



## 2012 Payroll Fact Sheet

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### Workers Compensation Prices Increasing as the Market Hardens

Workers Compensation insurance prices are increasing, substantially in some cases and policy offerings are diminishing as insurers seek to address unprofitable combined ratios amid rising indemnity and medical costs. Liberty Mutual Group Inc., for example, reports that on average it secured a 9% overall rate increase for Workers Comp policies that were sold during the second quarter of 2012 compared with the same period last year.

For middle-market accounts that purchased guaranteed-cost policies during the quarter, Liberty obtained a 12.1% increase on average. Liberty is one of the nation's biggest Workers Comp insurers. With Liberty reporting its premium increases it is also reported many insurers are being very aggressive pushing higher rates than that. Meanwhile, employers are exiting Workers Comp guaranteed-cost policies that have fixed costs and taking on greater risk by purchasing loss-sensitive plans with lower premiums but higher deductibles.

Market experts say companies are doing so because Workers Comp insurers are shrinking their offerings or raising policy prices, particularly for guaranteed-cost coverage. The loss-sensitive plans are not seeing as dramatic of an increase as they increase employers' responsibility for claims management, because such plans often come with higher deductibles that hold them accountable for loss control and claims management. Loss-sensitive programs however, are not for every company.

With "guaranteed costs for larger insured's, the price is either going up or the availability is starting to shrink." Hence people are either returning to loss-sensitive or considering loss-sensitive (insurance programs) if the rate increases have been more than they budgeted for or are unacceptable. Larger employers that purchased guaranteed-cost policies the past few years during the soft insurance market cycle, when the price of such coverage was "cheap," also are shifting back to loss-sensitive programs.

The market (had) been so soft that even multimillion-dollar work comp accounts that have been guaranteed-cost are transitioning. Shifting between guaranteed-cost and loss-sensitive workers comp coverage is common when insurance market cycles firm or soften, experts say. Before companies shift they should understand that under a loss-sensitive arrangement they will be responsible for an array of new decisions, such as whether to unbundle their claims management by contracting with a third-party administrator.

Under a guaranteed-cost plan, policyholders turn over most of such claims-handling decisions to their insurers. Employers also must be sure they are "operationally ready" for the responsibilities of taking on greater risk through a loss-sensitive policy. For example, a company's finance department or treasury would be more involved in meeting the insurer's collateral requirements, while operations managers may have to take on greater roles in reducing subsequent losses the employer would retain.

Over the long term, employers can realize savings with a loss-sensitive Workers Comp plan that requires them to play a more direct role in managing their claims instead of transferring all their Workers Comp risk to insurers. Companies must realize there will be fluctuations in claims costs, with the potential for some large losses to occur before the long-term savings materialize. There also are substantial loss-control considerations, such as whether an employer has the in-house staff or ability to pay a third party (such as Three Sixty Safety™) for claims analysis that helps them understand certain issues, such as which business units are generating the greatest losses.

If you go self-insured with some notion that you are automatically going to have savings, you're mistaken. You have to focus on controlling your costs throughout the organization. Others agree that analyzing losses is a first step. The first thing you really have to look at is; where are your losses. Then employers should conduct a cost-benefit analysis to determine their total cost of risk under various work comp programs. Employers evaluating the shift also must look at their loss trends and experience modification factors to see which direction they are heading. Most companies that buy guaranteed cost lose track of the fact that their open claims are going up. And when you are on a deductible program, you are going to be continuing to write checks