

## Preparing for Your Workers' Compensation Premium Audit Can Save You Money

When your insurance company issued your workers' compensation policy, you paid an estimated premium for the term of the policy. This rate was based on the nature of your business and your estimated payroll. However, once your policy expires, the insurance company conducts a premium audit to gather data about your actual costs for the applicable policy term. If there is any shortfall, you are responsible for the difference between the original estimate and actual premium.

Naturally, you want to keep the difference between the estimated and actual rate as low as possible. Consider the following list of tips:

- Have all necessary records available for the auditor.
- Break down your payroll by classification code so that the auditor doesn't have to classify any unexplained payroll. Leaving the decision up to the auditor could result in having the payroll placed in the highest classification.
- Separate overtime wages from regular wages. This allows the auditor to discount the overtime wages back to regular wages.
- Exclude tips, severance pay, meal and travel advances and bonuses paid for inventions, because none of these are included in workers' compensation premium calculations.
- Divide uninsured subcontractor billings into material and labor costs since you are only required to pay premiums for labor. If you don't have an actual split, figure on 50 percent for each. One important exception to this is for heavy equipment operators who are employed as

subcontractors. In this case, use a third of their total billings as reportable labor costs.

- Don't include short- or long-term disability payments in the data given to the auditor because these are excluded from premium calculations.
- Be sure to cap all covered officers' payroll at the maximum for your state.
- Exclude wages paid to employees who are on active military duty because their wages aren't included in premium calculations.
- Present the auditor with all Certificates of Insurance for covered subcontractors so you aren't charged for them.
- Classify all employees in the lower-rated payroll classifications if you aren't sure about where they should be classified. However, you should never deliberately misclassify an employee.
- Be sure you make the auditor aware of all employees who do only clerical work and are physically located away from the shop floor. These employees qualify to be classified in the lower rated clerical codes. If your clerical staff aren't physically separate from the shop, you should consider changing their work location.



## Welcome to the "Alliance Insurance Services" Risk Monitor!

It is the vision of Alliance Insurance Services to be an industry leader in providing business support and services in the areas of insurance, loss control, and human resources. Our company's total effort will be directed at reducing our client's cost of risk while helping maintain an environment conducive to employee retention.

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# Workers' Compensation Experience Modifications: What Happens When a Loss Reserve Changes?

For many businesses, workers' compensation insurance is one of the largest expenses. A firm's experience modification, which is a numeric factor that applies to the workers' compensation premium, is a major influence on that cost. It is designed to reward firms that have below average loss activity and penalize those with above average activity. Firms with losses below average will have a mod of less than 1.0, while others with above average losses would have mods greater than 1.0. The insurance company multiplies this number by the calculated premium, producing either a reduced or increased premium. Firms with frequent, small losses fare worse under experience rating than those with infrequent, large losses. However, large losses and changes to the amounts reserved for them can still have a great impact.

In each state, a bureau independent of the insurance company calculates an eligible firm's experience mod. The bureau uses a formula that considers the type of operation, the payroll over the previous three policy periods (not including the current one), the losses with values of less than \$5,000 each, and the losses valued at more than \$5,000. Through the application of mathematical factors, the formula determines the firm's actual losses for the three-year period. The bureau divides this number by the expected losses for a firm in that classification with that amount of payroll. If actual losses exceed expected losses, the mod is greater than 1.0; the mod is less than 1.0 if the converse is true.

The formula values losses of less than \$5,000 at full value. For example, a firm that had five losses totaling \$10,400 would be charged that amount in the experience rating formula. However, a firm with one \$10,400 loss would not be charged the full amount. The formula

breaks this loss into two amounts -- \$5,000 plus some fraction of the amount in excess of that. The experience rating manual contains the factors that apply to the amount over \$5,000, and they will vary by the firm's expected losses. Factors are greater for firms with greater expected losses. Each state has a maximum amount for which any one loss can be valued, no matter what its actual size. For example, if a firm suffers a loss reserved at \$900,000 and the state's maximum single loss is \$200,000, the formula will apply the factor only to \$195,000 (the amount between \$5,000 and \$200,000).

A significant change in the amount reserved for a loss can have a dramatic effect on a firm's experience mod. In the example above, if the reserve dropped from \$900,000 to \$100,000, the factor would now apply to \$95,000 instead of \$195,000. This would produce a major decrease in the formula's calculation of actual losses, resulting in a big drop in the experience mod. Conversely, a loss reserve that jumped from \$50,000 to \$250,000 would produce a sizable increase in the calculated actual losses, as the factor is now applied to \$195,000 rather than \$45,000. This shows the importance of proper claims management. Lingering problems such as back injuries can result in large reserve increases if the injured worker does not receive effective medical treatment early on.

A good insurance agent will work with the firm to analyze the experience modification worksheet and verify its accuracy. The firm and its agent should inform the insurance company of any errors in reported losses or payroll. Also, the firm should question an usually large decrease in a reserve and appeal to have its mod reduced. A properly calculated experience mod should neither over-reward nor under-penalize a firm for its loss experience.

## Tips on Protecting Your Business from a Natural Disaster

If your company experiences a disaster, do you have an adequate recovery plan in place? According to the Contingency Planning Research Strategic Corporation, 43% of U.S. companies that experience a natural or man-made disaster never re-open and another 29% of businesses will close within 2 years. According to a Touche Ross study, the survival rate for a company with no disaster recovery plan in place is less than 10%. Here are some tips to get your business in shape and prepared for any disaster.

A disaster recovery plan should be based on three essential components:

**Human Resources** – Your employees are your most vital asset. Consider their safety during a natural disaster, as well as the personnel issues that follow a disaster. Ask these key questions:

- How will your employees find safe shelter during a disaster?
- How will you maintain contact with your employees in the aftermath?
- Have you fully and properly instructed all of your personnel about your disaster recovery plan?
- Have you assigned key personnel to form a crisis management team? Have they coordinated with all departments?
- Have you identified employees to assume central roles to back up your key personnel if they are unable to resume their duties?
- Do you have off-site copies of the most current contact numbers for all your employees, clients, suppliers and vendors? Are they updated on a regular basis?

**Physical Resources** – Your physical assets, including your building, furniture and equipment, are things you may not be able to easily replace after a disaster. Here are some vital questions you should ask:

- Are there any steps you can take to protect your building and equipment?
- Do you have adequate emergency supplies on hand to see you through at least the first three days of a disaster?
- How well will your building, inventory and assets fare when subject to various kinds of disasters such as a flood, tornado, and hurricane or fire?
- Who will perform a damage assessment afterward to determine what can be salvaged?
- If computer and data is compromised, do you have access to an off-site backup system? How often do you need to backup your data and systems to remain functional after a disaster?
- What about the security and protection of your most crucial documents, legal papers and records?
- What type of facility will you need to resume operations? Where should it be located?
- Have you identified a list of companies or suppliers to replace key components and equipment? How should you prioritize the replacement of machinery and equipment?

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# OSHA Says Make Forklift Inspection a Daily Habit

In his presentation to the attendees of the 2007 National Safety Council Congress and Expo, Richard Fairfax, the Director of OSHA's Directorate of Enforcement Programs, revealed the agency's list of top ten violations for the year. Ranking number six on that list, with 2,577 violations cited, was powered industrial trucks, the category that includes forklifts.

The number of citations OSHA issues in this category is indicative of just how serious a problem the safe handling of powered industrial trucks like forklifts is. The agency estimates that forklift accidents account for 100 fatalities and over 36,000 injuries annually in the United States. They are the second largest cause of fatalities in the workplace.

Proper forklift handling begins with the operator performing a daily inspection. If the forklift is in use throughout the entire workday, then all operators are required to perform an inspection before beginning their shift.

## The inspections consists of two parts:

**1. The visual check** – This is sometimes referred to as the “circle” check, because the operator is required to make a complete circle around the vehicle to complete the inspection.

The following items are to be inspected during the visual check:

- Floor is clear of objects.
- No obstructions are overhead.
- Objects that must be avoided as the operator drives away.
- Fire extinguisher is present and charged.
- Engine oil, fuel, and radiator water are at the correct levels.
- Battery is fully charged. Also check that there are no exposed wires, no loose battery plug connections, no clogged vent caps, the electrolyte levels in the cells are cor-

- rect, and the brackets keep the battery securely in place.
- Bolts, nuts, guards, chains, or hydraulic hose reels aren't damaged, missing or loose.
- Wheels and tires aren't worn or damaged, and their air pressure is at the correct level.
- Forks aren't bent or cracked, positioning latches are in good working condition, and carriage teeth aren't broken, chipped or worn.
- Chain anchor pins aren't worn, loose or bent.
- Fluid leaks aren't present.
- Hoses aren't loose, crimped, worn or rubbing.
- Horn is working and loud enough to be heard.
- Headlights and warning lights are operational.

**2. The seat check** – This is performed while the operator is behind the wheel, but before the vehicle has been started:

- Foot brake holds, and the vehicle stops smoothly.
- Parking brake holds against slight acceleration.
- Deadman seat brake holds when operator gets up from the seat.
- Clutch and gearshift operate smoothly with no jumping or jerking.
- Dash control panel is operational.
- Steering moves smoothly.
- Lift mechanism operates smoothly
- Tilt mechanism moves smoothly, and holds firm.
- Cylinders and Hoses aren't leaking after performing the previous checks.
- No unusual sounds or noises are present.

If the operator identifies any problems during either of the two checks, they should immediately report them to the shift supervisor.

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**Business Continuity** – Examine how you might get yourself up and running again by asking these questions:

- Is my insurance, especially business interruption insurance, adequate to cover my needs?
- Where can I set up an alternative command center to coordinate disaster recovery?
- What alternatives do I have if my suppliers are closed?
- What will I have to do for my customers in the event of a disaster?
- What cash flow do I have available for contingency expenses?

Consider setting up different teams assigned to perform various and specialized tasks after a disaster, such as:

- **Public Relations** – Field inquiries and make public announcements.

- **IT & Data Recovery** – Responsible for hardware, software and systems administration.
- **Client and Supplier Communications** – Keep in touch with vendors and key clients to advise them of your status.
- **Administrations Team** – Look after transportation, logistics, emergency transportation, survival gear, and human resources.
- **Post-Disaster Recovery** – Manage post-disaster recovery by facilitating the set up of business as soon as possible.

Disasters can strike anywhere or anytime. Good preparation and communication in the aftermath of a disaster is central to getting your company up and running quickly. Don't become a part of the statistics - protect your business before it's too late.

# Good Housekeeping Is One of Your Job Responsibilities

Good housekeeping at work means keeping both the facility itself and your own workspace clean, neat, and orderly. The reason housekeeping should be a priority is because it is the first line of defense in any company's accident prevention strategy.

If housekeeping is to be effective, it has to be ongoing, not an activity that's performed before management inspects the premises. Failure to keep up with necessary housekeeping tasks can result in employees:

- Tripping over loose objects on floors, stairs and platforms
- Being struck by falling objects
- Slipping on greasy, wet or dirty surfaces
- Hitting against projecting, or poorly stacked items
- Cutting, puncturing, or tearing the skin of hands or other parts of the body

To properly maintain the facility, materials, supplies and parts must be stored in their designated storage areas when not in use, tools and equipment must be arranged in an orderly manner and placed away from traffic areas, scraps or debris in the department must be removed on a daily basis, and stairways and platforms must be kept clear. Attention should also be paid to keeping the aisles and passageways clear. Never store or stack materials in aisles.

When you keep the facility clean, you lessen the chances of both employee and visitor accidents because you will have removed

the things that cause slipping, tripping, and falling. You have also lessened the likelihood that people will be involved in "struck by," "striking against," and "caught-between" accidents.

If your work area is in disarray because of a project you are working on, or if you cannot immediately clean your workstation, make people aware of the danger by posting signs that alert them to the potential risk.

In addition to accident prevention, there are other benefits to maintaining good housekeeping:

- There is an easier flow of materials, which reduces handling and saves time.
- Clutter-free and spill-free work areas expedite movement, again saving time.
- There is a decrease in the number of fire hazards.
- Exposures to hazardous substances are reduced.
- There is a better control over tools and materials because you know where to find them.
- Without obstacles in the way, it is easier to clean and maintain equipment.
- The environment is more hygienic, which improves health.
- There is a more effective use of space.
- The likelihood of materials and equipment being damaged is reduced.

## Risk Monitor



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