

Enhancing the Bottom Line

Best practices in reducing workers' compensation cost

The NASF has partnered with Assurance Agency, one of the largest, independent insurance brokerages in the United States. Assurance serves businesses throughout the country and is among the industry's most awarded brokerages for excellence.

Assurance is the endorsed provider of insurance and employee benefit services for NASF corporate members. We have asked them to contribute educational content for *P&SF* that can add value to our member's business by enhancing their bottom line. One article will appear each quarter.

One of the most important concepts for owners, decision makers and managers of surface finishing industry businesses to understand is the ultimate cost of a workers' compensation claim. In simple terms, if you have a \$10,000 claim and a profit margin of 5%, it takes \$200,000 of revenue to replace the \$10,000 impact to the bottom line. If you are on a guaranteed cost plan, this may not be of obvious concern to you. However, an increase in claims activity will increase your experience modification factor over time. For those who retain risk in a captive or through the use of a deductible or retrospectively rated plan, you feel the immediate pain of this cost on your balance sheet. Additionally, studies have consistently shown, the ultimate cost of a workers' compensation claim *increases by 7% each day* a claim has not been reported or not properly managed. While the cost may start out to be insignificant, when you apply the impact across a company with several hundred or even thousands of employees, the erosion to your bottom line is meaningful.

Strategy is key

Effective workers' compensation cost reduction begins with a defined and written strategy that is coordinated amongst a team of internal players including risk management, human resources, finance, legal, operations and executive leadership. You may also look for advice from your

insurance company, third party administrator and your insurance broker for advice. Some components of the plan may include the following:

- Effective hiring process
- Robust wellness program
- Efficient claims management process
- Productive return-to-work program

Effective hiring process

Cost containment begins with effective hiring. Potential applicants should be provided job descriptions that identify physical job requirements. This should be complemented by an affirmative statement where the applicant acknowledges receipt of the job description and indicates that he/she can fulfill the tasks with or without reasonable accommodations. The application should also include a declaration that employees can be terminated for misrepresentations on the application. For more physically demanding jobs, pre-employment physicals should be considered. The exam would include tests to verify the physical propensity of the future employee's ability to perform the expected tasks.

Robust wellness program

Another part of the cost reduction process is a robust wellness program. The advantages of this approach include reduced medical care costs, lower absenteeism, fewer injuries and a boost in worker productivity. Healthy employees mean fewer and less serious workers' compensation claims. More pointedly, behavior (lifestyle) is found to be the key factor in affecting health. From the *Institute for the Future, Centers for Disease Control and Prevention*, statistics illustrate the reality of the determinants of health:

- Access to Healthcare – 10%
- Genetics – 20%
- Environment – 20%
- Behavior – 50%

A wellness program sends a very positive message to your employees, promotes a healthy work-culture and reduces costs.

Efficient claims management process

To achieve continuously-occurring cost reductions, the implementation and execution of an aggressive and efficient claims management process is essential. The first step with any work-related injury is to get the employee proper medical

care. Whenever medically appropriate, the employee should be directed to a pre-approved medical provider focused on occupational injuries. There exist a number of key attributes that are representative of a high-performing claims management execution strategy:

- A broad communications platform that keeps all parties informed of a claim's status including the injured employee, the employer, medical provider and insurance company
- Detailed understanding by the employer of the provider's claims handling techniques, case-loads, administration instructions and investigation capabilities and emphasis
- Fraud awareness and investigation unit within the administrator's portfolio of services
- Medical, benefit and disability management, including a focus to reduce costs with various claims adjuster tools such as at independent medical examinations, utilization reviews, nurse case management and peer review

Productive return-to-work program

According to a conference of occupational physicians, on average, only 30% of disability time is medically necessary. There is a direct correlation between dollars spent on temporary total disability and the value of the ultimate claims settlement. To get the most benefit from this strategy, employers need to enforce medical restrictions, establish realistic and evidence-based guidelines for the resumption of duties, monitor progress, actively integrate human resources with risk management, and train management and staff on the implementation of such programs.

In summary

As a significant expense component for surface finishing industry businesses, workers' compensation is always a topic of concern. The effective management of a workers' compensation program and ensuing work-related injury claims increases your opportunity to have a sustainable and healthy bottom line.

If you are paying more for workers' compensation insurance than you'd like to be, you can contact John Mannebach, Vice President, at (847) 463-7358 or go online to www.assuranceagency.com/nasf.