

Workers' Compensation Costs: Severity vs. Frequency

Most employers believe that having a handful of smaller injuries spread across the policy year, will impact their experience modification rate to a lesser degree than by having an employee suffer one severe injury. This is hardly the case.

Let me preface this article with a disclaimer that we are discussing the economics of workplace injuries, and the effect that both types of claims can have on your bottom line. All too often, businesses focus all of their attention on the prevention or reduction of severe injuries and let the smaller, more frequent injuries continue without a blink of an eye. Economically speaking, the result of such action can cost a company dearly.

An employee that has an injury that requires surgery or a battery of tests, has costs associated with it that can cause an employer to lose sleep. Of course you want to ensure that this type of injury doesn't occur again, but while you focus your attention on this \$18,000 claim, there are three other "small" claims that occur but do not receive the same enthusiasm that larger claims receive.

What is the purpose of the majority of companies in the world? To create value and be profitable, right? At face value, the reaction to focus more on the most expensive claim is logical. However, the smaller claims need the same attention due to the impact these types of claims have on your experience modification factor.

Let's take a look at an actual example. A company with a manual premium of \$150,000, has a claim with a total incurred cost of \$18,455, and three \$6,155 claims.

Total Incurred	Impact on EMR	What you pay as an increase in premiums
\$18,455	.0491	\$17,676
\$6,155	.0357	\$12,829
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Shocking, isn't it? So why is this particular company paying \$20,772 more for the three small claims, than the one claim that had the same total incurred costs? The reason is because the workers' compensation system was developed to protect both the employee and the employer from severe, or catastrophic injuries that occur in the workplace. The experience modification rate formula places a greater emphasis on the frequency of smaller claims, and as such, has a much more dramatic effect on your experience modification rate.

I understand business resources are strained, but if you are focused on reducing the cost of your workers' compensation costs and improving your company's safety process, all claims need the same amount of attention.

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