

# Ten Simple Steps to Reduce Your Workers Compensation Costs

*For companies that need help controlling workers compensation costs, our firm is uniquely qualified to create change and positive forward movement.*

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## Introduction

Thank you for downloading this free white paper on reducing the cost of workers compensation insurance. To begin I want to give you some insight into the more than 35 years of experience I have with working with employers large and small, trying to help them reduce the cost of workers compensation insurance and the related indirect cost of worker injuries.

Workers comp is a highly predictable form of insurance, which means that once we understand a company's claims history and trends; systems and processes can be created to control outcomes. Controlled claim outcomes help control costs.

If your company has higher than average loss experience, you probably already know that this puts you at a competitive disadvantage against your peers. Don't worry; we know how to help you! This guide will provide you some simple steps, tips, ideas, and processes to help get you going in the right direction, but we want you to know that we're here to help you. Many of our services are free to our clients – that means you're going to purchase workers comp from someone, why not buy it from someone who can help you reduce your costs at no additional charge!

Even if you're not ready for a change, that's okay. Feel free to reach out to me for a no-obligation conversation, we'd love an opportunity to chat and see what we may be able to help you with or provide you resources to help solve your problem.

Now, if you don't have a loss problem, there are still things you can do to help reduce the cost of workers comp insurance so this guide is still a valuable resource for you!

Please let me know what you think and if you have any questions.



**Gordon B. Coyle, CPCU, ARM, AMIM**

The core message in controlling workers compensation costs and the related indirect costs all begin with corporate culture so we'll start there.

In many companies large and small today there is an unfortunate underlying tone that management does not give workers sufficient respect or care in the workplace. In order to successfully control worker injury risk costs, this perceived culture needs to change. Whether it is true or not true in your company is not the issue. The issue is whether or not the perception of care is present in your workplace. Many of our processes to control and reduce costs focus on this cultural issue so let's go!

## #1 – Initial Report of Loss

We all know that reporting workers comp claims to your insurer in a timely manner is important and guided by specific laws. In New York, the C-2 form, Initial Report of Loss must be submitted to your insurer within ten days from the date of employee injury. Studies have shown that the faster you get your C-2 to the insurer the greater the opportunity you have to reduce the total cost of the claim. This is important, but we believe that once an employee is injured your reporting process and ongoing communication plan must be positive and reassuring.

From the perspective of the injured worker there is fear; fear that they will incur mounting medical bills, lose their job, or income stream, or be black listed by their employer. These are common perceptions of employees because they may never have been injured on the job and don't know what to expect. With a solid communication strategy designed to remove those fears and replace them with good reassuring information the employee's mindset gets going in the right direction. By replacing fear with confidence there will be little reason for an injured worker to go to or speak to a workers compensation attorney, or look for reasons to abuse the system.

From your insurer's point of view early reporting gets them into the game faster and enhances their ability to actively manage the case, provide timely delivery of benefits, and begin investigations if necessary. This will all add up to reducing payouts and hopefully getting the injured worker back to work quickly.

## **#2 – Use an approved Medical Provider Network established by your insurer**

When you can direct an injured employee to your approved medical care provider (subject to certain state approvals) you eliminate the possibility of the worker going to a clinic that knows how to abuse the workers comp system. This is not to say that every injured worker is looking to abuse the system, but directing medical care through approved networks prevents potential abuse, and it coordinates care more closely with your insurer's standards. In addition, if you establish a solid relationship with a local and nearby medical clinic that is approved you will be able to communicate more easily regarding the employee's return to work options, and what is needed to get them healthy and back on the job. When the employer and the medical provider works with the injured worker with the objective of returning them to work safely and quickly, the claims process and the human healing process is accelerated, which reduces costs.

## **#3 – Establish a threshold for retaining first aid type claims**

Did you know that for small claims – those under \$5,000 – for every dollar your insurer spends on a claim, you will likely pay back to your insurer \$1.50 to \$2.50 in extra premiums over the next three years? Small frequent claims have a dramatic impact on your experience rating factor, so keeping those claims out of your experience rating information can have a significant benefit in your insurance costs.

What's important to compute is the threshold where it makes sense to retain those losses so you have an accurate picture of potential costs and savings. The only way to do that is to run an analysis of what each claim has actually cost your company in extra premiums over the past three years and our audit system can do that for you (we'll discuss that next). Typically we find that retaining first aid claims in the \$250 level is about right. It's important to know that you MUST still report the claims on your C-2 form but put "FOR INFORMATION PURPOSES ONLY" on the form. Doing so will preserve your rights to file a claim in the future to have your insurer pay for costs should a simple first aid claim escalate into something serious, and it complies with state law. The good news is that it doesn't work against you or your experience rating formula.

## #4 Audit Your Experience Modifier

Your experience rating modifier commonly called your “mod” - is a rating factor in your workers compensation premium development. It is a debit or a credit based on your particular claim experience compared to your peer group. If your claims over the past four years is higher than the norm you will earn a debit, if it's better than the norm you get a credit on your policy. The formula to calculate this number is fairly complex and is subject to rampant errors.

Some experts in the field believe that 60 percent or more of the employer mods are incorrect. How incorrect are they? Hard to tell, but we've seen errors occurring over multiple years that amount to hundreds of thousands of dollars on larger accounts.

If errors are found in the calculation of your modifier we are able to correct your current term's policy to obtain a refund and then set it straight for the future so you're not overcharged. But, we can also go back three prior policy terms if errors occurred and solicit the rating bureau to make corrections, than solicit your prior insurers to refund the money on those errors. As mentioned, we've seen large six figure refund checks for current and prior year corrections!

How do you conduct an audit?

There are several local and national consultants who only do experience mod auditing and don't sell insurance. Many of them work on a contingency basis, meaning that they only get paid only if they save you money. Contingency fees range from 40 percent of the savings all the way up to 70 percent. The advantage for you is that there's no out of pocket outlay to hire them, and if they're successful, it's like found money for you. Some consultants work on a fixed fee basis; this could mean a larger recovery for you, or it could mean an expense out of pocket if there's no errors found and no savings obtained. The good news is that the cost is fixed. In either case we'd be happy to organize an audit based on your preference.

## #5 - Manage your claims

Many employers believe that once they complete the C-2 form, and send it to their insurer they have completed the workers compensation claims process. Unfortunately this is not true, and leaving it up to your insurer could lead to claims dragging on and escalating in costs for several years.

Why does this matter?

Because the longer a claim remains open, the greater the probability it will increase in costs - both actual paid costs, for medical expenses and indemnity payments (wages) as well as reserve costs for both medical and indemnity. The inflated reserves will go into your experience rating modifier and could further inflate that factor, driving your premiums higher than they need to be.

Our advice is to review claims on a regular basis with your agent or broker. Depending on the size of your company and how many open losses you have will determine the frequency of the review process. Your ultimate objective is to get claims closed. Keep in mind that you can't close claims that are legitimately open and active and may have pending hearings, but in many of our claim audits we find claims that open with high reserves that can actually be closed with reserves removed, which reduces the future year's modifiers. Why does this happen? It happens because claim reps often have heavy case loads and can't keep track of all the claims they are responsible for. There is nothing malicious about it; it's just that some insurers have claim handlers that are way over worked. But that's no excuse for you to over pay for their heavy workload.

If you haven't conducted a claims review in the past - ask your broker to provide you a copy of your loss runs, loss history, or claim register for the past five years and take a look at it. It will likely be confusing, so ask your broker for help. In larger companies, conference calls with the broker and insurer's claim reps and the insured take place to review open files in real time. If we can be of assistance, please don't hesitate to contact us.

## #6 Risk Control - Preventing Workplace Injuries

By now it should be clear that workers compensation claims drive costs in a few ways.

- a. Claims drive up premiums through the experience rating modifier
- b. Claims drive up premiums because your company may not qualify for your insurer's most competitive pricing track - or any insurer's most competitive pricing track.
- c. Worker injury losses create unnecessary indirect costs that eat away at your company's profit margin in the form of lost productivity, retraining costs, low employee morale, management frustration, worry and anxiety, potential fines and penalties from regulatory authorities, damage to your brand or reputation, and more. OSHA and other industrial studies indicate that indirect loss costs are a factor of the direct insured costs, depending on the size of the claim. For example a worker injury claim that costs your insurer \$2,500 may have an indirect cost of \$10,000 or more to your firm. A loss paid by your insurer of \$100,000 may have an indirect cost which is anywhere between \$50,000 to \$200,000 to your firm.

So loss control is not really about just saving your insurer money, it's more about saving YOU money. Effectively controlling worker injury risk usually has a 10 to 1 return on investment, and in many cases the investments made in risk control are fairly inexpensive.

For more information on indirect loss costs and what they do to erode profitability and productivity in your business, please contact us for a discussion on the subject and an analysis of your particular circumstances. Just remember, risk control can only be effective if there is a commitment from management and the corporate culture is positive.

## **#7 - Consider Marketing Your Account**

There are a couple of ways you can get your account or workers compensation program "out to market" for a competitive review. The first is to engage your broker to conduct a market canvass and to ask to see the underwriting results of that effort.

The second is to invite competition into your account by having two or three brokers come in to compete for your business. A word of caution, if you do so it's important to "assign markets" to each particular broker and to qualify each broker you may want to work with. Too often unqualified brokers (meaning they do not have the depth of expertise or resources in a particular industry or policy type) are invited into a competitive bidding situation and the results are disastrous. Assigning markets means that when you select the two or three brokers (including your incumbent broker) to work with, you must tell them from the first meeting that they are not authorized to approach any underwriter without your consent, you then ask each of them for the top 5 to 8 insurers they wish to approach (in priority order) on your behalf. When you have that list from all competing brokers you need literally assign specific companies to specific brokers. This will hopefully prevent two brokers from approaching the same insurer, since any one insurer can only quote an account for one broker at a time. Lastly, make sure that each broker has the same specifications, payroll amounts, and loss information so they're proposals will be easier to evaluate.

In the marketing process, depending on the size of your account you will want to talk about policy options. Most brokers are familiar with guaranteed cost plans, but there are dividend plans, high deductible plans, and retrospectively rated plans, you may wish to consider.

Another option to bringing your account out to the market is to hire a consultant, who, for a fee, will do all the leg work of writing specifications, aggregating the underwriting information, assembling and qualifying brokers, assigning markets, and finally receiving and reviewing the responding proposals.

## **#8 - Hire qualified employees**

This may sound silly, but we have been involved in too many workers compensation claims where the injured worker just shouldn't have been hired by our client, and in most cases I think the business owner would agree with me on that. Whether the claims I'm talking about were the result of sheer stupidity, carelessness, or recklessness, I'm not sure, but poor hiring practices often leads to unintended consequences. Today it makes sense to scrutinize your hiring practices and to consider pre-employment drug testing, physical examinations, suitability testing, and background checks.

Human Resource experts will tell you that good hiring and qualification practices help improve results in all areas of business, and workers compensation is one of them. We work with several Human Capital experts which can help consult on improving hiring and HR issues.

## **#9 - New Hire Orientation**

Forty percent of worker injury claims occur with workers that have been on the job 12 months or less.

Startling? It should be, but the sad fact is that we just don't train workers in industrial settings like we used to. Thorough job training that is more than a mentoring program and has specific written safety training is essential to keeping new workers safe. Like all other comments about safety, the safer your employees work and think, the fewer losses you'll have and the lower your costs (both direct and indirect) for workers compensation will be.

Need specific training ideas for new hires and longer term safety training ideas? Let us know, we have a ton of resources with regard to safety training.

## **#10 - Install a Return to Work (RTW) Program**

Okay I can hear the comments already - "we don't have any light duty work in our company", "return to work is a waste of time", "RTW won't work here!"

I've heard them all. But the simple fact is that return to work programs are effective at getting employees off the couch and back to work, and more importantly off your workers comp loss register. We could write an entire book on how to effectively create and implement a RTW strategy, so we won't go into the whole process here. Suffice it to say that

if you've thought about it and didn't know where to start, we have abundant resources to help with this and believe that this is a great way to reduce costs and restore productivity.

## Conclusion

That's our top 10 for helping you reduce workers compensation costs. We know you won't implement all these ideas, but we hope you'll take away a few nuggets of information that may get you started in the right direction. Just remember that if you're spending \$100,000 or more for workers comp, every incremental step you take towards cost reduction will have a significant impact today, and down the road for years to come. If you need help, have a question, a thought, or want to run something by me, please don't hesitate to email me, or call me, I'd be happy to talk further about your issue and try and help you resolve it. We have an online risk management library which contains over 4,000 documents, focused on helping companies to reduce risk - if I can provide you specific information from that library, I'd be happy to do so!

## Contact Information

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