

Small Business Insights

What Is an Experience Modification Factor?



Provided by: Fusco Orsini & Associates Insurance Services

The experience modification factor (EMF) plays a significant role in the cost of workers' compensation insurance premiums. Also known as the e-mod, this figure represents an employer's workers' compensation claims history compared to other businesses of a similar size in the same industry. It is determined based on a formula set by the National Council on Compensation Insurance (NCCI) or state-specific rating bureaus, depending on the employer's jurisdiction. This article provides more information about the EMF and outlines tips to help a business keep its EMF low.

EMF Calculation

The EMF formula analyzes an employer's actual losses compared to the expected losses of a similarly sized business in the same industry. Actual losses refer to an employer's total incurred losses or claims paid, including both the medical expenses and indemnity benefits provided to injured workers. Expected losses are determined by historical data and statistical analysis by rating bureaus such as the NCCI or state-specific bureaus.

The EMF calculation takes into account the frequency and severity of an organization's workers' compensation claims. Frequency generally carries more weight than severity, as multiple claims may be an indicator of poor safety systems and carry a higher likelihood of more claims. Additionally, a business's payroll and industry classification are also factors in the EMF calculation.

This document is not intended to be exhaustive nor should any discussion or opinions be construed as legal advice. Readers should contact legal counsel or an insurance professional for appropriate advice. © 2023 Zywave, Inc. All rights reserved.

A lower EMF can reduce employers' workers' compensation premiums. Fortunately, businesses can take steps to reduce their EMF.

Fusco Orsini
— & ASSOCIATES —
INSURANCE SERVICES

The EMF is typically based on a three-year rolling average, excluding the most recent policy year. It can change annually or over a specific time period, depending on the jurisdiction and the applicable rating bureau or insurance company policies.

The average EMF is 1.0. If a business's EMF exceeds 1.0, that means its claims history is higher than its peers' average. On the other hand, an EMF below 1.0 indicates the business's claims history is below that of its peers.

Tips to Keep the EMF Low

A lower EMF generally translates to lower workers' compensation insurance premiums. Additionally, maintaining a low figure may place an employer in a more competitive position, as some companies require a certain level of safety compliance before agreeing to sign contracts with other businesses. Having a low EMF can also enhance an employer's reputation by demonstrating the business's commitment to workplace safety. There are several steps a business can take to positively influence its EMF, including the following:

- Identifying workplace risks and taking steps to mitigate them
- Implementing robust safety and training programs
- Promoting an overall culture of workplace safety
- Providing employees with proper tools and equipment
- Reviewing and updating safety policies
- Analyzing claims data to identify trends and address them
- Ensuring loss and payroll information is accurate
- Considering a return-to-work program with a modified duty program
- Utilizing independent auditors
- Managing claims and studying the reserves on open claims
- Vetting potential employees
- Working with insurance professionals

Conclusion

Understanding the factors that influence the EMF can help businesses positively influence this figure through proactive risk management strategies. This can lead to improved workplace safety, reduced claims and lower overall workers' compensation costs.



For more small business insights and risk management guidance, contact us today.