Five Things That Drive Up Workers' Comp Premiums

By David R. Leng, Vice President, Duncan Financial Group

There are numerous factors that can give you sticker shock when you see your workers' compensation premiums, and none of them good. But they can be, for the most part, manageable – if you know what they are.

1. Poor Hiring and Training

A lot of problems can be traced back to the hiring phase, which is where many employers first drop the ball. It's important to have a detailed job description that spells out the physical requirements of the job. Many times, employees re-injure "pre-existing" ailments because they do not know the full scope of what the job entails and, unfortunately, these are covered by workers' compensation. You can even go a step further and have a doctor conduct a fit-for-duty physical as a doctor is less likely to "approve" a person who physically cannot perform the job.

But hiring a new employee, and then *not* training them, is a workers' compensation disaster. You might as well get the checkbook ready because higher premiums are surely going to happen.

New employees need to go through safety training before they perform any duties. Many employers make the mistake of waiting for the next safety meeting to start the process, which is a bad idea. Some employers think all you need is to provide quick "on-the-job training," or let employees learn as they go, without a clear process of delivering the training and measuring the employee's progress. The quicker you close the employee's skill gap, the quicker he or she will be safe and productive for you and not drive up your premiums.

2. Poor Return-to-Work Program

All the medical evidence shows that an injured employee recovers faster while at work as compared to sitting at home. Professional athletes don't sit at home, so why should your employees? The only reason you shouldn't bring an injured worker back to work immediately is if they are hospitalized, medicated, or contagious.

Having a thought-out return-to-work program in place is imperative. Many employers believe if they must bring an injured employee back on alternate or transitional duty, they don't get the full benefit.

So, the mindset is to send the injured worker home and let the insurance company pay. But it's the borough's money paying the medical bills and lost wages, not the insurance company.

Remember, for every dollar the insurance company spends, it increases your experience modifier; every point increase in your modifier, increases your premium. The effect is that the insurance company will recover most, all, and even more than what they paid in injury and wage costs through increased premiums over the next few years.

Transitional duty can be any type of work that's meaningful to the employer. As an employer, you can't bring injured workers back to work and have them "do nothing." The transitional duty does not have to be on the premises. They can drive through the borough and look for maintenance or other issues, or even "volunteer" at the library. They can even come to the office and answer the phone and file.

The end game is to have that person do meaningful work and prevent the insurance company from paying the indemnity payment, plus having an injured employee out of work is not productive.

3. Poor Accident Investigation

An accident investigation is not the workers' compensation First Report of Injury, it is a detailed analysis as to what occurred, how it occurred, and what corrective actions need to be made to prevent it from reoccurring. That is the minimum the Occupational Safety and Health Administration (OSHA) requires of any employer.

But you should go further. The direct supervisor or safety committee should perform this analysis, as well as obtain witness statements and the employee's own statement.

Why go to such length? Defense attorneys have told me that the number one reason why an employer loses in court is that a detailed accident investigation was not done as outlined above. When the employee starts to contradict themselves to insurance companies or in court as to what they said in their injury statement, what witnesses have said happened, and what the employee said to the doctor, there is no ability to challenge his or her comments if there was no documentation of those prior "stories."

4. Poor Safety Culture

Having a safety culture is more than being "OSHA compliant." Starting at the top, an organization must stress safety and security for all staff.

This soon permeates the entire organization and transcends all levels of operation. It is not just lip service but a deliberate conscious action to ensure that every action carried out by the organization is safety conscious. It is important that every employee understand how to do his or her job. A misspelled word in a letter may make someone look dumb, for a minute. A worker that happens to text while driving can change theirs or a family's future.

5. Lack of Benchmarking

The experience modifier is one of the biggest drivers of your workers' compensation premium, so it is imperative that you keep detailed records on any and all the factors that can influence it. There are certain data points we suggest every executive analyze every year, so you can benchmark your progress.

- **Your minimum experience modifier** – How low can your experience modifier go? If you do not know this, how can you benchmark how much extra money your claims are costing you?
- **Your controllable experience modifier** – The premium gap between your current experience modifier and your desired, minimum experience modifier.
- **Your eltimate cost of loss, a.k.a. your payback ratio** – For each dollar the insurance company spends for an injury, how much are you paying back to the insurance company for that injury over the three years that it impacts your experience modifier?
- **Your actual losses versus expected losses** – This report shows you a year-by-year comparison of how much your

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claim dollars are in comparison to what the rating bureau expected based on your reported payrolls.

Other items you can benchmark are:

- Number of injuries: using the 5 percent rule. If more than 5 percent of your employees are injured over a one- or three-year period, it is statistically too many injuries. For example, if your borough has 10 employees, anything more than an injury every other year is statistically high.
- Wage to medical ratio: 40 percent rule. If you add up what the insurance company spends on wages as compared to total injury costs, and that percentage is greater than 40 percent, the insurance company will view you as possibly not having a solid return-to-work program and may charge you more premiums to offset that risk.
- New employee injuries: review your loss runs over the past five to 10 years. If a higher percentage of injuries come from employees in their first six months of employment, you should look at your hiring or orientation programs.

Keep track of everything. It's the only way you can keep your workers' compensation premiums from trending in the wrong direction.

About the author: *David R. Leng, CPCU, CIC, CBWA, CRM, CWCA, is author of "The 10 Laws of Insurance Attraction," and "Stop Being Frustrated & Overcharged," and is vice president of the Duncan Financial Group in Irwin, PA, a member of Keystone. He is also an instructor for the Institute of WorkComp Professionals (IWCP) and can be contacted at dleng@duncangrp.com.*

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