

## **The Proactive Ice Arena Manager's Guide to Workers' Compensation**

EDGE – Jan/Feb 2004

by Charles H. Cox

The development of workers' compensation premiums, on the surface, is really quite straightforward. They are determined by applying state or insurer-established rates against employee payroll (assigned to industry classifications that are determined by workers' compensation rating boards based on the type of work being performed by the employees). The sum of the premiums for all applicable classifications is modified by an experience rating modification factor promulgated by each state's workers' compensation rating board and/or the NCCI (National Council on Compensation Insurance).

### **Factors for determining premiums**

Experience rating modification factors are calculated using the oldest three of the last four years of audited payroll and claims experience. The experience rating process is intended to develop a modification that reflects experience that is (1) better than average for risks with similar operations, resulting in a modification less than 1.00 and therefore a credit, (2) average for risks with similar operations, resulting in a modification of 1.00, also known as a unity modification, or (3) worse than average for risks with similar operations, resulting in a modification greater than 1.00 and therefore a debit or surcharge. Certain levels of payroll for certain classifications of risk are expected to generate certain levels of claim activity. If your loss experience is better than average, you can expect a credit modification. If your experience is worse than average, you can expect a debit modification.

Although this system for developing premiums may seem inflexible, policyholders can still take steps to minimize their workers' compensation costs.

### **Understand your classification**

Rating classifications (and their corresponding rates) are selected based on an insurer's or state rating board's judgment of the work being performed by employees or the nature of your operations. Occasionally, the wrong classification is used. Policyholders need to be vigilant about the classifications that are being used and the (potentially more suitable) alternates that are available for their business operations. If the classification's description appears inaccurate, look into alternate classifications that might carry lower rates. Challenging a rating classification can trigger an inspection of your operations by the insurer or rating board, so care must be exercised to avoid the application of a higher-rated classification. Ask your insurance professional to verify the propriety of the classifications that are being used on your policy.

Although less likely, the wrong rates are sometimes applied. Policyholders need to be certain that the correct rates for the appropriate classifications are used on their policy. If your policy term has been changed within the last four years, more than one set of workers' compensation rates could apply during the course of a policy's term. Verify with your insurance professional that the proper rates have been used on your policy.

## **Review for accuracy**

If your policy premium is subject to experience rating (eligibility is dependent on premium size and differs from state to state), reviewing the accuracy of the experience rating calculation is vital. Be sure to ask your agent or broker to supply you with the Experience Rating Worksheet that reflects the entire calculation of the experience modification. Usually, you should see the audited payrolls for the oldest three of the last four policy years and these audited payrolls should tie back to the audits of those same policy years. An understatement or omission of payrolls applied to your loss experience will cause your experience rating factor to be higher than necessary, thereby increasing your cost.

Losses (for the oldest three of the last four years) that will enter your experience rating calculation are generally valued by insurance companies between three and six months before the rating date. It is important that you review your claims experience (loss runs) from your workers' compensation insurer on a regular basis. It is particularly important that you review the losses just prior to the time they are filed with the rating board for experience rating purposes. Make it clear to your insurance professional that you expect him or her to provide you with loss data and to assist you in verifying that the loss data to be used for experience rating purposes is accurate. If you see claim reserves that appear high, question them.

## **Practice loss control**

When reviewing your loss experience, be aware of the type and frequency of losses so that, where possible, loss control techniques can be implemented to minimize losses. Although implementation of such techniques may not result in an immediate reduction in premium, their long-term effects must not be overlooked.

Some workers' compensation policies are subject to dividend plans or other rating plans that have a further impact on the final costs. Here again, be certain that your insurance professional advises you of the impact these plans may have on your costs and be certain to understand how these plans work so that you can actively participate in the review of the calculations.

Proactive policyholders are in the best position to control their workers' compensation costs.

Charles H. Cox is president of Aldrich & Cox, an independent risk management and employee benefit consulting company in Buffalo, N.Y.