

The Experience Mod & Measuring the Health of a Business

By **Bob Lilly** President, Connect Consulting

Often, the workers compensation policy is the one insurance policy that is ignored and left unchecked by management, but viewing it simply as a commodity is a mistake. Neglecting this major business expense can incur increased premiums, along with increased safety and risk management costs. The resulting financial impact could mean having to increase prices for customers, no longer offering competitive employee wages, or being forced to reduce business operations. To control cost, it's important to have a clear understanding of how the workers compensation experience mod is calculated and how it can be used as a barometer to indicate a business's overall health.

Hidden costs

Studies have shown that the hidden costs of an accident can equate to four to seven times that of the actual claim. These costs can include the injured employee's lost time from work, loss of efficiency due to the breakup of a team, lost time by fellow employees due to morale issues, the cost of training a new person, or loss of production. A workers compensation policy does not cover these indirect costs.

Using the EMR to measure the health of a business

The experience modification rate (EMR) is an effective tool in measuring the health of a business and is unique to each employer. In simple terms, this formula is designed to compare a specific employer's historical claim and payroll data to other employers with similar business operations in the same state. An individual employer's EMR is calculated using claims data compared to premiums from the three most recently completed years, excluding the expiring term. From this point, additional analysis is performed related to the number of incidents, the type of incident (medical only versus lost time), and the amount of money paid for each loss. The EMR is used by insurance carriers to compare and gauge both past cost of injuries



(actual claims) and future chances of risk (expected claims for similar operations.) After the calculation is completed, the EMR is applied to the final workers compensation premium. The results indicate one of three conditions:

- An EMR of 1.0 indicates that the company is no more or less risky than average; no modification is made to the premium. If Business A has a premium of \$45,600 and an EMR of 1.0, no change would be made to their premium.
- An EMR that is greater than 1.0 indicates that the company is riskier than average; the premium is assessed a 10% surcharge. If Business B has the same premium and an EMR greater than 1.0, they would incur a 10% surcharge, totaling \$50,160.
- An EMR that is under 1.0 indicates that the company is safer than average; the premium is discounted by 10%. If Business C had an EMR lower than 1.0, they would receive a 10% discount on their premium, lowering it to \$41,040.

(See the table on the next page for these examples.)

	EMR	Premium	Modified Premium
Business A	1.0	\$45,600	\$45,600 (no change)
Business B	greater than 1.0	\$45,600	\$50,160 (10% surcharge)
Business C	less than 1.0	\$45,600	\$41,040 (10% discount)

The difference of \$9,120, whether added to or discounted from the premium, could have an impact on long-term planning and cash management. Now, Imagine the impact if the premium was \$100,000 or greater. The larger the premium, the more significant the EMR, and the greater the advantage to managing loss.

“Neglecting the workers compensation policy can incur increased premiums, along with increased safety and risk management costs.”

Among other things, a high EMR can also impact a business with lost opportunities when competitive bids contain specific stipulations regarding the workers compensation program. For example, a subcontractor with a high EMR may not get bids for jobs if the general contractor considers the EMR to be an indicator of the subcontractor’s commitment, or lack of commitment, to safety.

Key points to consider

Keep the following in mind when evaluating the EMR

- If losses are increasing, the EMR most likely will go up even if the payroll goes down.

- The frequency of losses hurts the EMR more than the severity of losses. Statistics indicate that frequency is a precursor to a severe loss in the future.
- It is important to check the calculations on the EMR worksheet each year against loss runs to ensure accuracy.
- The most common errors are incorrect or incomplete payroll data.
- The workers compensation mod is the single most important factor insurers use to identify the risk.
- A company’s mod can be reduced through effective safety and loss control programs.

How to Reduce the EMR

- Develop a safety program and reward safety in the workplace.
- Complete regular safety inspections.
- Incorporate disciplinary action into the safety program to hold employees accountable for breaking safety protocols.
- Start a return-to-work program.
- Never use uninsured contractors. (Remember, no certificates means you will be paying for their workers compensation coverage at audit.)
- Review your job classification to ensure all employees are classified properly.
- Investigate every accident and make corrective actions if necessary.
- If you suspect fraud, inform the insurance company immediately.

The experience mod is an excellent indication of how effective the business policies, safety, and risk management procedures are impacting loss. Managing the workers compensation policy and understanding the EMR calculation allows businesses the opportunity to implement change, reducing costs and increasing profits through reduced premium.

EDITOR:
Melinda O’Connell
moconnell@sgifs.com

CONTRIBUTORS:
Jan Kearbey
Vice President of Marketing
jkearbey@servicelloyds.com

Tipton Scruggs
Loss Control Supervisor
tscruggs@servicelloyds.com

Bob Lilly
President
Connect Consulting
bob@connectconsultingfirm.com

Personal Protective Equipment

By Tipton Scruggs Loss Control Supervisor

Employers have the responsibility of providing a safe and healthy work environment for their employees, both from a humanitarian and regulatory perspective. To achieve this, employers must first identify hazards or exposures in the workplace and then implement effective controls to prevent work-related injuries.

The following are some of the most effective control methods:

Remove the hazard from the work environment

The most desirable method and could involve the discontinuation of a certain task, substitution with a safer chemical, or removal of dangerous machinery from the workplace.

Engineer control

Some hazard situations can be “engineered” to make the work environment safer, such as installing a barrier guard enclosing operating points of machinery.

Work practice control

This refers to training employees on how to perform their jobs in a safer manner.

Administrative control

This involves changing how or when employees perform their jobs and could include job rotation techniques.

Personal protective equipment (PPE)

Often referred to as the “last line of defense” against hazards in the workplace, PPE is protective gear worn by employees to avoid injury and other workplace accidents. PPE includes safety glasses, face shields, gloves, vests, and other protective items.

Use of PPE is the least desirable method for protecting employees from identified hazards in the workplace because the hazard still exists in its most dangerous state. Employers should continually explore control methods 1-4 above to adequately control hazards in the workplace, in addition to utilizing appropriate PPE.

So, why is PPE oftentimes the first line of defense that employers pursue to protect their employees from workplace hazards? Some common reasons include:

- PPE is readily available, relatively inexpensive, and effective in preventing or at least minimizing the severity of worker injuries.
- Removing the hazard or implementing an engineering control typically requires capital investments that could take extended



periods of time to implement.

- PPE is best used in conjunction with – not in lieu of – control methods 1-4 above.

Employers have certain responsibilities when developing a PPE program. Consult the following list for steps to take during the creation process.

1. Assess the workplace to identify potential hazards that may require the use of PPE.
2. After identifying possible hazards, select the appropriate PPE (eye, head, respiratory protection, etc.) that will best protect employees from the specific hazard.
3. Communicate the PPE selections to your employees and obtain PPE that properly fits the employees. Employees are more likely to utilize the PPE properly if it fits properly and is comfortable to wear.
4. Mandatory use of PPE should be a condition of employment. Establish adequate enforcement policies for proper use of the equipment.
5. Train employees on proper use of PPE, when/where PPE is required, limitations of PPE, and safekeeping, upkeep, and storage of PPE.

Employers should develop a formal (written) Personal Protective Equipment Program, to include documentation of the hazard assessment, PPE selection process, accountability, and employee training. An abundance of materials can be found online to help organizations develop successful PPE programs.

Question:

I spent 2018 just trying to keep the business moving forward and ended the year realizing that I didn't take the time to really show appreciation to my employees. I would like to believe that our annual Christmas bonus is enough, but I know it will not sustain an employee for a year. I prefer not to repeat this behavior in 2019, and I'm asking your assistance to provide me with some easy-to-implement steps that can help me in showing my true appreciation on a more regular basis.

Answer:

It is easy for today's leader to get so engrossed in day-to-day meetings, phone calls, and unending emails that they forget the only way we succeed is through the efforts of our employees. Yes, we must have effective leadership in place to direct activities and create and guide the future of our companies, but our employees are truly our greatest assets. When we forget our employees and forget to acknowledge their contributions, we run the risk of losing them to another firm. The insurance industry's labor pool is shrinking, and there are no indications of improvement soon. Retaining quality employees is vital to success, and incorporating a few of these tips might help with retention.

Once a day – find someone to thank

Set a goal to say thank you to at least one employee per day. You have an entire staff doing great work. Find one of them to thank sincerely – always in person and with specificity, so the behavior is more likely to be repeated.

Simple – be kind and courteous

Everyone wants to be acknowledged in life. It is a basic courtesy, and one that often draws a smile, to say good morning or hello when you see someone in the office. Saying goodnight when you leave has the same impact. When I'm working later than normal office hours, I take the time to walk through the office and say goodnight to any employees who are still working. It is a great opportunity to see what they are working on and to acknowledge and appreciate their efforts in the moment.

Get to know your employees

We all enjoy work more when we feel like we have some modicum of a relationship with our manager. One of the easiest ways to create more connection with your employees, is simply getting to know them better. Asking open-ended questions shows your interest in your employees and provides the opportunity for sharing personal tidbits about your lives. These small conversations will encourage further conversation, as you check back on the kids, the pets, the hobbies, etc., and enhance the manager-employee rapport.

Recognize milestones

Use your calendar to help you build on your employee relationships by acknowledging work anniversaries, birthdays, or any other significant events. This is one more way to show an interest and create positive rapport.

Create team events

One of the best ways to get to know your staff is through team events. We encourage our departments

to celebrate monthly birthdays, anniversaries, and individual achievements such as completing a designation program. Any opportunity to share a dessert or organize a potluck is encouraged – everyone loves food and fellowship. It provides a great forum for team building and for you to acknowledge the team's efforts.

Create an appreciation program

One example of such a program is having a designated appreciation card as a simple, written acknowledgment of work well done – everyone is open to recognize someone else's efforts and the card is publicly shared. Implementing a program that allows you and your employees the opportunity to praise a coworker for positive contributions will pay dividends in the long run.

Expressing gratitude may seem insignificant. After all, how much difference can one "thank you" really make in the bigger picture an organization? You might be surprised to know that although quantitative studies are still pending, early indications suggest there is a direct link between an employee's commitment to the organization and how much the employee feels appreciated. Employee engagement equates to improved productivity and ultimately better results. It's human nature – we work harder when we know our work is appreciated, and it only takes a few minutes to make a difference to your employees and, consequently, your company.