

What's in the WC Claims Data?

PEO Insider

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May 2010 - Loss frequency rates, loss ratios, experience modification rates, claims reporting lag time rates, closed case percentages, lost workday rates (severity), claim severity (cost) figures, lost time frequency rates. How many risk factors should you use when conducting a workers' compensation loss analysis for your wide range of clients? What does the data tell us about you and your clients?

If the data impacts your business, your relationship with your clients, your worksite employees, or your workers' compensation insurance carrier, then you should include it in your analysis. A spike in any one of the risk factors is reason for asking probing questions. They may indicate the client is experiencing a change in operational processes, experiencing high turnover, having problems in its business operations, or losing management control of the workplace. For instance, the client may have introduced a new product line or a new service, which may have created new exposures and hazards in the workplace that were not there when the client was brought on board. Regardless, such spikes must be investigated and the reason for the spikes clearly identified.

As a case in point, WC insurance carriers establish a reporting benchmark, or standard, for submitting the "Employer's First Report of Injury." This benchmark is typically three days from the date of injury, which means the PEO must exercise maximum effort in training and motivating, not only the worksite employer but the worksite employees, to report all claims as discussed in the claims reporting procedures and the employee handbook. The PEO should be prepared to provide ongoing training in claims reporting and should seriously consider monetary penalties for chronic late reporting.

There are three levels of reporting where lag may occur: the employee, the employer, and the PEO. Each PEO should be tracking the lag at all three levels to identify where the problem is and apply appropriate corrective action. Without a comprehensive lag report, you are likely to waste valuable resources or not apply the appropriate corrective action. Tracking and acting on WC claims reporting lag time is an industry claims management best practice that will improve your internal risk management processes and go a long way to meet carrier expectations. Keep in mind that failing to track or act to correct late reporting can have serious negative consequences for the PEO in policy negotiations.

Late reporting of claims may be an indicator that personnel changes have been made and the new person responsible for reporting WC claims to the PEO has

not been properly trained or does not comprehend the need for urgency and timely response. This creates a contact and training opportunity for the PEO.

Tools for Analyzing Data

Management may play an active role in setting standards, developing best practices, and creating internal benchmarks to measure performance, all predicated on the desire for progress and continuous improvement. However, the carrier or the TPA may dictate benchmarks for many of the key data components.

The Certification Institute (CI) provides WC Risk Management Certified PEOs with a benchmark matrix that reflects their ranking in several key ratios within the certified PEO community. CI conducts an annual survey to gather voluntarily submitted data used to produce several key benchmarks and then generates customized benchmark reports for each certified PEO.

Your policies and procedures should require tracking pertinent indicators at least monthly, quarterly, and, annually, and for records to be maintained on a rolling 12-month cycle. Generally, the evaluation of loss data should include:

- Number of claims as a percentage of payroll;
- Number of late reporting claims as a percentage of total claims;
- Lost workdays as a percentage of lost time claims;
- Lost time cases as a percentage of total cases;
- Percentage of closed cases (a measurement of the effectiveness of the carrier or TPA to close claims as soon as possible, compiled over the 12-month rolling cycle. The carrier generally establishes this baseline); and
- Monthly change in total incurred, a critical data source that should be monitored closely.

Another valuable data source is the Pareto chart. This method of analysis focuses on the 80/20 rule (80 percent of the effects come from 20 percent of the causes). The client-based chart identifies the major offenders by incurred costs for the 12-month rolling cycle, and the number of clients that produced 80 percent of the incurred losses. The analysis is specific to worksite employees, their incurred costs per claim, and the number of claims in the category comprising 80 percent of the incurred losses for the rolling 12 months.

What WC claims data tells you about your clients can also reveal the risk profile of your organization, your business model, and your appetite for risk. For example, a low percentage of closed cases may reflect a mix of business that is heavily weighted toward high risk or blue-collar business. One of the common problems with this type of risk is the inability to implement an effective return-to-work program. Identifying a light or modified job duty option for a heavy equipment operator or a carpenter, for example, is often problematic. Claim severity is also common in high risk industries, and recovery to maximum medical improvement (MMI) takes much longer.

The value of high risk/high premium business versus white-collar type business is purely the measure of risk versus reward and the PEO's decision about how the risk of loss is handled. For example, if the PEO's client base is one that develops premium at \$2.00 per \$100.00 of payroll, the claims frequency rates will be the more important indicator of a healthy work environment; whereas, for premium developed at \$9.00 per \$100.00 of payroll, claims severity and frequency of lost time claims will be the more important indicator. If the PEO does not have sufficient resources to provide effective loss prevention services, including training and field audits, the resulting severity-driven losses can easily erode the premium bank and produce unacceptable loss ratios.

Acting on the Data

The data components that are applied to internal benchmarks will allow you to identify your problem areas. From time to time, underwriting and operating models will need to be adjusted to minimize or eliminate loss sources, and this may require the allocation of additional resources for loss prevention and claims management personnel.

Eliminating poorly performing risks is as simple as terminating the client service agreement (CSA). If the client is not willing to make the necessary modifications and adjustments, there is no partnership and the CSA should be terminated. Increasing the workers' compensation cost component may be a quick fix, but the client will more than likely start shopping for a new PEO. Given today's business climate, there are PEOs willing to overlook poor work comp history for new business.

Analysis of the loss data can provide an abundance of clues about the client's management attitude and risk management posture. In addition, there should be no surprises to the PEO, provided risk assessments are conducted on the front end of the relationship and loss data is properly analyzed. Assessments should clarify not only the client's exposures and controls, but also management's attitude and philosophy about employee safety.

The mix of business the PEO elects to bring on dictates which of the key indicators should be of primary concern. The PEO risk management team should maintain a monthly monitoring system to evaluate every client for unusual or unacceptable trends. When trends are spotted, the entire management team should be called on to discuss strategies to address the causes and produce the desired financial results.

Data collection and analysis is not just the tool of the "metrics manager," or your resident process manager. The PEO risk management team is first in the line of defense of the PEO's bottom line because they are the first to be aware of program losses and they possess the ability and training to respond, but the job doesn't stop there. The analysis of the data must be ongoing and strategies implemented accordingly. Making certain your company has appropriate

benchmarks in place will allow you to track the effectiveness and efficiency of the risk management effort.

Remember: data without analysis has no use. Analysis without action has no benefit.

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