

Cut comp costs

Factors that influence workers' compensation expense **Interviewed by Elizabeth Grace Saunders**

Your past and your future can shape your present reality. As an employer, your choice to learn from previous claims and prevent future workers' compensation costs can save you money. Workers' compensation expense largely consists of the cost of claims and the expense of insurance premiums.

"Rates charged today are designed to fund the predicted future financial need of the business to cover its losses and the costs incurred by its insurance carrier to handle the claims," says Robert S. Sprague, regional underwriting manager with Westfield Insurance.

Underwriters base premiums on your claims history and on your probability of future claims.

Smart Business discussed with Sprague how to evaluate and reduce your company's workers' compensation expense.

How can businesses calculate their past workers' compensation expense?

The direct cost of past claims is a matter of record that is provided to all policyholders as part of the services covered by their premiums. However, in addition to the straightforward financial costs, other indirect expenses due to claims include losses in productivity, disruptions in customer relationships, declines in internal efficiency and decreases in peer group morale. The indirect expenses can add up to almost as much as the direct expenses involved with the claim. The bottom line is that claims adversely affect the bottom line.

How can companies project future workers' compensation expenses?

Predicting future expense of workers' compensation incidents at the finite employer level is very nebulous. It is difficult for a company to accurately project the costs that may arise because they are based on a multitude of variables. These different factors may cross legal, medical, statutory or legislative boundaries. And the severity and circumstances of the injury event can have a dramatic effect on the expenses associated with it.



Robert S. Sprague

Regional underwriting manager for workers' compensation
Westfield Insurance

What is the number one way a company can lower workers' compensation expense?

The best defense for escalating workers' compensation expense is sound risk management and safety administration at the employer level. Partnering with a great workers' compensation insurance provider can further contain cost.

The employee is the most important asset to the company. Preventing employee injury is the best way businesses can lower workers' compensation expense. Risk management plans that constantly evaluate how to avoid known safety dangers can decrease the number of claims and improve the response to accidents.

Having an effective system for promptly restoring an injured worker to gainful employment is another crucial element of lowering workers' compensation expense. The sooner an employee returns to the work force, the lower the cost of workers' compensation to the employer.

These proactive strategies are not only prudent for day-to-day operations but also mitigate longer-term financial distress to the employer. The loss of valued employees, temporarily or permanently, will always influence the bottom line.

How do insurance companies determine workers' compensation premiums?

Premiums paid by a policyholder are the most apparent routine cost of workers' compensation. Underwriters decide whether to grant workers' compensation insurance and how to set premiums based on the premium potential for a business, along with a variety of pricing techniques.

The mathematical calculation of premiums can be influenced by numerous factors both inside and outside of the insured business's control. For instance, the actual scope of a business's operations in certain states can change the amount of rates charged as a multiple of payrolls in a given state. Underwriters look at a variety of risk tables that help them determine the potential future cost involved in insuring a business.

How can businesses get lower premiums?

Depending on the size of the premium computed over a measured historical period, an employer might qualify for experience rating — an integral part of the final premium that employers pay to their insurance company for workers' comp protection.

Experience rating is designed to more intimately reflect the particular operational characteristic of an employer above or below the norms of his competitors in the same industry. It gives an employer who gets a valued, injured employee back on the job faster a financial incentive. The experience rating encourages businesses to engage in state-of-the-art safety practices, return-to-work programs, and promotion of operational safety and health initiatives.

ROBERT S. SPRAGUE, regional underwriting manager for workers' compensation, has more than 25 years in the property and casualty insurance industry with multi-line underwriting experience in the U.S. and Canada. Reach him at (800) 243-0210 ext. 8386 or bobsprague@westfieldgrp.com. In business for more than 159 years, Westfield Insurance provides commercial and personal insurance services to customers in 17 states. Represented by leading independent insurance agencies, the product we offer is peace of mind and our promise of protection is supported by a commitment to service excellence. For more information, visit www.westfieldinsurance.com.

Insights **Business Insurance** is brought to you by Westfield Insurance