



PENNSYLVANIA

# Borough News

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## *Leadership* & GOVERNANCE



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PSAB's 107<sup>th</sup> Annual Conference in Review

THE 2017 FOLIO:  
**EDDIE  
AND  
OZZIE**  
WINNER AWARDS



Are you paying more  
than you need to?



# The Formula for Reducing Workers' Compensation Costs: Eliminate the Errors and Overcharges

Whether a borough is insured in a trust or by an insurance company, the experience modifier is one of the biggest drivers of its workers' compensation premium. The lower the experience modifier, the lower the premium will be.

An experience modifier is based on a borough's data, total claim dollars, and audited payroll amounts over a three-year period. This data gets reported to the workers' compensation rating bureau or to the trust's actuary. The borough's data is then compared it to other municipalities'.

If the actual claim costs meet expectations, the borough earns an average grade, which is a 1.00 experience modifier. If the borough is better than average, a credit modifier (e.g., 0.91) is received, and for worse than

average, a surcharged modifier (e.g., 1.26) is given.

## *Below 1.00 modifier, not the only goal*

Unfortunately, most insurance agents will report: "You have a 0.94 experience modifier. That is great. You are getting a credit of 6 percent for having a great loss history." However, is that really a good comparison, when the borough's minimum experience modifier could be 0.61 or better?

Boroughs should consider that if their experience modifier is 0.94, and their minimum is 0.61, they are really paying 54 percent more for workers' compensation than they are legally obligated to pay since they are paying 54 percent more than what their minimum modifier is.

This means the goal should be to know and have a plan in place to reach the minimum experience modifier.

To put the actuarial based experience modifier in different terms: every dollar that the insurance company or trust pays for an injury, or expects to pay, adds points to the experience modifier. Every point that gets added onto the experience modifier increases the premium.

Therefore, the effect of an experience modifier is that the borough will repay the cost of injuries, plus interest, back to the insurance company or trust over those three years.

It is important, then, to determine whether the borough is doing a good, fair, or bad job.

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*If a borough does not measure its results, then officials cannot determine if they are doing a good job or a poor job.*

There are certain data points we suggest every borough analyze each year, so it can properly benchmark progress. These can be compiled into what we call an annual executive briefing, which includes:

- **Minimum experience modifier** – How low can the experience modifier go? Without this information, a borough cannot benchmark how much extra money claims are costing.
- **Controllable experience modifier** – This is the additional premium a borough pays over what the premium would be using the minimum experience modifier.

- **Ultimate cost of loss** (or, work comp payback ratio) – For each dollar the insurance company or trust spends for an injury, how much is the borough paying back for that injury over the three years that the injury impacts the experience modifier?
- **Actual losses vs. expected losses** – This report shows a year-by-year comparison of how much claim dollars are in comparison to what the actuaries expected based on the reported payrolls.



## Benchmark results

If a borough does not measure its results, then officials cannot determine if they are doing a good job or a poor job. Boroughs should be focused on the long term to earn an A on the experience modifier report card.

Unfortunately, increase in premiums as a result of the modifier is only part of the problem.

The medical and wage costs of the injury and the resulting increase in premium are the direct costs. In addition to these are indirect costs that can range from four to 10 times the cost that is actually paid out.

Examples are: lost productivity of the missing injured employee; workforce disruption; paying overtime to cover the work of the missing employee; reduced morale; damage to borough vehicles, property, or equipment; project delays; and dissatisfied borough residents.

These additional concerns add to the cost beyond the workers' compensation wage payments, and they increase the effective overall workers' compensation costs. The key is to benchmark results to ensure there are improvements.

To learn more about benchmarking workers' compensation results, visit [www.WorkCompExecutiveBriefing.com](http://www.WorkCompExecutiveBriefing.com).

## Zero claims?

Ultimately, the best way to keep the workers' compensation insurance experience modifier and premium down is to not have any employee injuries, so a proactive, robust safety program is very important.

If a borough workforce has no injuries, then it will not have to pay the insurance company or trust back and will reach its minimum experience modifier. While having zero claims is possible, doing so over a period of time is difficult. So, at some point, the borough may have an employee injury that impacts its experience modifier.

When there is an injury, the claim adjuster sets up a claim and also sets an initial claim reserve – a dollar amount that the insurance company or trust must legally set aside for what they predict the employee's future injury costs to be. This reserve counts just as much as if it were actually paid when it comes to calculating the modifier.

If for some reason, an employee is recovering faster than expected or not injured as severely as initially thought, it would be reasonable for the claim adjuster to reduce the amount of reserves.

But if the adjuster does not reduce the reserve before the date the claim totals are used to calculate the experience modifier, it cannot be changed and will

mean being overcharged. It is also possible that an injury claim has been resolved, but the claim was not closed and the reserves removed.

So it is essential that borough officials pay attention to claims and claim reserves throughout the year and not just when looking for insurance quotes.

Because of injury claim reserving issues, as well as failure to properly apply funds received back through a third party who might have injured the employee, the Institute of WorkComp Professionals' report found that 10 to 15 percent of modifiers are incorrect, and almost 90 percent are mismanaged.

We have also seen claims mismanagement errors not only affect premiums, but also a borough's dividend calculation.

Another way of managing and reducing experience modifiers and eliminating errors and overcharges in workers' compensation insurance is to have a proactive process to bring employees back to work through a recovery on the job program.

In the June 2016 *Borough News*, "The Right Prescription for Lowering Workers' Comp Costs" highlighted the best way to manage employee injuries in order to reduce the cost of them, which will ultimately reduce the experience modifier and premiums.

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For a copy of this article, email the author at [dleng@duncangrp.com](mailto:dleng@duncangrp.com), or visit [www.StopBeingFrustrated.com](http://www.StopBeingFrustrated.com), then click "Press Room" on the menu bar for a downloadable copy.

**About the author:** David R. Leng, CPCU, CIC, CBWA, CRM, CWCA, is author of *Stop Being Frustrated & Overcharged* (by your workers' compensation program) and executive vice president of the Duncan Financial Group in Irwin, Pa., which is a member of Keystone. Leng is also an instructor for the Institute of WorkComp Professionals. He can be contacted at [dleng@duncangrp.com](mailto:dleng@duncangrp.com). For more information, visit [www.StopBeingFrustrated.com](http://www.StopBeingFrustrated.com).

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with a community of like-minded agencies, industry expertise, and access to specialized products for their clients. Keystone is ranked number two on Insurance Journal's 2016 list of Top 20 Privately-Held Property/Casualty Agency Partnerships. Keystone is the endorsed insurance provider to PSAB members since 2002. As the recommended insurance provider, PSAB members have access to an exclusive insurance program including Loss Control and Risk Management consultation and opportunities to share in a safety dividend through Keystone's carrier partner, EMC Insurance Companies. For more information, email [programs@keystoneinsgrp.com](mailto:programs@keystoneinsgrp.com). 

## TRAINING AND PROFESSIONAL DEVELOPMENT



### Your Role as a Municipal Secretary or Administrator (Two-Day Training)

Nov. 14 & 15

PSAB members: \$200 • Non-members: \$250

**Schedule:** 9 a.m. to 4 p.m. – lunch and breaks included for both days

This two-day course was developed for newly hired personnel and experienced staff interested in professional development and networking opportunities to learn new techniques and improve skills. The first-day agenda includes information on how local government is organized and its function, important municipal codes, key functions of the secretary or administrator, meetings, legislation, public notices, records management, citizen relations, plus professional resources. Day two includes records, reports and financial management, communicating with elected officials, and the Sunshine Act. The training fee includes two pre-recorded webinars developed to help with state report filing and basic planning and zoning administration.

**Nov. 14 & 15 – Montgomery County & Allegheny County**

This class is approved for 12 Certified Borough Official credit hours.

This training is endorsed by the PA Association of Municipal Administrators (PAMA). Members of PAMA are eligible for the member rate.



Register for this class at [register.boroughs.org](http://register.boroughs.org); or contact Terri Dickow at 717-236-9526, Ext. 1042 or [tdickow@boroughs.org](mailto:tdickow@boroughs.org).