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THE SAF SOURCE

SC State Accident Fund's Quarterly Workers' Compensation
News and Information Resource

Rising Premiums?—Ways to Slow the Ascent

By Ross Gamble

An employer once said that workers' compensation premium is like bread dough. It keeps rising until you poke it.

She took one poke at it by getting managers to collaborate in finding light-duty jobs for recuperating employees who otherwise would sit home. She took another poke at it by assigning safety director duties to a supervisor whose workload had shrunk.

For most employers, workers' compensation premiums are increasing, even for many without claims. They're wondering why and what they can do to slow the ascent.

The answers lie in understanding, first, your premium and, second, your workplace.

The second item, understanding your workplace, relies mostly on your own management capabilities and any outside resources you enlist, such as safety and loss prevention experts.

The first item, understanding your premium, starts with a look at your "premium description." That's the section of your Premium Statement that lists and adds up the components of your annual workers' compensation coverage costs.

Your "premium description" mirrors your business. Along with some constants are a lot of variables, including payroll, types of jobs, adjustments for your claim costs in the past, and adjustments for your risk of incurring claims costs in the future.

Changing things in your business will change things in your premium description. That's key.

The constants, of course, are parts of your premium you can't change. They respond to state and national trends, and some of those trends lately have been carrying high price tags.

An injury that happens today will cost considerably more than the same injury just a few years ago. Notable among the cost drivers:

Steeply rising medical costs. New surgery techniques and more frequent major surgeries have raised medical costs but not necessarily outcomes, at least not in workers' compensation benefit cost savings. Prescription drugs have been increasing in cost each year for the past five years, and the use of expensive pain management drugs continues to grow. Medical complications are on the rise, including higher rates of infection and diabetes.

More pre-existing conditions. Especially obesity, diabetes, arthritic conditions and an aging workforce. These are contributing to the frequency and severity of injury and slowing recovery.

More social complications. Chemical dependency, mental health, family problems, and histories of violence are impacting and complicating a greater proportion of claims. *(Side note: Though social complications and pre-existing conditions are mentioned in the what-you-can't control list, some employers are helping address these risks with innovative wellness and employee assistance programs.)*

Extremely low pricing in the past decade. Many employers had the benefit of pricing that probably was lower than it should have been given the higher-than-expected cost of claims during the latter part of the last decade.

Investment income is down.

These are some of the big factors driving workers' compensation costs and, hence, premiums—even for employers with good track records.

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EMPLOYERS' WORKERS' COMPENSATION UPDATE 2003

By Gerald Murphy

"This was a very good training even for long term employees. Thank you for your hard work and organized format."

"I learned a great deal of information during this seminar. It proved to be very interesting. It will also assist me in my every day duties dealing w/ workers' comp."

"This seminar provided me with new and significant information, very informative. Although I was aware, I am now more comfortable with the built in support network provided by the SAF."

"All sessions easy to listen to and follow."

These are just some of the comments made by attendees at this year's update.

A Special Thanks

We would like to express our gratitude to the Patriots Point Development Authority and Greenville Technical College for their assistance. These organizations provided the training facilities for the seminars held in the Charleston and Greenville areas.

A total of 138 policyholder representatives attended one of the four deliveries conducted at multiple locations throughout the state (Mount Pleasant, Greenville, and Columbia).

This is a significant increase in attendance over previous years when the seminar was held in

Columbia and only a single delivery was conducted.

The State Accident Fund plans to use the multiple locations and multiple deliveries model for future seminars and updates.

The SAF Source is a quarterly newsletter published by the South Carolina State Accident Fund as a vehicle to provide news, technical information and guidance to state/local government policyholders, policymakers and others concerned with the management of workers' compensation programs.

Gerald Murphy, Editor 803.896.5815 or gmurphy@saf.state.sc.us

Irvin D. "Pete" Parker, Director 803.896.5875 or pparker@saf.state.sc.us

Comments and contributions may be sent to: PO Box 102100 Columbia, SC 29221-5000

Rising Premiums?—Ways to Slow the Ascent

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The ‘rate’ multiplier. A different rate is applied to each of the job classifications in your payroll, as you can see on your premium statement. For example, the rate for Law Enforcement Officers is \$3.58 per \$100 of payroll. The rate for Clerical Office workers is \$.30 per \$100 of payroll. Each rate reflects the risk associated with the type of job.

But rates are only part of the picture. And it’s the rest of the picture that holds a world of opportunities for you to lower your final premium cost—or raise it, depending on what you choose to do.

The rest of the picture will look the way you paint it: your successes in making good hiring choices, practicing good employee relations, preventing injuries, getting recuperating employees back to work early, doing what you can to help control your claim costs—or, conversely, your lack of attention to those.

Your e-mod. These successes or shortcomings are mostly wrapped up in your “experience modification factor.” Your e-mod is your greatest long-term opportunity to reduce your annual premium costs.

Your e-mod compares your organization’s workers’ compensation experience to the experience of other businesses similar in size and types of jobs. An e-mod of 1.00 is exactly average for your industry. If your e-mod is less than 1.00, then your losses are less than your industry’s average.

Your e-mod is another key multiplier in calculating your premium, so the lower your e-mod, the better. A 0.80 e-mod compared to a 1.20 e-mod can make substantial difference in your final premium costs. It also indicates you’re doing better than your counterparts.

Monitoring and improving your e-mod is usually well worth the effort. Consider two approaches:

One is doing more to prevent injuries from happening in the first place. Generally the most productive place to start is analyzing your organization’s recent history of work injuries. You want to find the patterns showing where you can get the most out of investing your injury prevention resources.

The second approach is reducing the costs of injuries that do happen. For example, you can work with a recuperating worker to return him to a lighter-duty, lesser-pay position as soon as medically possible rather than waiting until he’s fully recovered. That can make a dramatic difference in the impact of the injury on your e-mod and, hence, on your premium.

Your successes today in reducing injuries and claims cost won’t show up in your next policy year’s e-mod. But they will show up in your e-mod the year after, and they’ll stay there for three consecutive years. That’s because typically your e-mod calculation includes three years of claim costs, excluding the most recent policy year.

The lingering effects of this three-year timeframe are painful for negligent employers who let loss prevention slide and whose claims run higher than they should. On the other hand, by monitoring your e-mod and diligently taking steps to improve it when needed, you can use the three-year timeframe to your continuing financial advantage, and it will soften the impact of an unusual major claim or even an unlucky year.

Improving your e-mod will also soften the impact of rates that, as mentioned earlier, are being driven up by factors outside your control.

Other: Over the months ahead, your efforts will take hold and begin producing fewer injuries or lower claim costs. By the time your policy renewal comes around a year later, those results will be showing up in your e-mod.

Bottom line: Your premium is a level of pricing that reflects your risk.

Your pricing is determined by a recipe of factors. Some you can’t alter and, in times like this, they’ll push pricing up. Others you can alter a whole lot and, if you make the committed effort, you’ll help offset the upward pricing push.

This article was adapted with permission from the January issue of “COMPANION” the Minnesota State Fund quarterly newsletter.

Pending Legislation

By Robert McCulloch

One challenge the Fund has faced over the last few years has been the legislature withdrawing money from the trust fund for various purposes, usually to make up for budgetary shortfalls. The trust fund has dipped lower than it should because of these withdrawals and increased claim costs, as well as inflation of medical costs. By law, if the Fund “runs out of money” the legislature must make up the shortfall by funding from the state’s general fund. This would keep the workers’ compensation system working, but a more sound and reliable way would be to ensure the trust fund remains financially sound. To that end, a bill has been introduced in the Senate by Senator Larry Martin of Pickens to prevent withdrawals from the trust fund. Withdrawals may be made only when all present and future liabilities are fully funded and there is more money in the trust fund than is needed. If this bill becomes law, it will work to protect the money used to pay your employee’s claims.

Contained within the same bill are two other issues. One deals with the ability of the Fund to cancel or refuse coverage to employers who refuse to cooperate in safety and health, drug free workplace, loss prevention or return to work programs. The other would allow workers to do limited duty with other agencies, if the claimant’s employer is unable to accommodate limited duty.

The bill is S 372, and may be found at www.scstatehouse.net.

Welcome New Policyholders!

**ALLENDALE-BARNWELL
COUNTIES DSN
BARNWELL, SC 29812**

**WILLIAMSBURG REGIONAL
HOSPITAL
KINGSTREE, SC 29556**

**HAMPTON REGIONAL MEDICAL
CENTER
VARNVILLE, SC 29944**

**TALATHA COMMUNITY WATER
DISTRICT
AIKEN SC 29803**

**TOWN OF JAMES ISLAND
James Island, SC 29412**



New Medical Services Provider Manual

By Gerald Murphy

The Medical Services Division of the South Carolina Workers' Compensation Commission has published a new *Medical Services Provider Manual*. The effective date for the manual is January 1, 2003. The Manual outlines billing and payment policy for physicians and other health care providers. The fee schedule determines the amount paid for medical goods and services.

There are two very significant changes in the new manual. In Section 10, *Pharmacy*, it states, " ...all prescriptions must be filled using generic drugs, if available, unless the authorized treating physician directs that it be dispensed as written." In the same section of the manual it also states, "Payment for prescription drugs is limited to the amount established by the following formula, ... Average Wholesale Price + \$5.00."

The expanded use of generic drugs and the new fee schedule for prescription drugs have the potential for reducing your claim costs. However, to take full advantage of these savings, injured workers should utilize pharmacies that bill the State Accident Fund directly. This will allow us to reduce the charges to the amount directed in the fee schedule. If the injured worker pays for the prescription and requests reimbursement, they will probably be charged the full retail amount.

FOUR WAYS TO CONTROL YOUR PREMIUM

By Ross Gamble

1. Build injury prevention into everything you do.

- Whenever making changes in any aspects of your business' operations, keep injury prevention in mind. Buying equipment or office furniture? Be sure it is ergonomically adjustable.

2. Take specific steps to control workers' compensation costs.

- Focus on transitional or lighter-duty jobs to improve the results of your return-to-work efforts, keeping lost-time claims within the seven day waiting period whenever possible. Report claims right away.
- Learn from past accidents and injuries. Develop a wellness program.
- Be especially vigilant in tougher economic times to things that might increase the frequency or severity of reported injuries.

3. Monitor your e-mod.

- It's your biggest opportunity to gauge your long-term performance and control your premium. Your e-mod should never be greater than 1.00.

4. Make good employee practices a priority.

- Hire with care. Invest in training. Tune in to employee concerns. Deal with performance problems promptly and separately from workers' compensation issues.

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SPRING 2003

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SC State Accident Fund
Post Office Box 102100
800 Dutch Square Boulevard, Suite 160
Columbia, SC 29221-5000

Phone: 803.896.5800 or 800.521.6576

Fax: 803.612.2779

Email: gmurphy@saf.state.sc.us

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A New Dedication to Safety**

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Staff Changes at the SAF

By Vicki Lewter

Please join us in welcoming Warren Farray and Ruth Bell to the State Accident Fund.

Warren Farray is a Senior Premium Auditor on the X-team. Warren began on March 3, 2003 and is taking over the accounts previously handled by Shawn Holman.

Ruth Bell is a Claims Adjuster on the Nucleus team. Ruth began on March 3, 2003 and is taking over the caseload previously handled by Lora Ramsdell.



**SAF Salutes Our Heros!
United We Stand!**