



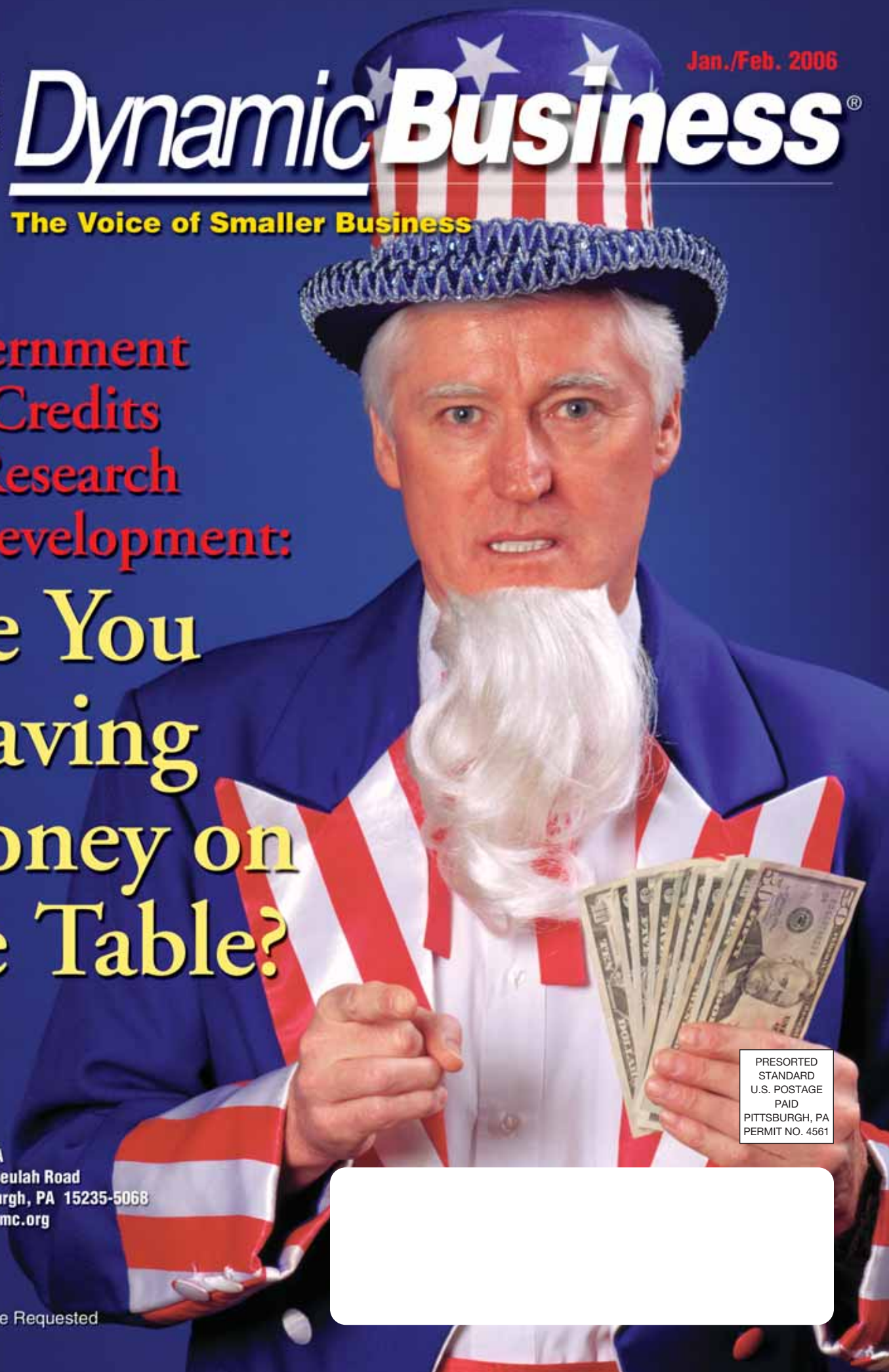
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The Biggest Mistakes Companies Make With Their Workers' Compensation Insurance

by David R. Leng, CPCU, CIC, CWCA

Most business owners and managers purchase Workers' Compensation in the wrong way. About 90 to 120 days before their policies expire, they put it out to bid and get quotes. Once in, they review the prices and usually select the policies with the lowest premiums.

While this may sound like a good business approach, it's not only the least effective way to control Workers' Compensation Insurance expenses, but it actually drives up the costs.

To understand why the bid-search method of purchasing Workers' Compensation coverage is an ineffective way to reduce costs, it's necessary

to explode the commonly held misconceptions about this type of insurance.

Most important of all, *insurance companies don't pay for employee injuries, they merely finance them.* Workers' Compensation is not typical insurance. It is little more than a finance system in which the insurance company merely fronts the cost of employee injuries. Employers will pay back two to three dollars to the insurance company for every dollar the insurance company pays in claim costs. This is the same as borrowing money at rates of 100-200 percent.

Depending on the amount of the premium and their risk tolerance,

Workers' Comp insurance buyers generally select between two types of policies. One is known as Guaranteed Cost or Dividend Plans. The other is known as Loss Sensitive Plans, Retrospective Rating Plans or Large Deductible Plans.

As the name suggests, Guaranteed Cost policies set the price of the policy for its specified period. What it doesn't say is that *injury costs incurred during that policy period will be felt for three years into the future.*

Even with a so-called Guaranteed Cost Plan, employers pay for all employee injuries and then some through an increase in the Experience Modification Factor. Loss Sensitive Plans illustrate this even more pointedly. Some companies on these plans literally write the checks for injured workers' medical costs, lost wages, and associated expenses.

If an employer is on a Dividend, Retrospective Rating, or Large-Deductible Plan, the effect of the Mod is compounded — the employer pays for the injuries and is faced with higher premium cost for having the losses. In effect, they are being charged twice for the losses.

This may not be fair, but that is the way it works. This is a clear and quantifiable fact.

Against this background, there is also a strange paradox occurring in the Workers' Comp system. Over the past ten years, 40 percent fewer employees were injured. In spite of this, total injury costs increased exponentially. In addition, injured employees have missed more time from work and their medical costs, expenses and settlements have been much higher.

So, why are injuries costing so much more if fewer employees are



"To uncover mistakes and obtain proper credits, consult an advisor who can analyze your Experience Modification Factor."

– David Leng

injured? Does this mean the medical conditions resulting from the injuries are much more severe than 10 years ago? The evidence suggests this is partly true. Studies, however, are exposing additional factors that are causing injury costs to spiral out of control. The solutions are to be found in how employers respond to the following questions:

- Do you have a hiring process that reduces or eliminates "professional claimants," and accepts only those who are physically and mentally fit for the job?
- Are all injuries reported to the designated people in your organization within 24 hours of the occurrence?
- Do you have a Performance Agreement with your Primary Care Physician that addresses critical cost reduction activities?
- Do you have a written step-by-step process on what to do when an injury occurs and someone to coordinate that process?
- Are 95 percent of your injured employees returned to work within three days with or without temporary restrictions and modifications to their job?
- Have supervisors been trained so they understand their employer and not the insurance company pays for all injury costs?
- Are supervisors trained on how to manage an injured employee successfully?
- What are employee attitudes and perceptions of their immediate supervisors and upper level management? How do you know?
- Has an outcome-based analysis of current claims adjusters been performed to evaluate results compared to "best practice" standards?

By answering these questions, you should come to the realization that there is more to driving down Workers' Compensation costs than just "getting bids."


Once you realize how vastly overcharged you are for Workers' Compensation insurance, education is the critical step toward solving the problem. Learning more about how and why you are overcharged helps you to implement comprehensive, practical and proven ways to reduce workers' compensation insurance costs.

One thing is certain, "shopping the market" is neither the best nor the only way to address the management of

Workers' Compensation insurance. It also should not be done alone. Finding a qualified Workers' Compensation advisor, someone who has access to the strategies and software specifically designed to analyze your Experience Modification Factor, can lead you to a satisfactory solution, one that uncovers mistakes and obtains proper credits.

Workers' Compensation is too expensive and complicated to leave to chance. If you choose it based solely on "the lowest bidder," you will pay the price. ▼

Editor's Note: David Leng is a co-founder of Keystone CompControl, the country's largest network of workers' compensation specialists, and one of only 20 Level-5 members of the Institute of WorkComp Professionals. Leng, who has 11 years experience specializing in workers' compensation, is an alumni of Penn State where he received his Bachelor of Science in Insurance. He holds many professional designations, including Certified Insurance Counselor and Charter Property Casualty Underwriter, and has been designated a Certified WorkComp Advisor by the Institute of WorkComp Professionals. His e-mail address is dleng@keystonecompcontrol.com.



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