



# Strategies for Reducing Workers Compensation Expenses



# Workers Compensation is the Prime Employee Benefit

**100% Paid by Employer**



# Every Employer Must Provide

**100% Paid by Employer**



**Employee  
Benefits Require  
that you be  
Actively at Work**



## **Effect of A Workers Compensation Claim On Future Payments Union Journeyman**

- **Wage      \$33.75**
- **Welfare      9.94**
- **Pension      8.78**
- **Annuity      2.39**

**Journeyman Out for 2 Weeks**

**Lost Wages \$2,700**

**WC Benefit    \$1,260**



# Effect of A Workers Compensation Claim On Future Payments Union Journeyman

## Contributions Not Going Into:

- Welfare \$ 795.20
- Pension 702.40
- Annuity 191.20
- Apprenticeship 53.60



In Twenty Years  
 $\$702.40 @ 6\% = \$2,253$

The Pension Fund Will Not Have



# Workers Compensation Isn't Insurance

It is a Program Where  
the Employer Finances  
the Losses



It is the Only  
Benefit the  
Employer Can  
Control, but....



...less than 5% of Employers are Trying to Control their Workers Compensation Costs



It is More Than Asking  
Your Agent  
to Lower the #\* @!  
Premiums!



**It is Complicated and  
Requires Effort**



## Here are some of the Factors and Tasks:

- OSHA
- **Payroll Audits**
- HR Management
- Wellness Programs
- Employee Benefits
- Retrospective Rating Plans
- Assigned Risk
- Short & Long Term Disability
- State Mandated Programs
- FMLA-ADA-HIPAA
- Wrap-Ups
- Claim Reserve Analysis
- Payroll Services
- **Experience Modification**
- Evidence Based Treatments
- Use of Subcontractors

**This is just a partial list!**



**Experience Modification**

**Payroll Audits**



**Estimated 60%  
of All Experience  
Modifications  
Are Overstated**

# Purpose and Theory of Experience Rating

Designed to measure whether losses are better or worse than expected





If Worse....

PUNISHED!

( You have to pay more )



If Better...

REWARDED!

( You pay less )



# Important to Get Correct

- It May be the Competitive Edge



# Thinking a MOD of 1.0 is good is a common misunderstanding

- This is like saying a “C” is a good average



To lower a modification,  
you must first understand  
the MOD formula



The Experience Rating  
Process is a job of  
balancing...

“Fairness” & “Responsibility”



We have a complex formula that takes into consideration...

- Size of Company
- Possibility of Unexpected Accidents
- Differences Between Loss Frequency and Loss Severity

# What Drives Formula?

- Loss Frequency
- Loss Severity
- Allocation of Payroll



# Experience Modification Model

$$\begin{array}{ccccccc} \text{Actual} & & & & \text{Weighting Value} & & \text{(1- Weighting Value)} \\ \text{Primary} & & \text{Ballast} & & & & \\ \text{Losses} & + & \text{Value} & + & \text{X} & + & \text{X} \\ & & & & \text{Actual Excess} & & \text{Expected Excess Losses} \\ & & & & \text{Losses} & & \end{array}$$

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$$\begin{array}{ccccccc} \text{Expected} & & & & \text{Weighting Value} & & \text{(1- Weighting Value)} \\ \text{Primary} & & \text{Ballast} & & & & \\ \text{Losses} & + & \text{Value} & + & \text{X} & + & \text{X} \\ & & & & \text{Expected Excess} & & \text{Expected Excess Losses} \\ & & & & \text{Losses} & & \end{array}$$

# In Simpler Terms

Actual Losses

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Expected Losses



## In Simpler Terms...

**Experience Modifier = Total Incurred Losses (Open Reserves, Actual Paid) divided by Expected Losses**

$$2.00/1.0 = 2.00$$

$$1.0/1.0 = 1.00$$

$$.50/1.0 = .50$$

- **A mod of 1.0 is average**
- **A mod greater than 1.0 (debit mod) pay more**
- **A mod less than 1.0 (credit mod) pay less**

# Rating Bureau Prepares Experience Modification

- The most Prevalent NCCI
- Methodology used in 42 Jurisdictions





The Experience Modification Worksheet is sent to you 18 months after your policy is effective.

Why???



Since 1919 an insured has a right to challenge open reserved

- But must be done within the 6th month
- Later than 6th month the experience modification is established

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**Needs Help, Inc.**

**Workers Compensation  
Experience Rating and Modification Factor  
Analysis**

The McLaughlin Company  
1725 Desales Street, NW  
Suite 700  
Washington, DC 20036  
Phone: 2022935566, Fax: 2028578355

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## Payroll & Expected Loss Analysis

Needs Help, Inc.

State	Code	Total Payroll	Expected Loss Ratio	Discount Ratio	Expected Loss	Expected Excess Loss
AZ	8755	\$399,486	0.160	0.280	\$639	\$461
AZ	8755	\$112,015	0.160	0.280	\$179	\$129
CO	8755	\$848,060	0.160	0.250	\$1,357	\$1,018
CO	8755	\$126,466	0.160	0.250	\$202	\$151
CO	8810	\$72,152	0.140	0.320	\$101	\$68
CO	8810	\$15,924	0.140	0.320	\$22	\$15
CT	8755	\$106,846	0.190	0.220	\$203	\$158
CT	8755	\$27,275	0.190	0.220	\$52	\$41
DC	8755	\$2,945,484	0.290	0.200	\$8,542	\$6,834
DC	8755	\$13,619,489	0.290	0.200	\$39,496	\$31,596
DC	8810	\$33,377,509	0.080	0.240	\$26,701	\$20,294
DC	8810	\$7,402,781	0.080	0.240	\$5,922	\$4,501
DC	9015	\$856,451	1.330	0.210	\$11,391	\$8,999
DC	9015	\$222,925	1.330	0.210	\$2,965	\$2,342
FL	8755	\$183,350	0.280	0.190	\$513	\$416
FL	8755	\$965,063	0.280	0.190	\$2,702	\$2,188
FL	8810	\$97,560	0.160	0.230	\$156	\$119
FL	8810	\$19,338	0.160	0.230	\$31	\$24

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**Payroll & Expected Loss Analysis****Needs Help, Inc.**

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<b>State</b>	<b>Code</b>	<b>Total Payroll</b>	<b>Expected Loss Ratio</b>	<b>Discount Ratio</b>	<b>Expected Loss</b>	<b>Expected Excess Loss</b>
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DC	8755	\$13,619,489	0.290	0.200	\$39,496	\$31,596
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DC	8810	\$33,377,509	0.080	0.240	\$26,701	\$20,294
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**State Summary**

**Needs Help, Inc.**

State	Expected Loss	Expected Primary Loss	Expected Excess Loss	Actual Limited Loss	Actual Primary Loss	Actual Excess Loss	Ballast	Weight
AZ	\$818	\$228	\$590	\$0	\$0	\$0	23,625	0.28
CO	\$1,682	\$430	\$1,252	\$0	\$0	\$0	26,100	0.18
CT	\$255	\$56	\$199	\$0	\$0	\$0	27,500	0.21
DC	\$95,017	\$20,451	\$74,566	\$415,828	\$25,946	\$389,882	32,500	0.18
FL	\$3,402	\$655	\$2,747	\$0	\$0	\$0	28,050	0.21
GA	\$587	\$135	\$452	\$0	\$0	\$0	25,800	0.18
HI	\$2,349	\$315	\$2,034	\$0	\$0	\$0	32,750	0.18
IL	\$1,782	\$311	\$1,471	\$1,551	\$1,551	\$0	32,500	0.18
IN	\$1,651	\$532	\$1,119	\$0	\$0	\$0	21,675	0.31
IA	\$1,029	\$288	\$741	\$64	\$64	\$0	26,325	0.18
KY	\$3,126	\$878	\$2,248	\$0	\$0	\$0	24,000	0.28
LA	\$270	\$54	\$216	\$0	\$0	\$0	31,000	0.14
MD	\$3,419	\$791	\$2,628	\$0	\$0	\$0	29,425	0.21
MA	\$4,165	\$1,082	\$3,083	\$0	\$0	\$0	31,500	0.13
MN	\$1,333	\$350	\$983	\$10,449	\$5,000	\$5,449	24,050	0.26
MO	\$4,597	\$1,251	\$3,346	\$11,774	\$5,000	\$6,774	27,500	0.15
NE	\$476	\$119	\$357	\$0	\$0	\$0	24,500	0.26
NV	\$1,760	\$387	\$1,373	\$0	\$0	\$0	27,300	0.23
NH	\$12	\$2	\$10	\$0	\$0	\$0	25,800	0.23
NM	\$370	\$116	\$254	\$0	\$0	\$0	24,600	0.18
NY	\$17,727	\$3,067	\$14,660	\$9,808	\$6,821	\$2,987	35,775	0.12
NC	\$6	\$1	\$5	\$0	\$0	\$0	24,900	0.24
OK	\$696	\$132	\$564	\$0	\$0	\$0	28,750	0.20
OR	\$348	\$108	\$240	\$0	\$0	\$0	25,675	0.19
TN	\$68	\$14	\$54	\$0	\$0	\$0	27,000	0.23
TX	\$2,508	\$678	\$1,830	\$0	\$0	\$0	20,963	0.25
VT	\$687	\$131	\$556	\$0	\$0	\$0	27,000	0.23
VA	\$2,383	\$525	\$1,858	\$0	\$0	\$0	24,600	0.24



**Modification Calculation Summary**

Needs Help, Inc.

**The Experience Modification Formula**

$$\frac{\text{Actual Primary Losses} + \text{Ballast Value} + \frac{\text{Weighting Value}}{X} \times \text{Actual Excess Losses} + \frac{(1 - \text{Weighting Value})}{X} \times \text{Expected Excess Losses}}{\text{Expected Primary Losses} + \text{Ballast Value} + \frac{\text{Weighting Value}}{X} \times \text{Expected Excess Losses} + \frac{(1 - \text{Weighting Value})}{X} \times \text{Expected Excess Losses}}$$

**The Experience Modification Calculation**

$$\frac{\$45,277 + 31,381 + 0.18 \times \$405,092 + (1 - 0.18) \times \$120,753}{\$33,703 + 31,381 + 0.18 \times \$120,753 + (1 - 0.18) \times \$120,753} = 1.34$$

**Minimum Modification Factor (Mod with No Losses)**

$$\frac{\$0 + 31,381 + 0.18 \times 0 + (1 - 0.18) \times \$120,753}{\$33,703 + 31,381 + 0.18 \times \$120,753 + (1 - 0.18) \times \$120,753} = 0.70$$



Experience Mod 1.34  
Zero Loss Mod .70  
Controllable Mod .64



If Unmodified premium	\$200,000
Zero Loss Premium	\$140,000
Additional Income	\$ 60,000



# Original Premise



- **60% of Experience Modifications OVERSTATED**





Where Do You Start?



# Be Prepared to Challenge Your Experience Modification Worksheet



**You Only Have 30 Days  
To Challenge**



# It Begins With the Payroll Audit

1/1 Effective Date of Policy

2/1 Policy Audited

6/1 Experience Modification Worksheet Promulgated

30 Days to Challenge Inaccuracies

8/1 Unit Statistical Plan Filing Date

**(Not challenged – it is Final)**



## Prior to July

- Is the payroll allocated correctly?
- Are they the right classification?
- Are the losses and loss reserves correct?



# What is an Incurred Loss?



Open Reserves

+

Amount Paid



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Incurred Loss





Why should you be concerned about Class Codes?

## Effect of Misclassification

Glaziers		Painters	
Class	Rate	Class	Rate
5462	17.96	5037	50.72
4130	5.77	5474	9.25
Additional	12.19		41.47
\$100,000	12,190		41,470
\$200,000	24,380		82,940



Verify accuracy of reserves and review the circumstances that lead to injury.



Review claims investigation procedures , including subrogation and 2<sup>nd</sup> injury fund



Review attending physicians reports and independent medical reports



Review the potential for returning the claimant to either full or light duties, medical rehabilitation and vocational rehabilitation



If you utilize medical or vocational rehabilitation, review the appropriateness of this service



Request activity checks and surveillance by insurance company or 3<sup>rd</sup> party administrator if appropriate



## Determine whether the insurance company has requested:

- Appropriate hearings, including discontinuance
- Earning capacity
- Vocational rehabilitation
- Fraudulent claims
- Impartial physicians
- Non-compensable claims



Review the lump sum demand  
and advise on the  
appropriateness of a settlement



Review status and appropriate direction of the claims by familiarizing yourself with claim status reports



Your Insurance Company or  
Third Party Administrator  
Does This For You



## Guess What Else

- They Don't Know the Unit Statistical Plan Filing Date
- They Process Paper. They don't know how it affects YOU.



**Are You Prepared  
For your Audit?**



**Are You a Subcontractor  
On a Wrap-up Insurance  
Plan?**



**If the Answer is “YES”....**

**...I Can Guarantee Your  
Experience Modification  
Worksheet is Overstated**

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**Modification Calculation Summary**

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**Needs Help, Inc.**

EXPECTED LOSSES	Total Expected Losses	\$154,456
	Total Expected Primary Losses	\$33,703
	Total Expected Excess Losses	\$120,753
ACTUAL LOSSES	Total Unlimited Losses	\$546,371
	Total Limited/Adjusted Losses	\$450,369
	Total Actual Primary Losses	\$45,277
	Total Actual Excess Losses	\$405,092
COMPUTED FACTORS	Computed Ballast Value	31381
	Computed Weighting Value	0.18
	<b>Modification Factor</b>	<b>1.34</b>
	ARAP Factor (if applicable)	1.31

**Loss Analysis****Needs Help, Inc.**

<b>State</b>	<b>Date</b>	<b>U Code</b>	<b># of Losses</b>	<b>Actual Loss</b>	<b>Limited or Adjusted Loss</b>	<b>Primary Loss</b>	<b>Excess Loss</b>	
<b>Itemized/Large Losses</b>								
DC	10/2/2001	1	1	\$94,156	\$94,156	\$5,000	\$89,156	
DC	11/15/2001	5	1	\$99,621	\$99,621	\$5,000	\$94,621	
DC	10/29/2002	4	1	\$53,605	\$53,605	\$5,000	\$48,605	
DC	10/30/2002	4	1	\$255,181	\$162,500	\$5,000	\$157,500	
MN	1/9/2002	4	1	\$10,449	\$10,449	\$5,000	\$5,449	
MO	1/6/2002	4	1	\$11,774	\$11,774	\$5,000	\$6,774	
NY	2/4/2002	6	1	\$7,987	\$7,987	\$5,000	\$2,987	
<b>Minor/Small Losses</b>								
DC	1/1/2000	5	1	\$3,393	\$3,393	\$3,393	\$0	
DC	1/1/2000	6	1	\$1,704	\$511	\$511	\$0	*
DC	1/1/2001	6	2	\$2,955	\$887	\$887	\$0	*
DC	1/1/2002	4	1	\$1,155	\$1,155	\$1,155	\$0	
IA	1/1/2001	6	1	\$64	\$64	\$64	\$0	
IL	1/1/2001	4	1	\$1,551	\$1,551	\$1,551	\$0	
NY	1/1/2000	6	1	\$609	\$609	\$609	\$0	
NY	1/1/2001	6	1	\$1,212	\$1,212	\$1,212	\$0	
WI	1/1/2001	5	1	\$869	\$869	\$869	\$0	
WI	1/1/2002	6	1	\$86	\$26	\$26	\$0	*
<b>Grand totals</b>				<b>\$546,371</b>	<b>\$450,369</b>	<b>\$45,277</b>	<b>\$405,092</b>	

**Cause of Loss Analysis**

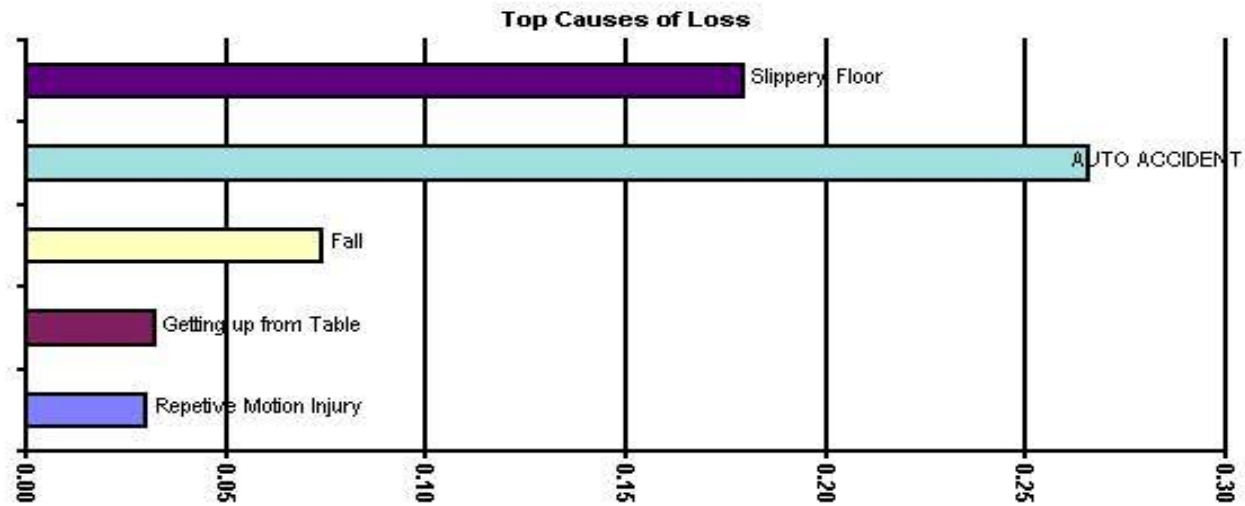
Needs Help, Inc.

Cause of Loss	State	Date	Loss Amount	Loss Identifier	Injury Type	Impact on mod factor
<b>AUTO ACCIDENT</b>						
	DC	10/2/2001	\$94,156	[unspecified]	Fatality <i>Injured Employee: Carlos Obena</i>	0.1133
	DC	11/15/2001	\$99,621	[unspecified]	Back <i>Injured Employee-Hope Floats, College Park, MD struck bump in rd</i>	0.1186
	MO	1/6/2002	\$11,774	[unspecified]	Multiple Body Parts <i>Injured Employee: Patti Jones, vehicle slid on ice, veh-rolled over</i>	0.0335
<b>Group totals</b>			<b>\$205,551</b>			<b>0.2654</b>
<b>Fall</b>						
	DC	10/29/2002	\$53,605	[unspecified]	Head,L/Shoulder,L/Hand <i>Injured Employee: John Brown, fell on sidewalk</i>	0.0740
<b>Group totals</b>			<b>\$53,605</b>			<b>0.0740</b>
<b>Getting up from Table</b>						
	MN	1/9/2002	\$10,449	[unspecified]	Left Knee <i>Injured Employee: Michael Mann, twisted knee while getting up from table</i>	0.0322
<b>Group totals</b>			<b>\$10,449</b>			<b>0.0322</b>
<b>Repetitive Motion Injury</b>						
	NY	2/4/2002	\$7,987	[unspecified]	Wrist <i>Injured Employee: Bunny Bee, due to repetitive motion, injury to wrists</i>	0.0298
<b>Group totals</b>			<b>\$7,987</b>			<b>0.0298</b>
<b>Slippery Floor</b>						

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**Cause of Loss Analysis**

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**Needs Help, Inc.**

<b>Cause of Loss</b>	<b>Total Loss Amount</b>	<b>Total impact on mod factor</b>
Slippery Floor	\$255,181	0.1795
AUTO ACCIDENT	\$205,551	0.2654
Fall	\$53,605	0.0740
Getting up from Table	\$10,449	0.0322
Repetitive Motion Injury	\$7,987	0.0298
<b>Grand totals</b>	<b>\$532,773</b>	<b>0.5809</b>

## Mod Snapshot

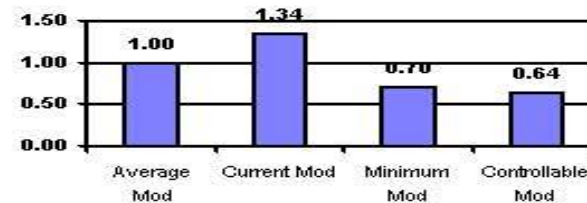
Needs Help, Inc.

Effective Date: 1/1/2003

### The Key Numbers

Total Expected Losses	\$154,456
Total Expected Primary Losses	\$33,703
Total Expected Excess Losses	\$120,753
Total Unlimited Losses	\$546,371
Total Limited/Adjusted Losses	\$450,369
Total Actual Primary Losses	\$45,277
Total Actual Excess Losses	\$405,092
Computed Ballast Value	31381
Computed Weighting Value	0.18
<b>Modification Factor</b>	<b>1.34</b>
ARAP Factor	1.31

### Mod Breakdown

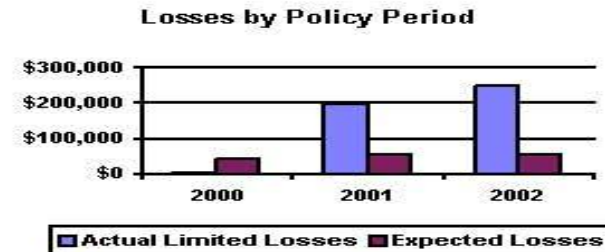


### Impact of Specific Losses

#### Top Large Losses:

State	Date	Actual Loss	Impact on Mod	Mod w/o Loss
DC	10/30/2002	\$255,181	0.1795	1.1582
DC	11/15/2001	\$99,621	0.1186	1.2191
DC	10/2/2001	\$94,156	0.1133	1.2244
DC	10/29/2002	\$53,605	0.0740	1.2637
MO	1/6/2002	\$11,774	0.0335	1.3042

### Actual vs. Expected Losses



### The Mod Formula

#### The experience mod formula:

Actual Primary Losses	+	Ballast Value	+	Weighting Value	X	Actual Excess Losses	+	( 1 - Weighting Value )	X	Expected Excess Losses
Expected Primary Losses	+	Ballast Value	+	Weighting Value	X	Expected Excess Losses	+	( 1 - Weighting Value )	X	Expected Excess Losses
= The Mod										

#### The experience mod calculation with your data:

\$45,277	+	31,381	+	0.18	X	\$405,092	+	( 1 - 0.18 )	X	\$120,753
\$33,703	+	31,381	+	0.18	X	\$120,753	+	( 1 - 0.18 )	X	\$120,753
= <b>1.34</b>										

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**Aggregate Loss Sensitivity Analysis****Needs Help, Inc.**

<b>Change in Aggregate Loss Amount</b>	<b>Estimated Mod</b>	<b>Estimated Premiums</b>
50% Loss Increase	1.66	
20% Loss Increase	1.46	
15% Loss Increase	1.43	
10% Loss Increase	1.40	
5% Loss Increase	1.37	
*** NO CHANGE ***	1.34	
5% Loss Decrease	1.31	
10% Loss Decrease	1.27	
15% Loss Decrease	1.24	
20% Loss Decrease	1.21	
50% Loss Decrease	1.02	

Estimated premiums can be shown on this report if you enter a Manual Premium on the Company Setup page. Your current Manual Premium is 0 or blank.



Working on existing claims is only half of the solution

- Safety and Loss Control is the other half



## What is Your Program for:

- Return to Work
- Wellness
- Evidence Based Medical Treatments
- Light Duty

# Experience Rating Adjustment

- ERA in 31 Jurisdictions
- Change in Formula in 1998
- Medical only Claims Reduced 70%





# The compensation site

THE COMPENSATION SITE  
WAS ESTABLISHED AS A COLLABORATION  
BETWEEN  
CREATIVE RISK MANAGEMENT, INC.  
&  
THE MCLAUGHLIN COMPANY

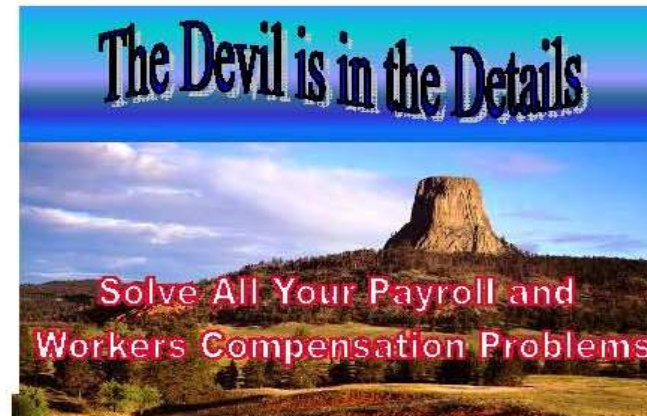
Our work with our clients demonstrates how complicated business arrangements have become.

Risk managers, insurance companies, governmental agencies, lending institutions, any number of enterprises and individuals have learned that somebody else is responsible. Solutions are not easily discerned and those who do not look at all options will find they are paying a disproportional amount.

We felt one place was needed to accumulate interrelated information and place links to information we found useful. We hope you find it helpful.

When we find something useful we send a blog to our clients. If you wish to receive a copy, we will be happy to add you to our list.

**We picked the Devil's Tower as our logo because it reminds us that in all contracts the devil is in the details.**



- Home
- What We Do
- Fees
- Wrap-Ups
- CCIP
- MSHA
- Admiralty
- Workers Compensation
- Claim Reserve Analysis
- Payroll Audits
- State Mandated
- HR Management
- Wellness Programs
- PEO
- Certificates
- Payroll Services
- Statement of Purpose
- How We Work
- Speakers Bureau
- OCIP
- OSHA
- USL&H
- Working Outside U.S.
- Experience Mods
- Evidence Based Medical
- FMLA/ADA/HIPAA
- Terrorism
- Employee Benefits
- Union Employees
- Use of Subcontractors
- Monitoring Certificates
- Review

# What to look for in 2010

- Investment Income continues to be weak
- Premium is shrinking
- California Improvements drove most of National Performance Combined Ratios:  
2006 - .93, 2007 - .99, (without Calif– 1.04)  
2001 – 1.22
- Medical cost continue to accelerate  
medical costs now 60% of all claim  
expenditures



# What to look for in 2010

- Combined ratio heading up - 2007 increase to .99 was first uptick in 5 years
- Insurance Company ratings & financial strength
- State Guarantee Funds
- Reinsurance Market



# Wellness Programs

- Will this reduce your costs?
- Are they worth the effort?
- Are those the right questions?





For a More Detailed Explanation  
of Experience Modification . . . .

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[www.mclaughlin-online.com](http://www.mclaughlin-online.com)

**WorkersCompensation\_DirtyLittleSecrets.pdf**

# Any Questions?



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