

## Workers' Compensation: What Can You Expect in 2015?

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Workers' compensation can be the most expensive line of insurance purchased by a contractor. This cost can vary dramatically depending on the individual contractor's loss history and experience modification, the specific class codes assigned to the contractor, and the health of the workers' compensation market.

The volatility of the market can dramatically affect profitability. Often contractors are bidding on jobs which may not start for some time or may take several years to complete. If workers' compensation costs escalate greatly, it could materially affect the profitability of the project. To the extent you can forecast your workers' compensation costs, you will be in a better position to price for any changes.

The best way to manage your workers' compensation costs in the long run is to have an effective safety program and strong safety culture that reduces the frequency and severity of your claims.

You also need to understand your Experience Modification Report (EMR). You should have your EMR projected prior to the time it is actually published. The Workers' Compensation Insurance Rating Bureau (the Bureau) is the organization responsible for calculating experience modifications. The Bureau usually publishes EMRs 30-90 days prior to

renewal. However, you can estimate your mod prior to that. The most accurate projections are done after the insurance companies have filed their Unit Statistical Reports with the Bureau. This is generally in the seventh month after policy expiration. If, however, there has been adverse loss history or you have other concerns, you can project the mod much earlier. It is not uncommon for us to project mods for our clients immediately after expiration, and in some cases, given certain assumptions, two years out. Needless to say, the further out you want to go, the less accurate your projection will be.



## How Does 2015 Look and What Can Contractors Expect Rate-Wise in California?

### Some Background on the California Workers' Compensation Market

California is an "open-rating" state. Every insurance company writing insurance in the state of California is

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free to choose their own rates. Although the rates for admitted insurance companies need to be filed and approved by the Department of Insurance, there is a fairly large degree of latitude and diversity in rates for the same class code between various insurers.

The Bureau does publish loss costs and this is based on the data they gather from insurance companies writing business in California. These loss costs are relied on by most insurers to set their own rates. The Bureau's loss costs are also a great barometer to foretell where rates are going.

## **Some History on Rates Charged in California**

While rates are clearly affected by the loss history experienced by individual insurance companies, they are also affected by the insurance market in general. The two major factors affecting the market are Surplus and Return on Equity (ROE). Insurance is a supply-driven business and when insurance companies have excess supply (surplus), the industry becomes competitive and prices trend down. Of course, the reverse also happens. If surplus goes down, rates tend to go up. The industry also needs to attract capital, and in order to do that they need to generate a decent return for their shareholders (10% or more). More on this later.

When returns are low, underwriters try to get more rate. The workers' compensation loss experience in the latter half of the last century has been horrible and by 2003, workers' compensation rates had reached an all-time high. These higher rates and some reforms in the comp system turned the industry profitable. Companies were making money, surplus was up and rates plummeted 67% by 2009! Unfortunately, the industry tends to be reactive and in this

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case they reacted way too late. Loss ratios began to skyrocket and the industry took a beating. Beginning in 2010, rates started trending up and have increased about 40% since then. To put things in perspective, that increase, when factored on top of the previously mentioned decrease, still leaves the average rate for an employer in California 53% less than it was in 2003.

## Where Are We Today and What Can You Expect?

While loss ratios have improved, they have not improved nearly enough to allow insurance companies to make an underwriting profit. An underwriting profit is generated when the *combined ratio* is less than



100%. The combined ratio is calculated by adding losses and expenses and dividing by premiums. As such, most insurance companies are still looking for rate increases on workers' compensation although not as much as the previous four to five years.

Although the Bureau's advisory pure premium rates have not yet been published, the Workers' Comp Executive newsletter is estimating the Bureau will be seeking on average a 4-5% rate increase in 2015. As mentioned previously, this is an average increase. If I was projecting workers' compensation costs in 2015,

I would conservatively estimate a 5-10% increase in net rates exclusive of your experience modification.

Some class codes may go up and others may go down. Unfortunately, those general and trade contractors that have qualified for the Executive Supervisor classification (Code 5606) may be in for a significant rate increase.

Based on preliminary filings, Code 5606 could go up 25%. It would actually increase more based purely on loss data, however, the Bureau can only increase a given class 25% in any one year. It also appears that the low wage Roofing classification (5552) may be in for a 25% increase as well. Recognize that the Bureau's current estimates are preliminary and could change before the actual rate filing is made. The Bureau will review its 2015 rate filing later in the year and will publish their pure premium rates after that.

The dramatic swing in rates for these two class codes underscores the importance of approaching your underwriters in advance. Often an underwriter knows their filed rates well in advance of your renewal and will share those rates with you if you ask.

## Bottom Line

Workers' compensation is a big expense for contractors. It is critical to manage this exposure. Those contractors with a good claims history and low experience modifications have a huge advantage over those with a poor claims history and a high mod. It is also important to understand your experience modification, which direction it may be going and which direction the insurance marketplace is trending. To the extent you can predict your future costs you will be in a much stronger position. Let's face it, surprises can be a good thing when it comes to your birthday or the lottery, but not when it comes to an increase in your workers' compensation costs! ■



## Keep Your Cool in Hot Weather

July and August are typically the hottest time of the year in most areas of the United States, and these months are often packed with long days at fairs and festivals, family vacations and numerous trips to the pool or lake. While you're out having fun in the sun, watch for signs of heat illness.

According to the National Weather Service, heat is one of the leading weather-related causes of death in the United States, with men more susceptible than women to heat illness because they sweat more. The elderly and children are also at higher risk if they are not careful in the sun.

Sweating is one of the body's key reactions to heat, but if you lose fluid from sweat that isn't replaced by drinking enough water, your body temperature can spike dangerously. When the temperature and humidity both

rise, your body's ability to cool itself is also affected because sweat can't evaporate fast enough to cool your body.

Heat illness occurs along a spectrum, ranging from heat cramps and fainting to heat exhaustion and heat stroke, which is a life-threatening condition. Symptoms of heat exhaustion may include headache, dizziness, cramping, excessive sweating, pale and clammy skin, and rapid but weak pulse. If someone is suffering heat exhaustion, get him or her out of direct sunlight so he or she can cool down and rehydrate.

Heat stroke occurs when the body becomes so hot it loses its ability to cool itself. Heat stroke is typified by headache, dizziness, confusion, hot and dry skin, throbbing pulse, shallow but rapid breathing, and sometimes unconsciousness. If someone is suffering heat

stroke, get medical assistance immediately.

Because summertime includes many fun activities out of doors, you don't want to miss out. Follow these guidelines to stay cool and safe in the sun:

- Drink water every 15 minutes, even if you don't feel thirsty, and limit intake of alcoholic and caffeinated beverages.
- Wear a hat and lightweight clothing, preferably cotton.
- Wear sunscreen to protect yourself from sunburn, which interferes with the body's cooling mechanism.
- Find shade or an air-conditioned building where you can take a break from the heat, especially during midday.
- Never leave a child unattended in a vehicle, even with the windows open.
- Let your body acclimate to the heat before attempting vigorous exercise.

**All vaccines are approved by the Food and Drug Administration (FDA) for safety and effectiveness.**

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## National Immunization Month

Immunizations can protect you and your family against serious illnesses, including the flu, measles and tuberculosis. August is National Immunization Awareness Month, and this is the time to remind your loved ones about the importance of getting the recommended vaccines to keep everyone healthy. Visit the Centers for Disease Control and Prevention (CDC) website to get the [immunization schedules](#) for children and adults for 2014.

Although getting vaccinated is a vital part of preventing illness, children typically see the experience as a stranger in a white jacket poking them with a needle. Here are some tips to help make the trip to the doctor a little less painful:

- Bring a favorite toy or book for younger children.
- Hold an infant or small child in your lap, if possible, and bring along a favorite blanket to make him or her feel safe.
- Sing or talk to your child to soothe him or her while the vaccine is administered.

# The Risks of Sitting

Some doctors are saying that sitting is the new smoking. According to the Mayo Clinic, sitting, like smoking, is a pervasive problem that harms your health. Approximately 80 percent of Americans work a non-active job, making all-day sitting a common condition.

Lengthy, non-interrupted sitting causes poor circulation and low calorie burn and is linked to various health problems, including obesity, hypertension, diabetes and cardiovascular disease, as well as stiffness, headaches and sluggishness.

Your job may require you to spend a considerable amount of time at a desk, or maybe you're fond of all-day movie marathons. Try these tips to sit less, move more and improve your health:

- Stand while talking on the phone or watching television.
- Try a walking or standing meeting at work.
- Stand up and stretch at least every hour.
- Wear a pedometer and find ways to add steps into your daily routine.
- Take the stairs when possible.
- Consider walking or biking when commuting to work or running errands.

# Retirement Savings 101



Saving for retirement is essential, and there are different types of retirement accounts you can use. A 401(k) is an employer-sponsored plan and is a popular way to stash money for retirement. Another common option is an individual retirement account (IRA), which you can open through a financial institution such as a bank. To start saving, set up an automatic monthly deposit into your retirement account. If you want to live comfortably in your golden years, don't make these common retirement-savings mistakes:

1. Not saving right now—a little now is worth much more in the future due to compounding interest. Don't wait to start saving.
2. Not knowing how much you need to retire. Hint: It could be as much as \$2 million.
3. Withdrawing early—you'll be hit with penalties, fees and taxes.
4. Ignoring high fees—know how much you're paying for account fees, and negotiate or switch accounts if necessary.
5. Not taking advantage of an employer match—if your employer offers to match a portion of your 401(k) contributions, save enough to get that match.



# Melon Salsa

Stay cool with this mouth-watering mixture of summer produce, and serve it up with grilled fish or chicken for a fun twist on the backyard cookout.

- 2 cups fresh melon, honeydew, cantaloupe or watermelon, seeded and chopped; use one kind or a combination
- 1 cup cucumber, peeled, seeded and chopped
- 1/4 cup red or white onion, chopped
- 2 tbsp. fresh cilantro, chopped
- 1 jalapeño, seeded and finely chopped
- 1/4 cup lime or lemon juice
- 1 tbsp. sugar

In a medium-size bowl, stir together all ingredients. Taste and season with more lime juice and sugar, if needed. Cover and chill for at least 30 minutes. Serve.

Yield: 12 servings. Each serving provides 15 calories, 0g of fat, 0g of saturated fat, 0mg of cholesterol, 0mg of sodium and 0g of fiber.

Source: USDA

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# SPOTLIGHT ON



Cavnac & Associates is proud to support local and non-profit civic organizations, including Big Brothers Big Sisters.



For more than 100 years nationally and 50 locally, Big Brothers Big Sisters has operated under the belief that inherent in every child is the ability to succeed and thrive in life. As the nation's largest donor and volunteer supported mentoring network, Big Brothers Big Sisters makes meaningful, monitored matches between adult volunteers ("Bigs") and children ("Littles"), ages 7 through 18.

They develop positive relationships that have a direct and lasting effect on the lives of young people.

Their Mission is to provide children facing adversity with strong and enduring, professionally supported one-to-one relationships that change their lives for the better.

Their Vision is for all children to achieve success in life.

By partnering with parents/guardians, volunteers and others in the community they are accountable for each child in their program achieving higher aspirations, greater confidence, and better relationships; avoidance of risky behaviors; and educational success.

*For more information about Big Brothers Big Sisters, visit [www.sdbigs.org](http://www.sdbigs.org)*