

What Is a Workers Compensation Rating and Why Does It Matter?

Most business owners and executives understand the value of workers compensation insurance not just to protect the worker, but to protect the company as well. Fewer, however, are aware of the mechanics of how premiums are arrived at, and how their own company's safety track record figures into their rating. Understanding the process, however, may well enable you to qualify for lower premiums down the road, saving your business money and making you more competitive.

Industry underwriters set workers compensation premiums using a process similar to how most companies price group health insurance: They look at the actual claims experience for similar workers in your area, and if there is a history of claims, at your company specifically. Where there is insufficient local claims experience to look at, underwriters turn to the National Council on Compensation Insurance, a clearing house of workers injury and compensation data.

Generally, underwriters will take your payroll and multiply it by an average claim factor for that type of worker. This produces a baseline average of the total number of expected claims, which they subdivide as claims per \$100,000 of payroll, claims

per year, or claims per time unit. The frequency of claims is considered to be a close proxy for the safety culture of the individual business. They then account for the average severity of claims for that type of worker in your industry and combine the two to arrive at a baseline prediction for expected losses.

Underwriters must then try to assess your business and answer the following question: Given the policies and procedures in place at your business and your claims history, is your company likely to produce losses that are higher than the industry baseline or lower?

Over time, underwriters have discovered that the most likely future claims predictor is a past history of claims at your company. Therefore, to save money on workers compensation premiums, it behooves the company to invest aggressively in preserving the safety of the work environment, both in terms of resources and management focus.

Your workers compensation agent and underwriting team will assign your company an insurance rating, with 1 deemed equal to the

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average claims experience in your industry for the area.

Any rating higher than 1 indicates a worse-than-average risk for workers compensation claims. If your rating comes out higher than 1, you may be able to qualify for lower rates in future years by reviewing your safety program and the types of losses your company has incurred. Identify any patterns and recurring themes. You may benefit from bringing in a risk management consultant for an outside set of eyeballs. Some investment in equipment or improved training may be needed, or you may need to be more vigilant for workers compensation fraud in a few cases.

Best Practices

In the long run, your safety record is a reflection of your overall safety culture. That's not something

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limited to the rank and file worker and shop foremen, though. The most important link in the safety culture chain is at the top.

- Invest in training your workers in all aspects of safety relevant for their jobs.
- Appoint a senior manager with clout to monitor your safety and OSHA compliance, and empower him or her to enforce it throughout the company.
- Empower any worker to halt work activities if he or she becomes aware of an unsafe work condition, until that condition can be corrected.

Everyone is part of your workplace safety culture - but senior management is the most important link in the chain, because management sets the tone throughout the organization.



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