Worker’s Compensation:  
Mitigating Risk and Controlling Costs  

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Risk Strategies Company  

Risk Strategies Company is a privately-held, national brokerage and consulting firm.  

- Founded in 1997 and headquartered in Boston  
- Closely-held, part of Kelso portfolio  
- 20th largest broker in U.S. (Business Insurance)  
- 14th largest independent P&C broker - Insurance Journal  
- Regional focus; global scope  
- 30 offices nationally  
- Over $1.6B annual premiums placed  
- Top tier relationships with carriers/service providers  

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Our Health Care Team

- Average of 25+ years in the insurance industry
- Expertise working with all types health care organizations
- Well versed on current issues in health care
- Team members understand all types of accounts from guaranteed cost to complex risk transfer structures
- Unparalleled insurer relationships from account underwriters to senior executives
- Experience in working with a variety of self-insurance vehicles (i.e. captives, risk retention groups, self-insured trusts, etc.)
- Enterprise Risk Management, loss profiling and risk mapping for health care
- Tailored risk management programs
- Benchmarking and financial analysis targeted at identifying & reducing TCOR
- “A” team always....

Agenda

I. Workers’ Compensation Overview
II. Underwriting Process and Program Structures
III. Current Marketplace Environment
IV. Impact of Workers Compensation
V. Loss Control
VI. Claims Management
VII. Case Study
I. Workers’ Compensation Overview
- Basic Policy Components

Workers’ Compensation insurance provides coverage for an employer’s two key exposures arising out of injuries sustained by employees:

- **Part One** of the policy provides no-fault statutory benefits prescribed in state law by an employer to an employee due to a job-related injury (including death) resulting from an accident or occupational disease.

- **Part Two** of the policy covers liability arising out of employees’ work-related injuries that do not fall under the workers’ compensation statute.
  - BI by Accident (Each Accident)
  - BI by Disease (Each Employee)
  - BI by Disease (Policy Limit)

I. Workers’ Compensation Overview
- Basic Purpose of Workers’ Compensation

- Payment of medical treatment to return workers to their pre-injury status; possibly to include future medical treatment as deemed by the treating physician.

- Payment for lost wages when the employee, because of medical restrictions related to his or her injury is unable to work all of part of the employee’s scheduled number of hours.

- Payment for permanent loss of function of body part as a result of injury.
I. Workers’ Compensation Overview
   - Insurance Requirements

   • Workers’ Compensation Insurance Policy
     o Written by a mutual or stock carrier authorized to write insurance in NJ
   • Self Insurance
     o Requires application and approval by the Commissioner of DoBI
     o Posting of security may be required
     o Claim administration: in-house or by contracting with a TPA
   • Corporations, Partnerships/LLC’s, and Sole Proprietorships are required to have workers’ compensation insurance in effect
   • Consequences for Failure to Insure
     o Liability can extend to the corporate officers individually
     o For work-related injury or death, employer is liable for medical expenses, temporary/permanent disability or dependency benefits
     o Penalties assessed are not dischargeable in bankruptcy
     o Possible civil penalties if failure to insure is determined

II. Underwriting Process and Program Structures
   - Key Components of Premium

   • Rate Setting & Regulations
     o NJCRIB establishes and maintains regulations and premium rates
   • Payroll
     o Payroll per $100 is multiplied by the applicable rate assigned to each classification code
   • Rate by Classification Code
     o Class codes are assigned based on various job duties or "scope of work performed" by employees
   • Experience Modification Factor
     o Calculated by NCCI as an adjustment factor that compares an employer’s loss data to other employers with the same class codes
     o Expressed as a credit or debit and applied to the manual premium
   • Other Factors
     o Premium discounts, deductible credits, state fees, etc.
II. Underwriting Process and Program Structures
- Program Structures

- Guaranteed Cost
  - Flat annual premium with first dollar coverage
- Deductible
  - Reduced premium in exchange for retaining risk
  - Collateral may be required
- Self-Insured Retention
  - Designed for larger employers. Requires application with the state to become a qualified self insured.
  - Collateral required
  - Third Party Administrator (TPA) to handle claims within the SIR
  - Excess policy recommended to provide financial protection for catastrophic claims above the retained amount
- Retrospective Rating Program
  - Designed for larger employers. Premium adjustable based on the employer's own losses during the policy period.

II. Underwriting Process and Program Structures
- Collateral

- Loss-sensitive programs (deductible or retention) with a commercial carrier or a qualified self insurer will likely be required to post collateral
- Customary form = Letter of Credit (LOC) issued by banking institution
- Alternative forms:
  - Trust, or Pledge of Security
  - Cash
  - Surety Bond
  - Credit Buydown
- Collateral Process
  - Modeling outstanding liabilities, trends, reserving practices, loss development factors, and loss projections
  - Review financial condition of insured to determine most effective program structure to mitigate the collateral requirements
III. Current Marketplace Environment
- State of the Market

- Combined loss ratios increasing, declining treasury yields, and few low-risk investment opportunities leading to greater underwriting discipline
- Closer scrutiny of loss history and financial condition of Insureds
- Carriers seeking higher retentions or deductibles due to loss activity or to mitigate premium & rate increases
- Competition for accounts with good loss history and strong financials, particularly for loss-sensitive programs
- Guaranteed cost options available, but less so for accounts with frequency and severity
- Enhanced focus on proactive pre- and post-loss claim reserving and resolution to reduce costs
- Carriers more willing to unbundle claims services and allow insureds the option of contracting with an approved TPA

III. Current Marketplace Environment
- Forecast

- Pricing driven by carrier appetite to maintain or increase market share
- Capacity abundant, competition will remain strong for good performers
- Carriers encouraging insured to accept more risk
- Continued upward pressure on deductibles and retentions
- Pre- and post-loss activities incorporated into underwriting review
- Analytics and predictive modeling influencing underwriting decisions
- Pricing predictions
  - Loss-sensitive programs: -10% to +10%
  - Guaranteed-cost programs: flat to +10%
  - Subject to individual account changes in payroll and loss development
III. Current Marketplace Environment
- Cost Containment Strategies

- Loss Control & Claims Management
- Accuracy of Payroll
  - Proper Employee Classifications
  - Excluded Remuneration
  - Special Considerations (i.e. Executive Officers)
- Experience Modification Review
- Application of Applicable Credits & Discounts
- Audit Review – Payroll, Exp Mod, and Rates

IV. Impact of Workers’ Compensation
- Organization

- Genuine concern for the injured employee
- Studies have shown that the longer the employee is away from work, the less likely the employee will ever return to work
- Studies have also shown that the earlier the injured employee is permitted to return to work the faster and better the healing and recovery process
- Time and cost of finding, hiring and training a new/temporary employee
- Injuries can potentially increase future workers’ compensation insurance premiums
- Injuries that result in lost wages are the most expensive injuries
- Injuries related to employee use of vehicles (owned or non owned) will not only impact the workers’ compensation policy but could also impact the automobile liability policy
- Impact to your client/patient’s service, treatment and satisfaction
IV. Impact of Workers’ Compensation
- Employee

- Physical pain and suffering
- Potential loss of wages
- No promotion/bonuses/salary increases while receiving Workers’ Compensation wages
- Permanent disability
- Fear of judgement by co-workers (psycho-social)
- Fear of job termination (psycho-social)
- Potential necessity to change careers
- Impact to personal lives and enjoyment
- Financial impact regarding loss or damage to their own property (autos)

V. Loss Control
- Human Resources: Hiring & Training

- Employee Background Check Process
- Employee MVR Check Process
- Automobile Maintenance inquiry
- Pre-Hire Drug Testing Program
- Post-Offer Physical Requirement
- Substance Abuse Policy
- Random Drug Testing Process
- Employee Fitness & Wellness Program
- Employee Performance Process
- Safety & Injury Prevention Policies
- Safety Incentive & Reward Programs
- Create detailed job descriptions to include weight lifting abilities needed.
V. Loss Control
- Written Safety Programs

• Hazard Identification and Communication
  o Neighborhood safety (crime and violence)
  o Violent or unsafe patients, family members, pets, neighbors
  o Verbal abuse
  o Overheated room temperatures
  o Poor indoor air quality (lead paint, toxic substances)
  o Unsanitary conditions (presence of insects, rodents)

• Patient Handling/Lifting- identify the need for ergonomic assessments or equipment

• Fall Protection Training and Protocol

V. Loss Control
- Written Safety Programs (continued)

• Infection Controls
  o Cross-contamination (raw foods, animals contaminated objects)
  o Laundry, bathroom, kitchen hygiene

• Respiratory Protection

• Allergies (latex, pets)

• Physical and Sexual Misconduct

• Fleet Safety

• Vehicle Safety Inspection and Maintenance

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V. Loss Control
- Safety Culture

- Ongoing safety discussions with all employees.
- Ongoing safety communications with employees
- Encouraging safety committee creation and participation.
- Incorporate safety related topics at all meetings/huddles etc.
- Open communication with staff on their safety concerns/alerts.
- Ongoing safety related education and training
- Response to staff concerns with swift follow up and corrective actions taken.
- Response to employee when it is a performance issue.
- Prompt, thorough accident investigation.
- Response to the hazard/risk as a result of the accident.
- Return to work.

VI. Claims Management
- Intervention, Control, and Review

- Early Intervention
  o If needed, immediately send employee for initial medical treatment to Urgent Care /Occupational Health Center.
  o Provide detailed job description to injured employee and treating doctor and the return to work program
  o Promptly report worker’s compensation injury to insurer
  o Perform a thorough investigation & cooperation with claims adjuster
  o Do the mechanics of injury and loss description make sense?
  o Communicate with employee and medical provider within 24 hours.
- Cost Control
  o Keep in contact with employee, medical provider, and claims adjuster on an ongoing basis
  o Be aware of the providers panels used by your carrier and use them
  o Understand the injury and treatment plan with timelines in place
  o Manage return to work program - reduce claim duration and costs
VI. Claims Management
- Intervention, Control, and Review (continued)

• Regular Claim Reviews
  o Participation and commitment from senior management
  o Obtain valuable claim data from your Broker/Agent/Carrier and use it to target vulnerable areas and highlight the strengths as well.
  o Review costs - litigation expenses, medical and indemnity
  o Identify providers that aren’t working in your favor or the injured workers.
  o Identify trends to create loss prevention initiatives to keep your employees safe and mitigate all future claims.
  o Hold your Broker/Agent/Carrier /TPA responsible to provide the services and resources they have promised to deliver to you.
  o Hold everyone at your organization responsible for the safety and well being of every employee.

VII. Workers’ Compensation Case Study

CLIENT
A large not for profit senior living organization with multiple locations inclusive of residential, adult daycare and home health was experiencing significant increases in the number of Workers’ Compensation claims and the associated costs.

CHALLENGE
To find meaningful savings on a self-insured Workers’ Compensation program while introducing safety initiatives and programs to enhance the safety culture. Acquisitions made over time resulted in a lack of consistency in procedures, protocol and accountability.

RESULTS
Over a 4 year period:
• Achieved 38% reduction in number of claims
• Achieved 48% reduction in claim costs
• The current year projection is for a 47% decrease in forecasted losses
• Negotiated a new TPA contract with a 24% decrease in annual contract fees with improved terms
Quote of the Day

There are costs and risks to a program of action, but they are far less than the long-range risks and costs of comfortable inaction.

John F. Kennedy (1917-1963)

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Questions? Comments?