Workers' Comp & Safety News

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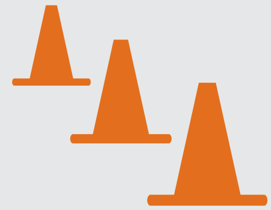

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What's the Outlook for Workers' Comp Insurance?

The recession has had a major impact on workers' comp insurers' bottom line. Will their pain affect your workers' comp costs?

2009 was not a good year for workers' comp insurers. The National Council of Compensation Insurers (NCCI) estimates that last year carriers spent $104 for every $100 dollars of workers' comp premium they received. In comparison, they spent only $95 out of $100 dollars in 2008.

Workers' comp rates continued to fall last year, as the recession helped prolong the cycle of soft rates. Insurance companies often spend more than they receive in premiums because they also earn investment income. However, during the current period of very low interest rates, investment income barely boosted the companies to breakeven on workers' comp.

Since companies exist to make money, the pressure is on for insurers to use "underwriting and pricing discipline," code words for raising rates.

Short Term Outlook

Nothing is simple in the insurance business. Companies still have plenty of surplus – capital that needs to be put to work – so NCCI projects that workers' comp rates will continue to decline in 2010, though at a moderating rate.

In the short term, you will probably not feel your insurer's pain. Many employers that have good experience modification factors, strong loss control and early-return-to work programs will see rates that are flat or decline slightly. Other companies may see rates that are flat or increase as much as five percent annually.

Since workers' comp is a statutory coverage, state regulations often limit yearly rate increases. However, claims frequency and severity continue to affect workers' comp costs.

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This Just In

The Occupational Safety & Health Administration (OSHA) is developing a new rule that will require employers to develop and implement programs that minimize worker exposure to safety and health hazards. The agency is currently using comments from a series of recent stakeholder meetings to develop the final program. The proposed new rule is tentatively named the Injury and Illness Prevention Program, or I2P2.

Instead of waiting for an OSHA inspection or a workplace accident that forces a company to address its problems, the new rule will require employers to create a plan to proactively identify and correct hazards and then implement safety plans. Workers will participate in development and implementation of the plans.

"We are asking employers to 'find and fix' the hazards in their workplace," said OSHA Chief Dr. David Michaels. "This commonsense rule will help make the Secretary of Labor's vision of 'Good Jobs for Everyone' a reality."

Retrospective Rating Plans

Retro rating plans have been around for years. How do they work, and do they make sense for your company's workers' comp program?

In a retrospective rating plan (a retro), the final workers' comp premium paid for the policy year is calculated retroactively, based on the actual losses incurred during the year.

The retro is actually an endorsement to a basic workers' comp plan that has been rated using a standard cost formula. The plan usually designates a maximum and minimum premium, and buyers may choose to buy a per-claim stop-loss limit that caps the claims payments' impact on the premium calculation.

When a Retro Makes Sense

Retros make sense when you believe your future workers' comp claims will be significantly less than your current claims.

Take, for instance, a software design firm that has 60 employees. The owners are committed to maintaining a safe, productive work environment, but two employees were injured in an auto accident while on company business. That one-time event has hurt the employer's experience mod. The company is financially sound, and the owners are willing to take some risk to lower their premium. The company is a prime candidate for a retrospective rating plan.

Retro plans make sense for companies that:

- are willing to take risk.
- are financially sound.
- have strong safety and return-to-work programs.
- have management that is committed to safety.
- have claims that tend to be frequent, rather than severe.

When a company with a high experience mod takes action to reduce injuries and get workers back to work, it is appropriate to consider a retro plan. Switching to a retro allows a company to almost immediately reap the rewards of reduced comp claims.

Advantages

In addition to saving premium dollars, based on a good claims experience, retros:

- can be designed to fit a company's specific needs.
- are fairly priced so premiums truly reflect claims costs.
- encourage continual vigilance on loss control and early return-to-work.

With a retro, there are no surprising, hidden costs.

What Is the Risk?

Retros are a win-lose proposition. If you successfully reduce claims, you reap the rewards the following year. But if you have a significant workers' comp loss, you will make additional premium payments after the end of the policy year – potentially for several years.

In comparison a guaranteed cost plan locks in the yearly workers' comp premium, based on your current experience mod. A bad claims' year does not impact your current premium, but will affect the next year's experience mod and premium.

Retro plans involve more paperwork for employers. As long as there are open claims, the insurance company will issue premium credits or debits, which adds uncertainty to budget planning. Even if you switch carriers, you may be reminded annually of your past claims' experience – when the previous carrier sends a bill for additional premium.

Variations on Retros

Variations on retros, available in some states, provide potential premium savings while limiting the risk of paying additional premium for the policy year.

- **Sliding scale dividend plan:** returns a dividend to the customer after the policy period, if losses are low and if the insurance company makes an overall underwriting profit. There is no penalty for excessive losses and no guarantee of dividend payment.
- **Retention plan:** returns a dividend to the customer if the incurred losses and the insurance company's expenses (the retention) are low.

There are many ways to structure a workers' comp program. Each variation has advantages and disadvantages. Whether your company has a guaranteed price plan, a retro or a variation on a dividend or retention plan, sooner or later you will pay for your workers' comp losses. As always, the best way to control comp costs is to prevent injuries and get injured employees back to work.

If you are interested in learning more about retrospective rating plans, give us a call.

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Claims Frequency

Claims frequency declined in 2009, which sounds encouraging but is, in fact, primarily a function of the recession: downsized companies have fewer employees to potentially file claims. Also, the remaining employees tend to be more experienced workers who have better training and fewer injuries.

As the economy improves, companies will hire back employees who may not have worked for months. They are not "game-ready" and can be more prone to injury.

Claims Severity

The severity of medical claims continues to increase, although the rate of increase has moderated. According to NCCI, the average medical cost for a workers' comp medical claim totaled $27,000 in 2009 – a five percent increase over 2008, compared to a three percent increase in overall medical costs.

NCCI reports that indemnity costs – payments for lost time – continued to increase in 2009. The average indemnity cost per claim increased 4.5 percent, while wages actually declined by one percent, according to the Bureau of Labor Statistics.

It is common to see higher claims severity during a recession, when some injured employees find it attractive to stay out on disability rather than risk losing their jobs.

Long-Term Outlook

Catastrophes such as the massive Gulf Coast oil spill are expected to reduce the insurance market's overall capacity and lead to some hardening of prices across all insurance lines. Global financial problems could also trigger tighter money that reduces insurers' capacity, leading to overall higher rates.

Workers' comp carriers need more premium, and for long-term stability in the market, they need to get it. You should expect to see rate increases in the future.

The national healthcare reform will affect workers' comp, but in ways that are largely open to guesswork. Most observers foresee a transfer of costs between standard health insurance, Medicare, Medicaid and workers' comp, but it is anyone's guess as to which program will take the hit for any additional medical expenses.

Safety First

While you plan for higher rates in the future, it's more important than ever to make sure you have a strong safety program in place. The best way to minimize the inevitable increases in medical costs and lost time is to make sure accidents don't happen.

If you would like us to review your safety program, or any aspect of your workers' compensation, please give us a call.

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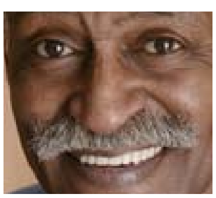


workers tend to want to get back to work.

Although individual comp claims can be significant, the total number of 65+ workers continues to be small enough that they are not a significant driver of comp costs – less than three percent of claims, according to NCCI.

Understanding Older Workers

Older workers have health and wellness needs that differ from those of younger employees.

Physical strength peaks between 20 and 30 years of age, so older workers who do physical activity are working closer to their maximum capacity. Reaction time declines with age; eyesight and hearing also diminish. However, according to the Department of Health & Human Services (DHHS), age is less a factor in physical health than other factors such as obesity, smoking, lack of exercise and diabetes.

Mental abilities also change as people age. Older workers have slower cognitive speed. According to DHHS, they retrieve information more slowly and learn more slowly. However, they are ultimately equally successful in learning new things and may have greater retention of new material.

Loss Prevention

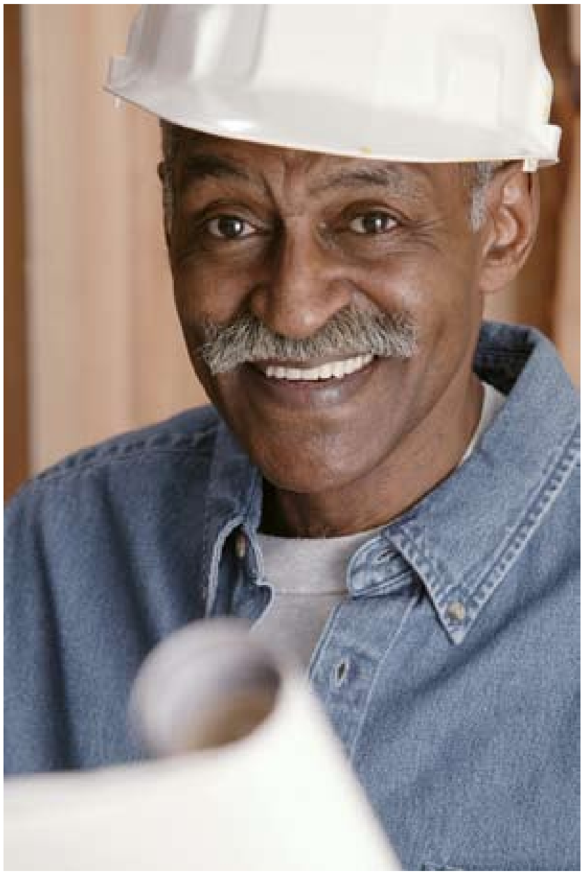
Slip/trip/fall injures are the biggest risk to older workers, accounting for 47 percent of injuries, versus only 20 percent for all workers, according to BLS. Older workers are also more apt to have shoulder, arm and lower back injuries.

Employers should analyze jobs to make sure all employees, regardless of their age, are not continuously doing repetitive-motion activities and do not lift items that are too heavy for their specific strength. Tasks should be modified to prevent potential problems.

Employers should evaluate their lighting systems, ensure they have slip-resistant flooring and make sure their entrances, walkways and parking lots have smooth, non-slip surfaces that are well lit – basic loss control measures that will benefit all employees.

When training employees about new tools – whether it's new machinery or computer software – it is important to realize that older workers need a slower-paced class, while young workers may need a follow-up refresher.

Wellness programs for employees of all ages can also have a positive impact on the severity of workers' comp claims. A healthier employee generally recovers faster than one who is overweight and out of shape. Encourage employees to stop smoking, eat healthy foods and exercise regularly, including taking a walk at lunchtime. The fresh air will do them – and you – a world of good.



Healthy Aging in the Workforce

The workforce is aging. Understanding the specific needs of older workers can help you keep them healthy and on the job. Here's what you should know.

Several years ago trend-spotters started talking about the "brain drain" that would occur when skilled Baby Boomers start to retire. More recently, the upheaval in financial markets and the recession have changed the picture: employees who planned to retire need to keep working to build up their nest eggs.

Almost 12 percent of the civilian workforce is 55+ years old, according to the Bureau of Labor Statistics (BLS). Since 2006 there has been a 26 percent increase in the number of workers 65 years and older. They represent a small but growing percentage of the workforce, and by 2016, the bureau projects they will account for nearly five percent of workers.

Mature workers offer companies many advantages: experience, commitment and a strong work ethic. They tend to roll with the punches, and they can offer important perspectives to younger workers.

Older Workers = Safer Workers

The BLS reports that the incidence of injuries (per 10,000 hours of full-time work) is lowest among workers age 65+. Additionally, older workers in relatively hazardous manufacturing and construction-related industries have a lower frequency of workers' comp claims than younger workers, according to the National Council of Compensation Insurers (NCCI).

Those statistics support the premise that older workers have more experience and are less likely to rush through work that requires attention to detail.

Higher Severity

However, the picture isn't entirely rosy for older workers.

When accidents occur, injuries are more likely to be severe. Medical expenses are more costly because older workers' injuries tend to be more extensive and take longer to heal. NCCI estimates that medical costs are 26 percent higher for workers 65+. If a 60-year-old woman falls and breaks her wrist, it may be due partially to osteoporosis that has weakened her bones. A 20-year-old might only strain her wrist in the same fall.

The extra days that are lost on medical leave also contribute to indemnity costs for lost wages. NCCI reports that average indemnity payments per claim begin to increase at age 45, but then decline somewhat after age 65 – probably because workers who continue to work after 65 have relatively low salaries. Additionally, older

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Reducing Workers' Comp Severity

The severity of a typical workers' comp claim continues to rise. Indemnity costs are up over four percent, despite a one percent decline in average wages. Medical severity also continues to increase – up an estimated five percent in 2009, according to the National Council of Compensation Insurers.

Increases in indemnity and medical costs impact your experience mod and, eventually, your premium. However, even after an injury occurs there are things you can do to help control costs.

Medical Costs

Good communication is key to controlling medical costs.

- Make sure managers know that prompt reporting of all injuries and accidents is mandatory. Research consistently shows that delayed reporting increases medical costs.
- Have a plan for regular communications with the injured worker and your insurance company. Make sure your employee is getting the appropriate care.
- When you talk to your injured employee, make sure you convey your concern for her health. Make her feel like a valued member of the team so she wants to get back to work, rather than malingering.

Early Return to Work

Getting employees back to work reduces indemnity payments and can also have a positive impact on the employee's overall recovery by improving her morale and self-worth. It also improves the morale of co-workers. Return-to-work programs need structure, including:

- Job descriptions and analyses.
- Return-to-work agreements that state the responsibilities of the employer and the injured worker.
- Light duty assignments – tasks that are modifications of the usual job.
- Work schedules – full time or part time.

If you would like more information on how to control post-injury costs, give us a call.