

What Drives Workers' Compensation Cost

Since 1915, workers' compensation has been required by law to be provided by nearly all employers in the state of Pennsylvania. As employers know, the cost to purchase this coverage varies from year to year. However what many employers are unaware of are the main factors that drive these costs: business classification, losses or claims history, and choice of insurance company.

The starting point for your workers' compensation costs is your business classification. Based on information provided from your agent, data collected by your insurance company, and often physical inspections, the Pennsylvania Compensation Rating Bureau (PCRB) will assign a three-digit class code as a numeric representation of your operation, which will then be prominently displayed on your insurance policy. For example, a physician or dentist's code is 956 and an accountant's code is 962. It is imperative that these classifications are correct. For instance, if an electrician is classified incorrectly as a roofer, that electrician will have a much larger workers' compensation cost than other electricians properly classified. Classifications can be reviewed at any time by the PCRB to determine accuracy if the business operations have changed.

Once you are assigned a class code, both the PCRB and the individual insurance companies will compare your loss history per \$100 of payroll against other employers in the state who share the same class code. This is where your loss and claims history enter into the pricing equation. If, according to the state's actuarial formulas, your loss history mirrors their averages for those in your class code, you will be assigned a 1.00 experience modification. If you are 15% lower or higher, you would be assigned an experience modification of .85 or 1.15 respectively. An employer with an experience modification of .85 has his manual premium reduced by 15%, whereas an employer with an experience modification of 1.15 pays an additional 15% on top of his manually rated premium. Preventing workers' compensation injuries from occurring is the single biggest thing an employer can do to reduce workers' compensation costs. If an injury does occur, it is important to work to manage the extent of the claim by using insurance company medical cost containment programs, physician panels and offering light-duty return to work programs for injured employees.

Lastly, your choice of an insurance company is a very important factor in determining the ultimate cost of your workers' compensation program. Every year insurance companies use information released from the state actuaries about each class code to file their overall rating structure. Those filings eventually translate into the exact rates per \$100 of payroll shown on your insurance policy, which will vary from company to company. Additionally, depending on your exposures, loss history, and risk management practices, the individual underwriter at an insurance company may seek to deviate from the simple payroll times rate formula shown on your policy and offer a credit or a debit of up to 25% on your premium. More credit is offered to the better performing employers from a loss prevention and mitigation standpoint; debits are generally assessed to employers who have the opposite track record. Some insurance companies will work with employers to prevent losses, mitigate claims costs and protect loss history, ultimately driving down insurance costs through experience modification and underwriting credit. Other insurance companies will not. Consequently, your insurance company will have a large bearing on the long term costs of your workers' compensation premiums.

In closing, it's imperative that employers take an active role in preventing workers' compensation claims from occurring, mitigating their costs once they do occur, and partnering with a competitively priced insurance company that will assist in achieving both of the above.

Written on behalf of the PBA Workers' Compensation Program.

With top-tier risk management, claims handling and group purchasing power – the PBA Workers' Comp Program through Eastern Alliance Insurance Company has offered competitive, stable pricing to PBA members for over a decade, returning over \$1,000,000 in dividends. Call your Local Association Executive Officer or reach out directly to our Program Administrators - McConkey Insurance & Benefits to learn more at (717) 755-9266 or egrimm@ekmconkey.com