Employers, you're paying the bill …

Control your Experience Mod or it will control you

By
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One of the most confusing components of an employer's Workers' Compensation Policy is the Experience Modification Factor. They watch it increase and decrease from year to year – higher Experience Modification Factors generally increase costs and lower factors reduce them. What's often missing is an understanding of how the Experience Mod factor works and what an employer can do to manage it to the absolute minimum.

Employers intuitively suspect that if they have injuries, their Experience Mods will go up and if they reduce or eliminate injuries they will go down. At a basic level, their intuition is correct, but there is much more to know and do to actually control Workers' Compensation costs.

The designers of the formula for calculating the Experience Mod complain bitterly about any reference that the Experience Mod is meant to be punitive. Their theory is that it should operate as a "predictive indicator" of future losses. In other words, if you have had injuries in the past, then you are more likely to have them in the future, so you should pay more.

The use of the Experience Mod causes Workers' Compensation policies to behave more like a line of credit, than an insurance policy. Ultimately, in almost all instances, employers pay for their employees' injuries. In many cases, employers will pay back more than the cost of the injuries because of the impact of the Experience Mod. In effect, because of the use of the Experience Mod, employers are simply financing their injuries, not insuring them.

When an Experience Mod is analyzed, employers can see:

- The cost of the injuries by employee name
- The number of Modification points attributed to each injury
- The current year increase in premium cost due to that specific injury

- The cumulative increased premium cost over a three-year period, which is how long a claim has an effect on the Mod.

Employers' perceptions of Workers' Compensation change when they grasp this analysis. They recognize clearly and quantifiably that they themselves ultimately pay for employee injuries and the insurance company is just financing them. As a result, driving down injury costs makes the employer more profitable and competitive.

This shift in understanding needs to be driven through the employer's entire organization. It's critical that not only management, but also supervisors and front-line staff are aware that it is the *employer's* money that is being spent, not that of the insurance company. Employers must foster a change in the predominant view of employees that "accidents happen, that's why we have insurance."

Employers buy Workers Compensation Insurance for two reasons. First, it is usually a state Law. Second, a Workers' Compensation Policy levels out the peaks and valleys of injury costs by financing them over a three- to four-year period.

Another number employers need to know is their lowest possible Experience Mod. Many employers are amazed when they discover that their Mod could be as much as 80 points lower than it is. When employers see their lowest Mods compared to where they are now, their focus shifts even more. *The gap between costs generated by the current Mod and the best possible Mod is a controllable cost.* A solid business objective is to approach or attain the lowest possible Experience Modification Factor.

When this gap is exposed, it becomes apparent that "getting quotes" on Workers' Compensation has little to do with reducing costs. *Going out to bid actually limits the employer's cost reduction method to what the insurance marketplace and pricing cycle offers them.* A reduction in a "rate" from one year to the next may have minimal or no impact on the employer's total "cost." For example, the rate may decline by 15 percent, but the costs increase by 30 percent because of an increase in the Experience Mod.

In order to reduce costs, employers must move beyond the bidding process and the basic commodity transaction of placing insurance. They need and should demand assistance with the implementation of practical and proven methods for reducing your Experience Modification Factor.

The most obvious but often over-hyped solution is the prevention of injuries through a focus on safety programs. Certainly, a safe workplace and safe work practices are essential to reducing injuries, but safety programs are a far from sufficient factor in driving down injuries and their related costs.

Employers must also address these areas:

- Effective hiring practices and employee relationships
- Modified Duty and Return to Work Programs
- Medical Clinic relationships
- Supervisor Training

When a challenging injury occurs, employers often say, “I should have never hired that person or I should have gotten rid of him when I had the chance.” Dealing with Human Resource problems inside the Workers’ Compensation system is usually a costly endeavor. Plus, hiring the employee that is fit for the job is a major step in reducing costs.

Supervisors often resist bringing an injured employee back to work before they are fully recovered. They typically want a “whole person, or no person.” However, the longer an injured employee is away from the workplace the more injury costs rise. You will find that supervisors are far more likely to support an injured employee with frequent communication and modified work if they know the money is coming out of the employer’s pocket instead of some faceless insurance company.

In addition, compensation and performance bonuses can be tied to injury costs by departments. Supervisors compensated on a production-only basis can actually be operating their unit at a loss due to injury costs.

The right physician providing the right treatment at the right time is essential to controlling costs. Not all doctors are skilled in job-related injury care. Careful attention should be taken in selecting medical providers. Otherwise, you may be handing them a blank check and the injured employee may be receiving less than optimum care.

Employers that shift their thinking and view Workers’ Compensation insurance as a financing mechanism are on their way to reducing a mandatory cost. Less attention should be paid to “going out for bids” and more devoted to those factors that actually reduce costs and increases profits.

The key is changing your perception of Workers' Compensation and then taking the steps that can make a dramatic difference.

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