**EMR Ratings**

1. What is an EMR ?
2. How are they Calculated?
3. How do they affect my organizational operating costs?

1. Simply stated, an EMR rating or Experience Modification Rate, is an industry tool to measure the safety of an organization. It is a lagging indicator, in that it measures the safety of an organization, compared to others in that same industry, using a 3 year sample set ending the year ***prior*** to the year that the EMR rating is calculated. For example, your 2017 EMR rating is calculated using the safety record of years (1/1/2013 – 12/31/2013), (1/1/2014 – 12/31/2014) and (1/1/2015 – 12/31/2015). It is considered a lagging indicator of your safety record, however it is utilized to predict your safety records moving forward as a premium “multiplier” of the average rate an organization pays for industrial insurance in your specific industry.

2. The base industrial insurance rate is calculated by dividing the total payroll for a specific job classification by 100, then multiplied by a classification rate established by the National Council on Compensation Insurance (NCCI). Some states utilize their own rating systems independent of NCCI: California, Michigan, Delaware and Pennsylvania. Other states maintain their own rating systems but also integrate with NCCI in multi state employer situations: Wisconsin, Texas, New York, New Jersey, Indiana and North Carolina.

These classification rates vary because of the variable risks associated with different job classifications. Working as weights and measures field inspector for instance, is an inherently more dangerous job than say, an administrative support employee because of the associated driving of work vehicles, physical interaction with weights, measures and scales or working in class 1 division 1 flammability environments.

Your past safety and claims record modifies this base premium as it compares to other companies in your industry.

* If your safety record; number of claims, cost of claims in a 3 year period, is equal to the industry average, then you will have a modified rate of 1.0
* If your safety record has a higher incident and expense rate than the industry average, then your modified rate will be > 1.0.
* If your safety record has a lower incident and expense rate than the industry average, then your modified rate will be < 1.0.

For example:

* A company with an EMR rate of 1.25 would have a 25% higher premium than a company with an average, or 1.0 EMR rate.
* A company with an EMR rate of .85 would have a 15% lower premium than a company with a 1.0 EMR rate, and pay 40% less than the organization with the 1.25 EMR rate.

There is a complex calculation that takes place to derive the actual EMR rate. Two variables within this calculation are proprietary to the industrial insurer and are not published. It is likely these two variables change with the solvency or profit margin of a given insurer, whether it is a state fund or private insurer. This EMR calculation takes into account:

* Actual primary losses
* Actual incurred losses
* Actual excess losses
* Expected primary losses
* Expected incurred losses
* Expected excess losses
* Weight factor (proprietary)
* Ballast (proprietary)

Each industrial insurer will have a published threshold for allowed losses, that are expected as an industry average for claims, and an excess amount for claims above that value. The “actual loss” is the losses that an organization reports to the industrial insurer through claims submitted. For medical only claims, where no loss time is paid, a discount of up to 70% can be applied to the actual incurred loss value in the EMR calculation to encourage reporting these types of claims. Time loss claims are typically not eligible and have the biggest detrimental effect to your EMR rate.

Your organization’s actual and excess losses determine your expected losses moving forward and play an important role in controlling your industrial insurance expenses.

3. Your industrial insurance rate is an expected operating cost in any organization or business. However, it is a variable expense that can be controlled through a strong safety culture and safety record. Reviewing your organization’s industrial insurance expense and experience rate modifier can give any business owner or finance administrator an idea of what sort of money is at play.

* Is your EMR rate above or below 1.0?
* What is your organization’s overall expense into the industrial insurance program?
* What savings are attainable through lowering your EMR rate?
* How much will these savings fund changes in your safety program and culture?