

WORKERS COMPENSATION AND YOU



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HOW TO KEEP YOUR WORKERS COMPENSATION COSTS TO A MINIMUM.

Mention the phrase 'workers compensation' and it can trigger a range of emotions. Employers often have a negative perception of staff who are 'on workers comp'. They lament the cost of premiums and lost productivity and the overall impact a claim will have on their business.

And while business owners and accountants know too well of the grief that an escalating workers compensation premium can have on budgets and cashflow, most remain unaware of what their premium will be until it is too late to do anything about it except pay up. You *can* monitor your compensation premiums annually and strategies *are* available to keep costs related to premiums at a consistent level.

Before considering which of these strategies to apply, you must first understand the composition of a premium.

CALCULATION OF THE PREMIUM

All states and territories have differing workers compensation legislation, and therefore, calculation systems. You should refer to your insurer/broker and or WorkCover to explain the specifics of premium make up. Two factors influencing the level of payment are common among all states and territories – a basic tariff and your claims experience.

The **basic tariff** is a set premium based on your industry and the gross wages you pay annually. All businesses are categorised into industries and tariffs are set according to the categories. These tariffs are standard and this component is non-negotiable. Assess the category you are classified under. This is where a broker will be most useful.

Claims experience is the *estimation* of what a claim or claims will cost the insurer or authority over the following premium year. The largest component of this estimation is wages. Each state and territory calculates claims uniquely and you should refer to the

respective insurer/broker/authority to outline their methods. Across the board, it is the claims experience component that comprises the bulk of the costs in a premium, and this is the one area over which you can have some control.

One of the traps of workers compensation is the belief that the insurer or authority actually pays for claims costs throughout the life of the claim. It is a case of 'out of sight, out of mind' for businesses who sometimes assume as long as the insurer is paying the bills, the business is unaffected.

Wrong! For every dollar spent on claims by the insurer or authority, the same dollar is being added to your 'claims experience' component. Depending on your industry and previous experience, you could in fact be spending *more* than one dollar for every dollar spent. I have seen businesses paying \$1.40 for every dollar spent on claims, hence, the escalating premium costs are astounding.

REDUCING COSTS

So how does a business maintain or reduce claims costs?

Five general recommendations are:

1. If you are a medium to large business with a high rate of injuries, engage a reputable broker. Be sure the broker has insurer and rehabilitation networks.
2. Maintain effective OH&S systems. There is no substitute for injury prevention. Spending \$5000-\$10,000 now can save you hundreds of thousands in claims costs later on.
3. Implement an effective injury management policy. Have preferred occupational rehabilitation provider arrangements if appropriate.
4. If an injury occurs, do everything you can to assist that worker back to work in some capacity:
 - use a company doctor
 - provide suitable duties
 - foster a culture of return to work in the workplace.If workers know that return to work is the only goal, they will not 'rort' the system.
5. Be aware of your governing legislation. Know how and when wages are estimated on a premium. For example in NSW, if a worker is off work for:
 - 26 weeks, two years of wages is added to the estimate.

► 52 weeks, six years is added

► 104 weeks, time to retirement is added!

Time away from work and its related wage cost has the largest impact on premiums – not to mention the direct costs to you to find casuals to temporarily replace that worker.

SPECIFIC STRATEGIES

1. Insist on regular claims reviews with your insurer/authority to determine where they are up to with your claims. Larger businesses with high numbers of claims should be having claims reviews quarterly. Insist on having your broker and provider with you. It is in the claims reviews where I have saved clients \$30,000 to \$80,000 on the costs of claims.
2. Be aware of premium renewal dates. Ensure that you do everything to have injured workers at work in some capacity before this date.
3. Work closely with your rehabilitation provider and insist on using them for more complex cases.
4. Drive your insurer to manage your claim effectively. Remember, you are the client and you are paying the bills.
5. Practise early intervention. Act now, get the person back to work quickly.
6. Understand how your claims are estimated. Use a broker or rehabilitation provider.
7. Termination is always the last resort. If a return-to-work is not happening, consider redeployment of the worker into a new employer first.
8. Monitor the cost of your premium as a percentage of wages. Your premium should be between three and eight percent of your gross wages. If you are paying more than eight percent, your claims costs are excessive. Effective claims management is not difficult. It is about taking control, understanding and reducing hidden costs and minimising exposure to risk. **NA**

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