

Dynamic Chiropractic

Payroll	Per \$100	Clas
\$900,000	9,000	x
\$80,000	800	x
\$100,000	1,000	x

Total manual pren

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The Other Side of Workers' Compensation

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One of the more interesting, and sometimes aggravating, elements of health care is the workers' compensation (WC) system. For clinicians involved in treating injured workers, WC is often seen as complicated and cumbersome. Chiropractors in particular are often hampered in their attempts to provide care for those involved in on-the-job injuries. The WC system is equally frustrating and demanding for employers - and expensive. In some instances, employers will choose to pay for the care of injured workers out-of-pocket rather than submit the claim. And for patients, the system may add to their overall irritation and pain. In this issue of my column, I thought it might be worthwhile to look at a different side of workers' compensation.

The first workers' compensation statute was enacted in Germany in 1887. This was followed by similar legislation in England (1897). In the United States, the Federal Workers' Compensation Act was established in 1908, followed by the first State Workers' Compensation Act (New York, 1910). WC laws are now mandatory in all 50 states, with Mississippi being the last to enact such a law in 1949.

By design, workers' compensation is a 'no-fault' mechanism, that is, the employee is automatically entitled to certain benefits for any injury and/or illness arising "out of and in the course of employment," including compensation for wage loss, medical and rehabilitation expenses, and disability benefits. In exchange for such comprehensive coverage, the injured worker gives up the right to sue the employer, except in extreme circumstances. Under the WC system, the employer not only enjoys immunity from any civil action by the employee, but the amount of liability is predictable.

Workers' compensation insurance provides two types of benefits: payment for medical care, including rehabilitation, and wage replacement (sometimes called "indemnity"). The amount and duration of wage replacement benefits vary from state to state, and typically represent a portion of the injured workers' wages, up to a fixed amount or limit. The following benefits are most common:

- temporary total disability - lost wages during recovery from a temporary injury, such as a broken leg;
- permanent total disability - lost wages for serious injuries in which the worker does not return to work, e.g., amputation;
- temporary partial disability - lost wage differential when a worker returns to work, but at a lower wage;
- permanent partial disability - future lost wage potential based on the residual of an injury;
- death - lost wages for a fatal injury paid to a surviving spouse and/or to dependent children.

The amount of medical benefits also varies from state to state. These benefits are usually quite liberal. As a rule, the injured worker is protected from any personal medical expenses.

Workers' Compensation Premiums

Every practicing chiropractor who accepts workers' compensation patients is familiar with the benefits, both medical and indemnity. The process used in the determination of premiums, however, may not be as familiar. Workers' compensation coverage is available to employers through a number of insurance companies. In addition, many states have their own "state funds" that compete with private insurance companies by offering workers' compensation insurance. As with other types of insurance, both insurance companies and state funds offer protection in exchange for premiums paid by the employer. The cost for these premiums is based on the anticipated loss experience and is derived from two basic elements: a manual or "pure" premium calculation and a modified premium.

Manual premium - WC insurance is based on the aggregate loss experience for the types of jobs individuals perform. Each specific job, e.g., that of "bricklayer," is categorized in both a "class" and "class code" so that some degree of comparison can be made between states in determining rates. Jobs are grouped according to the type of tasks performed, the nature of materials and machinery used, the specifics of the location where the work is performed, the type of training that is required, and the risks involved. Every job has its own classification number, with most states utilizing a similar classification system.

To begin the process of determining premiums, compensation carriers assign each job classification a "pure premium." This premium is expressed as a function of payroll and is based on a specific amount per \$100 of wages. If the pure premium for job class 500 is \$20 per \$100, the employer must pay \$20 for every \$100 the employee earns. An employee earning \$30,000 per year would cost the employer \$6,000 in pure premium. If an employee is placed in the wrong job class, it may cost the employer significantly more than they should be required to pay. For example, the job class of "landscape gardener" would cost the employer nearly twice as much as the "lawn maintenance" job class. Likewise, a finish carpenter (carpentry - "finish work only") costs an employer less than half that of a "rough carpenter" (carpentry - nonresidential). It is important, therefore, that employers have a clear description of the job duties for each employee in order to make sure that their workers are properly classified.

Class	Payroll	Per \$100	Class rate	Total
<i>Manufacturing</i>	\$900,000	9,000	× \$5.00	\$45,000
<i>Clerical</i>	\$80,000	800	× \$1.00	\$800
<i>Delivery</i>	\$100,000	1,000	× \$8.00	\$8,000
Total manual premium =				\$53,800

Since most employers have a combination of job classes in their business, the manual premium is computed by multiplying the rate for each class by \$100 of payroll in that class. As an example, a manufacturing company may pay the following:

Modified premium - After determining the pure premium, the aggregate total is multiplied by a factor referred to as an "experience modifier" or "e-mod." While the job classification system is based on an industry-wide experience, the e-mod is a reflection of the individual employer's loss experience. For the most part, employers with a good safety record, who assist their employees in receiving care when injured and get them back to work quickly, have a favorable loss experience resulting in an e-mod that is less than 1.0. Those who have a less-than-favorable rating have an e-mod higher than 1.0. An employer who is assessed \$53,800 in pure premiums and has an excellent record may achieve an e-mod of 0.50. If the pure premium were multiplied by the e-mod (0.50), the employer's premium would be reduced to \$26,900. In contrast, an employer with a poor record may be assessed an e-mod of 1.50. The resulting workers' compensation premium assessment would be \$80,700. Since the e-mod factor is revisited regularly, any increase in work-related accidents or injuries can have a devastating effect any future premiums.

Obviously, the experience modifier is a critical factor in determining the cost of workers' compensation for an employer. If an employer has a higher-than-average injury rate in any one department or job classification, the premium for the entire work force is affected. In other words, if several delivery people experience back problems, everybody's rates go up, even the clerical workers. Likewise, if the clerical workers have problems, the rates for delivery workers increase. With this in mind, it is no surprise that employers will often pay for the care of injured workers-out-of-pocket rather than report injuries to the workers' compensation carrier. It's not legal, but it is understandable.

Uninsured Expenses

On-the-job injuries also produce indirect costs that are not covered by WC insurance:

- production downtime and inefficiencies;
- replacement cost for temporary labor;
- training temporary labor or replacement workers.

It is estimated that the uninsured costs of on-the-job injuries can be as much as two or three times the premium paid for workers' compensation insurance. Finding solutions to the cost of workers' compensation is critical to the health of a company, both in economic and in human terms.

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A printable version of Dr. Hooper's article is available on line at <http://www.chiroweb.com/columnist/hooper> You may also leave a comment or ask a question at his "Talk Back" forum at the same location.

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