

# Workers' Compensation Rate Declines The Calm Before the Storm?

by Eivind Oland, AAI, CIC, CWCA

*In recent months, many employers have been pleasantly surprised to see workers' compensation (work comp) rates declining. While this rate decline is a positive and welcome trend, it's probably unwise to become too complacent; history shows that most declines are merely the "calm before the storm," with rising rates to follow. In fact, many employers may find themselves paying back some—or even all—of their premium savings as the next wave of price increases hits.*

"Relying on reforms and the insurance marketplace cycles for long-term and stable cost reduction is a fool's errand," says Frank Pennachio of the Institute of WorkComp Professionals. He adds, "...while these attempts might help in the short term, a positive long-term outcome requires a proactive approach."

## How it Works

When seeking to improve outcomes, it's vital that employers understand how work comp insurance works. This type of insurance functions more like a credit line than insurance; in effect, a work comp policy is used to finance injury costs. The experience plan administered by the National Council on Compensation Insurance (NCCI) is a complicated program intended to assist insurance carriers in tailoring the pricing of insurance to the individual characteristics and historic experience of an employer. If an employer's claims history has been higher than expected, this translates into a "tax," or debit, that may affect the employer's future premiums for three or more years. The same rating system is intended to benefit employers who suffer catastrophic but infrequent injuries and to protect carriers from insolvency over the long term.

As determined by the NCCI and other state rating bureaus, experience mod factors work on the premise that if rates go down, so should expected injury costs. If actual injury costs fail to decline in proportion to rates, experience mod factors increase. As a result, any hoped-for savings is reduced (or eliminated) and additional costs may be added over the next three to five years. In order to avoid this effect, employers must be vigilant and proactive to reduce injury expenses!

## It Feels Like Something's Wrong

Employers may attempt to reduce claims costs by "beefing up" injury prevention efforts. No matter how carefully you hire, how thoroughly you train and how diligently you attempt to prevent injuries, claims may still occur. Additionally, some employers may not have a good understanding of how the experience mod rating system works. They may also be unaware that processes and procedures are available to help improve outcomes. At times, an employer may feel like a "victim of the system"—helpless to manage injury costs—and at the mercy of a work comp program that just doesn't seem to be working.

At this point, it may be helpful for an employer to seek outside expertise. Most employers don't hesitate to ask for help with other business issues. Workers' compensation is just one part of doing business, and consultants who specialize in work comp issues can help an organization deal with work comp initiatives and set up programs that are custom-designed to meet the individual needs of the business. It's a matter of analyzing the problem and creating both short- and long-term solutions, with well-defined and attainable goals.

## Getting Back on Track

As part of that process, it's critical to address the issue of reducing or mitigating injury costs. Quite simply, there are two primary considerations: what to do before a workplace injury occurs and what to do after such an injury occurs. Employers should take the following steps **before** an injury occurs:

- Select and train an Injury and Disability Coordinator to manage information from the parties involved.

- Establish an effective and written Return-To-Work program.
- Hire people who are “fit for the job,” as based on appropriate job descriptions.
- Document prior injuries and job fitness issues for all employees post-hire.
- Establish relationships with carefully chosen Occupational Medicine practitioners.
- Educate and train supervisors on post-injury procedures and all employees on your philosophies and “the basics.”
- Create and maintain a positive corporate culture, starting at the top and continuing down to the last new hire.

Critical steps to take **after** an injury occurs include:

- Follow a written, repeatable claims and/or disability management process.
- Avoid extended work absences by returning employees to work as soon as medically possible, utilizing a light or transitional work program whenever necessary.
- Maintain positive ongoing communications with the employee, supervisor, medical practitioners and agency and company claim file managers. Don’t just hand over a claim to the insurance carrier and expect him or her to “do their job.”
- If an employee is not recovering as expected, investigate any other underlying or related causes of his or her disability and remember to differentiate between injury-related and performance-related issues.

### Keeping the Storm at Bay

The employer’s goal is to keep experience mod factors consistently low, which can, in turn, help to keep costs low—in essence, helping the boat stay afloat even if a storm approaches. The key to driving down work comp costs is to have a program that is teachable, repeatable and supported by the entire organization.

Long-term success can be achieved when employers, medical professionals and employees make the right decisions to do the right things at the right times. Employers also need to utilize the expertise of insurance agents or brokers, who can be excellent resources on the most effective ways to manage risks and costs. Employers must understand that successful management of the risks and costs associated with workers’ compensation is an ongoing process—not an event. By patiently working the process, striving for consistency and focusing on future successes, it may be possible to avoid the worst of the work comp storm cycle and remain safely in the eye of the storm.



<sup>1</sup> This article incorporates ideas presented in “Breaking Free from the Price Cycle,” by Frank Pennachio, June 1, 2006 , Risk & Insurance, accessed November 4, 2007 at <http://www.riskandinsurance.com/story.jsp?storyId=13408579>, and is used with the author’s permission.