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# Workers' Compensation

*10 Considerations for Recessionary Times*

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The U.S. economy is in a recession and, as consumers, we are all feeling the pinch. The national media reminds us daily to cut back, limit ourselves and be concerned about our retirement savings as things are only getting worse.

Through March 31, 2009, the S&P 500, a broader market index measure of stock performance, declined 12% from December 31, 2008, on the heels of a 38% loss in value during 2008. Household names, such as Bank of America, Citicorp and Hartford Insurance have seen losses in market value in excess of 75% since January 2008.

In fact, many industries long considered impregnable to economic turmoil, including health care, are suffering like all the others. Unemployment is at its highest point since 1975. With layoffs and job eliminations, consumers are losing their incomes and having difficulty paying bills. With reduced incomes, consumers are spending less, and reduced spending impacts nearly every industry across the country, from retailers and manufacturers, to builders, healthcare service providers and more.

But amid the rubble of a slumping economy, opportunities for organizations to reduce their workers' compensation costs and save money through savvy risk management practices remain. While organizations evaluate their business plans and budgets in order to tighten spending, improving safety programs, reducing the incidence of workers' compensation claims and limiting claim severity may result in significant cost savings for an organization. These savings may also minimize the need to implement other, potentially more painful, budget-cutting options.



*“Amid the rubble of a slumping economy, opportunities for organizations to reduce their workers’ compensation costs and save money through savvy risk management practices remain.”*

While workers' compensation insurance is a requirement for doing business, programs vary in design, application and degrees of service. A comprehensive, well executed program, for instance, tailored to an organization's specific current needs and long-term goals, has the potential to provide benefits to an organization beyond providing insurance and/or service. The "right" program can improve worker safety and productivity, as well as enable the organization to be more financially secure. The first step to realizing such potential benefits is selecting the carrier or risk management services provider (for self-insureds) most capable of addressing the organization's needs and meeting its goals.

In a bull or bear market, there are certain considerations a buyer should always have in mind regarding potential carriers or third-party administrators (TPAs). In the current market, however, these considerations are more important, pressing and worth ruminating. As a workers' compensation specialist for nearly 100 years, PMA Companies details these 10 considerations for nearly every account that it writes. They are always applicable—but now more than ever.



*While money may be your concern today, consider what these measures achieve for your bottom line tomorrow and years down the road.*

## Top 10 Workers' Compensation Considerations

When it comes to workers' compensation insurance in recessionary economic times, is it possible to control costs without cutting corners? Absolutely. In fact, here are 10 workers' compensation considerations that may help your organization do just that.

**1**

### Consider the Total Cost of Insurance Ownership

There is more to consider than the price of a premium or an annual TPA fee when examining the total cost of an insurance program. When a consumer purchases a new car, they compare the prices of comparable vehicles, but also consider safety and reliability ratings, options, gas mileage, service warranties, interior comfort and much more—price is merely part and parcel of the complete package.

Much of the same considerations apply to the selection of workers' compensation insurance and risk management services providers. When a workers' compensation or TPA services buyer (or its broker) takes its program to market, it should look well beyond the prices (premiums or TPA fees) of the comparable programs and proposals. Instead, it is necessary to closely examine each carrier's and TPA's proof points. Do they have a proven track record of success insuring or servicing similar risks in your industry? Is your program focused almost exclusively on coverage with limited service? Is it backed by 24/7 service and support and the ongoing flexibility to add products and services as needed? Is the program customizable to fit your specific needs with the potential for systemic savings based on your organization's performance over time? Does the proposed program come with the risk control, claims and medical cost containment expertise to deliver on what is promised?

Workers' compensation costs operate on a three- to five-year cycle. The results of successful risk control and cost containment programs initiated today may not yield significant decreases in your premium or TPA fees until three or more policy years down the road—the time it takes for experience modification rating (EMR) changes and, subsequently reduced premiums or TPA fees, to catch up with performance improvements. Ultimately, it pays to think about the long lasting nature of your insurance program and the benefits of reduced employee absence. Would you pay a 10 percent higher premium or TPA fee today for an insurance program that in three years' time will reduce your total number of claims, limit your high severity claims, return your injured workers to the workforce sooner and deliver a reduction in the cost of your insurance?

**Your answer should be yes.**



## 2

### Select the Right Solution for Your Needs

As a consumer, your needs come first—remember that. Partner with your broker and/or consultant and carrier or TPA to clearly express and explain your risk management needs and financial goals. There are a variety of workers' compensation programs to select from—fixed cost to retrospective plans to large deductibles—and a variety of arrangements from captives to groups and programs. TPA contracts can also be custom built to meet the unique service needs of self-insured organization. Ultimately, your short and long-term needs go a long way to determine which may be the best option for you.

Programs also vary in the degrees of service that they afford clients. Do you require extensive hands-on risk control efforts or ongoing assistance establishing a certified safety committee? Do you have only a handful of claims per year or enough to warrant a dedicated adjuster? Are you interested in establishing a formal return-to-work (RTW) program? Are you interested in establishing a formal return-to-work (RTW) program? Are you looking for financial flexibility and a carrier/TPA who will work with you to manage your credit facility, defer premium/contract installments and financial obligations, manage collateral needs, and provide EFT or trust options? These are some of the considerations that help to determine not only which program may be best for you, but also which carrier or TPA.

## 3

### Remember that Safer Work Environments Save Money

Organizations with safer work environments—departments or operational areas with fewer costly accidents today than yesterday—worked tirelessly to get them. They implemented risk control measures that have improved working conditions for employees, reduced injuries and positively impacted their organizations' productivity and bottom line.

While recessionary times require review of all processes and projects, now is certainly not the time to start cutting risk control measures. These initiatives—tenured or newly implemented—have a “greater good” effect on your total workers' compensation program that makes them indispensable. While money may be your concern today, consider what these measures achieve for your bottom line tomorrow and years down the road.

In fact, consider the major medical center that continues to invest in mechanized patient handling equipment to reduce the frequency and severity of its lift/strain claims. Think of the parts manufacturer that developed and instituted, and continues to train its workers in, a lock-out/tag-out program. Look to the small college that hired a risk control consultant to help establish a certified safety committee on campus that now meets monthly and shares best practices and safety tips across departments. These efforts—and many more like them—build safety into organizations' cultures and may save more money over time than any single budget reduction would today.

### Responsiveness. Accessibility. Flexibility. Accountability. Communication.

These are all hallmarks of any successful relationship and values you should expect from your workers' compensation insurance carrier/TPA.

## 4

### Look to Build a True Partnership

School districts, retailers, colleges and universities, hospitals and medical centers, contractors, wholesalers and nursing homes are all very different clients representing equally unique industries. Yet all require workers' compensation insurance and all rely on established business relationships to meet their operational and performance objectives.

How you work with your workers' compensation insurance carrier/TPA represents one such relationship—and it should be a partnership. Selecting a workers' compensation carrier/TPA is an ongoing conversation rather than a one-time transaction—whatever the size of your program or extent of your needs. As committed as you are to your organization's mission and values, do you look for that in a business partner? Do you look for business partners who are motivated not only by their own successes, but also yours?

Responsiveness. Accessibility. Flexibility. Accountability. Communication. These are all hallmarks of any successful relationship and values you should expect from your workers' compensation insurance carrier/TPA. Is an underwriter from your carrier—the one who originally underwrote your account—willing to visit your office and review your policy in person? How involved will your TPA sales representative be—the one who takes the time to get to know your business—after the contract is signed? Will a risk control consultant from your carrier deliver a training session to your employees on safe lifting measures to help reduce the frequency of back injuries?

Consider also that for clients without strong relationships pricing is determined by general market conditions—whether the market is hard or soft, pricing increases or decreases based solely on market conditions. However, a strong relationship with your broker and carrier/TPA—one built on a foundation of trust and performance—can help to moderate your increases during “hard” cycles and accelerate your reductions during “soft” cycles. After all, when you need price relief during tough times, it is far more likely to occur when your relationship is that of a partnership based on mutual success. If you are looking for these things and not finding them, it may be time for a different type of carrier/TPA—it may be time to move to a partnership.

## 5

### Today, More than Ever, Financial Strength Matters

Global, multi-billion dollar organizations have long seemed all but impregnable to irrevocable financial trauma. In recent years, however, some of the largest have been forever impacted by financial hardships—and this serves as a strong reminder of just how important it is to know the people and companies with whom you do business.

Your broker can help you do your homework on prospective insurance partners. Things to look for include the carrier's/TPA's tenure in the industry, its investment portfolio, its underwriting philosophy and its business growth. Other more qualitative items include its client satisfaction rating and retention ratios. If clients are satisfied and staying with a handful of carriers as their chosen business partners, perhaps you should consider those carriers first.

## 6

### A Claims Administrator Should Follow a Proven Service Model with Programs to Contain Medical Costs

Historically, the frequency of claims has not materially changed during recessionary periods. The depth and duration of this recession, however, is still unknown. Organizations are trimming their labor forces, which may cause injured workers to feel safer out of work receiving workers' compensation benefits than being on the job—and this psychological component could prolong their recovery.

While the impact of the recession on the length and frequency of claims remains to be seen, it bears reminding that thorough and effective risk control efforts and environmental safeguarding can greatly reduce work accidents and injuries. The question is not if claims will occur, but when—and you need an effective and efficient process in place when they do.

**Here are a few simple components to look for in a carrier's/TPA's claims handling model.**

- An online Risk Management Information System (RMIS). Reporting, tracking and analyzing your claims online gets the process underway sooner, makes it more efficient and helps client/adjuster/injured worker to stay on the same page. Studies show the sooner a claim is reported, the more quickly and cost effectively it can be managed to closure.
- Claim investigation should occur for even the simplest of claims—an adjuster needs the relevant information from all involved parties to effectively manage a claim.
- An adjuster or claims professional should always be available to discuss claim details, answer questions and otherwise respond to client/injured worker concerns or questions.
- Subrogation investigations help to ensure that organizations do not pay more than legally required for claims. If, for example, another party, such as an excess carrier, is responsible for indemnification, a subrogation investigator will work to recover those funds.
- For complex claims, litigation specialists should be available for consultation with the claims professional to keep the claim moving along the claims handling path. This will also help to ensure all legal remedies are evaluated and pursued. Additionally, medical inflation is rising at a rate two-and-a-half times the rate of regular inflation. In fact, medical costs now represent 50% to 60% of a workers' compensation buyer's costs.

**Medical cost containment programs are now crucial elements to reduce costs in any successful workers' compensation program. Look for services such as:**

- **Medical Bill Review** – These are teams of nursing and coding specialists who review medical bills for erroneous or duplicative charges and re-price bills with errors.
- **Pharmacy Benefits Manager** – When injured workers require prescription medications, it should be as convenient for them to get these medications as when they are home with the flu.
- **Extensive, accessible preferred provider networks** – From first-contact health centers to physical therapists, a comprehensive medical cost containment program will involve extensive lists of preferred medical providers who are accessible to injured workers and who provide industry-leading health care at an agreed upon reduced rate.

## **7 Know Your Bench of Experts and Leverage Their Expertise**

Head coaches call on players for their skills in given positions. Occasionally, they call on “utility players” to fill a number of different roles as needed to keep the team performing at its best. Think of your workers' compensation program in much the same way—and your deep bench of experts who can help make it as successful as possible.

The workers' compensation or TPA services buyer is the foremost expert when it comes to the operation of its business. In other words, you know your business—and its needs and goals—better than anyone. So leverage your organization's key players. Risk managers, human resources managers, departmental managers, product or function supervisors and chief financial officers are all examples of people who bring a unique expertise and perspective to the table. When considering a new workers' compensation program—or brainstorming improvements to an existing one—involve these people.

Your broker knows its business—insurance—to the same extent that you know yours. Help your broker get to know your business so s/he can make sound recommendations based on how your business operates and its needs and future goals. Your broker is a dedicated consultant who balances an understanding and awareness of your business with that of what carriers/TPAs have to offer. To better achieve your goals, your relationship with your carrier should be the same type of partnership as the one between you and your broker.

## **8 Make a Formalized Return-to-Work Program Part of Your Culture**

Teamwork, responsibility and accountability are likely part of your culture—and that alone should cause employees to genuinely want to return to work as soon as possible after an injury. To that end, consider formalizing a return-to-work program as part of your workers' compensation program.

Your carrier/TPA can help you establish a Return to Work program based on best practices that have worked for similar clients in similar industries. All of the same service and attention to detail applies—injured workers get the best care possible and are assisted by nurses or case workers throughout the process. The difference with a return-to-work program in place, however, is that opportunities exist within the employee's organization for injured workers to return to work sooner—which benefits everyone.

Knowledgeable and experienced employees are difficult to replace and invaluable to organizational productivity. Therefore, returning injured employees to a job as soon as possible is the best outcome for them and the organization. Comprehensive return to work programs include established “light duty” or “modified duty” positions in all departments. If an injured worker is medically cleared to return to work, but is unable to perform his or her pre-injury job, or parts of it, she or he can work in a light or modified capacity until completely recovered. This can often eliminate the need to hire temporary workers, which can be very costly in time and training commitments, and help to maintain productivity and shorten the injured worker's recovery time.

Ultimately, neither organizations nor injured employees benefit from these workers staying home when they are capable of working in some capacity and contributing to the “greater good” of the organization.

# 9

## Hire the Right People For the Job

**An organization's first asset is and always will be its people.** While this seems elementary, it bears repeating and is sometimes overlooked and forgotten when quickly filling a vacant position simply to maintain productivity. Organizations are best served not only by hiring the brightest, most capable, person for a given position, but also the person who is most aligned with the organization's culture, philosophy and personality. If safety, teamwork and accountability, for instance, are low on too many employees' lists of priorities, the cumulative effect on the organization can be devastating.

Every day, employees at your organization are likely made safer by the efforts of their colleagues. Line Operator A catches Line Operator B just before his shirttails are pulled into a milling press. Nurse C agrees to move Nurse D's patients, as Nurse D injured her back but can continue working if she can avoid lifting beyond 50 pounds. Foreman E reminds Foreman F that he must wear his helmet and safety glasses at all times without exception. In total, these small decisions, made possible by training and hiring the right people, do untold good for organizations every day.

# 10

## Examine the Validity of WC Claims and Injuries and Know How to Act on the Invalid Ones

Insurance fraud costs billions of dollars every year. The Coalition Against Insurance Fraud estimates that it costs all of us—consumers, employers and insurance carriers—at least \$80 billion each and every year. Workers' compensation insurance fraud alone accounts for a sizeable percentage of the total losses. In light of this, your carrier/TPA should have a formal anti-fraud program staffed with claims investigation and legal professionals working for you. These teams specialize in preventing, detecting, and stopping fraud when it occurs, and in working with the appropriate parties to prosecute the offenders and pursue restitution on behalf of the defrauded parties.

There are a series of red flags these teams look for to when evaluating the validity of claims. Even the simplest and most straightforward claims can begin to show small inconsistencies that stand out to a trained professional when properly and thoroughly investigated. It pays to have, especially during recessionary times, an anti-fraud team in your organization's corner.

Consider the case of a truck driver out on workers' compensation benefits after sustaining a work related injury. His employer reported the claim, he received care and is out of work for an undisclosed amount of time receiving workers' compensation benefits, during which the employer has to find another driver to cover his deliveries. While investigating the claim, however, an anti-fraud specialist develops information that confirms the worker is employed by another company while collecting workers' compensation benefits from his full-time employer. This fraud detection enables the carrier/TPA to take immediate action to stop paying workers' compensation benefits and seek restitution. In good economic times or bad, wrong is still wrong, and detecting and correcting insurance fraud helps all of us to save on the cost of insurance.

## Conclusion

A comprehensive, thought-out workers' compensation program can do much more for your organization than simply provide a necessary insurance coverage—it can help make your organization safer, engage employees and save your organization bottom line dollars.

While now is the time to reduce costs wherever possible, it is definitely not the time to cut corners at the expense of employees' safety or protection. In the long-term, accidents and injuries cost far more than well executed and delivered safety programs or investments that enable employees to perform their duties without getting injured.

The economy ebbs and flows. While today it ebbs, and perhaps still tomorrow, one day soon it will again flow. Now is the time to make these considerations count for your program. Because when the economy again flows, and payrolls go up and production increases, you will need your employees—and organization—to be as safe, protected and focused as it always has been.



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## About PMA Companies

PMA Companies ([www.pmacompanies.com](http://www.pmacompanies.com)) provides risk management solutions and services, specializing in workers' compensation and offering property and casualty insurance, in the U.S.

Headquartered in Blue Bell, PA, PMA Companies is a member of Old Republic Companies. Old Republic International Corporation (NYSE: ORI) is one of the nation's 50 largest publicly held insurance organizations.

PMA Management Corp., one of the PMA Companies, provides results-driven claims and risk management service solutions to clients in a broad range of programs, including individual self-insurance, self-insured groups, captives and unbundled insurance programs. PMA Management Corp., which has consistently received SAS 70 (type 2) reports with an unqualified auditor's opinion, is currently celebrating 20 years of consistent annual growth and expansion.