

The REAL Cost of a Workers' Compensation Claim

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Workers' Compensation insurance pays for occupational injury and illness - that's why you buy the insurance. Often times it is an employer's single most expensive line of coverage. What many people, however, fail to grasp is that there are significant indirect costs not covered by insurance. In addition, if your company is large enough to have an Experience Modification, every claim will affect your mod factor and directly impact your costs!

The direct costs of a workers' compensation claim are pretty straight forward. Generally speaking, it includes the medical costs and any indemnity (wage replacement) payments. It is this dollar amount that the insurance company will pay to resolve a claim and it is also this dollar amount that will factor in to your experience modification. Employers, however, also experience significant indirect costs. According to a study done by the Stanford University Department of Civil Engineering, these indirect costs often exceed the direct costs. For example, a fracture on average generates direct costs of \$50,000. The indirect costs, however, are estimated at \$55,000.

Indirect costs include, but are not limited to, the following:

- Any wages paid to the injured employee for absences not covered by Workers' Compensation
- Wage costs related to time lost through work stoppage associated with the worker's injury
- Overtime costs
- Time spent by administrators, supervisors, safety personnel and many others who have to handle the claim
- Cost of hiring and training a replacement worker

- Lost productivity related to work rescheduling, new employee learning curves and accommodating the injured employee
- Cost to clean up, repair and replace equipment and machinery damaged by the accident

There could be other indirect costs as well including OSHA fines, third party liability costs, legal fees, worker's pain and suffering costs and loss of good will.

You also have to take into consideration the impact a claim will have on your experience modification and your insurance cost. Let's assume for example that your base premium (before application of the mod and other credits) is \$160,000, and you have not had any claims. You will have what is known as a claim free experience modification. The claim free rating is a company's best possible experience modification for the year the rating is effective. The actual claim free rating is dependent upon the size of the business and variables such as Expected Loss Rates, as determined by the Workers' Compensation Insurance Rating Bureau. In our example, the claim free experience mod is 66%, which means your premium for your workers' compensation policy will be \$105,600.

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However, this single claim, where the fracture with direct costs is \$50,000, will drive your mod up 15 points. When this claim hits your mod*, your premium will go up by \$24,000 to \$129,600. This claim will stay in your experience modification formula for 3 years. In other words, this \$50,000 claim will ultimately end up costing you \$72,000 in additional insurance premiums. In addition to this, you have another \$55,000 in indirect costs making the total cost of this claim \$127,000! If your company has a 10% profit margin, you will need to generate an additional \$1,270,000 to cover these costs.

The indirect costs you pay and the additional premiums caused by an increase in your experience modification underscore why it is so important to be proactive in your safety efforts and to develop effective claims management strategies to deal with inevitable claims. Accompanying this article is a list that outlines the 10 things you can do to effectively manage your workers' compensation exposure.

Workers' compensation is more like a finance tool than an insurance policy. Ultimately, through the experience modification, you will pay for your actual claims. The only way to lower the cost of workers' compensation in the long run is to lower the frequency and severity of the claims that are driving those costs.

**Experience modifications are based on your last four years of experience, excluding the current year. For example, if you renew on January 1, 2014, the experience from January 1, 2010, thru December 31, 2012, will be used in the calculation.*

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Risk Management Seminar Series



GHS and OSHA - Are You Ready for December 1st?

Friday, September 13, 2013

7:30 AM Registration, 8:00 AM - 10:00 AM Program

Contractors Professional Liability and Pollution

Wednesday, October 23, 2013

7:30 AM Registration, 8:00 AM - 10:00 AM Program

Employment Practices Liability Insurance - How to Make EPLI Work for Your Business

Friday, October 25, 2013

7:30 AM Registration, 8:00 AM - 10:00 AM Program

Employee Handbooks - Start Now for a January 2014 Launch!

Friday, November 8, 2013

7:30 AM Registration, 8:00 AM - 10:00 AM Program

Reserve Early, Seating is Limited!

To register, contact Bethany Mongold at mongold@cavignac.com or call 619-744-0540.

NOTE:

Due to the popularity of our seminars and limited space available, we regret we cannot provide refunds or credits with less than 72 hours advance notice of cancellation.

For a more in-depth explanation of Experience Modification, [click here](#).

The Top 10 Things You Need to do to Manage Your Workers' Compensation Exposure:

1. **Develop a compliant and effective Injury and Illness Prevention Program.**
2. **Make certain your supervisors have received the appropriate safety training and that safety is part of their annual review.**
3. **Hold regular safety meetings and make sure they are effective.**
4. **Develop a relationship with the right occupational medical clinic that participates in your insurance company's Medical Provider Network (MPN) and make sure your entire staff knows where to go in the event of a non-emergency accident.**
5. **Make sure you pay for any claims that qualify as "First Aid."**
6. **Develop a post-accident response protocol and make sure the appropriate people know what to do in response to an employee injury.**
7. **Implement a transitional duty Return to Work Program.**
8. **Actively manage any open claims to make certain the treatment is proceeding as it should and the reserves are fair and not excessive.**
9. **Understand and manage your Experience Modification.**
10. **Choose the right broker.**

Our Risk Management Process

Our group of risk management and insurance professionals is committed to working with our clients to effectively manage risk, negotiate insurance and provide a level of service unmatched by our competitors.

Our objective is to lower our clients' Total Cost of Risk and drive dollars to their bottom line. We accomplish this by using our unique Risk Management Process.



1. Risk Analysis: Risk Analysis involves a systematic review of exposures to loss and to your existing insurance program. This process is based on our Exposure Analysis Checklist and the related materials required to help identify exposures to loss.

2. Risk Control: We identify the most effective techniques through a series of questionnaires, risk control inspections, and a review of risk control strategies. Once risk is identified, we collectively agree on the Risk Control techniques best suited to help reduce the frequency and severity of these risks.

3. Risk Transfer: After risk is identified and Risk Control strategies are agreed upon, it is time to evaluate both non-insurance risk transfer (usually contractual) and insurance risk transfer. This involves preparation of the submission as well as deciding on a marketing strategy.

4. Risk Review & Refinement: The Risk Management Process is a work in progress. It is constantly evolving based on the changing needs of each business. We continue to refine our strategies and stay on top of changes in your company so that we can proactively manage your Total Cost of Risk.

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live well, work well

Is a Flu Shot Right For You?

Influenza is a serious disease that can lead to hospitalization and sometimes even death. Every year, as many as 49,000 people in the United States die from influenza or related complications, according to the CDC, with the vast majority of victims being 65 years and older.

The CDC recommends the flu shot as the best way protect yourself from contracting influenza. A person who receives the flu vaccine is 60% less likely to need treatment by a health-care provider. Getting the vaccine has been shown to offer substantial other benefits including reducing illness, antibiotic use, time lost from work, hospitalizations and deaths.

People should get the flu shot as soon as it becomes available in their community in late September or early October. Receiving the vaccine during this timeframe will protect you for the duration of the flu season and spare you from long waits and possible shortages as flu season unfolds.

There are two types of vaccines: The nasal-spray flu vaccine is made with weakened flu viruses administered through the nostrils. It is

approved for use in healthy people ages 2 through 49 years who are not pregnant.



The flu shot is an inactivated vaccine that is given with a needle, usually in the arm. The flu shot is approved for use in people older than 6 months, including healthy people and people with chronic medical conditions.

There are three different flu shots available:

- A regular flu shot approved for people ages 6 months and older
- A high-dose flu shot approved for people 65 and older, and
- An intradermal flu shot approved for people 18 to 64 years of age.

People who have a history of severe reaction to flu shots, severe allergies to chicken eggs or are currently suffering from a moderate-to-severe illness should consult their doctor before getting the vaccine.

Do You Know Your Cholesterol Level?

Cholesterol is a waxy, fat-like substance found in your body and in many foods. Your body needs cholesterol to function normally and you usually receive all you need from the food you eat. However, too much cholesterol is bad; it builds up in arteries, reducing blood flow and increasing the risk for heart disease and stroke.

High cholesterol can affect people from early childhood through old age, while usually not showing any symptoms. Because of this, it's recommended adults have their cholesterol levels checked once every five years, while children as young as two should be checked for high cholesterol if they have elevated risk factors like being overweight or a family history of high cholesterol.

A simple blood test called a lipoprotein profile can measure your total cholesterol levels, including LDL (low-density lipoprotein, or "bad" cholesterol), HDL (high-density lipoprotein, or "good" cholesterol), and triglycerides.



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Fall Vegetable Casserole

This flavorful dish uses freshly harvested seasonal vegetables and can be prepared in less than 20 minutes.

- 1 medium eggplant
- 4 tomatoes
- 1 green pepper
- 1 onion
- 1 tsp. salt
- ¼ tsp. pepper
- 3 tbsp. vegetable oil
- 1 garlic clove
- 2 tbsp. Parmesan cheese (grated)

Remove the skin from the eggplant, and then cut the eggplant into cubes. Dice the tomatoes, green pepper, onion and garlic. Cook all the ingredients except for the cheese in a large skillet over medium-high heat for approximately 10 to 12 minutes or until tender. Sprinkle the cheese over the cooked vegetables and serve.

Yield: 8 servings.

Each serving provides 90 calories, 6 grams of fat, 0 milligrams of cholesterol, 320 milligrams of sodium, and 3 grams of fiber.

Fall Fitness

Just because summer is over doesn't mean fitness is over. Here are some great activities for when the air turns crisp and the days grow short.

Go for a walk. There seems to be no end to the benefits of walking. Several studies over the past few years have found that walking can help you lose weight, relieve back pain and mental fatigue, boost your creativity, improve digestion and even out blood sugar levels.

Start a physical activity class. Take advantage of gym and studio calendars to start a new fitness program or learn a new active skill.

Rake leaves. Even yard work counts as exercise. It is a great activity for targeting upper body strength while incorporating some cardio and can burn over 200 calories an hour.



Back-to-School Savings

It is estimated that the average family will spend more than \$630 dollars on school related items in 2013.

Take Inventory. Before you shop for new clothes, take time to sort through your children's wardrobes and find what can be reused. Make a list that includes all the articles of clothing they have and what they will need.

Set a Budget. Check your credit card receipts from last year for a baseline on spending, then challenge yourself to spend less.

Prioritize. Order items by importance before shopping. Buy essential school supplies first, and then apply your remaining budgeted funds to more flexible items like clothing, lunchboxes and backpacks.

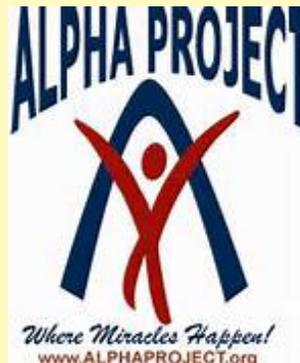
Buy in bulk. Your child will use lots of pens, pencils, paper, notebooks, printer paper, markers and paints. Buying in bulk reduces your cost per item, and the extras can be used to replenish throughout the year.

Swap. Host a party with other parents to trade out-grown clothing and extra supplies for "new" items. Websites like SwapMamas.com are available for parents who aren't able to meet up with other people in person.

SPOTLIGHT ON



Cavnac & Associates is proud to support local and non-profit civic organizations, including Alpha Project



Mission

The mission of the Alpha Project is to empower individuals, families, and communities by providing work, recovery and support services to people who are motivated to change their lives and achieve self-sufficiency. The agency's many programs are available to all persons in need regardless of race, creed, color, ethnicity, national origin, religion, gender, or sexual orientation.

Alpha Project strives not to manage homelessness, but rather to end it for its clients by offering jobs not handouts, respect not pity and empowerment not control. We provide the homeless with the tools they need to be the very best they can be.

Each program offered by the Alpha Project focuses on assisting participants to attain their own optimal level of independence. For most of our program participants, successful completion of our programs

will mean complete and permanent independence through education, employment, sobriety, and stability. For those clients with special needs, our programs maximize their own potential and supports as much independence as possible. All of our clients regardless of their history are encouraged, supported, and assisted in reaching their maximum potential with dignity and respect.

History of the Alpha Project

Founded in 1986 as a simple project offering work opportunities for homeless men, today Alpha Project operates numerous programs serving over 4,000 people daily. The agency has created over 600 units of affordable rental housing projects and has sponsored home ownership programs. Recognized nationally by President George Bush as the country's 185th Point of Light, Alpha Project empowers its clients to take personal responsibility for solving problems.

For more information about Alpha Project, visit: www.alphaproject.org