies can help lower and protect your EMF and minimize the cost of your workers' compensation insurance premium:

- **Use** a doctor panel to the extent permitted in your state, and develop relationships with your medical providers.
- **Communicate** with your injured employees, especially when they are away from work. Be positive!
- **Communicate** with your claims representative and be actively involved in managing your claims.
- **Screen** job applicants carefully, using a thorough application, interviews, drug and alcohol testing and background checks.
- **Conduct** drug and alcohol testing on a post-accident basis and for reasonable suspicion. Random testing can also be done.
- **Investigate** accidents and near-accidents, and make changes to prevent them in the future.
- **Enforce** safety procedures and rules consistently. Make safety something that all employees value.
- **Provide** general and hazard-specific safety training to employees. Maintain awareness at a high level throughout the year.
- **Conduct** regular safety inspections to identify and correct hazards before they cause injury.

For further assistance, please contact your loss control representative, insurance agent or claims representative.

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