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FIELD GUIDE TO
WORKERS' COMPENSATION



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Field Guide to Workers' Compensation

**Prepared by
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Workers' Compensation Insurance Research Team**

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Workers' Compensation Management in Construction

Workers' compensation is one of the most pressing problem areas in the construction industry. Developed in the early 1900s to provide better protection for workers and to reduce legal impediments to quick settlement of industrial injuries, each of the 50 states now has a workers' compensation law. However, there are wide differences in costs, benefits and administration of these laws between states.

The construction industry, due to the nature of the work involved and the demand for safety, is constantly challenged to improve its management of workers' compensation. The current costs of coverage and administration often are felt to be excessive, while the protection and benefits provided to employees are sometimes perceived as unsatisfactory.

Reducing the cost of workers' compensation management for contractors while delivering appropriate benefits to employees is a real need in the industry. Average base workers' compensation insurance premiums exceed 20 percent of direct labor in 18 states. In some states in the higher risk trades, the premium can exceed 100 percent of direct labor. The entire industry (employees, owners and contractors) will benefit from any improvements in the management of workers' compensation cases.

Following the guidelines established by the CII Zero Accidents Task Force will reduce the number of claims incurred. When accidents do occur, however, controlling costs becomes critical. This guide provides information for minimizing costs and controlling the rehabilitation process so that injured workers can get back to work as soon as medically feasible.

Impact of Workers' Compensation on Today's Business

The workers' compensation system was designed to function as a no-fault program between employers and employees whereby employers assume the costs for medical treatment and wage losses arising from a work-related injury or disease, regardless of who was at fault. In return, employees give up the right to sue their employers, except in cases of gross negligence. The system, however, has not solved the problems it was intended to handle. Workers' compensation is regarded as one of the major problems in business today, with drastic cost impacts.

The major reason for the increasing costs of workers' compensation is rising health care expenses. The workers' compensation system provides first dollar coverage, exempting injured workers from deductibles or co-payments that are now common with group health insurance. Cost containment programs, such as managed health care and utilization review, which are designed to restrain group health care expenditures, have not been applied to workers' compensation. A recent survey indicated that 44% of workers' compensation cost was attributed to medical cost. Based on research done by the CII Zero Accidents Task Force and the W/C Insurance Research Team, it has been estimated that the total cost (direct & indirect) per W/C incident are:

\$1,600 Medical Treatment Only \$47,000 Lost Work Day Case

Since workers' compensation costs continue to be a major concern, many employers have begun to institute changes in the way they deal with workplace injuries and illnesses. The most effective way companies can regain control of their workers' compensation costs is to manage the risks with the same commitment that they bring to other aspects of their business.

Direct and Indirect Cost of Workers' Compensation

The **direct costs** of injuries includes all expenses the employee generates, e.g., doctor bills, wages, pharmaceutical costs, physical therapy, hospitalization, and travel. The amount of wages/benefits paid to the employee varies from state to state. Injured employees are not supposed to have any out-of-pocket medical related expenses that they are required to pay.

Indirect costs typically range from 1 to 20 times the direct costs. They can be broken down into different categories and include:

- Costs of Injured Worker
 - Productive time lost at the time of injury
 - Productive time lost obtaining follow-up treatment
 - Reduced capacity of the worker upon returning to work
- Costs of Injured Worker's Crew
 - Productive time lost at the time of injury
 - Reduced capacity due to being short-handed
 - Reduced capacity due to a less experienced replacement
 - Reduced capacity due to equipment or material damage
- Costs Associated with Obtaining Medical Help
 - First aid expenditures at the site
 - Wages of the driver of the injured worker
 - Costs associated with transportation
 - Lost productivity of the driver

- Costs of Other Crews
 - Productive time lost when watching injury-related activities
 - Productive time lost when talking about the injury
- Costs of Material or Equipment Damage
- Costs of Supervisory Staff
 - Productive time lost investigating the accident
 - Productive time lost preparing accident reports
 - Productive time lost accompanying regulatory personnel
 - Productive time lost addressing the media
- Other Costs
 - Damage to company image
 - Reduced company competitiveness
 - Reduced worker morale
 - Pain and suffering of injured worker
 - Adverse impact on family members of injured worker
 - Regulatory fines
 - Additional training requirements
 - Increased workers' compensation costs
 - Schedule impacts
 - Third party lawsuits

Another cost factor is increased litigation. When the workers' compensation program dictates how much will be paid for each disability, everyone seems more comfortable with the outcome. When the rules are vague, the employers try to minimize their expenses by hiring experts to examine the workers, and the workers hire attorneys to protect their interests.

The overall cost of workers' compensation to a project/company is directly related to the accident prevention program through smaller Experience Modification Rates (EMRs), fewer injuries, and less indirect costs. However, the actual cost of an accident is not directly related to the accident prevention program, but rather the seriousness of the injury and the litigation surrounding the claim.

An accident will have an effect on the manual workers' compensation rate of all contractors. The cost incurred by each accident that is submitted to an insurance company is submitted to the rating bureau in each state. The rating bureau then performs cost averaging and applies some factor for expected inflation to determine the manual insurance rate for contractors. The manual rate is that amount which is modified by multipliers such as the EMR. Therefore, anything done to reduce the number and severity of accidents reduces the cost to the construction industry.

