



Risk & Insurance | Employee Benefits | Retirement & Private Wealth

Workers Compensation 201: Managing Costs, Experience Modifiers and Self-Insurance Decisions



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Agenda

- 1** How WC Premiums Are Calculated

- 2** Experience Mod & Insurer Profitability

- 3** Reducing Claim Costs & Achieving ROI

- 4** When Self-Insurance Makes Sense

- 5** Roundtable: Client Scenarios & Decision Points

How WC Premiums are Calculated

WC Rate x Exposure Base (Payroll by State & NCCI Class Code)

Hypothetical Example: Templeton Rye Spirits is in Templeton, IA. Following are Templeton's Payroll Projections for its upcoming 06/01/24 – 25 WC Renewal:

Class	Description	Rate / \$100 Payroll	Annual Payroll
7380	Drivers	\$7.07	\$1,149,812
8810	Clerical Office Employees	\$0.30	\$15,118,750
8742	Outside Sales	\$0.59	\$1,245,400
2130	Distilling and Blending Liquors	\$3.72	\$40,537,012
8292	Storage Warehouse	\$6.60	\$5,462,104

- Using the above information, Templeton Rye's WC Premium for its upcoming 06/01/24 Workers' Compensation Renewal = **\$2,002,471***
- *\$81,291.70+ \$45,356.25+ \$7,347.86+ \$1,507,976.85+ \$360,498.86 = \$2,002,471.52

Workers' Compensation Insurers Make Money

2022 WC COMBINED RATIO = 84%

Operating Expenses = 27%

Claims Handling = 13%

WC Losses Paid = 43%

Dividends = 1%

Underwriting Profitability = 16%

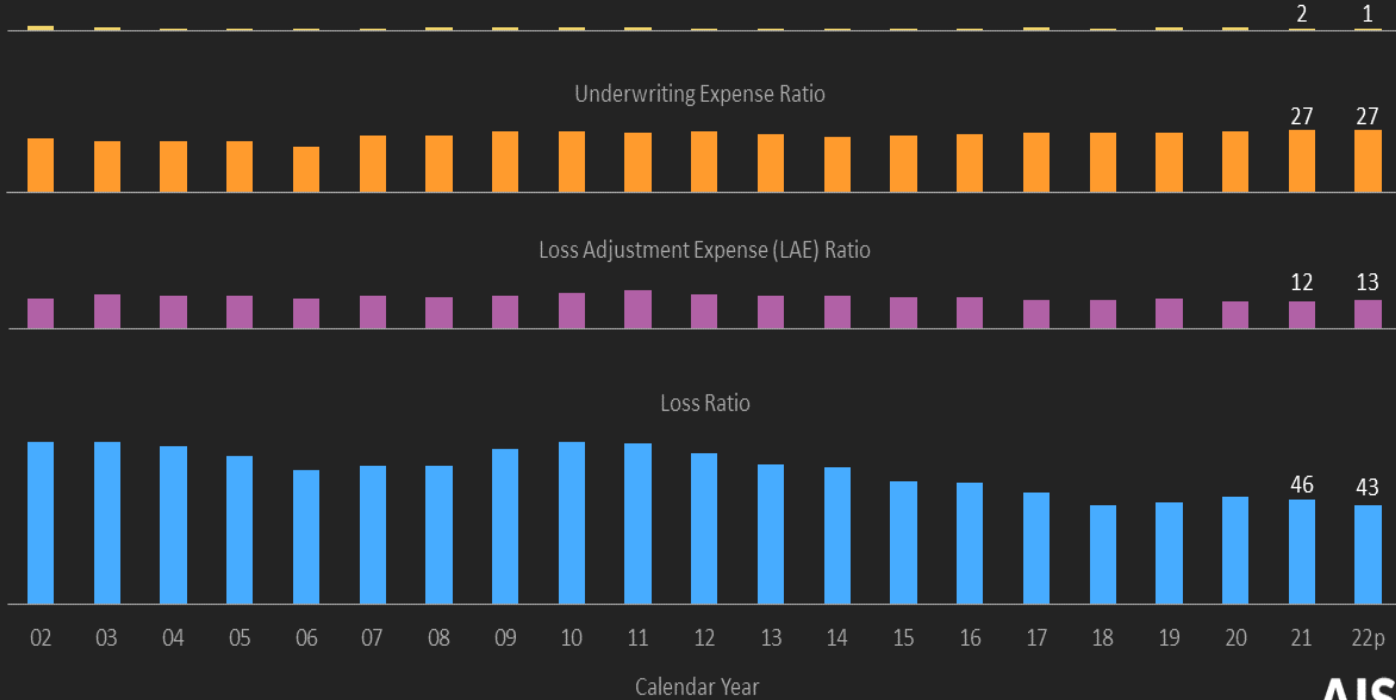
Templeton Rye's Expected Premium for its upcoming 06/01/24 Workers' Compensation Renewal = **\$2,002,471***

WC Net Combined Ratio by Component

Private Carriers

Percent

Dividends



p Preliminary
Source: NAIC's Annual Statement data

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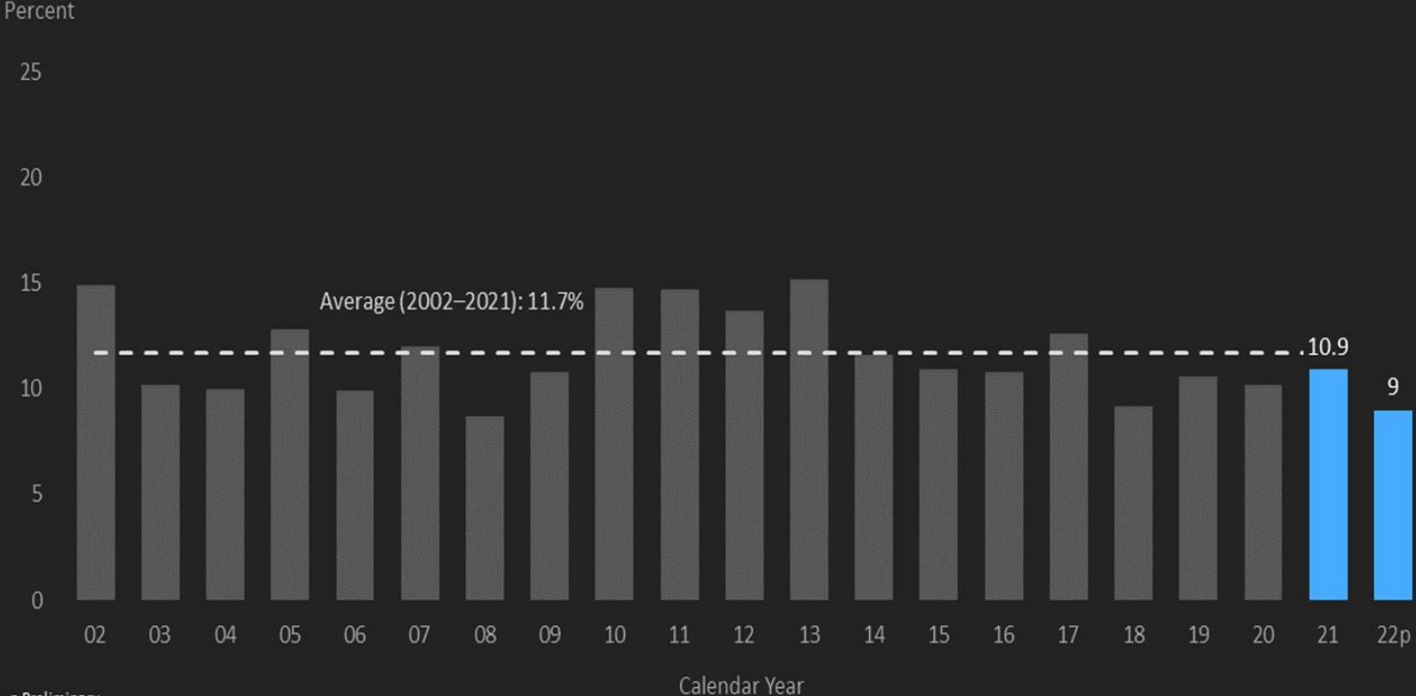
Underwriting Profitability = 16%

**Investment Returns Holding
Your Premiums = 9%**

25% Profitability

WC Investment Gain on Insurance Transactions

Ratio to Net Earned Premium, Private Carriers



p Preliminary
 Source: NAIC's Annual Statement data
 Investment Gain on Insurance Transactions includes Other Income
 2013 is adjusted to exclude a material realized gain resulting from a single company transaction that involved corporate restructuring; unadjusted value is 19.4
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How Experience Mod Impacts Your WC Premium

Example WC Premium Calculation (1.35 Experience Mod*)

WC Premium = Rate X Payroll = \$2,002,471

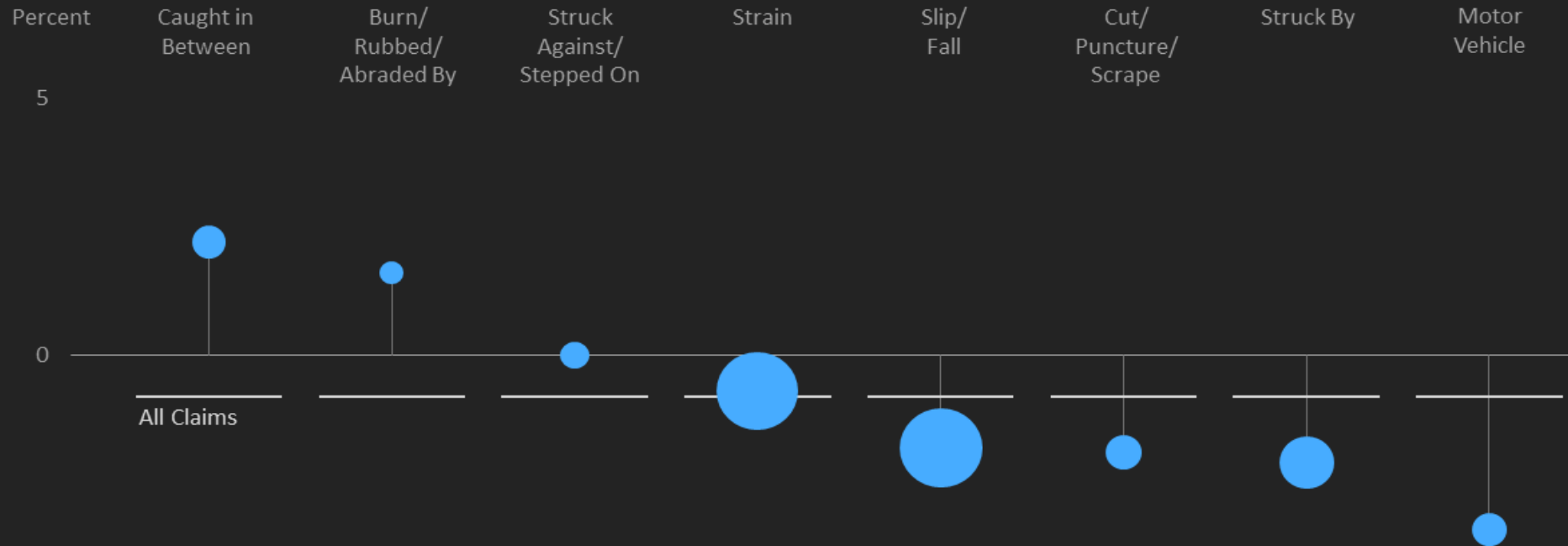
- (Includes Losses & Loss Adjustment Expenses) = \$1,121,384 (56%)
- Insurer Operating Expenses = \$540,667 (27%)
 - State Premium Taxes & Fees = 1% of Admin Costs
- Dividends = \$20,025 (1%)
- **Insurer Profitability = \$320,395 (16%)**
- **Manual WC Premium:** \$2,002,471 x NCCI WC Modification Factor 1.35
= \$2,703,336

**Your experience mod is a numerical representation of your claim's history. It is the ratio of costs of your company's WC claims compared to the expected costs for companies of similar size in the same industry. It can be either above or below the industry average of 1.0. >1.0 means your claims history is worse than the industry's avg. for WC, while <1.0 means it is better.*

WC Frequency is Mitigated Through Strong Safety Programs

WC Lost-Time Claim Frequency by Cause of Injury

Change in Frequency, Accident Years 2019–2021^p, Private Carriers and State Funds—NCCI States



-5

^p Preliminary

Source: Based on NCCI's Statistical Plan data at first report; frequency measured as lost-time claims per \$1M pure premium (adjusted to current wage and voluntary pure premium level), severity measured as total indemnity and medical paid plus case cost per lost-time claim, excludes high-deductible policies and COVID-19 claims. Includes all states where NCCI provides ratemaking services.

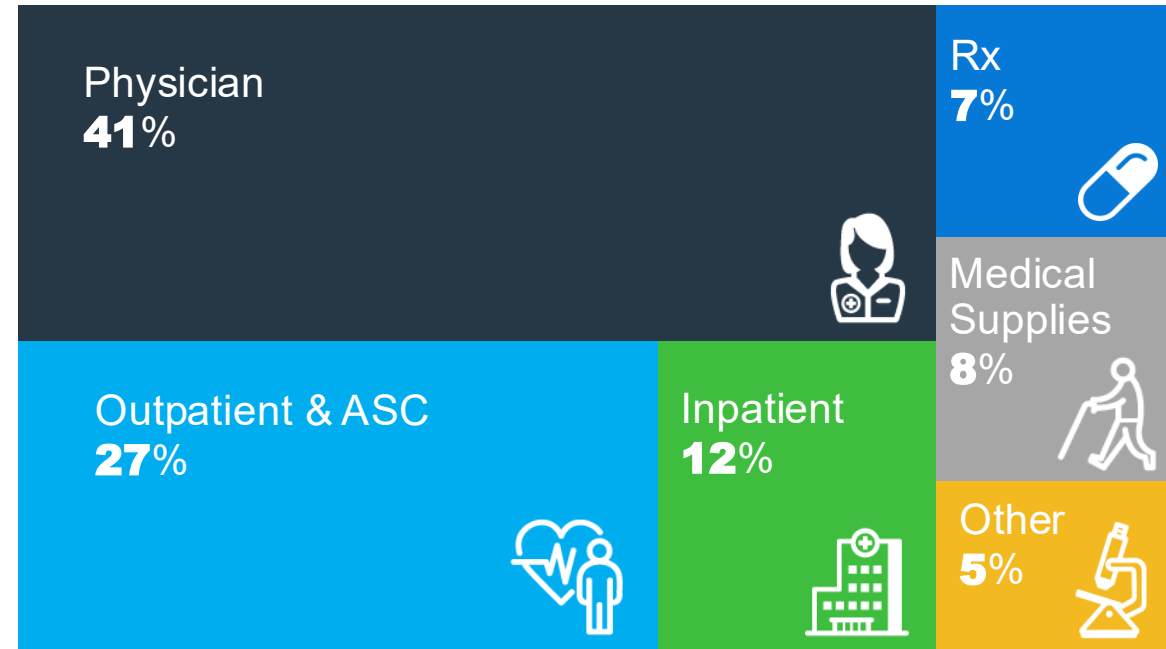
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How to Reduce WC Claim Costs

Are you reporting potential claims & incidents within 24-48 hours?

- Are you “Red Flagging” suspect claims?
- Frequent follow up with your adjuster(s)
 - Assigning a Nurse Case Manager &/or IME
 - Assigning Surveillance & Utilization Reviews
 - Light Duty / Work Restriction Questions
 - Have Your Adjuster Tour Your Facility
- Do you have regular claim reviews?
- Are you reviewing 1st Reports of Injury & Loss Runs?
- Conducting Post Accident Drug Testing?
- Taking advantage of additional training opportunities through your insurer



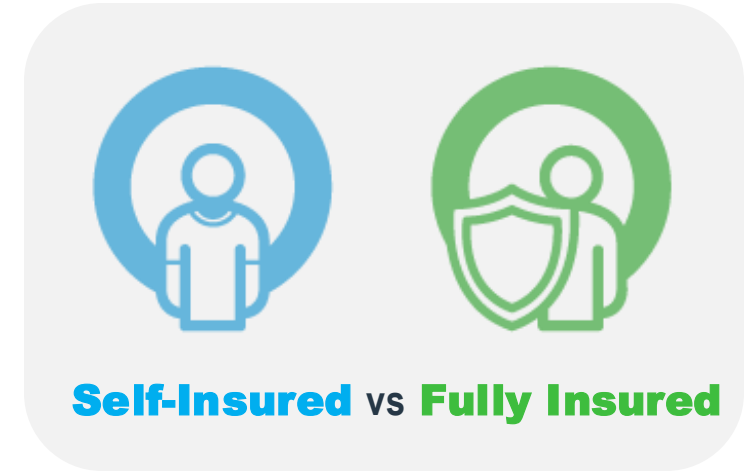
WC Medical Cost Distribution: 2021

Achieve a Financial ROI from Improved Safety

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- **Manual WC Premium:** \$2,002,471 x NCCI WC Modification Factor 1.35
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- **NCCI WC Modification factor .70**
= \$1,401,730
- **\$2,703,336 (1.35 Mod.) vs \$1,401,730 (.70 Mod.)**



Pros vs Cons of Self-Insurance vs Traditional WC

Feature	Self-Insurance	Traditional Insurance
Cost	Potentially lower costs if claims experience is favorable	Fixed premiums, predictable costs
Control	Greater control over claims administration & medical management	Insurer controls claims administration & medical decisions
Flexibility	Can tailor plan design to specific needs	Limited flexibility in plan design
Risk	Company assumes financial risk of claims	Insurer assumes financial risk of claims
Administrative Burden	Requires significant administrative resources	Insurer handles administrative tasks
Financial Requirements	Strong financial position required	No specific financial requirements

How to Tell if Self-Insuring WC Makes Sense

- Ultimately, the decision between self-insurance and traditional insurance depends on a company's specific circumstances, risk tolerance, and financial resources
- Directly comparing the costs of self-insurance vs. traditional insurance is further complicated due to the variability in factors like claims experience and company size.
- Studies suggest self-insurance can be more cost-effective for companies with:
 - Low claims frequency
 - Low claims severity
 - Predictable claims experience
 - Premium large enough to be worth frictional costs & administrative time

FAQ and Client Scenarios

Questions for Zach

- "The Templeton Rye example shows a dramatic difference between a 1.35 mod and a 0.70 mod—over \$1.3 million annually. How long does it realistically take a company to move their mod that significantly, and what's the first step?"
- "What's the biggest misconception you see clients have about their experience modification factor?"
- "At what premium level does self-insurance start making financial sense? Is there a rough threshold?"
- "What's the most common mistake you see companies make when they decide to self-insure?"
- "Given current market conditions, what changes should employers be preparing for in their workers' comp programs over the next 12-18 months?"

Scenario 1: The Growing Manufacturer

- Midwest Metal Fabrication is a 150-employee manufacturing company in Ohio with \$8.2 million in annual payroll.
- Their current experience mod is 1.18, and they're paying approximately \$485,000 annually in workers' comp premiums. Over the past three years, they've had 47 claims, mostly soft tissue injuries and lacerations. Their largest claim last year was a \$127,000 shoulder injury that required surgery. The CFO is frustrated with rising premiums and has asked whether they should consider a large deductible program or self-insurance.

Discussion Questions:

- What additional information would you want before making a recommendation?
- With a 1.18 mod, what does that tell us about their claims history relative to their industry?
- Are they large enough to consider alternative risk financing, or should they focus first on getting that mod below 1.0?
- What safety program investments might give them the fastest ROI?

Scenario 2: The Multi-State Contractor

- BuildRight Construction operates across Iowa, Nebraska, and Missouri with 280 employees and \$14.5 million in payroll.
- Their experience mod is currently 0.87, which sounds good, but it's been creeping up from 0.79 three years ago.
- They had two significant claims last year—a fall from height (\$340,000) and a motor vehicle accident (\$185,000). Their current insurer has indicated rates will increase 8% at renewal.
- The owner wants to know if they should shop the account or if there are other strategies to consider.

Discussion Questions:

- A rising mod even while still below 1.0 is a warning sign. What would you investigate first?
- Two large severity claims versus many small frequency claims—how does that change your approach?
- Should they be looking at their safety program, their claims management, or both?
- When does it make sense to shop an account versus working with the current carrier on loss control?

Scenario 3: The Acquisition Challenge

- TechPack Logistics just acquired a smaller competitor, adding 85 employees and \$3.8 million in payroll to their existing 200-employee operation.
- The acquired company had a 1.51 experience mod with several open claims, including one litigated claim with \$275,000 in reserves. TechPack's own mod is 0.91.
- The integration is happening over the next six months, and leadership wants to understand how this acquisition will affect their combined workers' comp costs going forward.

Discussion Questions:

- How will the acquisition affect TechPack's experience mod, and over what timeframe?
- What should they be doing right now with those inherited open claims?
- Is there any way to structure the acquisition or the insurance program to minimize the impact?
- What due diligence should companies do on workers' comp exposure before acquiring another business?

Thank you

Please reach out to your local risk services or claims consultant with any questions / concerns.

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