

## Why Is My Workers' Compensation Premium Increasing?

If your workers' compensation premium has gone up, you may wonder, “*Why now?*” or “*What changed?*” Several factors influence premium adjustments, from claims and payroll growth to your experience modification factor (EMR) and policy structure. Understanding these drivers can help you manage costs *and* identify savings opportunities.

---

### Claims: A Core Driver of Premium Increases

Workers' compensation premiums are heavily influenced by your company's claims history. If you've had recent workplace injuries or illnesses resulting in claims, insurers may adjust your premium to account for the increased risk.

- **Severity and Frequency:** Frequent small claims, which weigh heavily on your premium, or a single severe claim can significantly impact your costs.
- **Claims Development:** Sometimes claims worsen over time. For example, a minor injury can lead to prolonged medical treatment or even litigation, increasing costs and your premium.

To control claims, focus on robust safety programs, proactive reporting, and return-to-work initiatives. Fewer claims lead to safer workplaces and more stable premiums.

---

### Growth in Payroll: Expansion Equals Higher Premiums

Your workers' compensation premium is tied directly to your payroll. The more employees you have, or the higher your payroll grows, the more you'll pay for coverage.

Premiums are calculated based on a rate per \$100 of payroll. As your business expands and payroll increases, it's natural to see an uptick in premiums. This is not necessarily a bad sign — it's an indication of business growth.

To manage this impact, ensure your payroll records are accurate and up-to-date during audits. Misclassifications or errors can result in premium surprises.

---

### Experience Modification Factor (EMR): Your Risk Benchmark

The experience modification factor, commonly referred to as EMR or Mod, is a key rating tool used to adjust your premium. The EMR compares your company's claims experience to industry peers. An EMR of 1.0 represents average risk, while anything above 1.0 indicates worse-than-average claims performance and leads to a higher premium. Likewise, an EMR <1.0 results in an associated discount. Every risk has a lowest possible mod. Have you been shown what yours is?

Factors that impact your EMR include:

- Claims frequency and severity
- Payroll size relative to claims costs
- Loss prevention efforts

Improving your EMR takes time but can lead to significant savings. Implementing safety training, reducing workplace hazards, and addressing injuries quickly can help lower your EMR and, in turn, your premium.

---

### **Policy Structure: The Devil Is in the Details**

Your workers' compensation premium can also be affected by the structure of your policy. This includes elements such as:

- **Class Codes:** Each job role in your organization is assigned a class code, with higher-risk roles (e.g., construction) costing more to insure than lower-risk roles (e.g., office staff). Misclassifications can inflate your premium.
- **Deductibles:** Opting for a higher deductible can lower your premium while protecting your EMR from the impact of smaller, frequent claims. Because Colorado is a "net reporting state," only claims costs that exceed the deductible are factored into your EMR calculation. This structure allows businesses to absorb smaller claims while preserving a more favorable risk profile.
- **Cost Containment:** Are you taking advantage of all available safety discounts? Becoming a Cost Containment Certified employer not only strengthens your safety practices and streamlines the claims process, but can also unlock valuable underwriting discounts. It's a win-win for reducing risk and premium costs.
- **Schedule Rating:** This is an area where underwriters can apply rating credits or debits based on their assessment of your safety programs, claims management practices, and overall cooperation. Demonstrating strong safety measures and effective claims handling can work in your favor and result in premium credits.
- **Secondary Dividends:** Are you a good performer who wants to be rewarded for your safety and claims handling efforts? Learn about performance-based dividend programs tailored to your business. These programs allow you to earn back a portion of your premium when you achieve favorable claims performance, creating an incentive for maintaining a safe workplace.
- **Payroll Audits:** At the end of your policy term, insurers review your actual payroll. If your estimated payroll was low, you might owe additional premium.

To avoid surprises, ensure your policy accurately reflects your business operations and risk profile. Regular reviews with an experienced commercial broker focused on workers' compensation can uncover opportunities for optimization while revealing missed savings.

---

### **The Workers' Compensation Market: A Competitive Landscape**

Despite premium increases, the workers' compensation market remains in a *soft market* phase overall. In a soft market, competition among insurance carriers keeps rates relatively low as they strive to win new business and retain existing customers.

However, carriers are increasingly selective about the industries and risks they pursue. While certain classes of business (e.g., low-risk office environments) benefit from competitive rates, businesses with a high volume of claims or significant risk exposure may see premium hikes.

One key takeaway here: **cheap insurance doesn't always mean better insurance.** Some carriers may offer low upfront premiums but compromise on claims handling and support. High-quality claims management is critical to minimizing long-term costs and ensuring your injured employees receive the care they need.

---

### **What Can You Do to Manage Your Premium?**

While some premium increases are inevitable due to growth or market conditions, there are proactive steps you can take to control your costs:

- **Focus on Safety:** Build a strong safety culture, conduct regular training, and address hazards promptly.
  - **Improve Claims Management:** Report claims quickly and work to ensure injured employees return to work safely and expediently once cleared by the provider.
  - **Review Class Codes:** Verify that all job roles are correctly classified to avoid overpaying.
  - **Partner with a Trusted Broker:** A knowledgeable insurance broker passionate about work comp can help you navigate the market, optimize your policy, and advocate on your behalf for the most competitive rates.
- 

### **Final Thoughts**

Workers' compensation premiums are a reflection of your company's risk profile, claims history, and growth. While increases can be frustrating, understanding the factors at play—including claims, payroll, EMR, and policy structure—can empower you to take control of your costs.

In a competitive market, it's tempting to chase the lowest premium. But balancing affordability with reliable claims handling and risk management is key to long-term success. By investing in safety and partnering with a proactive insurer *and* broker, you can help protect your employees and your bottom line.

If you have questions about your workers' compensation premium or want to explore strategies to manage your costs, contact us today. Our team is here to help you navigate this important aspect of your business.

Ascent Insurance Solutions  
(720) 672-9774  
info@ascent-insurance.com