



CLIENT ADVISORY

Workers' Compensation

January, 2010

Reduce Your Workers Compensation Expense: *Key Strategies to Reduce Cost-Drivers*

Workers compensation insurance costs represent a significant portion of most businesses' total insurance premiums, yet many business owners overlook opportunities to control these costs. Strategies which can help control workers compensation costs include:

ACTION:

Be proactive in managing your workers' compensation expenses. Implement key strategies with the greatest impact this year and continue building upon your efforts in future years.

1. Think Safety First:

There's an old, but true, saying in the insurance business: The least expensive claim is the one that never occurs. A focused safety program is the best strategy for controlling workers compensation costs. All other strategies are secondary.

2. Create a Return-to-Work Program:

It's better to have partially productive employee at work than an entirely unproductive one at home. Bringing employees back to a transitional or "light" duty position will have a significant impact on your workers comp costs, and will minimize the employees' exposure to "claim solicitation commercials" which can not only add cost but also reduce the ultimate benefit payable to the employee. Your insurance broker can help create a return-to-work program based on best practices for your industry.

3. Verify Your Experience Modifier:

Your company's workers compensation insurance premium is directly impacted (*positively or negatively*) by the application of an "experience modification factor" that is applied to your "standard" premium. The more work-related injuries your employees incur, the higher your experience modifier; the higher your "mod", the higher your premiums. Your broker should confirm the accuracy of your claims history and claim reserves each year prior to the calculation of your experience modification factor. Close attention should be paid to open claim reserves as these amounts can cause your mod (*and corresponding premium*) to increase unnecessarily. Consideration should also be given to the adoption of a small deductible, as claims paid under the deductible are not included in the mod calculation.

4. Be a “Drug Free Workplace”:

Most states reduce workers compensation premiums for certified “*Drug Free Workplaces*”. In Georgia, this incentive reduces premiums by 7.5 percent. For an employer with \$100,000 in workers compensation premiums, that’s a savings of \$ 7,500. Compliance costs are relatively nominal, but more important; a drug free workplace is simply good risk management. Georgia certification requirements can be found on www.sbwc.georgia.gov.

5. Share the Risk:

Employers can “*share the risk*” with certain insurance companies through the use of deductibles or retrospectively rated plans.

ACTION:

Make safety a priority in 2010 and reap the benefits of reduced expenses for years to come.

Some insurers offer workers compensation plans with optional deductibles (*both per accident and in the aggregate for the year*), with greater premium credit for higher deductible amounts. In addition to direct premium savings and potential cash flow advantages, employers with “*skin in the game*” tend to be more safety-consciousness which helps reduce both small and large claims.

Retrospectively rated plans are similar to deductible plans in that employers have an opportunity to benefit from better than average claims experience. With a “*retro plan*” the ultimate premium is calculated after the policy period ends, with adjustments made for several years thereafter based on incurred claims. After the policy period, the insurer measures losses against the employer’s “*deposit*” premium; if claims are lower than an agreed amount, the employer receives a return of premium; if claims are higher than an agreed amount, the employer pays additional premium.

Deductibles and retrospective plans can be highly effective cost control options, but each exposes employers to a higher degree of financial risk than a traditional policy. Consult with an experienced insurance broker when investigating such options.

6. Host Claims Review Meetings:

Larger organizations with claim frequency and/or severity issues should ask their broker to facilitate quarterly meetings with claims adjusters to discuss open cases, cost control opportunities, and claims closure strategies.

7. Investigate Pharmacy Benefits Management Options:

Ask your broker if your workers compensation provider uses a pharmacy benefits manager (*PBM*) service. Pharmacy costs drive a substantial portion of the medical care expense component and leading insurers are turning to PBM firms to help reduce medication costs and increase the quality of care for injured workers.

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