



Managing Worker's Compensation Costs

By David Alvarado and Brian Quinn – EPIC Insurance Brokers and Consultants

The cost of workers' compensation insurance continues to be a concern for many contractors. With the construction sector and economy in general beginning to recover, this is a good time to remember that workers' compensation is one of your most controllable insurance expenses – and to reinforce the key elements of workers' compensation cost control.

KEY ELEMENTS IN WORKERS' COMPENSATION COST CONTROL

Regardless of market cycle or the pricing environment, these are the practices that ultimately drive rates and premiums to the lowest possible level. Make them the cornerstones of your workers' compensation program and you will receive the best terms, conditions and pricing the insurance market can offer.

Safety and Loss Prevention

The best way to lower workers' compensation net costs is to reduce the frequency of claims. Well-designed and aggressively managed safety and loss prevention programs not only reduce direct claims expense, they eliminate the indirect, or "hidden" costs of workers' compensation claims. This can produce substantial savings over time, since these related expenses (e.g. lost productivity, replacement help, administrative expenses, OSHA fines, action-over liabilities, etc.) are often multiples of the direct claims costs incurred.

Working with a broker who specializes in construction can make a considerable difference in this area. Over the years, workers' compensation insurance has become more of a "commodity." Many carriers have reduced or even eliminated loss prevention personnel and programs. Where services are available from the insurance company, relatively inexperienced people are often the rule. What passes for loss prevention service today is frequently little more than a periodic "inspection", based on underwriting requirements and guidelines.

Insurance brokers should be assuming more responsibility for safety program design, implementation and management. Many of the industry's most experienced and capable engineers, safety professionals and consultants are now on the brokerage side of the business. Importantly, they work for you – not the insurance company – providing job site safety programs injury and illness prevention plans, OSHA required training and other critical forms of client advocacy.

Regardless of where you find the support and resources, though, it all starts here: you must establish results-oriented, objective driven programs that identify and control your most frequent and costly loss exposures and claims.

Initial Claims Investigation and Reporting

Actions taken immediately after an injury occurs have a major impact on the ultimate outcome of a claim. The role of foreman and job site supervisors is critical since they are frequently the first to know of claims and have the initial opportunity to investigate and manage events and circumstances. To avoid relinquishing medical control, creating an adversary employee relations situation, increasing litigation, incurring fines and penalties and failing to preserve necessary evidence, your supervisors must be properly trained in workers' compensation claims investigation and reporting procedures.

Moreover, in severe instances, teams of direct and indirect personnel need to be engaged to properly investigate and protect the employees and your company.

First line supervisors also play a key role in preventing future claims and must understand the importance of thoroughly investigating the causes of injuries and taking appropriate corrective action to eliminate unsafe conditions and practices that produce claims. And it is frequently your supervisors who play a pivotal role in the opportunity for, and success of, modified duty I transitional work programs when they can be offered.



Again, you cannot rely exclusively on your insurance carrier for necessary supervisory training and claims advocacy. There is a significant difference between aggressive claims management and simple claims process and, unfortunately, the insurance industry has increasingly moved toward the latter, utilizing “inside adjusters” and relying on outside resources when more than basic claims processing is required.

On the other hand, brokers specializing in workers’ compensation have built their own teams of experienced claims management professional who will train and support their clients’ claims management teams.

Medical Control I Provider Selection and Management

Proper selection of workers’ compensation medical providers, combined with effective referral procedures and ongoing provider communication programs, can significantly reduce claims expense. Medical providers must understand your operations and human resource philosophies, specialize in occupational medicine and be willing to work closely with your insurer and you broker.

If medical control is not assumed, employees can seek their own care (usually from their personal physician). Communicating to manage treatment and the nature and extent of disability with a physician who does not understand the workers’ compensation system and occupational medicine can be a real challenge, at best. Ongoing treatment from an employee’s personal physician invariably leads to a longer recovery period and increased claims expense.

Doctors steeped in the protocols of today’s non-occupational “managed care” will take a much more conservative approach to treatment. While this may reduce medical costs, it almost always extends the duration of temporary disability, increasing indemnity expense and your total claims costs.

Again, an experienced broker can offer provider selection guidelines and even assist in interviewing, selecting and monitoring the effectiveness of medical providers. In recent years, the practice of occupational medicine has become a highly competitive, specialty business and there is no reason to settle for ineffective physicians or clinics where choice exists.

Return-to- work I Transitional Duty Programs

Workers’ compensation is ultimately a disability management system. Programs that focus on managing temporary disability, permanent disability and vocational rehabilitation will have the greatest impact on reducing claims expense and increasing employee satisfaction and productivity.

There are many approaches to establishing return-to-work programs, based on each employer’s culture and individual needs. They range from simple “modified duty” plans to fully integrated “total absence management” programs seeking to use the same practices and protocols to manage all time off work – both occupational and non-occupational injury and illness. In addition to reducing workers’ compensation expense, these programs can decrease your exposure under the Americans with Disabilities Act (ADA) and other similar federal and state laws.

It is well established that the earliest possible return-to-work substantially decreases both direct and indirect costs. Where it is possible, this should be an absolute priority in any strong program.

Selecting the Right Insurance Broker I Consultant

This article has stressed the importance of working with the right insurance broker to develop and manage a strong, successful workers’ compensation insurance program. Just what is the broker’s role and why is it so important?

An insurance broker should be your consultant, advisor and advocate. The broker represents you in the insurance marketplace, assembling and understanding the information and specifications that are used to market and ultimately place your insurance program. The broker negotiates policy terms, underwriting conditions, rates and premium pricing and is responsible for delivering, explaining and analyzing insurance company quotations and proposals. Without the advice,



advocacy and leverage of a qualified, professional insurance broker, you will not have access to significant segments of the insurance marketplace, your programs may lack important characteristics and benefits and you may pay more than is necessary.

But beyond the marketing and transactional aspects of insurance, the best brokers have become true insurance and risk management consultants and business partners. They understand their clients' businesses and are able to effectively advise them on multiple areas of risk (immediate and potential) as well as alternative strategies for managing these risks (not always insurance, by the way, which is really just one form of risk transfer).

In doing so, many brokers have invested significantly in building their own risk management resources and infrastructure. Here are some of the key capabilities you should look for when selecting an insurance broker to design and manage your workers' compensation program:

- **Broad Market Access** - does your broker have strong relationships with the major national underwriters of workers' compensation coverage as well as any regional specialty carriers in your market? Bigger is not always better, but a certain amount of market reach and leverage is important.
- **Experience and Expertise** - does your broker really understand the market? Do they consider themselves to be "experts" in workers' compensation insurance, and why? Ask for current client references and evaluate whether their programs contain the key cost control elements discussed above. Are they close to the underwriting community and do they know how to best present and position the clients they represent? Keeping the key cost control elements in mind, ask how they would "sell" your company to an underwriter and why they would recommend this strategy.
- **Resources and Infrastructure** - as discussed throughout, brokers who have developed workers' compensation as an area of specialty and strength have built their own teams of Risk Control and Claims Management professionals to support and serve their clients. Ask for a list of these people and for an opportunity to meet with them personally to assess their qualification. In the right situation, you shouldn't even have to ask. Good brokers will usually approach you as a team and involve their claims and risk control people and resources early in the process.
- **Needs Assessment and Communication** - how much time does a broker spend evaluating and understanding your current program (or lack of one). Do they ask questions related to the key cost control elements or do they simply ask for payroll and loss information and call it a day? What can they tell you about workers' compensation market trends, emerging areas of risk, new cost containment strategies, etc? Do they regularly communicate on these issues with their clients and, if so, how?

Workers' Compensation is ultimately your most controllable insurance expense. But assuming this control isn't easy. As in most things worth doing, it requires knowledge, discipline and attention to the fundamentals - and it requires effective partners and committed advocates.

If you really want to reduce your workers' compensation insurance costs to the lowest possible level there's no magic potion or silver bullet. Find the right broker and start the work. It's time to get back to the basics.

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