



Is your workers'  
compensation program  
a competitive advantage?

Self-assessment

# Is your worker's compensation program a competitive advantage?

## Take our self-assessment to find out

For manufacturing companies, the cost of workers' compensation premiums and the total loss costs associated with employee injuries and claims are a significant operating expense. Depending upon the specific manufacturing segment, it is not uncommon to see workers' compensation premium approach 40-45% of the total of fixed insurance costs. After products/materials, labor costs and equipment, property and casualty insurance premiums are typically one of the top expenses for many manufacturing companies.

## Workers' compensation and cost cutting in the economic recovery

Workers' compensation is a major focus for many manufacturing companies seeking to control expenses and reduce overhead during the continuing, albeit delayed, economic recovery. Manufacturers are expressing increasing levels of frustration in dealing with the growing costs of their overall workers' compensation program. The lingering recession has made the challenges of workers' compensation more difficult to manage for most manufacturers.

## A competitive advantage or disadvantage?

Workers' compensation has become a "zero sum game" with winners and losers. Workers' compensation is either a source of competitive advantage or competitive disadvantage. In this era of intense cost pressures, the companies that successfully reduce their claims and control their total claim costs will become more competitive. Those that do not will face mounting pressures to reduce costs elsewhere or carry higher levels of unallocated overhead, thereby reducing their overall competitive advantage in the market place.

## Focus on reducing claims and minimizing indirect costs

Manufacturers are asking key questions about how to control the rising costs of their workers' compensation program. Specifically, these manufacturers are seeking advice on how to achieve dramatic reductions in their workers' compensation claim costs. These costs include insured or direct costs, such as lost work hours, loss of productivity, insurance premiums and medical expenses.

There are also indirect costs associated with claims – those uninsured elements that are a multiplier and add significantly to total loss costs. Examples of common indirect expenses include extra supervision, overtime cost for replacement workers, lost production and damaged stock. Therefore, the best approach is to prevent workers' compensation injuries from occurring. However, despite the best efforts of safety programs to prevent employee injuries, it is also very important to have established protocols for claim management and cost containment.

## Baseline self-assessment of your workers' compensation program

The following ten questions can help you begin to assess and prioritize opportunities for workers' compensation risk improvement.

<p>1. Does your company's management believe and act like the workers' compensation system is out of control or does your company take actions to establish and maintain control over your workers' compensation program?</p>	<p>Many manufacturing companies have experienced growing frustration over their workers' compensation claims and costs. Many employers have expressed frustration that workers' compensation is uncontrollable and that the system is spiraling out of control. Frustration runs rampant even in states that have enacted reform legislation. However, in this zero sum game, winning companies have changed their strategy from one of claims management to injury prevention. Moreover, these companies have instituted stronger controls on claim reporting, incident investigation, medical case management, modified duty and return-to-work programs to help achieve a win-win outcome for the injured employee and the employer.</p>
<p>2. Do you believe that workers' compensation claims are unavoidable and an inevitable cost of doing business or do you believe all employee injuries can be prevented?</p>	<p>Companies that believe employee injuries are unavoidable and an inevitable cost of doing business are symptomatic of an all too common management malaise regarding the workers' compensation system being out of control. All the more reason company management should consider an attitude adjustment and cultural shift from claim management to injury prevention. Companies that enforce a zero injury culture believe all employee injuries can be prevented. A zero injury culture is predicated on a strong and proactive vision, a culture of concern for employees' well-being and continuous improvement discipline of detecting and then correcting unsafe, "at-risk" actions leading to injuries.</p>
<p>3. Does your company have a safety performance gap where the accepted level of safety is less than the espoused expected level of safety performance?</p>	<p>Many companies talk about the importance of safety and how they believe employee injuries can be prevented. Unfortunately, fewer companies successfully "walk the talk" and take aggressive actions to eliminate the causes of employee injuries. Companies with a zero injury culture expect superior safety performance and do not accept subpar safety performance. Is your company content with your safety and claims performance? Or, is there a discontent that your company accepts a safety performance gap?</p>
<p>4. Has your company experienced a recurring frequency of the same type of minor incidents involving non-compliance of personal protective equipment?</p>	<p>This is a common example of a safety performance gap. Such a gap presents an opportunity for immediate improvement and cost savings. An age-old adage in the insurance industry says that "frequency breeds severity," which means that the more that recurring claims occur, the more likely it is that one or more of these claims will be severe, resulting in a fatality, a severe disabling injury or a lost work time claim. For this reason, the workers' compensation Experience Modification Rating (EMR) more heavily weights injury frequency rates than severity rates, because it is proven that frequency rates demonstrates the ability of management to control preventable types of injury incidents.</p>
<p>5. Do you know your company's workers' compensation Experience Modification Rating (EMR)?</p>	<p>Is your EMR above or below 1.0? An EMR of 1.0 is known as a unity mod, which reflects the "average" performance for workers' compensation within an industry grouping. Performance better than the average of the industry group results in an EMR less than 1.0, which is also known as a credit mod, typically resulting in less premium due than a company with an EMR higher than 1.0, which is know as a debit mod. For guaranteed cost workers' compensation programs, the EMR influences your company's total premium. Based on the EMR, your company either pays at par with industry group peers if at unity, or your company receives a credit in the form of a premium reduction or a surcharge in the case of a debit EMR.</p>

<p>6. Do you know your company's OSHA Total Recordable Incident Rate (TRIR)?</p>	<p>The TRIR is a standardized measure of injury frequency for an industry grouping. The TRIR is the number of recordable incidents per 200,000 hours worked. Comparing your company's TRIR versus a peer group of companies can help you determine if you are at, above or below average in terms of measuring your injury frequency. For 2009 (the last year for which data is available), the overall TRIR for manufacturing was 4.3, yet the TRIR is available for sub-industry groupings based on SIC-code breakdowns within the broader manufacturing industry classification. The true value of knowing and understanding your company's TRIR is in establishing an initial baseline for your company and setting goals for improvement. It is also important to monitor carefully your company's progress in preventing injuries over time.</p>
<p>7. Do you know your company's days away from work, restricted work activity or job transfer (OSHA DART) rate?</p>	<p>The DART rate is a standardized measure of injury severity for an industry grouping. Comparing your company's DART rate versus a peer group of other goods producing companies can help you determine if you are at, above or below average in terms of measuring your injury severity. For 2009, the DART for the overall manufacturing industry was 2.3. The value of the DART is similar to the benefit of using TRIR for establishing a baseline goal and then tracking performance over time in management's ability at reducing the severity of employee injuries.</p>
<p>8. Do you know your company's leading types – and causes – of workers' compensation losses?</p>	<p>As with many key performance indicators, past performance is not a guarantee of future performance. However, past performance can provide important clues for management of where to focus preventive management and to detect and correct underlying opportunities for improvement. A type and causal loss analysis of historical workers' compensation claims can help pinpoint specific areas to focus improvement. This is done by determining the number, type, severity, cause and the affected part of the body for the claims sustained by each major occupation in your company. This allows corrective actions to be taken to prevent recurrence of the most common types of injuries.</p>
<p>9. Do you know the most common injuries for your company resulting in lost workday cases?</p>	<p>It is well known that lost work time cases have the highest total cost of workers' compensation injuries. Lost work time cases have higher indirect cost multipliers than do minor medical-only injury claims. According to the National Safety Council, the cost of a typical lost work time injury is \$48,000 (<i>Accident Facts, 2010</i>). Companies with more lost workday cases as measured by an above-average DART have the most to gain from instituting an injury prevention program and especially by focusing on modified-duty, return to work to minimize lost workday cases.</p>
<p>10. Does your company assign workers' compensation to a single professional or does your company have an interdisciplinary team approach to managing workers' compensation?</p>	<p>The importance of assigning a centralized coordinator for workers' compensation cannot be disputed. Using a single professional to coordinate communications between production, safety, medical professionals and the insurance company is advisable. However, the challenges of workers' compensation management are often best tackled by a team of interdisciplinary professionals. A winning strategy is to make workers' compensation management a team sport – and make it a contact sport and not a spectator sport. Active involvement by interdisciplinary team members will help ensure appropriate focus on injury prevention, claim management and cost containment tasks.</p>

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## Evaluating your responses

The responses to these questions are not scored. These questions are a self-assessment of the company's mindset and approaches to workers' compensation. As such, the self-assessment offers a "gut-check" on how a company's leaders feel about its workers' compensation program and practices. These questions are useful for identifying new strategies for leveraging workers' compensation as a means of achieving and maintaining competitive advantage.

These baseline questions allow a manufacturing company to consider the importance of its philosophy, vision and strategy on workers' compensation. Proactive workers' compensation risk improvement offers manufacturers an opportunity for short-term financial gain and long-term competitive advantage.

## Resources

Bureau of Labor Statistics (BLS). (2010). How to compute a firm's incidence rate for safety management. <http://www.bls.gov/iif/osheval.htm>

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