

Occupational Health Nurses and Workers' Compensation Insurance Programs

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ABSTRACT

Today's occupational health nurse is likely a clinician, educator, case manager, consultant, and risk manager. Occupational health nurses improve working conditions, prevent injuries, reduce insurance-related costs, and rehabilitate workers. They not only develop health service programs taking into account both the welfare of workers and the organization's bottom line, they also make budgetary and staffing recommendations for the programs' implementation. Occupational health nurses must understand their organizations' workers' compensation insurance programs, how these programs work, and how nurses can maximize the companies' worker advantages and bottom line.

Organizations accept countless risks every day because of the properties they occupy, the products they produce, the services they deliver, and the workers they employ. Although these risks all involve exposures that require proper insurance coverage, none is perhaps as critical to the success of organizations as the protection they afford their employees through their workers' compensation insurance programs.

Although workers' compensation insurance coverage is state mandated and regulated, an organization does

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Note. The information and suggestions presented are for readers' consideration in loss prevention efforts. The information is not intended to be complete or definitive in discovering or identifying risks associated with workers' compensation plans or programs or to imply that one plan or program is better than another. Readers are encouraged to comply with any safety-related and/or other laws or regulations (state, federal, etc.) and to have legal counsel review all company workers' compensation plans, programs, and policies.

have options regarding how to transfer or minimize this risk through the insurance products it selects. It is imperative that occupational health nurses understand workers' compensation laws in their states of practice. Details of the law may influence approaches that the occupational health nurse can or cannot take to control workers' compensation costs. Fixed cost and retrospective plans, as well as deductible and self-insured programs, provide the coverage organizations need along with the risk transfer payment options they may desire.

The advantages of workers' compensation plans and programs vary. Fixed cost plans, for instance, offer predetermined premium financing and budgeting, whereas retrospective plans can reduce the ultimate cost of insurance if an organization has favorable loss experience. Still other advantages (e.g., ease of administration and reduced upfront costs) are often associated with deductible programs. The one constant in successful plans or programs, however, regardless of design, is the role and close involvement of organizations' occupational health nurses.

Experience Modification Factor (EMF)

The EMF is the credit or debit factor based on the organization's loss and payroll history. The EMF tailors the price of insurance and provides an incentive for safety. The concept is simple—a positive claims history results in lower premiums, whereas a poor claims history results in higher premiums. An EMF of "1" means the organization is paying the average for its class code. A factor of 1.10 means the organization pays an additional 10% in premiums. A factor of 0.90 means the organization pays 10% less in premiums. The EMF is based on the previous 3 years and is weighted. This does not include the current year or the immediate preceding year. For example, if a policy were written in 2008, the EMF would not include 2008 or 2007 but would include 2006, 2005, and 2004 data. Losses for 2006 would be weighted at 10%, losses for 2005 would be weighted at 30%, and losses for 2004 would be weighted at 60%. The policy year 2003 would be dropped. This means that should the organization have a year with high losses, after 3 years, these data are dropped from the EMF calculations.

THE ROLE OF TODAY'S OCCUPATIONAL HEALTH NURSE

In addition to developing and delivering health and safety programs and services to workers, today's occupational health nurse is likely to be a clinician, educator, case manager, consultant, and risk manager. Rather than simply taking care of an ill or injured worker, an occupational health nurse now improves working conditions, prevents injuries, reduces insurance-related costs, and rehabilitates workers. Occupational health nurses not only develop health service programs, taking into account both the welfare of workers and the organization's bottom line, they also make budgetary and staffing recommendations for the programs' implementation. An occupational health nurse often serves as the link between frontline workers and senior management and makes the case for training and ergonomic expenses that create safer workplace environments for workers. Similarly, an occupational health nurse often has an organization's most direct and frequent contact with its carrier's risk control and claims specialist. As such, it pays dividends for organizations' occupational health nurses to understand their organizations' workers' compensation insurance programs, how these programs work, and how nurses can maximize the companies' worker advantages and bottom line.

The premiums associated with workers' compensation insurance programs are a relatively small portion of organizations' total costs. Depending on the type of insurance plan, the majority of workers' compensation costs can have little to do with premiums and everything

to do with claims. The most productive way for organizations to reduce the total cost of workers' compensation insurance is to limit the frequency and severity of their claims.

Although an organization's risk manager, human resources director, and chief financial officer will likely select the plan or program that best fits the organization, it is the responsibility of the occupational health nurse to understand the selected program's components and become involved with the carrier as early as possible. The organization and carrier have a common goal from the outset—reduce claims by reducing incidents. As such, both will compile statistics, analyze losses, and benefit from controlling and reducing costs. Therefore, the occupational health nurse needs to clearly understand the coverages and services provided by the carrier and how the plan components will impact the organization's ultimate insurance cost.

GUARANTEED OR FIXED COST PLANS

Guaranteed or fixed cost workers' compensation insurance plans, as the names imply, "guarantee" a "fixed" premium that the organization will pay for a policy regardless of the frequency or severity of losses that occur during the policy period. The guaranteed cost premium for most large organizations is based on standard industry rates, subject to state approval, adjusted upward or downward based on an organization's past loss experience. This practice is known as experience rating and carriers use it to determine an organization's "experience modification factor" (EMF) (Sidebar). Ultimately, the main advantage to these plans is the fixed premium—an organization knows exactly how much insurance will cost.

Consequently, the lower an organization's EMF, the lower its workers' compensation premiums. The occupational health nurse should know the organization's current EMF. Then, the occupational health nurse can work with the insurance carrier's risk control representative to develop a long-term action plan to lower the EMF and, ultimately, the organization's workers' compensation premiums.

INCURRED LOSS AND PAID LOSS RETROSPECTIVE PROGRAMS

In retrospectively rated insurance programs, the premium is determined at the conclusion of the policy period based on the actual incurred loss experienced for the year. With incurred loss programs, the retrospective premium is adjusted annually until all claims are paid and closed, and the ultimate program cost to an organization can be limited by a specific maximum. Although paid loss programs determine the premium retrospectively until all claims are paid and closed, they also offer installment payment options to reduce an organization's initial cash outlay.

The occupational health nurse should decrease the potential for losses by working with the carrier's risk control representative to identify and correct loss drivers (recurring situations that often lead to injuries).

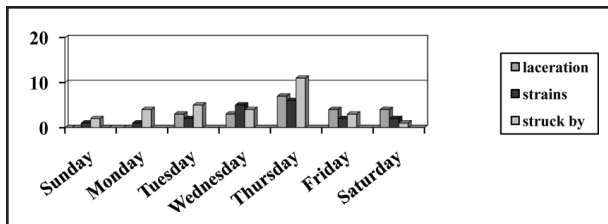


Figure. Allocating costs to departments can identify loss frequency and severity problems that may have otherwise gone unnoticed. In this example, a detailed listing of the incidents causing particular types of losses, including the day of the occurrence, is provided. The payments and reserves for each loss can also be charted.

The cost to implement controls can be allocated to the premiums saved. Again, an action plan should be developed for the long term—the retrospective premiums are generally developed 18 months after the inception of the policy.

SELF-INSURED PROGRAMS

Under self-insured programs, organizations identify loss exposures, maintain them, and formulate a plan to pay for and handle those maintained losses. In other words, self-insured organizations retain their risks as opposed to transferring them to an insurance carrier. Many states require self-insured organizations to purchase excess insurance from a carrier, transferring the risk of high-severity losses. For example, an organization may self-insure all claims up to \$500,000. Should one claim exceed that cost, the amount over \$500,000 would be transferred to the excess insurance carrier. When an organization self-insures, it generally purchases some services that an insurance company would normally provide as part of the insurance program (risk control or claims administration). An organization may contract with a carrier or third-party administrator (TPA) for these services on a fee-for-service basis. Organizations may also employ claims people in-house and not contract for this service.

In a self-insured plan, it is the organization's money that is used to pay for losses, meaning each and every incident directly impacts the organization's bottom line. The occupational health nurse should work with the carrier's or TPA's risk control representatives and claims specialists to identify the loss cost drivers and develop mechanisms for controlling the drivers and curbing costs.

PARTNERING WITH THE WORKERS' COMPENSATION CARRIER

Having the above information is just the beginning of the process for addressing workers' compensation costs. The occupational health nurse can partner with the organization's insurance carrier or TPA to identify and control losses. Many workers' compensation carriers and TPAs provide risk control services, including:

- Accident prevention program consultation.
- Return-to-work program assistance.
- Occupational health consultation.

IN SUMMARY

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- 1 The role of the occupational health nurse is to improve working conditions, prevent injuries, reduce insurance-related costs, and rehabilitate workers. Occupational health nurses often have organizations' most direct and frequent contact with their carriers' risk control and claims specialists. As such, they must understand their organizations' workers' compensation insurance programs, how these programs work, and where nurses can maximize the companies' worker advantages and bottom line.
- 2 Nurses need to clearly understand the coverage and services provided by carriers and how they will impact organizations' ultimate cost of insurance.
- 3 Occupational health nurses can use their understanding of the workers' compensation process to impact organizations' bottom line and benefit both employees and management.

- Industrial hygiene consultation.
- Ergonomic consulting services.
- Supervisor development training.
- Safety awards for specific milestones.
- Industry-specific safety and risk control programs (e.g., health care, manufacturing, and educational institutes).

The assigned risk control consultant collaborates with the occupational health nurse to evaluate historical losses and identify loss drivers. Once the key loss drivers are identified, the consultant and occupational health nurse should complete an analysis to determine which departments have the most frequent (highest number of claims) and the most severe (highest total incurred claims cost) losses. Additionally, the types of injuries and affected body parts should be evaluated, along with trends associated with the day of the week and time of day or shift during which the injuries occurred. This is where frequency loss tracking (Figure) pays dividends.

Once the trends are identified, the occupational health nurse and the risk control consultant should develop an action plan with an overall goal of frequency and severity reductions. The plan will include steps to achieve the

outlined goals, identification of the parties responsible for completion, and determination of the time frames in which they should be completed.

PARTNERING WITH AN INSURANCE CARRIER

Once workers' compensation coverage is purchased for an organization, the occupational health nurse should meet with the carrier's risk control consultant. If not done prior to coverage taking effect, the risk control consultant should complete a risk assessment of the organization to identify its strengths and weaknesses from a workers' compensation or loss control perspective.

Once the assessment is completed, the occupational health nurse and consultant should collaborate to develop an action plan that identifies quantifiable goals, specific steps to achieve these goals, responsible parties, and specific time frames for goal achievement. As goals are achieved, the results should be monitored and discussed for continuous improvement of the process and program. Risk control consultants should provide quantifiable "numbers" to occupational health nurses so they can share the success with their organizations' senior management.

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