

S E L F - I N S U R A N C E  
B U L L E T I N

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## LOOKING AT WORKERS' COMPENSATION IN HUMAN TERMS

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A 38 year old father of three, coach of his son's little league team, weekend golfer, hiker and camper was injured seriously at work, and his life and that of his family were irrevocably changed. His back injury required multiple surgeries, hospitalization and rehabilitation extending over 3 years. During that time, the family's life revolved around the injury and treatment and caused financial strain as well. Mother went back



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to work to make ends meet, vacations were forgotten, holidays interrupted by endless doctor visits and repeated surgery. Due

to his permanent injuries, the father no longer actively coaches his son's team, enjoys golf, or hikes and camps with his family. The simple pleasures derived from good health are permanently lost to him and both he and his family suffer.

**Life altering injuries are the true cost of workers' compensation.**

Employers and Insurers alike tend to view workers' compensation in financial terms. Direct costs, indirect costs, WC premium, average claim cost, average weekly wage, medical

inflation, compensation rate are all financial measures related to the cost of injuries. Lost in all the financial measures is the reality that we are talking about the life and health of our employees.



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## WORKERS' COMPENSATION IN HUMAN TERMS, CONT.

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Each year thousands and thousands of work-related accidents occur producing life altering injuries. Serious permanent injuries, catastrophic brain stem and spinal injuries, horrific burns, amputations and death occur in the US with considerable frequency. The sad thing is that most are preventable. By dehumanizing the impact of these injuries and focusing on the financial impact only, we come to accept injuries as a cost of doing business. Should we invest in a new safety initiative? Let's do a cost/benefit analysis. Should we replace a known unreliable piece of equipment? It's not in the budget. Should we train employees to perform their job safely? We can't right now because production will suffer if we take them off line.

### Dehumanizing the Cost

Dehumanizing the cost of workplace injuries has another side effect. It causes employers to misdirect their cost containment efforts. Midwest Employers has benchmarked over 3,500

self-insured programs. 95% of all programs do not achieve true best practice results. Why? Because employers are not focused on eliminating the behaviors that cause accidents.

Studies show that 90% of all accidents are the result of unsafe behavior while 10% are caused by environmental factors. Clearly to achieve best practice, the employer must focus



efforts on changing the behavior of employees, supervisors, managers and senior leadership and align behaviors to eliminate needless injuries. In reality, most current loss control initiatives

ignore behavior and focus on environmental concerns like lock out tag out, machine guards, safety goggles and the like. While these are important too, they don't

address behavior, the major cause of workplace injury.

### It can be done.

Dupont is an example of what can be done when an organization decides that injury to workers is no longer acceptable. With over 100,000 employees worldwide, Dupont sustains just 30 lost time injuries per year. An employer with 10,000 employees, assuming Dupont's injury rate, would sustain just 3 lost time injuries per year. Imagine an employer with 1000 employees and Dupont's injury record. They would sustain just 1 lost time case every 3 years.

How does an organization as large and diverse as Dupont achieve this incredible record? It starts with management commitment and the recognition that workers' compensation is a business process, like any other, that can and should be managed. Injury reduction goals are set and communicated throughout the organization. Behaviors of management and employees are aligned to achieve

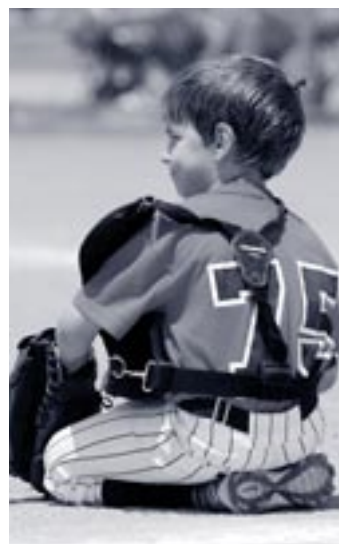


## WORKERS' COMPENSATION IN HUMAN TERMS, CONT.

the goals and job descriptions modified. Management's commitment to the change is visible and consistent. In Dupont's case, the CEO chaired the safety committee and every supervisor's injury report came across his desk within 24 hours of injury bringing a heightened focus on follow up and prevention. Safety and behaving safely became a way of life for Dupont.

So how does an employer quit thinking about workers' compensation just in dollar terms and start focusing on the people as well? The simple answer is to focus on eliminating the behaviors that cause the injuries. Train employees how to do their jobs safely. Reinforce safe behavior through front line supervisors. Provide immediately the resources to eliminate workplace hazards

identified. Set goals and make those goals known to the entire organization. Reinforce the "good behavior" and make an example



of the "bad behavior". Hold all accountable for their participation in achieving the goal. Share results. Track progress. Communicate, Communicate, Communicate!

## WANT TO CUT THE COST OF EXCESS INSURANCE?

Excess Insurers are under tremendous pressure today. We must deal with exposure from potential terrorist events without the benefit of reinsurance. TRIA, the government's terrorist financial backstop,



less frightening but of tremendous importance to excess insurers is medical inflation.

Excess claims, those involving serious or catastrophic injuries are paid for the injured workers life, without limit (in most

cases). These claims are paid out over 10, 20, even 50 years and involve extensive, expensive medical care.

Drugs, medical tests, surgeries, physical therapy, attendant care etc

are all subject to inflation rates greater than the general rates of inflation. Excess insurers must price their products today to cover the

cost of future medical inflation. A difficult task to say the least.

Another form of medical inflation, even more difficult to quantify, involves advances in medical technology. Pharmaceutical companies develop new drugs to replace older drugs. The new drugs always cost more. Surgical procedures and medical implants are constantly advancing and the new procedures/implants always cost more. Research is underway right now to help

cost? Excess carriers will ultimately be called upon to pay for these future medical advancements on claims that have already happened. Excess carriers must be able to calculate and include the cost of future "medical advancement" into today's premium if they are to stay financially viable and fulfill their contractual promises.

The Excess Workers' Compensation market is a small one by insurance industry standards.

***Excess carriers must be able to calculate and include the cost of future "medical advancement" into today's premium if they are to stay financially viable and fulfill their contractual promises.***

restore functional capacity to workers suffering from paraplegia and quadriplegia. Anyone care to guess what that will ultimately

Industry experts believe the market generates approximately 1 billion dollars in annual

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is a halfway measure to help the insurance industry deal with this uninsurable risk. It offers only partial relief and it may or may not be renewed, creating even greater uncertainty for excess insurers like Midwest Employers. Unfortunately for us, with respect to the next terror event, it's not a question of if it will happen again but when, where and by what method.

# CUT THE COST OF EXCESS INSURANCE, CONT.

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premium. Most of the insurers that entered the line in the past 20 years did so only after intense competition entered their traditional markets. They looked at the line of business as an opportunity to prop up their sagging top line with little danger to the bottom line. They were wrong. Failing to understand the "economics" of the excess market, these insurers added very little premium to the top line and significant unexpected losses and much pain to the bottom line. Most bailed

out of the self-insured market voluntarily. Some were forced out due to insolvency. Even long time players in the market are not immune. Industry pioneer, Employers Reinsurance

**So, back to the original question: do you want to cut the cost of excess insurance?**

You can. Despite the pressures on excess insurers, you can cut

costs as well. Eliminating them protects your employees, improves the performance of your self-insured program and mitigates the main driver of escalating excess premium costs. Improve performance and you earn lower premium costs.

***Despite the pressures on excess insurers and the lack of uninformed competition you can cut your cost of excess insurance. How? Reduce or eliminate life-altering injuries at work.***

Company, withdrew from the excess workers' compensation market in July of this year. Clearly, this is a tough line of business to underwrite profitably. If it were easy money, every insurer would do it.

your cost of excess insurance. How? Reduce or eliminate life-altering injuries at work. It is no surprise that "Life-Altering Injuries" are the employer's most expensive claims and generate the highest indirect

MECC helps our clients rein in escalating excess premium costs by helping them improve performance by attacking the employee and supervisor behaviors that lead to life-altering injury. Contact your MECC account manager today to learn more. 



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