Cutting the Cost of Workman’s Comp

Contrary to popular belief, workman’s comp is not an uncontrollable cost.

What is the typical contractor’s largest single expenditure outside of such direct job cost as materials and labor? Many times the answer is insurance, particularly workman’s compensation. It is not unusual to find large contractors spending millions of dollars on workman’s compensation insurance. Yet there are many ways a contractor can control and reduce workman’s compensation costs.

Insurance markets in general have been soft for the past several years, resulting in higher competition and lower rates for many types of insurance. But the workman’s compensation area has been hard hit by increasing medical costs, liberal judgments, and higher paid benefits, that will more than likely result in even higher rates in the future.

The other problem with workman’s compensation is that most states are responsible for setting rates, not the insurance companies (although there is an increasing trend among states to allow more flexibility in rate setting, and the types of plans allowed). So given all the constraints on workman’s compensation, how do contractors cut the costs of workmen’s compensation?

Pay for straight time actually worked only. Most states exclude overtime pay from the workman’s compensation calculation—along with such benefits as vacations, holidays, sick leave, and health, life, or disability insurance. To further reduce current total wages (straight time) eligible for workman’s compensation, implement a salary reduction plan that reimburses the employee’s portion of their health insurance costs as a nontaxable fringe benefit.

Implement a good safety program. All contractors are aware of the need for implementing and maintaining safety programs. But few realize the cost savings in lower workman’s compensation costs and increased productivity.

Follow up on workman’s compensation claims. Conduct full investigation of the claim by in-house personnel or an outside consultant to ensure the claim and injury were both work-related and injuries are genuine. Watch out for vague claims, injuries that occur on Monday mornings, and back and head injuries.

Watch rate classifications. Each job classification carries a different rate based upon job descriptions. Review how employees are classified and discuss definitions with your insurance agent or auditor. Each company will have a copy of the rate classification handbook you can get by asking.

Contract with a doctor or clinic for treatment and review of all on-the-job accidents. Get employees back to work as soon as possible, providing them with a different job if they are unable to perform their regular job.

Get property insurance certificates from subcontractors and keep them on file. If subcontractors do not carry proper workman’s compensation and have an injured worker, you could end up paying the claims on your policy. Insurance premiums on an uninsured subcontractor’s employees are your responsibility regardless.

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Look at ways of changing jobs to minimize the number of employees in dangerous areas, and keep detailed payroll records to support your position. You can even split employees between two different rate classifications. Almost everyone does
more than one job, so find out what employees are doing and keep payroll records accordingly.

**Full or partial self-insurance.** In some states, large contractors can self-insure their workman’s compensation insurance. This usually results in large savings, and you can minimum risk by reinsuring part of the coverage for large claims.

**Shop insurance companies.** Do not be fooled when someone says the state sets rates and all insurance companies are the same. Most insurance companies and states have enough flexibility in rate setting, and in packaging company-wide insurance programs, to make significant differences between companies. Ask an agent for a list of discounts companies offer.

**Audit your workman’s compensation** audit and claims statements. When the insurance company auditor comes for a workman’s compensation audit, be prepared. Give only information reviewed thoroughly before-hand. Get a thorough understanding of what the auditor is doing and why, and get a copy of the draft report before the auditor leaves. Check all audit calculations and claims for factual and clerical accuracy.

Designate one individual in the company, probably the safety director, to be responsible for implementing a workman’s compensation cost-cutting campaign. To do this effectively, develop an action plan and implement these steps over a year’s time, so the job is manageable.

Cutting workman’s compensation costs is not easy because the area is fraught with misunderstanding and complexity. But the payoffs can be substantial.

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