# Workers' Comp Costs Slowly Rising

*By warszawianka via openclipart.org*

Workers' compensation costs are slowly rising, according to the most recent Workers' Compensation Resources Research Report (WCRRR).

The cost of workers' compensation per $100 of payroll is $1.32 for 2012, the most recent numbers available, up from the historical low of $1.25 in 2010, according to issue 9 of the report released Wednesday.

While there are several ways to measure workers' compensation costs, cost per $100 of payroll is my favorite because it gives a direct measure of average costs without entanglements such as the insurance market. It also takes account that wages have increased much more rapidly than employer expenditures on WC.

(John Burton, publisher of WCRRR, actually saved this information from extinction by encouraging the National Academy of Social Insurance [NASI] to take over the task in the late 1990s.) NASI released these figures last August.

Employers are forever complaining about the costs of workers' compensation. But the truth is, WC is far less expensive than it used to be. When I began writing about workers' compensation in 1990, the cost of workers' compensation per $100 of payroll was the highest in history at $2.18, which means the cost now is $0.76 less than 25 years ago.

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Burton has been actively engaged in the workers' comp system before I was born. He might be best known for being the chairman of the only National Commission on State Workmen's Compensation Laws this nation ever had, which stemmed from the Occupational Safety and Health Act of 1970.

**Historical Perspective**

Insurance advocates have long argued that workers' compensation costs rose beginning in the 1970s because of the higher benefit costs recommended by the National Commission. Rising benefits, along with massive system inefficiencies, rising medical costs and other factors, led to rising workers' comp costs in the mid 1980s.

By 1990, employers, who in most cases are required to provide workers' comp coverage to its employees, were clamoring for relief. This lead to significant changes.

From a legislative perspective, employers and insurer advocates did contain benefit costs by curbing maximum weekly benefits. As shown in the report, cash plus medical benefit costs were $ 0.98 per $100 of payroll in 2012, which is only two cents more than 1980, when it was $0.96. Reform also curbed allowable benefits for permanent partial disability and other types of cash benefits.

The changes in state programs also narrowed the definition of what types of injuries; illnesses and deaths were compensable, which Burton covers at length in the report.

Narrowing compensability does lower costs, but because it also removes the non-fault premise of workers' comp from some work-related incidents, it's potentially dangerous. From the employer's point of view, the whole point of workers' compensation, as Burton also describes in his report, was to remove such cases out of the tort system. Without workers' compensation protection, employers risk lawsuits that are much easier to file than in the early 1900s and before.

Turning the attention back to the overall cost of workers' comp per payroll, it is important to note that legislative action alone does not fully explain why workers' compensation has become less expensive.

Before the workers' comp crisis that began in the late 1980s, employers viewed paying premiums as a cost of doing business. Once it got expensive, employers had the incentive to become more educated on how to save workers' comp dollars and ultimately take better care of their employees.

***The employer-employee relationship has a greater impact on a workers' compensation claim than anything else.***

I clearly remember those "ah ha" moments when employers realized their actions could lower WC costs. Enough employers "got religion" on accident prevention, safety, improving the claims process, rehabilitation and return to work that overall costs began to decline. What was considered innovative in the 1990s has become best practice.

The financial incentive to contain workers' compensation costs also led to greater research on several topics from workplace safety to return to work outcomes and claim process inefficiencies. As a result, those involved in workers' comp are more enlightened than ever.

That is not to say that workers' comp is free from complication. The system is still beset by its political twists and turns, court decisions and other factors.

And while there are so many stakeholders in comp ranging from medical providers to insurers, lawyers, unions and regulators, one simple truth remains. The employer-employee relationship has a greater impact on a workers' compensation claim than anything else. Many injured workers still suffer from uncaring employers just as employers see injured workers who are just not motivated to return to work.

Burton's report also covers other important inflation, including WC coverage issues. To get your hands on the report, simply fill out an order form at [www.workerscompresources.com.](http://www.workerscompresources.com) PDF downloads cost $20 and printed versions are $25.

To see more workers' compensation blogs, click [here](#).

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# [Minimum Truckers' Insurance Limits Could Increase](#)

*U.S. Army Corps of Engineers via flickr.com*

Since 1985, non-Hazmat truckers have had the same mandatory minimum insurance limit of $750,000. This is despite raising inflation and claims costs.

Think about how much insurance you have when taking into account both personal auto and umbrella coverage. Chances are you have more coverage than some truckers on the road.

Separate efforts are underway to consider this issue. The Federal Motor Carrier Safety Administration (FMCSA) closed out the comment period on a rule change last February. Many independent truckers complained insurance premiums would be too costly for them and the agency's next step is unclear.

Meanwhile, some members of the U.S. House of Representatives have introduced measures to increase the limits. The current SAFE HAUL Act of 2015 proposes limits to increase to $4,532,550. The bill is an updated version of the 2013 act of the same name, which did not pass during the last Congress.

The good news is that trucking accidents are declining. However, the cost per claim is on the rise.

Insurance advocates and some trucking associations see good reason to raise rates (and many suppliers require a $1 million insurance limit due to third party liability). However, the American Trucking Association points out that the vast majority of accidents are still covered by the current $750,000 limit.

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Regardless of whether FMCSA raises the limits or if Congress is successful in doing so, the fact is that trucking companies are better off having more than minimal coverage if they want to be socially responsible and stay in business. When trucking accidents have led to huge court settlements, trucking companies risk going out of business and accident victims can suffer lifelong physical and financial consequences.

When and if trucking insurance limits will increase is anybody's guess. Congress's appetite to focus on the issue appears limited and the FMCSA rules process has different twists and turns.

To learn more, check out my article, published by AmWins.

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# Look Out for Workers' Comp "Black Swans"

By Robert J. Malooly

When early cartographers reached the boundaries of charted territories on their maps, they often inscribed "Here be dragons" into the blank spaces beyond.

This fanciful warning warned travelers to prepare for previously undocumented or even imagined dangers. Whether from uncharted reefs or mythical beasts, failing to take unknown hazards seriously could result in an unprofitable voyage, not to mention the loss of ships and their crews.

*Public domain courtesy of Arpingstone*

While GPS satellites have filled in the blank spaces on maps, the unknown continues to plague today's investors and workers' compensation. Yesteryear's dragons have been replaced by another rare bird – the "Black Swan" as defined by Nassim Nicholas Taleb in his 2001 book, ***Fooled by Randomness*.** Today the label describes a perceived impossibility that later is proven to be an unanticipated reality.

In business, Black Swans tend to be outlier events that fall off the radar of regular expectations because nothing in the past can convincingly point to their possibility. But once encountered, they can have an extreme impact. "Black Swan logic," Taleb told the ***New York Times*,** "makes *what you don't know* far more relevant than what you do know."

Workers' compensation faces a future filled with Black Swans that will affect the outcome of ratings, premiums and financial results for both insured and self-insured organizations.

One example of a workers' comp Black Swan is physician dispensing of medication that is usually more expensive than pharmacy prices. According to the PMSI website, "…physician dispensing began to surface in California in the middle of the last decade, as physicians… found a secondary stream of income to fill gaps created by reimbursement cuts in the commercial, workers' compensation and government markets."

Beginning as isolated instances, this Black Swan is a workers' comp reality that will continue to affect the health of workers and the bottom line of their employers for the foreseeable future. A Workers Compensation Research Institute (WCRI) study in 2012, ***Physician Dispensing in Workers' Compensation***, documented its rapid growth. A more recent WCRI study, ***Are Physician Dispensing Reforms Sustainable?***, indicates that physicians are now countering reform efforts by finding loopholes that allow them to continue the practice of dispensing drugs at high prices.

***Workers' compensation faces a future filled with Black Swans that will affect the outcome of ratings, premiums and financial results for both insured and self-insured organizations.***

What other Black Swans may soon have an effect on workers' compensation? ***MarketWatch*** predicts that 3D printing technology in healthcare will be a $1.2 billion market by 2020. According to its recent article, “3D printing has numerous applications in healthcare and can be segmented into implants & prosthetics, surgical guides, hearing aids, and tissue engineering.” This advancement alone will have a significant impact on workers’ comp disability ratings.

Many more Black Swans will come from out of the blue to impact workers’ compensation. But by their very nature, they will not be noticed until they begin to have practical applications and slowly affect insurance companies, doctors, employers and workers. According to Taleb, the danger lurks in the third element of Black Swans – the need for human nature to concoct, after the fact, explanations that make them appear less random than they were.

The inference is that if we had looked harder, the Black Swan would have been revealed. In the same *New York Times* article mentioned above, Taleb points out the risks in this practice, “Black Swans being unpredictable, we need to adjust to their existence (rather than naively predicting them).”

Awareness of potential workers’ comp Black Swans is critical. Those involved in workers’ comp should be mindful of the Black Swan theory, watch the horizon carefully for signs of a new brood hatching and conduct future scenario planning to anticipate and measure their impact early on. Whether this leads to actions designed to mitigate new risks or being the first to leverage new technology, an extra measure of vigilance will pay dividends to both the health of workers and the corporate bottom line.

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*For more information on physician dispensing, click **here**. To learn more about how technology will affect health care, click **here**.*