Save Money on Workers’ Compensation

Job-related injuries in 1990 will cost American employers more than $60 billion. Workers’ compensation costs have doubled in the last five years and could do so again in the next five—potentially threatening corporate financial performance—unless employers impose rigorous cost controls upon an essentially unrestrained system, according to Tillinghast, a risk management and insurance company.

A national survey conducted by Tillinghast uncovered the following:

--Workers’ compensation costs are beginning to take a significant toll on employers. Nearly 70% of survey respondents (576 mostly mid to large size companies nationwide) said workers’ compensation costs are threatening financial results “somewhat” or “a great deal.” Thirty percent expect their costs to be somewhat or totally out of control in the next five years.

--Costs are influencing strategic planning. Nearly 40% of the companies surveyed consider the cost of a state’s workers’ compensation system before deciding where to locate operations.

--Fully 83% of respondents say that rapidly increasing medical costs are a major problem with the system.

--Safety programs (reported by 84% of employers), pre-employment screening (64%) and light-duty programs (62%) are the most popular cost-control measures.

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--Overall, employers rank the various cost-control measures highly for effectiveness. Topping the list, though, is an approach used by only 17% of employers: the coordination of workers’ compensation programs with regular employee health programs. Eighty-seven Percent of employers that have taken this measure consider it effective.

The Original Intent

Workers’ compensation insurance was started during the industrial revolution in this country to fill a need: providing insurance for on-the-job injuries to workers. As originally enacted in Wisconsin in 1911, it was conceived of as employer-paid, no-fault insurance to protect workers injured on the job. In return for this protection, employees gave up the right to sue their employers.

Through the years it has performed this function admirably. However, employees have challenged the principle of workers’ compensation as the “exclusive remedy” for their work-related injury. Litigation has increased to such an extent that in some key states attorneys are involved in 25% or more of all workers’ compensation claims. Employers now see that workers’ compensation insurance represents a significant and growing segment of their cost of doing business, and naturally they are attempting to make sure that the charges for workers’ compensation are controlled as far as possible.

Virtually all employers recognize
the need for workers’ compensation insurance, and they are willing to pay their fair share. They recognize that the insurance protects them just as it does the workers. Being without insurance could cost money both in terms of huge claims and possible fines.

However, employers should also recognize that there are steps they can take to see that the share they are paying is “fair.” They should investigate the insurance policies they have to be sure the policies provide the best coverage for a reasonable amount of money.

Working with Insurance Companies

Thirteen states operate workers’ compensation funds that compete with private insurers. Six states (Nevada, North Dakota, Ohio, Washington, West Virginia and Wyoming) have monopolistic funds; that is, workers’ compensation insurance is provided only by the state.

The first step in reviewing your workers’ compensation insurance policy is to contact your insurance carrier and request a review. Even in states providing exclusive workers’ compensation insurance themselves, such a review can be helpful. Considerations here include the following:

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**Rate classifications should be reviewed regularly.**

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--Rate classification. Employees are classified according to the type of work they do. There should be different rate classes set up for your workers, depending on their work responsibilities. For example, outside construction workers would probably be classified at a high rate, while office receptionists, since their jobs entail less risk, would be at a lower rate. Sometimes all the employees from a company are classified in the same category. Employers should make sure that workers with different levels of job risk and different locations for their jobs are charged at different rates.

Rates are set by outside auditors, state representatives, or the insurance agents themselves. Get a copy of the rate classification handbook used by rate auditors, not just a list of class numbers. Request anew audit. Sometimes it is possible to improve your rates simply by changing the layout of your headquarters office; for example, if you have a receptionist sitting in physical proximity to a location where heavy tools are stored, the receptionist’s rate may be higher than if the tools were in a different location. These are the types of considerations that can be uncovered through an audit or
pointed out by a knowledgeable insurance representative.

---Experience rating. Insurance companies often set their rates based on experience. If the employer has large claims in one year, the insurance rate may be raised significantly the following year to reflect this experience. Sometimes a number of small claims will result in a larger rate increase than a few large claims. Therefore, many employers have policies that they will pay for any claim resulting in a hospital stay of one day or less, or claims of under $200.

If you decide to establish such a policy, however, be sure to keep adequate records and report the injury properly. If an injury is misdiagnosed and is more serious than originally thought, you as the employer may be stuck with full responsibility for all claims unless you have filed the proper reports. For example, assume one of your employees is in a work-related auto accident. He goes to a local emergency room and is treated for minor injuries and released. You pay the claim yourself. It is later discovered that the employee suffered severe internal injuries. You would probably have to pay all expenses related to the injury directly because you did not report it correctly.

---Negotiations. You can negotiate insurance rates to an extent, and you can look for better prices from other carriers. Check the insurance company’s loss reserve. Sometimes insurance companies will carry a much larger loss reserve than needed, and you may be able to influence the size of the reserve. Insurance companies will also set aside larger sums than they actually need for injuries, and then will use these higher sums to calculate your premium the following year. If your insurance company is unwilling to discuss your experience and its reserve with you, it may be time to look for a new carrier.

The Assigned Risk Pool

In many states, businesses that can’t find an insurance company can go to the state and have an insurance company assigned to them through the assigned risk pool. Usually rates for businesses in these pools are higher than they would normally be, and they receive poor service from the carriers. According to one industry expert, for some companies the assigned risk pools are the only answer, but he set up a very profitable business taking people out of the pool. Often companies are turned down for workers’ compensation and relegated to the assigned risk pool because they are too small or are lumped together with other companies in similar businesses perceived to be undesirable. You may be able to find an insurance carrier that will accept you by looking around, and this will work to your advantage.

Other Cost-Containment Measures

Companies that for years have applied various cost-control measures to regular employee health and benefit plans are now bringing many of the same strategies to their workers’ compensation plans. Employers have also developed and implemented a number of programs specifically geared to the problems of the system. Effective cost-control measures include these:

---Safety programs, reported by 84% of employers according to the Tillingerhast survey noted above, emerged as the most popular of the cost-control measures. Safety programs should be universal among wall and ceiling contractors, but the quest to control workers’ compensation costs should spur you to reexamine your safety program and make sure it is effective.

---Pre-employment screening is also very popular. Used by 64% of employers, this approach might include physical examinations as well as checks for prior workers’ compensation claims.

---Getting employees back to work is also a priority of employers. Sixty-two percent have light duty programs for workers recovering from injuries, and 54% offer vocational rehabilitation for employees no longer able to perform their pre-injury job functions.

---To keep health costs in check, audit medical bills. Other strategies in this area include techniques such as reviewing physician practice patterns, using health care networks and
pre-certification of hospital admissions. Note, however, that about half the states do not allow employers to direct injured workers into health care networks. Your insurance carrier can provide additional guidance here.

--The most effective technique to control workers’ compensation costs according to the survey is the coordination of workers’ compensation plans with group health plans. This might include checking for duplicate coverage or assigning the same case managers who oversee individual claims under a company’s regular health plan to do so with workers’ compensation claims as well.

The True Cost of On-the-Job Injuries

Your workers’ compensation premiums are only a small part of the cost of on-the-job injuries. Far more important are lost productivity, declining morale, and increased expenses that can result. The best way to keep your costs related to workers’ compensation at a minimum, therefore, is to reduce or eliminate on-the-job accidents. You can take the following steps to do this:

--Establish an effective safety program.

--Make sure everyone—managers, supervisors, and workers—understands how important you feel safety is.

--Provide incentives to encourage safety programs, such as bonuses to your safe workers.

In sum, you and your workers come out ahead by avoiding injuries. Do all you can to analyze your workers’ compensation insurance, but take that most important step—make sure your people work safely.