

# WORKERS' COMPENSATION RATES DECREASED, SO WHY DID MY PREMIUM INCREASE?

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**MANY BUSINESS** owners in the Commonwealth rejoiced when the Workers' Compensation Rating and Inspection Bureau of Massachusetts (WCRIBMA) notified all members and subscribers of a general revision of rates resulting in an average rate decrease of 12.9 percent on policies effective after June 30, 2018. This does not mean that all employers experienced a decrease in their workers' compensation premium. Several factors are involved in pricing workers' compensation plans, and these factors can result in premium increases or decreases. As an employer, it's important to understand these factors to ensure you don't overestimate the impact of the rate reduction and lose focus on managing injury costs.

First, the stated decrease is an average, so manual rates for certain class codes have actually increased for policies effective after June 30, 2018. For example, class codes 4113 "Glass Manufacturing - Cut" and 8748 "Automobile Salespersons" have actually increased by 7.3 percent and 3.4 percent, respectively. Among the roughly 400+ individual class codes, approximately 20 percent increased.

Second, the experience modification rating factor is an important component in the premium calculation. The Experience Modification Rate (EMR) is calculated using the history of an insured's own actual losses and the average insured's losses within the same classification ( $EMR = \text{Actual Losses} / \text{Expected Losses}$ ). Decreased rates often correspond to periods of favorable workers' compensation results, meaning that expected losses are likely lower. Keeping your actual losses constant with lower expected losses will actually increase your EMR and your premium. In other words, you may need to reduce actual losses in order to maintain the same EMR. The EMR

calculation includes three years of loss activity, so it will take time to remove the impact from a severe claim. Of course, the costs of an injury are more than just the workers' compensation premium. The additional business expenses incurred can include overtime payroll hours, temporary workers, and additional training costs.

Rate decreases may convince some insurance carriers that the market is less attractive and lead them to scale back the scope of loss control and other services. Insurance companies may reduce their participation in the Massachusetts workers' compensation market and look for other markets. Reduced participation in the voluntary markets can also drive more policyholders into the Assigned Risk Pool, which may not be as favorable to you as the voluntary market.

Decreasing rates are not unique to Massachusetts as other New England states are also reducing rates. If you are responsible for managing your company's workers' compensation costs, decreasing rates may seem like good news. Perhaps it is. Just don't overestimate your cost savings until you know the full impact, and keep vigilant over injury prevention. ▀

## ABOUT HEATHER H. KORTENKAEMPER



**HEATHER H. KORTENKAEMPER, CPA**, is a Financial Analyst at A.I.M. Mutual with over 12 years of accounting experience. Previously, Heather held audit and financial reporting positions at Deloitte & Touche LLP and Bay State Milling Company. She is responsible for financial reporting, tax, and internal finance projects. She holds a BA from the University of Rochester and has an MBA and Master's in Accounting from Northeastern University.