

Divvying up Deductibles in Workers' Compensation

When it comes to workers' compensation insurance, many policyholders focus on premium rates and claim management but often overlook the significance of a deductible. Understanding how a deductible functions in a workers' compensation policy and its impact on the Experience Modification Rating (EMR) is crucial—especially in Colorado, which operates as a net reporting state. Implementing a deductible properly ensures that businesses control costs while allowing the claims process to function as intended.

Understanding the Role of a Deductible in Workers' Compensation

A deductible in workers' compensation is the portion of a claim that the policyholder is responsible for before the insurance carrier covers the remaining costs. This is similar to a deductible in other insurance policies, such as auto or health insurance. However, a key difference in workers' compensation is that the employer does not pay the medical bills directly. Instead, the insurance company processes the claim, pays the medical expenses upfront, and then bills the employer for the deductible amount.

Colorado as a Net Reporting State

Colorado is unique in that it is a net reporting state, meaning that only the net claim amount—after the deductible is applied—is reported to the National Council on Compensation Insurance (NCCI) for the calculation of the employer's Experience Modification Rating (EMR). This distinction is important because it helps mitigate the impact of claims on the EMR, thereby reducing potential increases in premium costs.

For example, if an employer has a \$5,000 deductible and a claim results in \$7,500 of total incurred costs, only \$2,500 would be reported for EMR calculation purposes. This insulation effect can help employers maintain lower premiums in the long run.

Upfront Discount on Premium for Having a Deductible

One of the major advantages of opting for a deductible in workers' compensation is the potential for an upfront discount on premium costs. Insurance carriers often provide policyholders with lower premium rates when they agree to a deductible, as this reduces the insurer's financial exposure on smaller claims. This upfront discount can result in significant savings for businesses, making it a strategic choice for those looking to manage their insurance expenses effectively.

Claims Process with a Deductible

It is essential for policyholders to follow the proper claims process, even for smaller claims that may fall within the deductible amount. Here's how it should work:

1. **Report the Claim** – The policyholder should promptly file a claim with their workers' compensation insurance carrier, regardless of the expected cost of the claim.
2. **Insurance Carrier Handles the Claim** – The insurance company will process the claim, ensuring proper medical treatment is provided and paying the medical bills.

3. **Billing Back the Deductible** – The insurance carrier will bill the employer for the deductible amount once payments have been made.
4. **Claims are Reported Net of the Deductible** – Since Colorado is a net reporting state, only the amount exceeding the deductible will impact the employer's EMR.

Why Employers Should Not Self-Adjust Claims

Some employers may be tempted to pay out small claims themselves to avoid involving the insurance carrier. However, this approach is not advisable for several reasons:

- **Legal and Compliance Issues** – Self-adjusting claims could lead to improper handling and potential legal consequences, including assuming full liability if a seemingly minor claim escalates into a significant issue.
- **Impact on Employee Care** – Employees should receive medical treatment through the proper channels to ensure they receive appropriate care and benefits.
- **Preserving EMR Benefits** – Since Colorado reports claims net of the deductible, following the correct process ensures the employer receives the full benefit of deductible application.
- **Accurate Claim Handling** – The insurance carrier has the expertise to handle claims correctly, reducing the risk of long-term complications or unexpected cost increases.

Using a deductible in a workers' compensation policy effectively can provide significant financial advantages to employers, particularly in Colorado's net reporting system. However, it is critical that policyholders follow the proper claims process and allow the insurance carrier to manage all claims, regardless of size. By doing so, businesses can maximize cost savings, ensure compliance, and protect their employees with the appropriate medical care and benefits.

If you have any questions about workers' compensation deductibles or how your EMR is affected, we're happy to help you in developing a strategy that best suits your company's needs.

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