Questions and Answers About Your Workers' Compensation Costs

By Dave Erickson

Insurance is a way of sharing the cost of a loss (e.g., an injury or illness) by members of a group. Costs to the group can be estimated fairly accurately. Costs to individual members cannot.

We asked Dave Erickson, Central Marketing Specialist for the Dunlap Insurance Company, to explain how your Workers' Compensation premiums are calculated and what steps you can take to control your premiums.

Q. What has the greatest affect on Workers' Compensation Premiums?
A. A company's safety and loss record.

Q. Why?
A. The primary reason is the experience modification factor ("The Mod").

Q. What is the Mod?
A. The Mod is your company's actual losses (i.e., the costs paid by your insurer plus reserves for any losses in the policy period) divided by your expected losses (i.e., the costs your insurer expects to pay out on claims considering what occupations or job classes you have and your gross payroll). The reserves are amounts of money that your insurer expects to pay in the future on individual claims based on the kind of injury.

Q. Why have an experience modification factor?
A. The mod gives you a chance to reduce your Workers' Compensation premiums by having less in actual losses than expected. It provides incentives for employers to develop or improve upon their safety programs, accident prevention procedures, and claims management practices. Those employers who perform better than expected (a mod under 1.00) receive a credit, and those who fare worse (a mod over 1.00) must pay a debit.

Q. Do all employers in Maine have experience modification factors?
A. Many do. Companies having a Workers' Compensation premium of $9,000 or more in one year or having an average of at least $4,500 for two or more years must.

Q. Who calculates the mod?
A. The National Council of Compensation Insurers (NCCI)

Q. How can you check your experience modifier?
A. Ask for a copy of your Experience Rating Data Sheet from NCCI, Northeast Division, 1095 Day Hill Road, Windsor, Connecticut 06095. Your insurer should also be able to help you estimate your next years experience modifier.

Q. Is your mod based on a certain period of time?
A. A mod typically uses three years of data. The current year is excluded, and the prior three years are used. For example, a mod effective 10/1/96 would include your losses for 10/1/92-9/30/93, 10/1/93-9/30/94, and 10/1/94-9/30/95.

Q. Are each of the three years counted equally?
A. No. The most recent year carries a 40% weight, the middle year a 35% weight, and the oldest year a 25% weight. This is done to reward those companies with improving safety records or to penalize those who are slipping.

Q. Earlier you mentioned that expected losses are based on job classes and payroll. How are job classes decided and what is included in payroll figures?
A. Job classes are assigned by NCCI using a Scopes Manual to assign a job class to each of your occupations. The payroll amount used comes from the final audit of all policyholder's payroll records conducted by your insurer. The expected losses are figured by insurance actuaries. The payroll amount for employees in a job code times the expected losses for employees in that job code equals expected losses for your employees in that job code for one year. Add up the expected losses for all of your job classes and you will get the total expected losses. Payroll includes wages and bonuses but not overtime.
What are your actual losses based on?
A. They come from your loss runs. Because Workers' Compensation losses tend to develop over time and change in value, losses used in the calculation of the mod are chosen at a specific date, generally six months prior to the mod's effective date (which is usually the renewal date).

Do certain kinds of claims have more of an affect on your premium than others?
A. There are two measures of loss activity: 1) Loss frequency (the number of cases involving loss) and 2) loss severity. The experience rating formula places more value in what are referred to as primary losses. Primary losses are the first $5,000 of each claim. Anything over $5,000 is considered excess. When calculating the mod, the entire cost of primary losses is counted (e.g., a $3,500 loss counts as $3,500). Excess losses are capped at $5,000 of primary losses and the remainder is tallied as excess (e.g., a $35,000 loss counts as $5,000 primary and $30,000 excess).

What does this mean for the insured?
A. It means those who have a lot of injuries with small losses are hurt more than those who have one big loss. This does not mean that because you have one claim for $100,000 that you will be better off than a company that had ten $1,500 claims. However, if you had one $250,000 claim, you would be better off than if you had five $50,000 claims.

Please summarize what an employer can do to reduce their premiums.
A. Most importantly, reduce loss frequency! When losses do occur, take steps to reduce the severity. The best way to do this is to find some work that the injured employee is able to do. Pay attention to your claims and monitor your loss runs on a regular basis. Loss runs are easy to obtain from your insurance carrier. Each carrier has a different loss run, but they all contain the same basic data: claimant name, date of loss, status (is the case open or closed?), description of the injury, the amount of reserve and the total (amounts paid plus reserve). Keep in mind, your current injury and illness experience will be used for the next three years.

What should one look for in the loss runs?
A. Look for mistakes such as double counting a case, data entry errors, excessive reserves (the difference between what an adjuster expects and the injured person's ability to return to work), and a change in the status of the case (the case is listed as open but the person has returned to work). Notify your agent or insurance carrier if you discover mistakes.

Finally, are there any programs that employers may take advantage of to reduce their premiums?
A. Yes, there are retrospective rating programs (retros) and deductibles.

How do these work and who would they benefit?

Ten Industry & Occupations In Maine With the Highest Number of Mandatory WC Reports
1. Nurses Aides in Nursing Homes
2. Specified Machine Operators in Paper Mills
3. Stock Handlers & Buggers in Grocery Stores
4. Cooks In Restaurants
5. Carpenters in Residential Homebuilding
6. Truck Drivers in Long Distance Trucking
7. Food Preparation Workers in Restaurants
8. Loggers in Logging
9. Cashiers in Grocery Stores
10. Firefighters in Firefighting

**Regardless of Public or Private Sector**
The Hidden Costs of Injuries and Illnesses

By Bill Masters

The costs of accidents/incidents can have a significant impact on a company’s ability to remain financially competitive in today’s market place. They disrupt operating costs, profitability, and the ability to achieve planned budget objectives. In fact, it is safe to say that costs, both direct (insured) and indirect (hidden) associated with accidents/incidents can make a company financially insecure.

Direct (Insured) Costs

For most of us in the business community, the direct costs are the insurance premiums we pay to various casualty insurance companies to insure our buildings, equipment, vehicles, materials, products, business and employees against loss, injury or illness. They are generally fixed rates for a given period of time, easy to identify and track, and are reasonably good indicators of our success or failures (whether they go up, down, or stay the same). In the case of your Workers’ Compensation Insurance, cost data (loss runs) may be obtained from your insurance carrier. However, you’ll have to ask for them. Get your agent involved.

Indirect (Hidden) Costs

Indirect costs are those expenses resulting from an accident/incident that are not covered by insurance. They are unexpected, absorbed into the budget and operating expenses, but are tracked by very few businesses.

What are some of the hidden costs?

1. Wages paid to salary and hourly employees to:
   A. Investigate the accident/incident.
   B. Prepare and process accident/incident reports, Workers’ Compensation First Reports and subsequent report forms, injury an illness logs, bills, work orders, purchase orders, contracts, etc.
   C. Accomplish tasks that were not completed due to the disruption or slow down (straight and overtime).
   D. Consult with third party investigators or legal counsel.
   E. Treat and/or transport injured or ill employees.
   F. Recruit and train replacement workers.
   G. Repair or replace damaged equipment or products.
2. Building, vehicle, equipment, machinery and material costs for replacement or repair.
3. Consultant fees
4. Legal fees
5. Medical expense not covered by insurance.
6. Increase in insurance premiums.
7. Penalties paid for violation(s) of regulatory standards.

As President of a small company, I understand the need to control costs. I view unexpected operating expenses (those we have not planned on) as undesirable events. Applying the philosophy that accidents/incidents are unexpected and undesirable events, then the human suffering and costs associated with them are also undesired. Tracking costs is an essential part of any business and by far the most effective way to assess the economic impact of the indirect cost is to establish an in-house tracking system.

Can indirect (hidden) costs turn a financially stable company into one that is not? You bet! Suppose you operate a small manufacturing firm with projected sales of $2,000,000, operating expenses of $1,800,000, and a profit margin of 10% ($200,000). You experience a number of accidents/incidents. Suppose unplanned, unbudgeted operating costs associated with our injuries were $100,000. Our projected 10 percent profit is now five percent. What would we need to generate in additional sales to maintain the 10 percent profit margin? How about $1,000,000 in order to offset the $100,000 of unexpected costs.

Just imagine what the impact would have been if the sales were down by five percent (10% ($100,000) and our operating costs exceeded our budget projections by two percent ($36,000); our profit margin is now 3.4 percent. On top of this, we still have to deal with the $100,000 accident/incident loss. We are now operating in the red.

I subscribe to a simple philosophy. If accidents/incidents are prevented, then human suffering and costs are controlled! This is a win win for everybody involved.

Mr. Masters is President of OSHCOM in Manchester, Maine.

Articles are written by individual authors and are not products of the Bureau of Labor Standards or the editors. Information in the articles should not be viewed as a substitute for policy or for regulations. The editors are Bradford Brown, Planning & Research Associate II. and Jonathan Lepoff, Staff Development Coordinator.

Get Your Free Copy of the updated State of Maine Occupational Health & Safety Resource Guide. Released in June of 1995, this publication contains information on the kinds of services (e.g., health & safety consulting, education & training, medical, and industrial hygiene) offered by various businesses, government agencies, health practitioners and facilities, associations, and consultants. Call Kim Nixon at (207)-624-6473.
## Upcoming Safety & Health Training Classes in Maine
### October–December, 1995

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<td>10/7</td>
<td>American Red Cross</td>
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<td>Community First Aid &amp; Safety (Bangor area)</td>
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<td>Ergonomics Basics: Promoting Safety &amp; Health Through</td>
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<td>Workplace Risk Assessments, Inc.</td>
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<td>Proper Work Design</td>
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<td>Maine Bureau of Labor Standards</td>
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**The Maine Safety Council offers classes on first aid and CPR at worksites on an as requested basis.**

**Please call the number listed to find out what material will be taught, what costs there are (if any), and how to register.**

**Contact Brad Brown at (207)-624-6443 if you would like to list classes in the Monitor. Classes must be open to our readers.**
Did You Know?

OSHA has a revised booklet on How to Prepare for Workplace Emergencies. The booklet tells about the basic steps to take to handle emergencies such as chemical spills, fires, explosions, and bodily harm and trauma caused by workplace violence. The booklet is designed for small businesses but companies of any size should find it useful. A single free copy may be obtained by sending a self-addressed label to the U.S. Department of Labor, OSHA/OSHA Publications, P.O. Box 37535, Washington, D.C. 20013-7535.

OSHA has issued a revised booklet on Personal Protective Equipment. The booklet describes the types of equipment most commonly used for protection of the head, including eyes and ears, and the torso, arms, hands and feet. It spells out OSHA's position on cost assumption for PPE by employers, five conditions under which respirators must be used, and factors for selecting gloves. A single free copy may be obtained by sending a self-addressed label to the U.S. Department of Labor, OSHA/OSHA Publications, P.O. Box 37535, Washington, D.C. 20013-7535.

The 1994 Characteristics of Work-Related Injuries and Illnesses in Maine publication is now available. This publication features statistics on such things as kind of injury, body part affected, source of injury, event leading to injury, occupation of injured worker, age, and length of service for all lost-time claims reported to the Maine Workers' Compensation Board. Those not on the mailing list may receive a copy by calling Terry Hathaway at (207)-624-6440 or Janet Callahan at (207)-624-6447.

The 1994 Census of Fatal Occupational Injuries in Maine is now available. This publication contains information on work-related fatalities in Maine that are verified by more than one source. Those not on the mailing list may receive a copy by calling Terry Hathaway at (207)-624-6440 or Janet Callahan at (207)-624-6447.