

## Colorado Workers Compensation Market Update 2015

### **Overview**

Workers Compensation rates continue to rise! Our clients are seeing continued significant rate increases due to higher medical claims costs, Experience Modifier volatility arising from full implementation of the Split-Point Limit increase, and the rate-tier placement of base rates as a result of claims and claims reserves. Other changes impacting the administration of Workers Compensation policies include: further dilution of the designated provider claims management opportunity (requires more administration to be effective) and the reduction of group program opportunities for discounts and dividends. Let's take each of these one at a time.

### **Detail**

#### **Introduction**

The independent rate making agency, NCCI promulgates rates in Colorado based on the overall claims history in the state. These rates are affected by the level of benefits granted by the law and the results of administration of Workers Comp rules and resulting experience in Colorado. These surcharges or credits apply to policies that meet a minimum premium size requirement in the form of an Experience Modification.

#### **Affecting Experience Modifications:**

Three years ago the NCCI adjusted the formula that produces the Experience Modification. We are now in the last year of a phase-in of a change that results in more dramatic differences in accounts in the same industry that have costly claims activity versus those that do not. In the past 20 years the primary loss amount was \$5,000. This amount was applied to every account on every claim that reached that limit. Now the limit is \$ 15,000 as the primary amount. What this means is that every claim paid on your behalf now incurs the full impact of \$15,000 (or less, if the claim is less). Amounts over \$15,000 per claim have less impact per dollar paid so that large claims do not blow premiums out unreasonably.

What we are seeing are experience modifications for those accounts with costly claims activity rise substantially, and conversely, those accounts that are claims free are seeing more dramatic credits. The premium difference resulting from claims experience is more acute.

## **Base rate increase**

The base rate loss cost recommendation for policies with Pinnacol Assurance rose 3.2% in January of 2015, this may not result in that increase for a specific situation but represents an overall indication.

## **Underwriting and Placement**

The company that underwrites your business places you in a program or tier (sometimes separate companies) that has lower or higher base rates. Sometimes this is driven by competition, but more often by formula. Each of these rating tiers has a factor that affects your final premium. The swing can be substantial, AS MUCH AS 40% for this factor alone. These factors are adjusted every year and are often not figured into announced rate increases.

## **Claims Management Issues**

Managing your claims frequency and claims administration is the primary way a business can save money on their Workers Compensation cost. Many years ago the State of Colorado introduced an effective program to manage cost called the "Designated Provider". This allows a business to send their workers to a clinic or doctor that is best suited to keep workers healthy and on the job. As time has passed, this concept has eroded, and this year in June, each business will need to offer at least 4 providers for the employee to choose from for care, in advance. This requires attention to keep tool effective. You will need to designate 4 separate providers with at least two separately owned clinics. This means you may need to get to know your providers better to keep the specific Dr. Recommendations updated. We expect this to increase costs in future years for clients who do not pay attention. You can compare the results and claims cost from Dr. to Dr. and clinic to clinic. Look for providers who are board certified in occupation medicine.

## **Dividends**

We do not expect group dividend programs to perform as robustly as in the past. With the current claims experiences and current rates in Colorado, there will be little money to return to groups. We also do not expect to see a large company-wide dividend like we have seen in the past, the profits are simply not there. Remember: dividends are simply unneeded premium. We have seen a number of industry organizations fold their group sponsorships based on lack of performance and perceived future opportunity.

However, Pinnacol's combined ratios for 2014 came in recently at 99.2%. This bodes well for possible future groups dividends. And, if your business qualifies, and you are willing to manage your claims, an individual dividend may be appropriate and help to control cost in your specific situation.

## **Conclusion**

We have returned to market conditions that reward your energy and attention to controlling both the number of injuries and the amount of each claim. The swing over time can save you money, but more importantly; a bad experience can double your cost over time. The cumulative effect of all these changes can severely impact your cost for up to 5 years into the future. The attention you give, and money spent on safety and claims management, echoes into the future and will help you to maintain a competitive position. Get help with a comprehensive program that pays attention to safety as well as premium administration with deductibles, programs and tools to assist you in keeping future cost low.

What can you do? Reduce the number of claims and manage claims cost. In addition: check out quotes with alternate companies. Traditional Insurance companies are marketing heavily against the top carrier in the state and finding success in lower upfront rates.