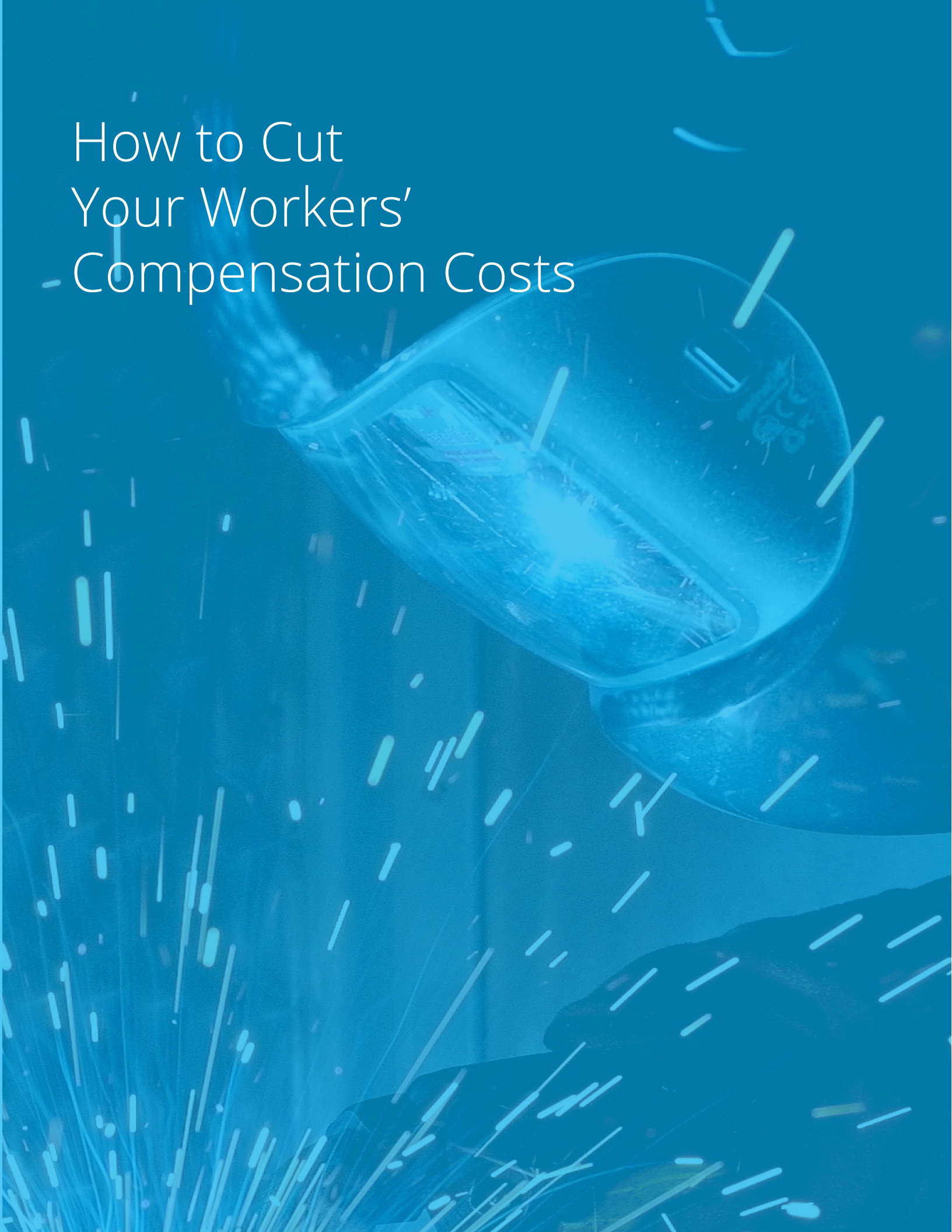


# How to Cut Your Workers' Compensation Costs



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## How to Cut Your Workers' Compensation Costs

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One of the most substantial costs for your business is workers' compensation insurance. Premiums can vary widely depending on your industry and a number of factors specific to your business, but this mandatory coverage could be anywhere from **5%-40%** of payroll.

With so many factors influencing the rate you pay and the potential cost of an injury on those rates, it should be a major concern for your business.

Fortunately, there are a lot of things you can do to reduce those rates.

*But where do you start? How do you address something that has such a far reaching impact on your business?* From reducing rates through a carrier switch to directly addressing the sources of risk in your business that might increase those rates, you can take direct action to improve your expenditures immediately.

In this guide, we'll review several things you can do to reduce your workers' compensation rates, both directly and indirectly.



## *Factors that Influence Workers' Compensation Rates*

I

### **Industry Classification**

Much of what you pay in worker's compensation premiums is regulated by your state, which typically gets its actuarial figures from the National Council on Compensation Insurance (NCCI). Your rate is a statutory rate assigned based on your industry, with more than 700 choices and even more designations for employees. If a company or employee is misclassified to a riskier code, your rates are going to be higher. While you shouldn't game the system, be sure that your classification is accurate and request an adjustment if it isn't.

II

### **Business Operations**

The specifics of your company's operations can affect your worker's compensation premiums. This goes back to the classifications that your business is assigned. For example, an electrical company might be assigned a certain industry code and then have further codes assigned based on the type of work that the electricians perform. Electricians that work inside only will have a lower risk rating than those that work installing solar panels on roofs.

III

### **Claims History**

When rates are determined each year, the statutory rate for your industry is combined with what is called your MOD. This is a figure that represents your company's loss and claims history. Your MOD is the single biggest rating factor that is within your control. If your company has programs in place that reduce losses and claims, your MOD will be less than 1.0 and your worker's compensation premiums will go down.

#### IV

### Loss Control Program

The best way to control and lower your MOD is to implement a comprehensive loss control program in your company. A safe workplace lowers the number work-related injuries, which is going to give your business lower worker's compensation rates. You can achieve a safer workplace through employee training, hiring a loss control specialist, having a clear return-to-work program, and participating in your state's **Drug-Free Workplace program**.

#### V

### Explore Group Rating Opportunities

Many states offer insurance discounts to recognized groups, which are called group ratings. If you are an established business, you might be able to find a recognized group in your state that could provide you with some valuable discounts.

#### VI

### Years in Business

Speaking of established businesses, an insurance company will often look at your years in business when they rate your policy. Because a MOD is calculated based on your claims and loss history, a brand new company will have a MOD of 1.0. If you're an established company that has invested in loss control, you have the opportunity to reduce that MOD, which will deliver lower insurance premiums to your company.

#### VII

### Management Experience

Similar to year's in business, an insurance company might also look at the experience level of your company's key managers. For example, if a new construction company hires a reputable loss control specialist, a slight rate discount might be provided.





VIII

### **Payment History**

Payment history is a factor that may or may not affect your worker's compensation rates. If you have been fast to pay your premiums or have paid for an entire year's estimated premiums in advance, you might be able to secure a discount.

IX

### **Payroll Figures**

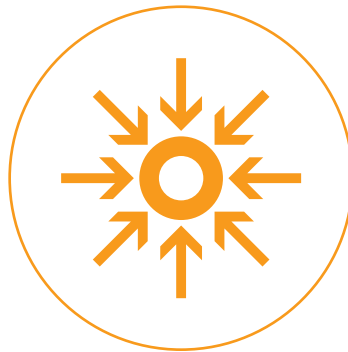
Your worker's compensation rates are calculated based on every \$100 in gross payroll. These figures can add up quickly, so it would benefit your company to audit the figures that are being used for rate calculations to ensure their accuracy. If worker's compensation costs are still too high, you may also wish to consider outsourcing some non-key positions to cut down on company payroll.

X

### **Marketplace Competition**

As with any other industry, insurance can be competitive, and your company might be able to get better rates simply by shopping around. While the statutory rate won't change, discounts given are discretionary, and competition in a particular market could bring your company a good deal.

# Reducing Claims Frequency



While there are many factors you can influence, one of the most impactful is claims frequency and how you handle claims when they occur. Through careful preventative actions you can reduce the risk of common injuries in the workplace, improve overall training and worker safety, and supervision of your team.

## Prevention and Severity Reduction Tips

The goal in prevention is to identify common causes of injuries in your business and address them before future injuries can occur. This type of prevention plan is a powerful tool that can have a positive impact on your rates.

**Some of the areas you should address in your prevention planning include:**

### **Common Injuries**

Whether it's lifting injuries in a warehouse or misuse of equipment in a manufacturing setting, identify the most common injuries that impact your staff and how they can be minimized with careful adjustments to both procedure and equipment.

### **Safety Precautions and Devices**

You should have a comprehensive checklist in place of the equipment and specific precautions your company can take to prevent injuries among staff. You can read our full eBook on this topic by scrolling to the end of this guide and clicking on the relevant link. Training Programs – The most effective way to reduce unnecessary injury among your staff is to ensure they know the proper way to use all equipment, the right safety materials to put in place, and procedures for handling

potential issues as they occur. Your training programs should address all of these issues before they are ever in the position that they could potential suffer such an injury.

### **Supervision**

Training and precautions only go so far if there isn't good supervision in place to oversee and manage the people on your team. Supervisors must go through equally rigorous training and should have checklists and safety protocols to follow on a daily basis, both in routine situations and following injuries.

### **At Risk Corrections**

When a potentially risk-associated activity is identified or witnessed, what is your process for handling it? Develop a clear process for how your supervision handles retraining and correction among employees, how other employees can report unsafe work conditions, and broken equipment.

### **Analysis After Injury**

When there is an injury, how do you process it? By having a detailed step-by-step process for evaluating, analyzing and reacting to injuries after they occur, you can learn from them and reduce the chances of such an accident happening again in the future.

**By building a plan that addresses all six of these factors you can greatly reduce the risk of recurring injuries and common mistakes in your business.**





## Claim Reporting and Return to Work Process

Finally, there is the issue of claims reporting and how your employees return to work, both of which can have a direct impact on your rates and total costs.

Claims must be reported in detail, meaning a thorough process of the injury, how it occurred, and under what circumstances. Take a statement from the injured employee, and make sure they sign and date the written letter. Your insurance carrier may have a specific form letter that needs to be completed for this process. Some states will have specific documentation as well – be sure you have these documents on hand and ready to use when an accident occurs.

If you're unsure of the reporting requirements, contact your broker and discuss with them exactly what you should be doing to ensure speedy completion and closure of your claims. The sooner these claims are reported, the less the chance of litigation and the better the chance they are closed out and your rates not adversely affected.

In addition to the reporting, you should remain engaged with your injured employee and have a plan in place for how they will return to work, ideally as quickly as possible. Call them weekly to show that you care about what happens to them next, while also discussing with them their comfort level.

A return to work program is incredibly important as well, especially if your staff have heavily demanding physical jobs. You can check in with your employee regularly to see what updates they have from their doctor on timing for returning to work. If the work they previously did can no longer be performed, start developing an alternative and reassure your employee that they will have a job waiting and that it will be relevant to their skills.



## Getting Ahead of Old Data

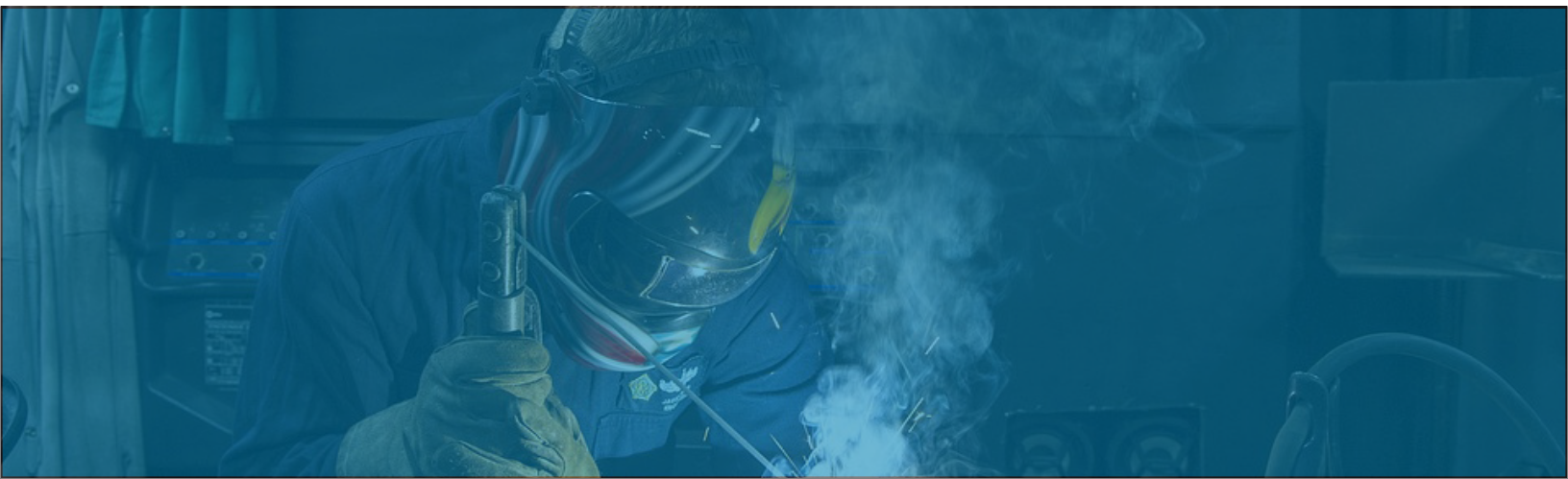
It's easy to focus your efforts on old data. By using metrics like cost per indemnity, **EMR**, **TRIR**, and **DART**, your reduction efforts are more focused on what's happened before than what you're trying to prevent and the things you should be doing as part of prevention.

Not only are old indicators often out of date due to changes you've made in the workplace; they don't always accurately reflect the impact that your actions will have on rates. For this reason, it's important to focus as much as possible on leading indicators that better reflect the changes you're making in the workplace. These include:



- **Safety Orientation Use** – Do you have a safety orientation process? If so, how is it managed and when do you make updates? Are you covering all relevant processes in your business and are there any areas that could present problems if ignored or not followed up on?
- **Safety Inspections** – Do you have a safety inspection process for your management? How often do they complete these safety inspections and what kinds of problems are uncovered? If frequent issues are discovered during routine inspections, you can address them, but you may also uncover deeper underlying problems that need to be dealt with.
- **Behavioral Observations** – At the same time, task supervisors and management with observing your staff. Make sure they are constantly evaluating how your employees do their jobs. Are they using safety equipment properly? Are they reporting accidents or problems when they happen? Are they using equipment as they were trained?
- **Pre-Planning Meetings** – Take time to have meetings to discuss implementation of new equipment, starting new processes, or onboarding new staff. This will help to ensure you're touching every base and no member of your team is left unprepared for potential safety hazards.
- **Timely Reporting of Claims** – When a claim is made, make sure it is reported immediately. Track how long it takes to report a claim and if there are any delays in getting a written statement from your employee, recording relevant facts, or getting documentation to your insurance company. If so, these are indicators of problems that may impact rates.
- **Modified Return to Work Programs** – A good return to work program will not only make your employee feel relevant and cared for, it will get them back to work sooner. Have a system in place for ongoing communication with members of your team who are injured and a process in place for how to reintegrate them in the workforce, even if they cannot complete their previous job due to the injuries they suffered.

Metrics related to these key indicators will much better reflect how your business will benefit in the short and long term when it comes to reducing workers' compensation rates.





# Reducing Costs in Workers' Compensation

With safety prevention and leading indicators in place, you can now look at more direct actions you can take that will reduce your costs in the short term. These are specific actions you can take that will allow you to discuss with your broker your current rates.

## ○ Review Claims History

To start, you should evaluate your past claims and what lessons were learned from them. This involves a careful step-by-step process of analyzing claim trends that negatively impact total risk cost, then developing a plan based on that analysis. Finally, what specific financial improvement can you expect by making these changes?

As a business owner, you should be constantly looking to mistakes and accidents as resources to help you improve overall performance.

## ○ Close Claims as Fast as Possible

Closing claims quickly can help to keep claim costs lower. Specifically, working with an insurance carrier's claim adjustor through periodic review to check whether claim reserves are too high and need to be adjusted and whether there are any open claims that should be closed based on current circumstances.

## ○ Evaluate EMR Regularly

Your experience modification rating is the most important number dictating what your premium will be. And yet, this complex number is affected by a number of factors both in and out of your control, and as such can be inaccurate if not checked routinely.

Work with your carrier or broker on a regular basis to evaluate your EMR and ensure it is an accurate representation of your business. This number can be off due to incorrect payroll calculations, incorrect job classifications, open claims that need to be closed, or improper claim reserves that have an impact on the overall rating.

## ○ New Hire Screening

Your ability to effectively screen employees and avoid hiring those who do not meet the necessary physical requirements of the job or who are generally more likely to be injured on the job with your company can greatly reduce your future costs.

You can get assistance in developing these screening criteria from loss control representatives or claims advocates with your insurance carrier, all of which will greatly improve your ability to reduce risk before a claim is even made.

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# Take Action and Reduce Your Workers' Compensation Rates

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Workers' compensation is a part of doing business for almost every company in California. For this reason, many pay little or no attention to their rates. They pay a rate that seems fair based on their business history and don't go back to check often or at all.

In reality, workers' compensation insurance is affected by dozens of factors and can be improved upon with routine checks and discussions with your broker. There may even more things you can do based on your industry and policy history that will impact your rates for the better.

If you're ready to learn more about alternative carriers, immediate rate reductions, or preventative actions you can take to reduce your workers' compensation costs, contact the experts of Radius Insurance today.

You can also download our eBook on building and managing a safety prevention program for your business at <https://www.radiusins.com/safety-prevention-and-accident-reduction-guide>.