

## Corporate Exposure

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The mismanagement of the workers compensation system will continue to haunt the business community. This well-intended statute has forced many employers out of business since double-digit rate increases have become routine. Though not all aspects of this epidemic are within your control, there are management practices that can provide some immediate relief.

What is workers compensation, and how can you begin to get a handle on the problem?

**STEP ONE: Become well-versed in the workers compensation law and how to use it.**

The intent of this law is to compensate employees for time (salary) lost and to provide unlimited medical coverage to satisfy physician, hospital, and medical expenses associated with a job-related loss.

**Consider:**

The injury sustained by the employee must have arisen "out of," and not just "in the course of," doing the job. This distinction is important. Because an injury manifests itself during an employee's shift, does not necessarily make it compensable. Unless the employee can demonstrate that the injury was caused by a job-related activity, it is not a workers compensation claim.

Further, when an employee injures a certain part of the body, only medical expenses related specifically to the injury should be submitted and paid.

**STEP TWO: Master premium calculation.**

Unlike other areas of insurance, determining premiums for this coverage is routine. Each state develops rates for every job classification, which are applied against the payroll figures you supply.

**Consider:**

Your employees have to be properly classified. Make sure they are. There can be a significant rate differential, say, between employees classified as "drivers" and those called "chauffeurs." So first, be sure your broker-agent-consultant helps you place employees in the appropriate categories. Second, be certain you are accurately reporting the payrolls for each classification. Since you are forecasting payrolls for the year, remember that audits are typically performed at years-end to make any necessary adjustments. Over-reporting payrolls will result in a refund, while under-reporting will necessitate additional premiums.

Once you have classified the employees properly and developed the accompanying payrolls, you are ready to calculate the base premiums. These are then subjected to a "loss experience factor" (experience modifier). This modifier is determined by reviewing the total losses paid on your behalf over an annually adjusted sampling period. Have your broker-agent-consultant review this calculation to be certain the losses used in the formula are accurate.

**STEP THREE: Become familiar with policy characteristics for different plans.**

Though the calculation of premiums is standard, there are various types of plans available.

**Consider:**

Certain policies can actually return unused portions of the premiums not needed to pay losses or administrative overhead. Other plans are not "loss sensitive" and, if your losses exceed the premiums, no additional fees are required.

**STEP FOUR: Develop loss management practices.**

Since injured employees are compensated for lost wages and have un-

limited medical coverage (related to their injury), there may be little incentive for some workers to return to work.

**Consider:**

The sooner the employee is back to work the better. Minimize these indemnity costs as much as possible. Light-duty return-to-work programs are highly cost effective. These, along with medical audits, rehabilitation services, job modifications, etc. have proved to be excellent cost-control techniques. These types of strategies have to be developed and implemented before a loss occurs so the system can run efficiently. Developing these strategies after the loss is very expensive and frustrating.

**STEP FIVE: Develop a risk control strategy.**

The vast majority of the workers compensation exposures causing losses can be eliminated with appropriate planning. Organizations are often looking for a "quick fix" and may be enticed into purchasing "canned programs." These do not produce results.

**Consider:**

Each organization has an operating philosophy and style that is unique. Attempting to implement programs that have worked at one organization may not necessarily produce positive results at another. Each company, and even each location, requires specific action plans. This subject will be covered in greater detail in next month's *Forum*.

Note: The American Management Association offers a program dealing with workers compensation.

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