



## **Workers' Compensation Rates Will Rise (and Fall) Again**

By Erik Van Beurden  
CEO, Van Beurden Insurance Services, Inc.

I am confident enough to make two predictions I'm sure will come true:

1. The sun will rise tomorrow morning.
2. Eventually, Workers' Compensation will rise as well – and probably sooner than you think.

Central California employers know that Workers' Compensation insurance rates have dropped, leading many to think the crisis is over. Smart employers know, however, that this temporary respite is part of a predictable, historic cycle.

The pattern works like this: Workers' Compensation rates rise, often with double digit increases. These rates cause outcry from business leaders that triggers legislative reform. Over the short term, reform creates attractive market conditions for insurance companies to increase their competitive efforts for market share, a situation that produces price wars. With rates declining, businesses “shop for the best deal.”

Employers become complacent with the lower prices, and lose their focus on injury prevention and cost containment. Claim costs do not fall in relation to the reduced rates, so employers suffer from an increase in their Experience Modification Factor. Legislative reforms prove to be ineffective in addressing the real cost drivers, such as medical inflation and abuses in the system, and insurance companies' profits grind down and the “low-ball deals” go away. Employers are left with fewer choices, higher Experience Modification Factors, and higher costs.

Inevitably, a renewed public outcry starts the cycle over again.

Central California employers that rely exclusively on legislative reforms and the insurance marketplace for stable cost reduction will learn soon enough that this is just the calm before the next storm. Here's how to change the status quo:

Understand that Workers' Compensation insurance functions like a credit line. Employers are typically financing injury costs through their Workers' Compensation policies. The “finance charge” is determined by an Experience Modification Factor (Experience Mod) that is applied to almost all Workers' Comp policies.

To calculate an Experience Mod, actual payroll and loss data for an individual employer are analyzed over a period of time. Usually, the latest available three years of data are compared to similar types of businesses to calculate the Experience Modification Factor.

In general, employers with better than average injury expenses receive a credit, thus reducing premiums. Employers with worse than average injury costs will carry a debit rating, and pay more. History shows that it is difficult for employers to lower their Experience Mod Factor during declining rate cycles, so many employers find their total Workers' Comp costs will go up even though premium rates are going down.

It is critical for employers to be vigilant and proactive in reducing injury expenses. Ultimately, an employer's injury costs have a far greater impact on the company's eventual net cost than reforms and rate decreases. This fact shifts the responsibility of cost reduction from governmental bodies, insurance companies, and the marketplace directly to the employer.

Reducing injury costs can be broken down into two primary categories: what to do before an injury occurs and what to do after an injury occurs. One of the major mistakes employers make is to hand over too much responsibility to the insurance company in managing injury costs. Insurance companies are neither positioned nor capable of doing this job alone, primarily since their involvement is usually after-the-fact. Employer involvement is essential, and begins before an injury occurs.

It has been said that "The best injury is the one that never happens." Employers are keenly aware that maintaining a safe workplace is the foundation of prevention. However, too many businesses rely entirely on traditional loss control engineering and fail to take the secondary steps indicated above. *The majority of injuries occur from unsafe acts, not unsafe conditions.* Safe conditions are required, but inspecting and addressing conditions alone will not bring desired results.

In summary, the most effective way to drive down Workers' Compensation costs over the long term is for employers, medical professionals, and employees to make the right decisions and do the right things at the right time.

Practical and proven methods are available. Awareness, knowledge, and possibly a dose of faith are the initial steps. No government entity, insurance company, or even the free market system will ever produce more beneficial long-term results.