

WHITE PAPER

Workers' Comp Math Made Easy:

Measuring the Effectiveness of Your Workers' Comp Program



When it comes to managing your workers' compensation program, understanding the numbers is crucial. However, many businesses find the topic overwhelming. That's why we've put together this guide to help you break it down and measure the effectiveness of your workers' comp program.



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The Loss Run: A Quick Snapshot of Your Workers' Comp Costs

A [loss run](#) is a basic report that shows your total workers' comp claim history. Typically provided by your insurance company, this report details the number of open claims, the cost per claim, and the total expenses related to those claims.

But while the loss run provides a snapshot of what your [workers' comp](#) program is costing you, it doesn't offer the insights needed to improve safety or reduce claims. For that, you need to dig deeper.

What You Should Be Looking For

To truly control your workers' comp expenses, you need to track specific data points. Here's what you should focus on:

- **Injury Patterns:** Are certain activities or equipment leading to more injuries?
- **Response Time:** How quickly are injuries being reported?
- **PPE Usage:** Are employees consistently using personal protective equipment (PPE)?
- **Managerial Impact:** Are some managers seeing higher injury rates in their teams?
- **Injury Frequency in Specific Work Groups:** Do certain departments or teams have a higher rate of injuries?
- **Accident-to-Reporting Time:** How long does it take for an injury to be reported after it occurs?
- **Claims per Worker:** How many claims are filed per worker over a given period?
- **Return-to-Work Success Rates:** How effective are your return-to-work programs in getting employees back to their duties?

By gathering this data, you can identify areas to focus health and safety improvements to reduce your workers' compensation costs. **For instance, if you notice that injuries often involve a particular piece of equipment, you can implement targeted safety training or improve PPE availability.**



Controlling Your Workers' Comp Expenses

Controlling your workers' comp expenses starts with creating a safer work

environment. This can be achieved through several key strategies. Regular safety audits are essential for identifying potential hazards before they result in claims. By proactively spotting and addressing risks, you can prevent accidents and reduce the likelihood of costly claims.

Another important strategy is offering targeted training programs that address the specific risks your employees face. Tailoring training to the unique challenges of your workplace ensures that employees are better equipped to avoid injuries. Additionally, establishing and enforcing strict near miss and injury and illness reporting protocols is crucial. Encouraging prompt reporting not only ensures that employees receive timely intervention but also leads to more accurate data collection, which is vital for managing your workers' comp program effectively.

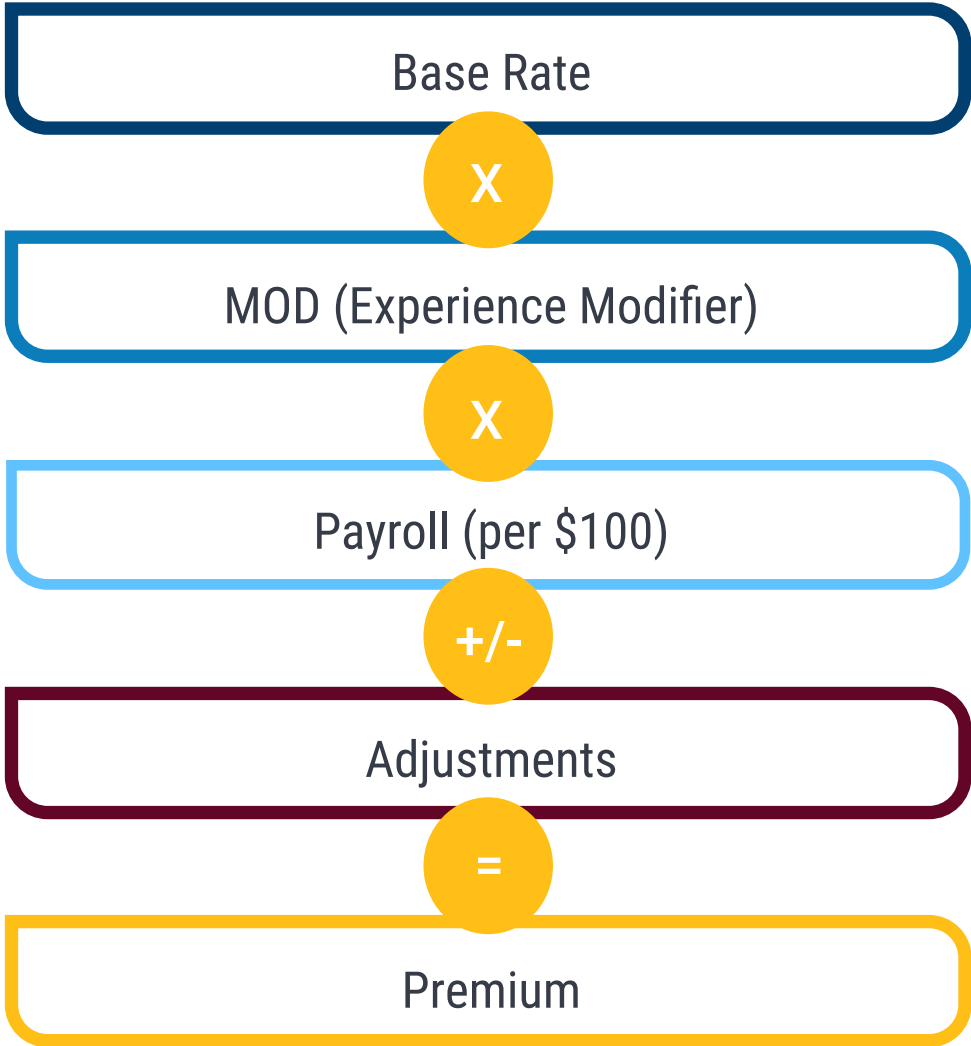
Beyond these internal measures, it's also beneficial to collaborate with your insurance provider for detailed analyses. Many insurers offer [loss control services](#), providing deeper insights into your data and suggesting strategies to reduce costs. By combining proactive safety measures with expert analysis, you can significantly lower your workers' comp expenses while fostering a safer, more productive workplace.



Controlling your workers' comp expenses starts with **creating a safer work environment.**

How Are Workers Compensation Insurance Premiums Calculated?

Understanding [how your workers' compensation insurance premiums are calculated](#) is essential for managing costs effectively. If your company is fully insured for worker's compensation (vs. self-insured or part of a state-run program), the below calculation applies to you. The calculation involves several key components, each of which plays a critical role in determining your overall premium. Here's a breakdown of the formula:

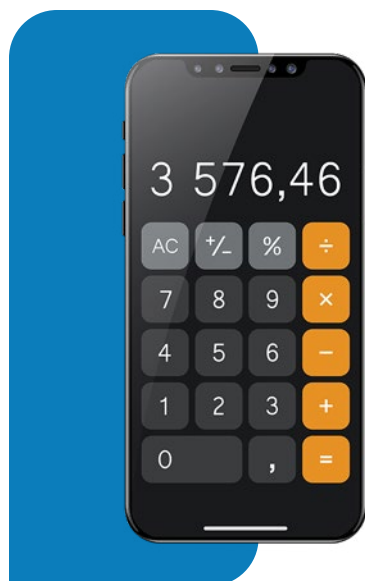


The **Base Rate** is set by your insurance provider and is determined by the type of work your employees perform. Different industries and job roles carry different levels of risk, and the base rate reflects this. For example, a construction company may have a higher base rate than an office-based business due to the increased risk of injury on a construction site.

The **Experience Modifier (MOD)** is a crucial factor that adjusts your premium based on your company's claims history compared to others in your industry. If your claims history is better than average, your MOD will be less than 1.0, which reduces your premium. Conversely, if your claims history is worse than average, your MOD will be higher, increasing your premium. This modifier incentivizes companies to maintain a safe work environment to keep claims low and control costs.

Payroll is also a significant part of the equation, as your premium is directly linked to the size of your payroll. The calculation typically considers payroll per \$100, meaning that as your payroll increases, so does your premium. This component ensures that your insurance costs are proportionate to the number of employees you have and the overall risk they represent.

Finally, **Adjustments** can be added or subtracted from your premium based on various factors, such as scheduled credits or debits for implementing safety programs, changes in state regulations, or other specific considerations by your insurer. These adjustments can either lower or raise your final premium, depending on the specifics of your policy and risk management practices.



By understanding each component of this formula, you can better manage your workers' compensation costs. Maintaining a safe workplace to improve your MOD, accurately reporting payroll, and taking advantage of any available credits or adjustments can all help in reducing your insurance premiums.

Key Metrics to Track

Understanding the right metrics is essential for measuring your program's success. Here are some of the most important ones:

Cost Per Worker

The Cost Per Worker metric calculates the average workers' compensation expense per employee, giving you a clear understanding of how much your program is costing on a per-person basis. By tracking this metric over time, you can spot trends and identify areas where costs may be rising unexpectedly. If you see an increase, it might suggest the need for enhanced safety measures or a review of your overall compensation strategy.

$$\text{Cost per Worker} = \frac{\text{Total Active Claim Expenses}}{\text{Total Amount of Workers Covered for Comp}}$$

Calculation establishes the expense of workers' comp per worker

$$\text{Indemnity Cost per Worker} = \frac{\text{Total Indemnity Cost of Active Indemnity Claims}}{\text{Total Number of Workers with Indemnity Comp Coverage}}$$

Calculates indemnity costs for active workers comp indemnity claims per worker.

$$\text{Medical Costs per Worker} = \frac{\text{Total Medical Expenses for Medical-Only Claims}}{\text{Total Number of Workers Covered by Comp}}$$

Calculates indemnity costs for active workers comp indemnity claims per worker.



Claim Incidence Metrics

Claim Incidence Metrics track the frequency of workers' compensation claims, offering insight into how often injuries occur within your workforce. Monitoring the number of claims per 100 workers helps you understand potential safety issues and identify patterns that could point to underlying problems. If you notice an uptick in claims, it may indicate the need for targeted safety training or workplace improvements.

$$\text{Annual Claims per 100 Workers} = \frac{\text{Total New Claims}}{\text{Total Workers Covered by Comp}} \times 100$$

Calculates the number of new claims per 100 workers in a 12 month span.

$$\text{Medical-Only Claims per 100 Worker} = \frac{\text{Total of New Medical-Only Claims}}{\text{Total Workers Covered by Comp}} \times 100$$

Calculates the number of new medical-only claims accrued over any period of time.

$$\text{New Indemnity Claim Percentage} = \frac{\text{Total Number of New Indemnity Claims}}{\text{Total Number of All New Comp Claims}} \times 100$$

Calculation reveals the number of new indemnity claims accrued over any period of time.

Expense Per Active Claim

The Expense Per Active Claim metric shows the ongoing cost of each open claim, providing a snapshot of the financial impact as claims progress. Tracking this metric helps you monitor the financial burden of active claims and can alert you to spikes in costs. If certain claims are becoming more expensive, it might signal the need for deeper investigation or more effective intervention strategies.

Expense per
Active Claim



Total Active Claim Expense
Number of Active Comps Claims

Calculates the cost of workers' comp coverage per claim for any period.

Cost of Indemnity for
Indemnity Claims



Total Indemnity Costs
for Indemnity Claims
Number of Active Comp
Indemnity Claims

Calculation establishes indemnity cost per active workers' comp indemnity claim.

Costs for
Medical-Only Claims



Total Medical Costs for
Medical-Only Claims
Number of Active Workers'
Comp Medical-Only Claims

Calculates the medical costs per active workers' comp medical-only claim.

Cost Per Closed Claim Metrics

The Cost Per Closed Claim metric reveals the total expenses of resolved claims, providing a clear picture of the financial impact each claim has on your business. By tracking this metric over time, you can identify what's driving costs and evaluate how efficiently your claims are being managed. If you notice that claims are taking longer to close or becoming more costly, it might indicate the need for better claims management practices or more effective negotiations with medical providers.

Cost per
Closed Claim



Total Benefits Paid for Closed
Number of Closed Claims

Calculation establishes total cost per claim of workers' comp coverage for any time period.

Indemnity Cost per
Closed Claim



Total Indemnity Costs for
Closed Indemnity Claims
Number of Closed Comp
Indemnity Claims

Calculation establishes the costs of indemnity per closed indemnity claim.

Medical-Only Cost
per Closed Claim



Total Medical Costs for
Closed Medical-Only
Number of Closed
Medical-Only Claims

Calculates the medical costs per closed medical-only claim.

Lost Time Metrics

Lost Time Metrics measure the amount of productivity lost due to work-related injuries, offering a clear view of how injuries impact your workforce's efficiency. Tracking lost workdays helps you understand the broader effects of injuries on your business operations. If lost time is increasing, it may highlight the need for improved safety protocols or more effective injury prevention measures.

$$\text{Lost Temporary Total Disability (TTD) Workdays per 100 Workers} = \frac{\text{Lost workdays for TTD Claims}}{\text{Total Number of Workers Covered by Comp}} \times 100$$

Calculation measures the effect of lost productivity from indemnity claims.

$$\text{Lost Temporary Total Disability Workdays per Closed TTD Claims} = \frac{\text{Lost Workdays from Date of Injury for Closed TTD Claims}}{\text{Total Number of Closed TTD Claims}} \times 100$$

This equation establishes a company's average number of lost workdays associated with closed temporary total disability (TTD) claims.

Return-to-Work Metrics

Return-to-Work (RTW) Metrics assess the effectiveness of your RTW programs, which are crucial for minimizing lost productivity after an injury. These metrics provide insight into how well your programs are helping employees return to their duties, even if on a modified basis. If RTW success rates are lower than expected, it might indicate the need to enhance your RTW strategies to better support employees during their recovery.

$$\text{Return-to-Work Claim (RTW) Percentage} = \frac{\text{Total Number of Claims with RTW Duty}}{\text{Number of Total Active Claims}}$$

Calculation establishes the percentage of all claims with return-to-work transitional duty for any period of time.

$$\text{Return-to-Work Transitional Workdays Percentage} = \frac{\text{Total Number of Workdays with RTW Duty}}{\text{Number of Total Lost Workdays}}$$

Calculation establishes the percentage of workdays lost due to return-to-work transition duty for any time period.

The Bigger Picture: **Safety Equals Savings**

With successful management of workers' compensation, both Human Resources (HR) and Environmental Health and Safety (EHS) professionals play key roles. HR typically handles claims administration, ensuring compliance with legal requirements, and supporting employees through the recovery process. EHS, on the other hand, focuses on accident prevention by implementing safety measures and reducing workplace hazards.

For workers' comp to be effective, these teams must collaborate closely. **Regular communication between HR and EHS ensures that safety protocols are informed by claims data and that injured workers receive the support they need to return to work safely and quickly.** Working together, they create a safer, more efficient workplace.

By focusing on safety, you not only protect your employees but also reduce the frequency and severity of claims, leading to lower insurance premiums and overall costs. Remember, by collecting and analyzing meaningful data, you are in a better position to make informed decisions that will benefit your business in the long run.

Managing a workers' comp program can seem daunting, but by breaking it down into manageable steps and focusing on key metrics, you can take control of your costs and improve workplace safety. **Keep gathering data, stay proactive with safety measures, and don't hesitate to seek help from your insurance provider when needed.** By taking these steps, you can ensure that your workers' comp program supports a safer, more productive workplace.

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