Controlling your workers' compensation costs

Guest editorial
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Most of us probably know the basics of workers' compensation (comp). The concept is that when employees are injured in the course of their work, they will be taken care of regardless of who is or isn't at fault. The other side of this agreement is that employees (in most states) cannot sue for on-the-job injuries regardless of who is or isn't at fault. It's the grand compromise of the insurance world.

Despite the absence of fault or negligence, workers' comp has long been considered the most controllable cost in an employer's risk portfolio. The idea is that employee work habits is a risk factor over which you can exert the most influence. In recent years, this idea has been magnified to a greater degree than ever before.

The National Council on Compensation Insurance (NCCI) governs workers' comp regulations in 38 states. It serves many roles, including developing, determining, defining and calculating base rates for class codes. But the most employer-direct function NCCI provides is the annual calculation of your experience modifier (mod). As an employer with workers' compensation insurance, you likely know the importance of your experience mod. Perhaps the most vital function of the experience mod is that it is a direct multiplier of your premium. That means if you have a 1.25 mod then you will pay a 25% surcharge above your manual premium. Conversely, if you have earned a credit mod (below 1.0) your premium will be discounted accordingly.

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What you may not know is that in 2013, NCCI made a change to its experience mod formula — altering what is known as the "split point" in the equation. This split point is a kind of balance between the two main components of loss history: frequency and severity. Without getting into the math, this essentially means larger losses are now more punitive to the employer than they were before 2013. Each year, the formula is adjusted slightly to maintain that weighting. The good news is, the reward for avoiding large losses is also greater. Think of all the experience mods for every employer in 38 states. Their mean average has not moved, but to a large degree, they have been pushed away from the median 1.0 mod point. And they now represent a far wider range of numbers.

What does this mean for you, the employer? Well, that depends on your loss history. If you have a history of claims with incurred losses of over $10,000, over $15,000 or over (2016's split-point) $16,500, then you will notice they are driving your mod up more than they would have several years ago. However, if you have a relatively clean loss history, your mod may very well be lower than you have ever seen it.

This brings us back to the old adage about workers' comp being your risk portfolio's most controllable cost factor. With a wider range of potential experience mods, it becomes even more vital for you as an employer to do everything you can to both reduce the likelihood of future claims and control the costs of those claims that inevitably occur.

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Controlling your workers' compensation costs

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Emphasis on employee safety is key to reducing the risk of future claims, but what does that mean? Perhaps it means regularly sitting down with your workers' comp agent and going through a full loss history analysis. By analyzing your losses and near misses, you can identify risk factors in the workplace where procedure adjustments can help prevent potential injuries.

Claims mitigation is the second way to limit your loss experience and has become more important than ever. Encouraging recovering employees to return to work has always been a good idea. But now that the larger, time-loss claims are counting so heavily against your experience mod, it's that much more important to have light-duty work available. Working with the injured employee, the claims examiner and your agent to provide back-to-work options has always been a good way to keep the injured worker engaged and motivated. But now, it's far more likely to limit the spike to your experience mod, thereby reducing your premium payments. And don't forget that every workers' comp claim will affect your experience mod for three full years.

In general, it's always a good idea to keep your employees safe for many reasons. Just know that now more than ever, it will also benefit your bottom line.

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