Workers' Compensation Insurance: An Overview

Workers' compensation coverage pays benefits to workers injured on the job, including medical care, part of lost wages and permanent disability. It also provides death benefits to dependents of employees killed from a work-related accident. Workers' compensation systems are different in every state, as individual statutes and court decisions have shaped the way they handle claims, evaluate impairments, settle disputes, provide benefits and control costs.

Background of Workers' Compensation Insurance

During the 19th century, the number of individuals joining the workforce grew exponentially. As a result, the number of workplace accidents grew as well. At that time, the only way that injured workers could obtain compensation for their injuries was to sue the employer. Many legislative proposals emerged early in the 20th century, focusing on compensating injured workers for their medical care and lost wages.

By 1949, all states had a system in place to provide compensation for injured employees.

Under these systems, the employer was responsible for providing compensation for the cost of medical care and wages lost, and consequently, the employee gave up his or her right to sue the employer for injuries. Currently, Texas is the only state where workers' compensation is not mandated for all employers.

As part of the insurance package, the injured worker's medical, rehabilitation and lost wages are paid for by the state or insurance carrier. If the injury leaves the employee disabled, the insurance carrier will pay the claim based on the extent of the injuries and based on its permanence. The disability will fall into one the following categories: temporary total, temporary partial, permanent partial or permanent total disability.

Workers' compensation rates and programs are managed by private insurers, state funds or the National Council on Compensation Insurance (NCCI). HRO Resources can provide more information about how your state handles these programs.

The Employer's Responsibilities

Employers are required to do the following to comply with workers' compensation insurance laws:
- Provide coverage for their employees and are held liable for all injuries suffered by employees while they are on the job (with the exception of employers residing in the state of Texas)
- Pay premiums and provide the carrier with audit payroll numbers
- Provide a safe environment

- Notify the carrier as soon as possible after an injury
- Investigate injuries

Managing Your Workers' Compensation Costs

Your workers' compensation insurance premium is based on a rating your company has, which is based on payroll, averages for your industry and claims experienced over a three-year period. Claims have a direct impact on this experience modification factor (mod), which can significantly drive up premiums. This means many times a company will pay for its own claims in increased premium costs. There are many things that companies can do to lower their workers' compensation costs, such as the following:

- Inspecting your insurance policy to make sure that all job classifications and payrolls are correct.
- Making an investment in workplace safety to avoid accidents to improve claim histories and reduce overall costs. If you modify operating procedures even slightly, you can alleviate unnecessary exposure to injuries.
- Considering using a managed care organization that has a relationship with your insurance company. This will help you save on medical treatment costs.
- Creating a modified duty program at your organization to help injured employees return to work sooner. Under these programs, employees are assigned duties that they can physically complete while they recover. The most successful return to work programs incorporate speedy, quality medical care and assistance to reduce emotional stress after an accident.

There are other actions that your organization can take to reduce workers' compensation costs, and we have the tools to show you how. Contact HRO Resources today to learn more.