

Insurance Incentives and Safety Bonus Programs

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Purpose

- Maximize the value of insurance incentives and programs through a better understanding of worker's compensation insurance
- Help your company develop a strategy for improving safety through effective safety incentive programs



Worker's Comp Insurance

- Voluntary Market
 - Policies written outside of the Assigned Risk Market
- Assigned Risk Market
 - Insurance companies not willing to voluntarily write



Assigned Risk Market

- Residual market or ‘the Pool’
- Once an employer gets three rejections from insurance companies, it can apply for coverage
- Companies that are in the assigned risk pool demonstrate that they do not place a high priority on employee safety



Worker's Comp Cost Factors

- Worker Classification
- Experience Modification Rate
- Schedule Credit/Debit
- Premium Discount



Worker Classification

- Classification rates are based on the industry
- There is no classification specifically for ready-mixed concrete mixer driver
- The classification is under Building Material Dealer – New Materials Only: All Other Employees and Drivers (Code 8232)
- The 2009 rate basis for a 8232 is \$3.40 per \$100 of compensation (3.40%)



Experience Mod Rate

- Formula determined by National Council on Compensation Insurance (NCCI)
- Ratio of expected losses in your industry compared to your company's frequency and the severity of losses
- Average employers have ratings = 1.0
- Better employers have rating < 1.0



Experience Mod Rate

- Insurers examine your history for the three full years ending one year before your current policy expires
- 2009 EMR is based on claims from 2007, 2006, and 2005
- An injury in 2008 will influence your worker's compensation premiums until 2012

MOD Ranges
 Indiana Intrastate Experience Rating
 Distribution of Experience Modifications for
 2007

Mod Range	2007	% of total
0.01 - 0.49	4	0.01%
0.50 - 0.59	8	0.03%
0.60 - 0.69	56	0.19%
0.70 - 0.79	1,285	4.33%
0.80 - 0.89	7,836	26.42%
0.90 - 0.99	12,547	42.30%
1.00 - 1.09	2,030	6.84%
1.10 - 1.19	1,620	5.46%
1.20 - 1.29	1,929	6.50%
1.30 - 1.39	1,063	3.58%
1.40 - 1.49	541	1.82%
1.50 - 1.59	331	1.12%
1.60 - 1.69	160	0.54%
1.70 - 1.79	112	0.38%
1.80 - 1.89	57	0.19%
1.90 - 1.99	35	0.12%
2.00 - 2.49	43	0.14%
2.50 - 2.99	5	0.02%
3.00 - 3.99	1	0.00%
4.00 and up	0	0.00%
TOTAL	29,663	100.00%
Lowest Mod	0.44	n/a
Highest Mod	3.36	n/a
Average	0.99	n/a
Total Credit Mods	21,736	73%
Total Unity Mods	241	1%
Total Debit Mods	7,686	26%

http://www.icrb.net/operations/exp_rating.htm



Schedule Credit/Debit

- Discretionary premium adjustment
- Based on the insurance underwriters evaluation of special characteristics of risk that is not reflected in the experience modifier
- Annual evaluation by insurance carrier
- Immediate and potentially dramatic impact on total premium



Premium Discount

- Based on the size of the premium paid
- Normally given automatically

Worker Comp Structure

Premium Basis	Determined by
Employee Classification	National Council of Compensation Insurance
Mod Rate	Based on Past Performance
Credit / Debit	Discretion of Insurance Carrier
Premium Discount	Premium Size



Direct Costs of Injuries

- Immediate costs are paid by the worker's compensation carrier
 - Medical Expenses
 - Lost Wages
- The insurance carrier will recover those costs through higher premiums



Indirect Costs of Injuries

- Employee Morale
 - Less interest in company performance
 - Less productive
- Business Reputation
 - Community member
 - Employee recruitment
- Lost Projects



Effective Safety Initiatives

- Full Backing of Company Leadership
- Clearly Stated Purpose and Structure
 - Specific
 - Measureable
 - Attainable
- Communication

Criteria for a Successful Bonus Plan

- ❑ Create a truly safer work environment
- ❑ Reward individuals based on the performance of the group
- ❑ Provide the right financial incentive and time frame to make a difference
- ❑ Promote the program and make it a part of the culture

Promote Safety and Compliance

- The program should not penalize employees for reporting accidents or seeking immediate medical treatment
- The objective is to prevent accidents not hide them
- Empower the workforce to make changes



Why We Created Our Program

- A serious injury followed by several other extended lost workday injuries
- Suspected fraud
- Significant increase worker's compensation costs



Why We Created Our Program

- Did not want to enter the assigned risk market
- The company's focus on safety, including new policies and increased communication, did not produce the desired results
- Needed to dramatically change the safety culture from individual based to team based



Group Requirement

- ❑ Guarantees payments to the individual based on the success of the group
- ❑ Incentivizes all employees to work together to reduce and eliminate hazards
- ❑ Promotes creativity and increases buy-in by rewarding everyone working toward a common goal



Safety Bonus Structure

- How much money should the bonus be?
 - What is the minimum amount needed to create the outcome that you want?
 - The cost / benefit analysis is company specific
- What is the best time frame?
 - Too short is more expensive than needed
 - Too long makes the goal too remote to have the desired result



Promotion of the Program

- Celebrate achievement of each milestone
- Create excitement as each milestone approaches – countdown days
- Communicate the amount invested by the company



Our Safety Bonus Program

- ❑ Bonus issued after 120 calendar days without a lost workday injury
- ❑ Initial bonus of \$100 for every employee in the company
- ❑ Bonus increases by \$50 for each 120 day period up to \$200
- ❑ A lost workday injury by any employee resets the bonus to \$100 and restarts the 120 days



Program Effectiveness

- ❑ Zero lost workday injuries during the first year of implementation
- ❑ Schedule Credit from insurance carrier paid for the first two years of the program
- ❑ Dramatic reduction in injuries, claims, and cost
- ❑ Insurance carrier and agent use our incentive plan as a model

Focus on What You Can Control

- Experience Mod Rate is determined over a 3 year average
- Credits and debits are determined on an annual basis
 - An effective insurance agent that works as an advocate for your company can make the difference in the amount of credit or debit from the carrier



Get the Most from Your Insurance Provider

- Safety Programs
 - OSHA 10 Hour Training
 - Employee Training Tools
 - Safety Meeting Topics
- Safety Inspections
 - Mock OSHA Inspections
 - IRMCA / IDOL Alliance



Insurance Partnership

- Your agent should understand your industry and your business
- A strong agent partnership is key to achieving the greatest Schedule Credit available



Focus on the Future

- Do not lose sight of the economics today
- Since the EMR is based on a 3 year average, higher rates will have a greater impact when payrolls start increasing
- If you cut safety programs to save money in the short term, a higher EMR can significantly increase your future costs



Questions
