



TOLMAN & WIKER
INSURANCE SERVICES, LLC

INNOVATIVE RISK ADVICE SINCE 1923™

VENTURA | LOS ANGELES | SALINAS | SANTA MARIA | BAKERSFIELD

Workers Comp Errors Can Be Costly in More Ways Than One

May, 2014

Amaxx Risk Solutions, Inc.

Rebecca Shafer, JD

When errors happen in the workplace, they can be financially costly to a business, especially if they go undetected.

Mistakes in workers compensation (claims errors, changes in a company's classification etc.) can end up costing business owners countless dollars, even potentially putting them in the red.

30 – 35% of Businesses Have Classification Errors

As many accountants can tell business owners, a majority of workers compensation programs have an error rating of 30 to 35 percent as it relates to business classification. Business owners are advised to not use a single classification for their company. Instead, they should classify each and every worker individually and require proper classification.

Among the two typical workers compensation issues that end up costing a company more money in the end:

- Not estimating the correct projected annual payroll – In this case, when a business owner fails to properly estimate payroll at the start of the policy period, it will lead to additional premium.
- A change in business operations – Alterations to how a company is run can impact the classification of the business' workers comp program. Anytime you are changing the classification of your company, remember such a move will alter your comp program.

An Example of a Costly Claims Miscue

A claims quality control auditor was puzzled by something seen on the initial workers comp claims audit file. After noticing something did not seem right, they were soon to discover that the initial error had also transpired to the next file, and the next file, and so on.

So, what was the mistake at the center of attention?

As it turns out, each claim file showed significant over reserving, some four to five times the amount of total reserves.

In this case, the claims office was under the guise of one of the top third party administrators (TPA) nationwide, though there was one curious exception in this case. The exception was the claims manager was an employee for the self-insured business. There were 40 workers, employees of the TPA, that reported via the line of command directly to the claims manager.

File Review Reveals \$85 Million In Excess Reserves

In taking a look at the files presented, it was revealed that in the first instance where over reserving was caught, the individual filing for workers comp reported suffering a crush finger on the job.

Given the state where the injury happened had a chart for Scheduled Injuries for limbs, hearing and vision, the top limit the self-insured employer could offer on the claim per the Schedule of Injuries for the state was \$10,220.

The indemnity reserve – that came in at \$50,000. A back injury sporting a 10% rating had a \$500,000 reserve. Lastly, an ankle sprain offered a \$200,000 reserve. So, just what was going on here?

Moving on to interviews with the staff, it turns out the claims auditor discovered the claims manager was providing the reserve amount he desired for each and every indemnity claim. In a discussion with the claims manager, he stated he had been informed by his manager back at the self-insured employer to make sure adequate reserves were available for each and every claim.

During this investigation, it became all too clear to the auditor that the claims manager, the individual placed in charge of the work comp claims office, possessed only simple knowledge of workers comp. Each of the work comp adjusters came to realize the reserving was much higher than it should be, but were following the manager's orders.

Moving along, the auditor realized that the gross over-reserving was in fact leading the self-insured employer to have a large excess of funds put aside for the workers comp claims.

While the company should have put aside a sum of some \$25 million in reserves towards indemnity claims, it would turn out that they had more than \$110 million in indemnity reserves. That large difference in finances it turns out had the self-insured borrowing funds to meet its other financial requirements in order to keep the company up and running.

CFO, Senior Managers in the Dark

From that point, the claims auditor in fact reached out to the chief financial officer to try and figure out why a self-insured business owner was over reserving each and every claim file by a wide margin.

Soon after bringing this to the attention of the CFO, the claims auditor discovered that the chief financial officer and all of those in senior managerial positions in fact were in the dark regarding the details of workers comp, along with the daily tasks of running the claims office.

When all was said and done, the claims office manager providing the CFO with data in turn was purposefully overstating the reserves for all the comp indemnity claims. Why was that the case?

As it turns out, the individual was just trying to show their boss what a great job they were doing.

The bottom line in all of this....claims reserves are nothing to toy with, especially in a day and age where many businesses are required to watch every dollar that comes and goes.

Author Rebecca Shafer, JD, President of Amaxx Risk Solutions, Inc. is a national expert in the field of workers compensation. She is a writer, speaker, and publisher. Her expertise is working with employers to reduce workers compensation costs, and her clients include airlines, healthcare, printing/publishing, pharmaceuticals, retail, hospitality, and manufacturing. She is the author of the #1 selling book on cost containment, *Workers Compensation Management Program: Reduce Costs 20% to 50%*. Contact: RShafer@ReduceYourWorkersComp.com.

Editor Michael B. Stack, CPA, Principal, Amaxx Risk Solutions, Inc. is an expert in employer communication systems and part of the Amaxx team helping companies reduce their workers compensation costs by 20% to 50%. He is a writer, speaker, and website publisher. www.reduceyourworkerscomp.com. Contact: mstack@reduceyourworkerscomp.com.

©2014 Amaxx Risk Solutions, Inc. All rights reserved under International Copyright Law.

Forward this article to a colleague

Address To	<input type="text"/>	Recipient Name	<input type="text"/>
Subject	<input type="text"/>		
Message	<input type="text"/>		

Send

Reset