



The Emod is multiplied times the Standard Premium to calculate the Guaranteed Cost Premium (before any discounts). Emods are calculated by looking at the last three full years (not including the current year) of loss and exposure history and comparing actual losses to expected losses of employers with similar characteristics. Expected losses are calculated based on the payroll and class codes of the insured.

Guaranteed Cost Premiums are directly impacted by the Emod calculation. Loss Sensitive Plans are less impacted since Deductible Premiums are a percentage of the total Guaranteed Cost Premium; however, Emods can impact surcharges and assessments on deductible plans. EMods can also impact non-insurance-related issues such as contract requirements when bidding on projects.

How does the reclassification of payroll to class code 0012 impact the experience mod?

$$\text{Emod} = \frac{\text{Actual Losses}}{\text{Expected Losses}}$$

The impact of class code 0012 on the Emod could be negligible. Changes to the Emod depend on how the numerator (Actual Losses) compare to the Denominator (Expected Losses). If COVID-19 class code changes are not long-term (i.e. the class code is changed for only 3-6 months), the class code change impact is further reduced (i.e. 4 months divided by 36 months of data is only about 10% of the calculation).

Two potential scenarios are described below:

1. Reclassified workers to 0012 previously had no losses:
 - Impact to EMod could be an increase: Numerator doesn't change/Denominator decreases.

2. Reclassified workers to 0012 previously had bad losses (now those losses are no longer happening with employees not working):
 - Impact to EMod could be a decrease or flat: Numerator decreases/Denominator decreases.

As mentioned earlier, any impact will not likely occur until 2022 or later.

The Emod could also be impacted in those cases where employees are moved from one working class code to another working class code (For example, moving "restaurant server" to "delivery driver").

Changing to another working class code is outside the scope of this article but the thought process is similar to what was discussed for class code 0012. Switching to a higher-rated class code with no change in losses could decrease the Emod since the expected losses (denominator) will increase. Alternatively, moving to a lower-rated class code ("Salesperson" to "Remote Worker") with no change in losses could increase the Emod since the expected losses (denominator) will decrease.

Loss Projections/Collateral Impact

The loss projection is often the starting point in determining insurance pricing and collateral requirements. It is important to factor in any changes to losses, exposures, loss development patterns, and changes to operations when determining loss projections and collateral needs.

Payroll coded to Class Code 0012 and losses related to Covid-19 should be removed from any forecasting scenarios and actuarial accruals.



What Can USI do to Help?

- Advise our clients on keeping accurate payroll records to show timelines with class code and payroll amounts paid. The Employer is responsible for maintaining properly segregated payroll records for the wages earned while the employees were in their new job descriptions. If these records are not maintained, then all payroll would be assigned to the highest-rated applicable classification.
- Assist in verifying information when necessary so that all class codes and payroll records are accurate prior to Emod calculation.
- Communicate any changes to our clients to keep them updated and informed.
- Proactively communicate any changes to underwriters, advocating on behalf of the client.
- Assist in analyzing the reliability of historical loss patterns relative to the change in exposures, when necessary, and adjust loss selections based on these observations.
- Assist in shaping the narrative on the future financial outlook of the client's organization, when appropriate, to prevent premature requests for additional collateral.
- USI offers clients a variety of helpful resources related to COVID-19 on its [STEER website](#).

NCCI useful links/tool:

NCCI COVID-19 Resource site
<https://www.ncci.com/Articles/Pages/COVID-19.aspx>

NCCI COVID-19 FAQ
<https://www.ncci.com/Articles/Pages/Insights-Coronavirus-FAQs.aspx>

Helpful Resources

To help clients navigate these challenging times USI has implemented a **STEER** (Steer Through Epidemic & Economic Recovery) **Task Force**. This cross-functional team is working to provide timely COVID-19 information, understand cross-industry and geography impact and evolving responses, and to develop and deliver tailored solutions to help clients **steer** through this epidemic challenge and economic recovery.

For additional resources, tools, information, and links, please visit our COVID-19 resource page:
www.usi.com/public-health-emergencies



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