The Wright & Kimbrough Report

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WORKERS' COMP

Why You Lost Your X-Mod and Your Rates Climbed

THE THRESHOLD for employers to qualify for receiving an X-Mod in California has jumped nearly 100% in the last four years, meaning more employers that may have had one once, don't qualify any longer.

Also, many employers shave been reducing their payroll, which trims the premium to below the X-Mod threshold. These two trends have resulted in many firms that once had low X-Mods (below 100) having seen their rates go up. .

How an X-Mod works

An X-Mod is a value that explains how your claims costs measure up against others in your industry and the premium you pay. An X-Mod of 100 is the average, meaning that your claims come out to be average for your class code.

If you have a better safety record than your peers and your claims costs are lower than average, you would have an X-Mod below 100. The inverse is also true. If your claims are more costly, then your X-Mod will be more than 100.

X-Mod threshold

The new annual premium threshold for being eligible for experience rating was raised at the start of this year to $33,100, up 98% from the $16,700 threshold that was set in 2011.

Once an employer no longer qualifies for an X-Mod, it's akin to their X-Mod being reset to 100, regardless of their claims history. The insurer will still look at the overall cost of your claims, but your X-Mod no longer matters.

Also, scheduled credits and debits will still apply, depending on your claims experience.

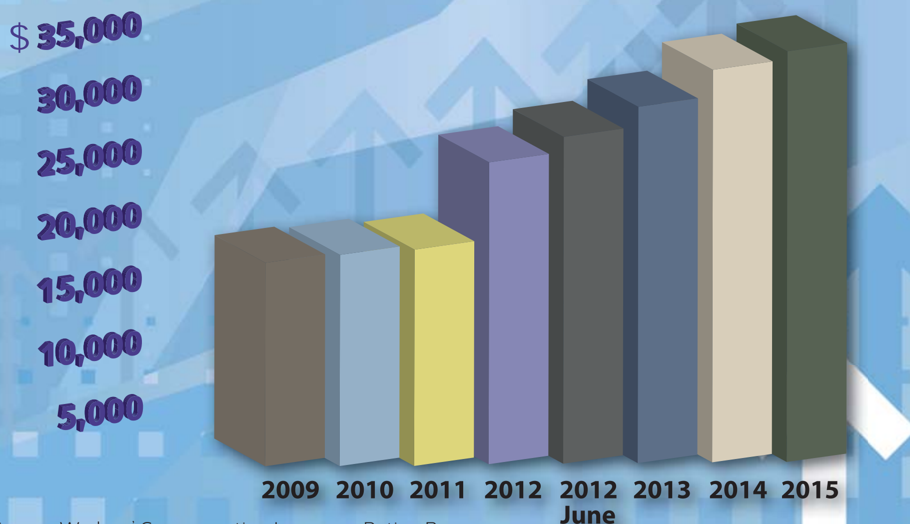
For non-X-Mod employers, all companies are grouped according to their classification code. The estimated losses of the group are added together and an average cost is obtained, which is then applied to the entire class.

The rates determined are averages reflecting normal conditions found in each class code.

An employer is assigned to a classification to ensure that the rates reflect the costs of all employers with similar characteristics.

So if you had an X-Mod higher than 100, you may see a slight downtick in the amount of workers' comp premium you pay, but for those employers whose last X-Mod was below 100, the opposite could happen. ❖

X-Mod Threshold Doubles in Four Years



Source: Workers' Compensation Insurance Rating Bureau

What to Do

The best course of action if you no longer qualify for an X-Mod is to continue focusing on workplace safety and reducing the risk of injuries.

And if you do have claims, you should work with us and the insurance company to manage those claims so that you can get the worker back on the job as soon as is feasible and safe for them.

If you are still confused about your experience rating, please call us and we'll walk you through it and how your premium may be affected.

CONTACT US

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Since 1893

If you have any questions regarding any of these articles or have a coverage question, please call us at:

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Make Sure Driving Staff Have Proper Car Insurance

WHEN YOU pay your workers the IRS-set mileage rate of 57.5 cents per mile, you are not only reimbursing them for the gas they use, and the wear and tear on their car, but also for their insurance.

If you have employees that drive as part of their job, or even those that run errands for you, you need to make sure they are insured.

If you anticipate that any of your staff will drive on the job, even if it's infrequently, you should set insurance requirements for them so that your firm is not held liable in case of an accident.

Workers' Comp Applies

If your worker is hurt in a collision while carrying out duties for you, your workers' comp policy will cover their injury.

California requires drivers to carry the minimum amount of coverage (15/30/5):

- $15,000 for injury/death to one person.
- $30,000 for injury/death to more than one person (if more than one passenger is in the car).
- $5,000 for damage to property (such as another vehicle).

Those are the maximums that the insurance will cover. But they are not enough to cover most accidents today (imagine if your employee rams into a late-model Mercedes).

Worse, if one of your employees is in a car accident while on the job and hospital costs or damage costs to the other person's vehicle exceed the maximums, your company will be responsible for covering the rest. ❖

Minimum Coverage You Should Require

To protect your firm financially, you should require any driving staff to carry at least 100/300/50:

- $100,000 for injury/death to one person.
- $300,000 for injury/death to more than one person (when more than one person is in a car).
- $50,000 for damage to property (such as another car).

Employee Theft Hits Small Firms Hardest: Study

THE MAJORITY of employee thefts are occurring in organizations with 500 employees or less and the median loss is $280,000, according to a new report.

The main types of theft are outright theft of cash and check fraud, with rogue employees writing checks to acquaintances and trying to cover their tracks in the firm's accounting system, according to the "2015 Hiscox Embezzlement Watchlist" by the specialty insurer Hiscox.

Half of employee thefts were perpetrated by individuals in senior posts, and the median age of perpetrators was 50, the report states.

Hiscox based the findings of its report on employee theft cases active in U.S. federal courts in 2014. Among its findings in the latest report:

- More than 60% of employee theft involved women.
- The median age of employees who committed theft was 50.
- Employees not in the finance or accounting sections of the company committed over half of the tallied thefts.
- Retail and health care companies sustained the largest average losses – at $606,012 and $446,000, respectively.
- 21% of employee theft in companies with fewer than 500 employees took place in the financial services industry – banks, credit unions and insurance companies. Financial services organizations dealt with average employee theft losses of $271,000.
- Non-profits dealt with average employee theft losses of $202,775.
- Nearly 75% of total losses included direct theft of cash or misuse of bank deposits or transfers.

CRIME SNAPSHOT

The Rotten Gatekeeper

IN SOME cases, the fraud starts where the buck stops: the CFO.

In one such action in New Jersey, the accused CFO was suspected of siphoning off more than $6 million from his employer to pay for a variety of personal expenses, running the gamut from real estate taxes and motor vehicle costs to credit card bills.

For a full seven years, the CFO designated his own business as a company vendor, cutting checks for services that were never performed, which he deposited into his personal bank accounts. He was asked for copies of the invoices, prosecutors said, but he informed colleagues he kept the invoices in his office.

What you can do

You have to be proactive in your fraud detection efforts, Doug Karpp, national underwriting leader for Crime & Fidelity at Hiscox, says.

For small business owners, Hiscox recommends:

- Sending bank statements directly to your home for a review to ensure they can't be falsified prior to reconciling accounts;
- Periodically reviewing payroll reports to look for anomalies; and
- Signing all of the checks yourself, or keeping the signature stamp under lock and key.

KNOW YOUR BOOKS: *If you own a small business, have bank statements sent directly to your home for inspection.*

For all organizations, Hiscox recommends:

- Establishing best accounting practices. You should require dual signatures or dual review on disbursements (checks and wires). It is also important to create separation in key business processes.

  For instance, separate the money from record-keeping so that no single employee can control a process from beginning to end, and don't let the accounts payable person reconcile bank accounts.
- In staff training sessions, illustrate the damaging effects of fraud can have on your firm, and provide advice on how to spot fraud.
- Setting the "tone at the top." Have everyone from management, auditors and the leadership team talk about fraud prevention. Be sure employees are aware of internal controls and ask them if they know of any weaknesses in the controls and how to improve them.
- Create a hotline for reporting misconduct. More than 40% of all cases were detected by a tip, nearly half of which came from employees, according to the Association of Certified Fraud Examiners.
- Conducting comprehensive audits designed to identify fraud. Surprise audits are particularly effective because fraudsters will not have time to alter, destroy or misplace records and other evidence. ❖

The Insurance Solution

Employee theft insurance covers loss of funds, securities or other property as a result of theft by an employee.

(800) 822-3694

ACA May Spur Cost-shifting to Workers' Comp

AS THE AFFORDABLE Care Act prompts more health plans to use the capitation payment model for health care providers, more treatment costs may be shifted to the workers' comp system, according to a new study.

And that would mean higher premiums for employers.

The Worker's Compensation Research Institute (WCRI) analyzed health plans in 30 states and noted in its research that as more health plans use capitation, doctors will try to get more patients treated under workers' comp.

This expected cost-shifting, which the institute said is already underway, will end up increasing workers' comp claims and costs, which will be passed on to employers in the form of higher premiums.

Claims-shifting is already taking place in states where capitated plans are popular, especially California, New York, Pennsylvania, Michigan and Massachusetts. That's because workers' comp pays physicians more than they receive under capitated health plans.

In the workers' comp system doctors are paid a fee for service, while capitated health plans pay them a monthly fee per patient regardless of whether they treat them or not.

ACOs also contribute

The other factor contributing to the trend is the formation of accountable care organizations (ACOs), which follow the capitation model. The Affordable Care Act encourages the creation of these organizations, in which doctors and hospitals share financial and medical responsibility for coordinating services to patients.

In an ACO, doctors and hospitals are rewarded for the quality of medical outcomes and for keeping costs low. In addition to rewarding doctors with higher payments, shifting cases to workers' compensation has the possible benefit of removing these cases from an ACO's accountability formula, the study notes.

The report predicts the expected trend will result in tens of millions of dollars in additional costs flowing into the workers' comp system.

Richard Victor, executive director of the Cambridge, Massachusetts-based WCRI, told the media on a conference call that under capitation doctors are indirectly incentivized to move treatment into workers' comp because they've already been paid the capitated rate from the health insurer. They get paid whether they treat the patient or not.

But if the patient is treated under workers' comp, they can generate additional revenues because they'll get paid for the services they provide.

"If it's work-related, then the provider gets the same fee for service as what's paid by workers' comp," Victor said. "If it's not work-related, the provider's already been prepaid for any care that they give."

The doctor typically determines if an injury is work-related. If a patient comes in complaining of back or joint pain, those could be caused by a combination of their job or factors outside of work.

Victor emphasized that he's not alleging fraud on the part of providers, just that they will ask more questions to determine if there is any causality from the patient's work.

While it's usually obvious if an injury is work-related, like broken bones, cuts or impact injuries from falls, soft-tissue injuries to the back, a knee or shoulder aren't as clear-cut. The injuries could be the result of years on the job performing the same task, or sitting every day.

This ambiguity creates an opportunity for financial incentives to influence a doctor's decisions, the study says.

Preliminary findings from the study found that in states where most group health plans are fee-for-service (like workers' compensation) and where capitation plans serve less than 10% of the market, there was no case-shifting effect.

But in states where capitated health plans have a market share of more than 22%, there was a 30% increase in soft-tissue workers' comp claims.

The WCRI provided the following examples:

- If capitation increased from 30% to 55% in Pennsylvania (a state with high capitation), there would be an 8.5% shift of soft-tissue claims to workers' comp.
- In Illinois (which has a low capitation rate), if capitation jumped from 12% to 27%, there would be a 12% increase in soft-tissue workers' comp claims. ❖

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