



Workers' Compensation 101

How Workplace Safety Affects The Bottom Line

Presented to:

Niagara Frontier Chapter
of the
American Society of Safety Professionals

March 15, 2021



Presentation Highlights

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- **Workers' Compensation Overview**

- ▶ **Basics**

- Purpose of WC / Responsibilities / States

- ▶ **Early Intervention**

- Plan, Care, Report

- ▶ **Cost of Loss**

- Direct vs Indirect
 - Premium and Experience Modification Ratings

- ▶ **What you can do**

- 3 prong approach – Safety, Injury & Claims Management



Purposes of Workers' Compensation

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● Basic Principals of Workers' Compensation

- ▶ Employers will provide financial reimbursement to employees injured on the job for medical, indemnity and permanency
- ▶ “No fault” – employers provide insurance/pay premiums; employees collect defined benefits – regardless of fault or responsibility for the accident.
 - Third party suits
 - Gross negligence
- ▶ Responsibility
 - Employers - Safe & healthy workplace
 - Employees – Be ready for work; aware; follow rules
- ▶ State level governance



WC Pay What's "COMPENSABLE"

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- **Arises out of /AND in the "course and scope" of employment**
 - ▶ Vehicle Accident?
 - ▶ Travel?
- **May cover injuries sustained from other events that occur while working at the employer**
 - ▶ Workplace Violence (hold up, domestic issue)
 - ▶ Terrorist attack
 - ▶ Natural disasters (tornado, ice storm)
- **States control their WC program. All states have different rules**
 - ▶ Waiting Period for Lost Time claims
 - ▶ Types of impairments/injuries that are covered
 - ▶ Physician Provider Networks
 - ▶ State Funds / Monopolistic States

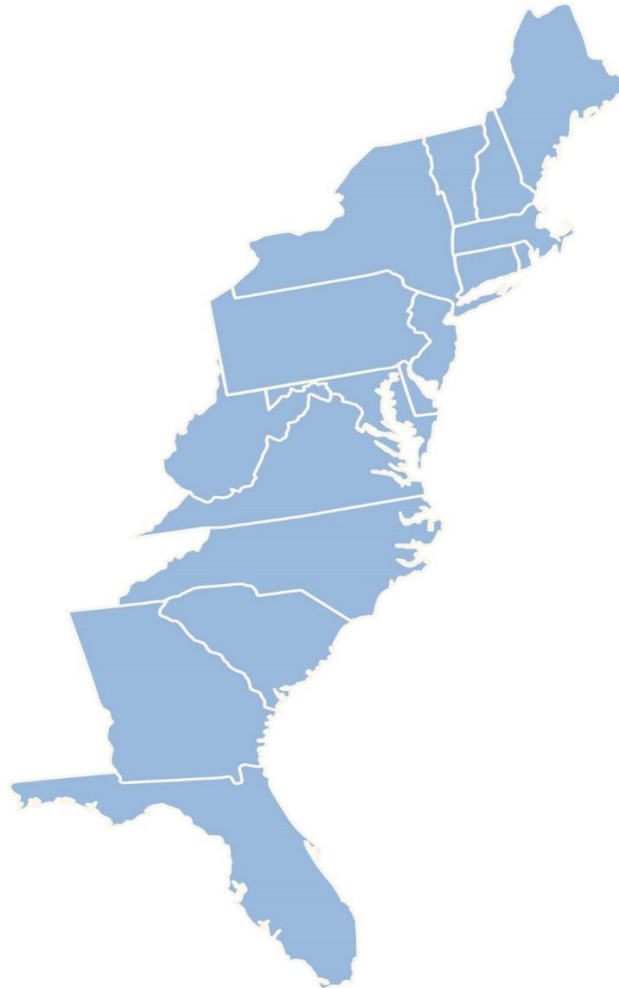
**WORK INJURY
CLAIM FORM**

Name	Age	Date	Location
Occupation	Address		
Note your Idea		Order	

Waiting Periods

Begin day of injury
Retroactive, if met

<u>STATE</u>	<u>Waiting Period</u>
• Connecticut	3 days
• District of Columbia	3 days
• Florida	7 days
• Georgia	7 days
• Maine	7 days
• Maryland	3 days
• Massachusetts	5 days
• New Hampshire	3 days
• New Jersey	7 days
• New York	7 days
• North Carolina	7 days
• Pennsylvania	7 days
• Rhode Island	3 days
• South Carolina	7 days
• Vermont	3 days
• Virginia	7 days
• West Virginia	3 days





PPO' vs Occ Med's

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- **Physician Provider Organizations aid in providing appropriate medical care while managing claim costs. In New York, using a state approved PPO allows companies to direct care for the first 30 days.**
- **Occupational Medical (Occ Med) providers are more commonly used in New York, and sometimes offer extended hours, discounted costs, direct bill for self-pay, and work with RTW and job restrictions – in addition to drug testing, exams, etc.**
- **Some states permit use of physician network panels (PA), others allow “soft referral” only.**



Early Intervention- Caring for the Employee

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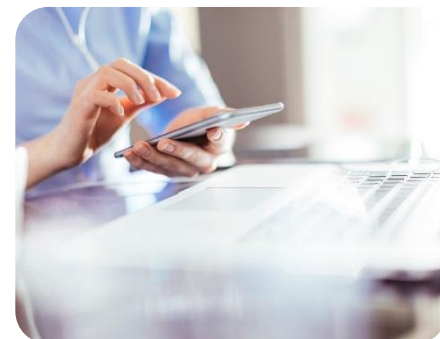
Pre-Plan for Injury Response

- Develop injury form packets.
- Designate a claim Coordinator.
- Provide emergency response and claim reporting instructions.



Take Care of the Employee

- Determine severity of the injury: First aid, emergency room, urgent care
- Obtain medical care:
 - Encourage use of Physician Provider Network
 - Communicate with the physician's office
 - Physician capabilities form to initiate RTW



Injury Reporting & Investigating

- Report claims ASAP/within 24 hours (WC; regulatory)
- Thoroughly document the injury
- Communicate with employee, claims, and physician regularly



Reporting Claims Timely

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- **24 Hours** (3 days maximum)
- **Claim Costs Increase*:**
 - 8% when reported after 1 week
 - 20% when reported after 2 weeks
 - 25% when reported after 3 weeks
 - 37% when reported after 4 weeks
- **Why?**
 - Claims become more complex and difficult to settle when there is a delay in reporting
 - Claims tend to have more Lost Time when reported late
 - Claims reported late are 3x more likely to involve litigation / attorneys
 - The longer the delay to report, the longer the lifetime of the claim



Why is it important?

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Because its Business!

- ▶ Profits keep us employed!
- ▶ Profits give us a paycheck!
- ▶ Loss of Profits Require CUTS
- ▶ Workers Compensation Premiums ARE NOT Just a “Cost of Doing Business”
- ▶ It’s an expense that we can control



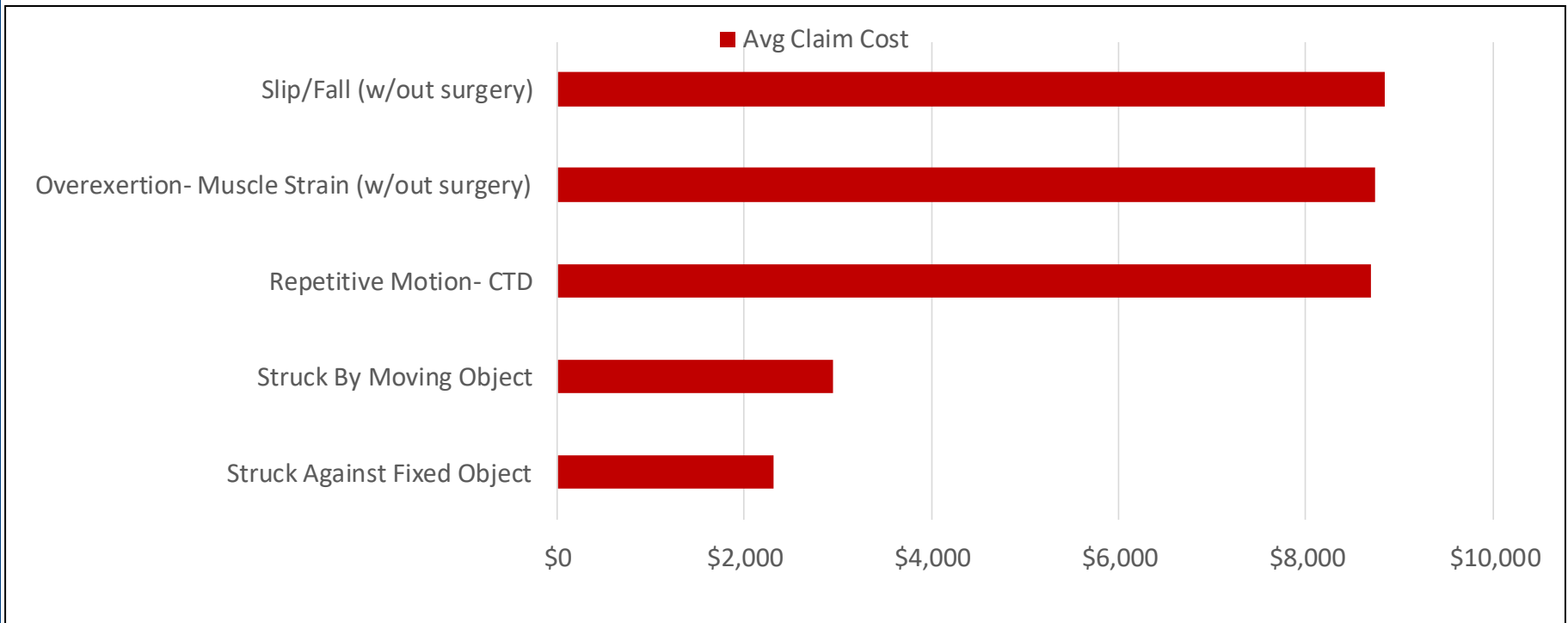
“The first duty of business is to survive and the guiding principle of business economics is not the maximization of profits – it is the avoidance of loss.”

–Peter Drucker



Cost of Claims / Impact

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More Injuries = ↑ Costs & ↑ Expenses

Lower Injuries = ↓ Costs & ↓ Expenses



The Real Costs of Loss

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DIRECT COSTS

Direct Costs:

- Premium \$\$
- The more serious the claims, the more impact on insurance

INDIRECT COSTS

Indirect to Direct Costs
Ranges From 4:1 to 15:1

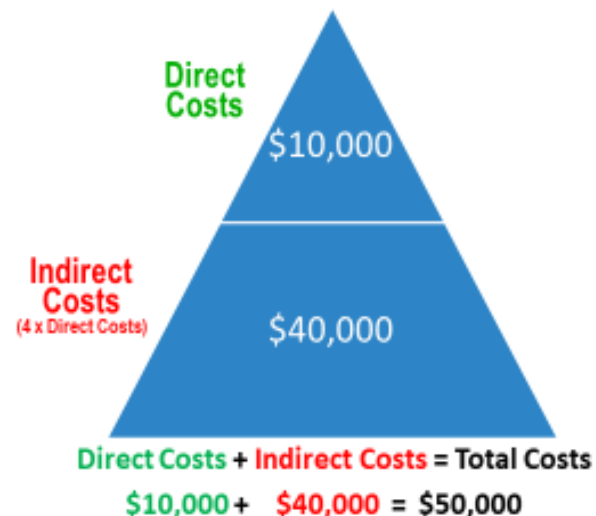
Indirect Costs:

- Deductibles (if applicable)
- Lost productivity from other employees & supervision
- Overtime for other workers
- Employee replacement/retraining
- Replacement costs for damaged property/equipment
- Lower product quality/declined customer perceptions
- Lower product efficiency
- Loss of employee morale
- Legal issues

Claims Impact on Profits

COST ANALYSIS

Accident Costs (**Direct** + **Indirect**)
must be paid for by profits from the
sale of products/services



Sales Required to pay for accident costs:

Total Costs
(% Profit Margin/100)

= Required Sales

Company Profit Margin	2%	4%	6%	8%	10%
Add'l Sales Required to Pay for Accident	\$2,500,000	\$1,250,000	\$834,000	\$625,000	\$500,000



How Injuries Impact Insurance Costs

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DIRECT COSTS

Accidents are more expensive than most people realize because of the hidden “indirect” costs.

INDIRECT COSTS

Serious Injuries Result From:

- Limited focus on safety expectations
- Lack of safety accountability
- Limited claim management activities
- Failure to RTW

Result:

- Higher direct and indirect insurance costs
- Lower profitability



How Premium Is Calculated (overly simplified)

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- **Standard / Manual WC Premium is made of 3 primary factors:**
 - 1. Payroll per type of job performed (Job Classification)**
 - 2. Job Classification Codes - rate based on occupation & industry**
 - 3. Experience MOD Rate (EMR)**

EMR is the only factor you can control



Experience Modification Rate EMR

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$$\frac{I + (C \times (1 - A) + G) + (A \times F)}{E + (C \times (1 - A) + G) + (A \times C)}$$

A = Weight Factor
G = Ballast
I = Actual Primary Losses
H = Actual Incurred Losses
F = Actual Excess Losses (H-I)
E = Expected Primary Losses
D = Expected Incurred Losses
C = Expected Excess Losses (D-E)

primary NCCI formula

or

$$\frac{\text{Actual Primary Losses} + \text{Stabilizing Value} + \text{Actual Ratable Excess}}{\text{Expected Primary Losses} + \text{Stabilizing Value} + \text{Expected Ratable Excess}}$$

- Includes 3 years of loss/claim data, starting back 4 years (lagging indicator)
- Defines Frequency and Severity claims in financial terms
- Frequency claims count dollar for dollar; Severity claims are watered down
- “Expected” loss frequency & severity is by NAICS code
- Mathematical equation where 1.0 = Average

What's a good EMR?

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WORKERS COMPENSATION EXPERIENCE RATING

NCCI Risk Name: ABC Company Risk ID: 123456789
 Rating Effective Date: 07/24/2020 Production Date: 04/09/2020 State: MISSOURI

State	Wt	Exp Excess Losses	Expected Losses	Exp Prim Losses	Act Exc Losses	Ballast	Act Inc Losses	Act Prim Losses
MO	.07	21,234	28,714	7,480	126,112	34,875	143,612	17,500
(A) (B) (C) Exp Excess Losses (D - E)	(D) Expected Losses	(E) Exp Prim Losses	(F) Act Exc Losses (H - I)	(G) Ballast	(H) Act Inc Losses	(I) Act Prim Losses		
.07	21,234	28,714	7,480	126,112	34,875	143,612	17,500	

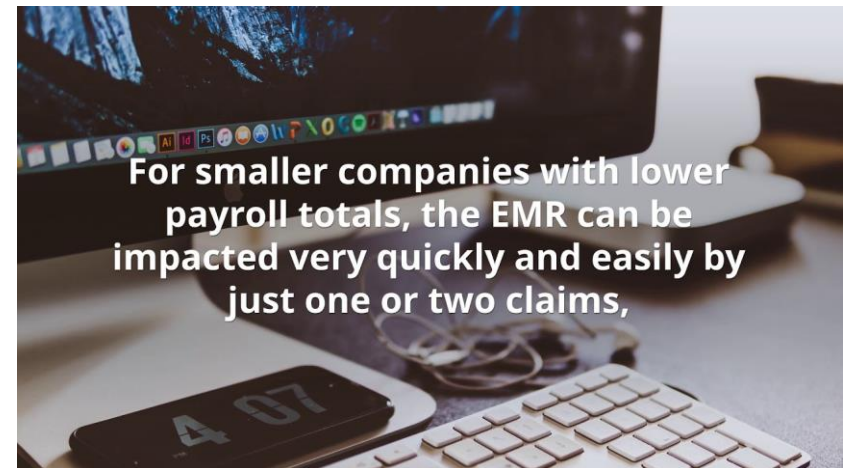
	Primary Losses	Stabilizing Value	Ratable Excess	Totals
Actual	(I) 17,500	C * (1 - A) + G 54,623	(A) * (F) 8,828	(J) 80,951
Expected	(E) 7,480	C * (1 - A) + G 54,623	(A) * (C) 1,486	(K) 63,589

	ARAP	FLARAP	SARAP	MAARAP	Exp Mod
Factors	1.25				(J) / (K) 1.27

THE ARAP FACTOR SHOWN IS CAPPED AT THE APPROVED MAXIMUM ARAP SURCHARGE FOR THIS STATE.

This is a pretty high mod rate.

It will increase rates by 27%.



Carrier: 33559-001 Policy: WCS-20275192 Eff-Date: 07-24-2019 Exp-Date: 07-24-2020

FYI, in NYS, companies with payrolls over \$800,000 and Exp Mod ratings 1.20 or greater are subjected to ICR59 safety inspections.



EMR's Impact on Premium

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Example

Class Codes	Payroll	Rate Per \$100	Premium
5183	\$800,000	\$8.25	\$ 66,000
Exp. Mod	.80		(\$13,200)-
Modified Premium			\$ 52,800
5183	\$800,000	\$8.25	\$ 66,000
Exp. Mod	1.2		\$13,200 +
Modified Premium			\$ 79,200



What Can You Do?

● Pro-active Safety Management

▶ Good Hiring/Screening

- *Multiple Interviews (panels)*
- *Employee Profiles*
- *Fit-For-Duty Evaluations*
- *Drug Testing*
- *Criminal Record Checks*
- *Skill Demonstrations*

▶ Safety Culture

- *Leadership values safety*
- *Safety Committee*
- *Formal Job Safety Analyses/Audits*
- *Integrate Safety into quality/business*

▶ Safety Training

- *New employee training*
- *Routine retraining & reinforce expectations*
- *Protocols for Emergency and Non-routine events*
- *Recognize & Reward Safety efforts*

▶ Set a Good Example

- *Would you be comfortable with your daughter/son doing that job?*



What Can you Do?

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● **Post-Accident Injury Management**

- ▶ **Report Claims Immediately**
- ▶ **Communicate with all parties frequently**
- ▶ **Use a Physician Provider Org. or Occ Med Provider**
- ▶ **Return to Work- get employee back ASAP**
 - 1- Whenever possible, RTW before end of Waiting Period
 - 2- Loss Time Injuries- Accommodate Work Restrictions
- ▶ **Accident Investigation for cause(s) and corrective actions**



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1. Go to **www.memic.com** and you will notice a blue tab called "For Employers". Drag your mouse pointer over this tab and on the right-hand menu, you'll see a link entitled Log into Safety Director.
2. If you are a new user to Safety Director, click on the new user link to create a personal profile.
3. Get started with BLR Safety; Aurora Pictures Videos; LMS; MEMIC Blogs & Podcasts; contact your MEMIC Safety Consultant



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Thank you!

**for your participation in
this training session.**