



# Demystifying Your Workers' Compensation Experience Modification Rating: 3 Things To Understand About Your Firm's Rating

by *Santino DeRose & Nina Vicario*

## MASTERING EMR: SAFETY, COSTS, AND COMPLIANCE

Design, consulting, and contracting firms often face a critical challenge related to winning new work and keeping insurance costs low: maintaining an experience modification rating (EMR) below 1.0. Certain public sector clients and owners, developers, or contractors in specific industry sectors pay careful attention to EMRs and routinely disqualify firms from bidding when an EMR exceeds 1.0.

EMR not only influences insurance premiums but also can be interpreted by others as a signal of your firm's workplace safety approach and predictor of future accidents and claims. For clients and insurers, a well-managed EMR can reflect a firm's commitment to safety, which can impact eligibility for contracts and bolster reputation within the industry.

### EMR Overview

Your firm's EMR is a calculation comparing actual claims to expected losses and functions like a credit score for worker injuries, which is often seen as a proxy for workplace safety. Just as lenders use credit scores to set loan terms (i.e., charging higher interest rates for someone with a lower score, reflective of more risk), insurers use EMR to determine premiums.

A lower EMR means fewer claims than expected and consequentially lower insurance costs, while a higher EMR indicates higher losses and thus multiplied premiums. It measures an employer's workers' compensation claim history against the average of their peers, helping insurers adjust premiums based on expected losses. The calculation typically includes data from the past three years plus the prior year, so it does not reflect the most immediate risks.

While firms may aim to reduce their EMR to gain cost benefits, there is a limit. This minimum EMR, or "floor," represents the lowest possible baseline insurers set based on inherent industry risks, meaning a zero EMR is unattainable—even with zero losses.

The National Council on Compensation Insurance (NCCI) administers EMR calculations and figures, collecting data from insurance carriers and aggregating it to publish your firm's EMR annually. This benchmark evolves yearly based on losses by state and industry. The EMR calculation involves a complex formula involving "ballasts" and caps or reductions on large claims, plus development factors for ongoing claims. Some states, like California and New York, use their own rating agencies for EMRs.

## Top 3 Misconceptions about EMR

Understanding the nuances of the EMR can be challenging. Yet, managing your EMR helps maintain competitive insurance costs and ensures eligibility for key projects.

Here are the top three misconceptions about EMR and the realities behind them:

### 1. “I have no losses, so my EMR rating should be 0.”

**Truth:** Even if your company has no workers’ compensation claims, your EMR will never be zero. EMRs typically range from 0.5 to 0.7 for a risk-free baseline. A zero EMR would imply no risk at all, which is not feasible since every business and industry carries some level of risk.

This “floor” is set by Expected Loss Ratings (ELR), which represent the expected risk level for certain job types and locations. ELRs are used to calculate the EMR floor, and these can vary based on state and job classification.

For example, if your EMR is 1.0, you meet the industry standard and will not incur additional premium costs as a result of the EMR formulas all standard insurers apply. However, an EMR above 1.0 increases your premiums, while an EMR below 1.0 reduces them.

### 2. “Underreporting payroll in a highly rated class code to save on premiums is harmless.”

**Truth:** Proper payroll classification is critical to maintaining an accurate EMR. Misclassifying high-risk roles as lower-risk ones can artificially inflate your EMR and backfire with higher premiums or loss of contracts. For example, a clerical office worker (e.g., class code 8810) has much lower associated risk and expected losses compared to a field worker with manual labor exposures like a surveyor (e.g., class code 8602). Misclassification could mean a retroactive adjustment and a higher EMR, particularly if the people working in the field have actual losses closer to what is expected in that role compared to the clerical office workers.

By ensuring accurate reporting, firms avoid penalties and ensure their EMR reflects their true risk profile. Firms with diverse class codes should pay close attention to each code’s ELR, as riskier class codes, though more costly, can sometimes dampen the EMR impact from small losses. The best way to analyze the impact of having employees coded in different classifications and the resulting ELR/EMR changes is through prospective modeling, which a capable broker can perform and understand.

### 3. “An EMR above 1.0 indicates problems with safety and increases the probability of a loss on a future job.”

**Truth:** All losses, regardless of employee type, operations, or cause of the injury, count in the EMR calculation. Companies with rather small payrolls or relatively low ELRs because of the typical classification of workers can have their EMR increased above 1.0 with a few smaller claims. Even a single large loss, despite the EMR calculation caps, can skew an EMR. It does not matter that the loss or series of losses might originate from an auto accident where an employee (or multiple employees) was hurt, or a tick bite on a surveyor resulting in Lyme, or an injured employee who had complications in a surgery that dramatically increased the medical costs and lost wages, or a freakish, once-in-a-million accident that has no relationship to a firm’s safety practices. Each of these losses can significantly impact the EMR when the loss exceeds the frequency or severity predicted by the ELR. But, these types of losses should not reflect on the quality or effectiveness of a firm’s safety approach and do not increase the probability of a future loss – either similar to these or on a particular upcoming project where a client is questioning an EMR above 1.0.

Worker safety and injury metrics are improving. For example, the U.S. Department of Labor reports that worker injuries and illnesses have dropped significantly, from 10.9 incidents per 100 workers in 1972 to 2.7 per 100 workers in 2022.<sup>1</sup> This means that ELRs are dropping and firms must pay close attention to their safety programs and endeavor to limit worker injury to maintain or reduce their EMR. When a firm's EMR is above 1.0, it is critical to understand the real causes of the losses raising the figure so a firm can identify if there is a pervasive safety issue or a repeatable and avoidable injury scenario versus claims unrelated to "safety" or just plain bad luck.

## EMR Matters

Ultimately, understanding and accurately managing your EMR is essential for maintaining competitive insurance costs, safeguarding your reputation, and ensuring eligibility for important contracts.

By periodically reviewing EMR calculations and ensuring accurate payroll classifications, firms can better manage their EMR to support long-term success in competitive sectors. Firms should utilize insurance brokers knowledgeable in how the EMR is calculated, how losses can impact the EMR (and insurance premiums), how to implement alternate risk transfer mechanisms like captives with EMR benefits, and how to manage safety programs and payroll classifications to maintain EMR numbers.

---

<sup>1</sup> U.S. Department of Labor – Occupational Health and Safety Administration "[Commonly Use Statistics](#)," Accessed May 28, 2024.

## Let's Talk

Greyling Insurance Brokerage & Risk Consulting, a division of EPIC, is a specialty national brokerage and risk management consultant representing professional services firms in the construction and legal industries.



### SANTINO DEROSE, ARM, CPCU, CRIS

BROKER

Greyling Insurance Brokerage, a division of EPIC

[santino.deroose@greyling.com](mailto:santino.deroose@greyling.com)

Direct (678) 447-0326 | Mobile (732) 682-0890



### NINA VICARIO, CRIS

VICE PRESIDENT, BROKER

Greyling Insurance Brokerage, a division of EPIC

[nina.vicario@greyling.com](mailto:nina.vicario@greyling.com)

Mobile (470) 418-7908