

# Views

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**KARE**

The Kentucky Chamber Program  
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Recently, there has been a steady upward trend in workers' compensation insurance premiums. This trend can be attributed primarily to economics. There are a variety of factors at work in the marketplace that are driving up costs, and in turn, resulting in higher premiums. These include loss severity, age of employees, unemployment, and safety.

## Loss Severity

While the number and frequency of claims have begun to decrease in recent years, severity, which relates to claim size in dollars, continues to increase. The increase is not attributable to "the system," but instead is due to two simple economic factors:

- 1) The cost of living, which includes medical costs, continues to increase. As a result, the medical costs of work-related injuries are also increasing.

- 2) Salaries and pay scales are also on the rise. Hence, indemnity payments for lost wages resulting from work-related injuries are going up as well.

## Age of Employees

The age of the average worker continues to increase. This trend is not likely to change for a number of years because most baby boomers are still in the workforce and probably won't consider retiring for another 10 to 12 years. The

no choice but to hire less qualified employees who may not possess the desired skills. Such employees often take longer to train, which may affect workers' compensation claims because many severe injuries occur while new employees are being trained in unfamiliar jobs.

## Safety

Often, when workers' compensation costs are very low, safety issues may not get as much attention as when these costs are high. It's a natural reaction to think that low premiums mean safety is under control, but such complacency can lead to accidents. When companies

## The Economics of Workers' Compensation



## It's a Matter of Economics

by Ron Bell  
Executive Director,  
KARE

good news is that older workers tend to stay in their jobs longer, change jobs less frequently, and have fewer injuries than younger workers. On the down side, however, when older workers are injured, they may take more time to recuperate.

## Unemployment

The economy has been strong and healthy for some time now, and unemployment has remained low. This is great news, but a mixed blessing for workers' compensation. While low unemployment is the ultimate goal, its achievement results in the shrinkage of the available labor pool, making it difficult for companies to find qualified candidates. This leaves some employers with

lose sight of continuous safety measures, frequency and severity of claims can take a sudden upward turn. Once frequency and severity start to climb, the overall cost of insurance also rises. Then, due to increased insurance costs, safety becomes important again, and the entire cycle starts over. Companies need to remember that safety is a journey, not a destination. Keeping a constant eye on safety procedures and practices on an ongoing basis will pay off in the long run.

None of the preceding are great revelations. They are all observable trends that directly or indirectly affect workers' compensation premiums. So, it's no mystery why premiums rise and fall over time—it's just a simple matter of economics. ■

Double-clicking on the following checkpoints will aid employers in avoiding common mistakes in maintaining workers' compensation insurance coverage, thereby preventing costly and potentially damaging consequences.

(there are a total of six monopolistic states), should secure Stop-Gap Employers' Liability coverage as an endorsement to their workers' compensation policy or general liability policy.

## 7 Essential Checkpoints to Keep Workers' Compensation Coverage Clicking

by George Rupert  
Executive Director,  
Ins. Mgt. Institute

### 1 Maintain the proper Named Insured(s).

Employers and insurance agents often overlook the importance of correctly naming entities to be included as Named Insureds in a workers' compensation insurance policy.

Too often only one entity is properly named when others should also be included. It is also important to know the difference between an Additional Named Insured and an Additional Insured.

### 2 Obtain compliant Experience Modifiers.

Experience Modifiers in Kentucky are currently in disarray for thousands of employers who have been insured by both a private carrier and a self-insurance group in the last four years. Modifiers produced by the NCCI, for instance, may not include all applicable experience. Some insurance agents and consultants have the ability to promptly provide test Experience Modifiers to assist employers in complying with the applicable Kentucky law for the use of Modifiers.

### 3 Maintain proper work Classifications in the policy Schedule.

Employees are classified according to the type of work performed and different rates apply to almost every class, depending upon the risk characteristics of the class. It is a good idea to periodically review the schedule in the policy of classes and rates to be sure they continue to properly reflect the work being performed.

### 4 Maintain an up-to-date listing of states in the Information Page of the policy.

Only states listed in Item 3a of the Information Page will be covered for on-going operations as of the policy effective date. Operations that begin in any other state after the policy effective date may be covered as of the commencement of operation in such state if that state has been entered in Item 3c of the Information page, but the insurance carrier must be notified of work in such state within 30 days of its commencement.

### 5 Maintain Stop-Gap Employers' Liability coverage.

Employers with employees who may go into a monopolistic state, such as Ohio or West Virginia

### 6 Secure separate coverage for monopolistic states.

If an employer has employees who regularly work in such states as Ohio and West Virginia, separate coverage purchased directly from the state's facility may be required. In the alternative, the execution of specially designed forms may allow employers to elect Kentucky as the state of exclusive remedy even though such employees may periodically work in a monopolistic state like Ohio and West Virginia.

### 7 Maintain a Voluntary Compensation Endorsement.

Not all employees are automatically required to be covered under a state's workers' compensation law. To avoid an uncovered claim, employers should be sure they have the Voluntary Compensation Endorsement attached to their policy, and that the specific wording added to the endorsement is broad enough to cover an employer's individualized circumstances with respect to employees who may not be subject to the workers' compensation law of a state where work is being performed. ■

George G. Rupert is the Executive Director of Insurance Management Institute of Venice, FL, Ashland and Lexington, KY, an independent fee-for-services insurance and risk management consulting firm that does not engage in the sale of insurance products and specializes in providing service to employers and associations of employers on Workers' Compensation and Employers' Liability, 24-hour Integrated Benefits, Employment Practices Liability, and Alternative Markets programs. He counsels insurance carriers and agencies on management, marketing, and regulatory issues. He is also co-organizer and developer of W•E•B Comp® interactive internet insurance and risk management eCommerce and eServices. The Institute can be reached at [ggrupert@aol.com](mailto:ggrupert@aol.com) and at 941/480-9039.



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The Kentucky Chamber of Commerce produces the following workshops, seminars, and publications, unless otherwise noted. For more information, call 502/695-4700.



### *Year 2000 Kentucky OSHA Conference*

February 8-10, Lexington

A dynamic, information-packed conference designed to bring together the most knowledgeable OSHA speakers in the state. Attendees will have the opportunity to network with other health and safety professionals, and in addition to the general sessions and training workshops, each attendee will receive a comprehensive set of training materials, including the newly published book, *The Kentucky Employers' Guide to Preventing OSHA Fines and Citations*. Cost: \$499 for KY Chamber members and \$649 for non-members.



### *Supervising and Managing People*

February 24-25, Louisville | March 2-3, Lexington

This powerful two-day workshop is designed for new supervisors, experienced supervisors who lack formal training, or supervisors who wish to polish their skills. It will address current workplace issues and provide attendees with the tools they need to become successful managers. It will be lead by Ronald G. Wells, Ph.D., president of Comprehensive Performance Systems, a supervisory management consulting firm. He has taught at the University of Kansas and Cornell University and is the author of a book on delegation. Cost: \$495 for KY Chamber members and \$595 for non-members.



### *OSHA 10-Hour Compliance Course*

March 7-8, Lexington | March 21-22, Paducah  
 April 18-19, Louisville | August 22-23, Paducah  
 September 11-12, Lexington | September 26-27, Louisville

This two-day workshop will provide participants with an intensive review of current OSHA topics. Upon completion of the course, participants will receive a Federal OSHA 10-Hour Card. This card will demonstrate your company's efforts toward voluntary compliance with OSHA standards and will be useful during any OSHA inspection. Cost: \$495 for KY Chamber members and \$595 for non-members.



### *OSHA 30-Hour Compliance Course*

March 7-10, Lexington | March 21-24, Paducah  
 April 18-21, Louisville | August 22-25, Paducah  
 September 11-14, Lexington | September 26-29, Louisville

This program will provide participants with four complete days of intensive review on current topics in occupational safety and health compliance. Cost: \$795 for KY Chamber members and \$995 for non-members.

# KARE *Contacts*

#### *Underwriting & Administration*

Phone 502/429-5997  
 (Louisville)  
 Toll Free 800/781-7808

Ron Bell, *Executive Director*

Brenda Riddle, *Underwriting Assistant*

Greg Tardy, *Underwriter*

ToniAnn McKenney, *Underwriting Assistant*

Robyn Roberts, *Underwriter*

Leana Phillips, *Underwriting Assistant*

#### *Safety Services*

Phone 502/429-5997  
 (Louisville)  
 Toll Free 800/781-7808

Ron Cunningham, *Director*

#### *Safety Services*

Jerry Binkley  
 Ken Blanton

#### *Claims*

Phone 502/245-8012  
 (Louisville)  
 Toll Free 800/928-1342

John Dischinger, *Claims Supervisor*

#### *Managed Care Services*

Phone 502/245-8012  
 (Louisville)  
 Toll Free 800/928-1342

Sue Barber, *BHN Manager*

#### *Marketing Services*

Phone 502/695-8763  
 (Frankfort )  
 Toll Free 800/496-2734

Mark McCord, *Marketing Director*

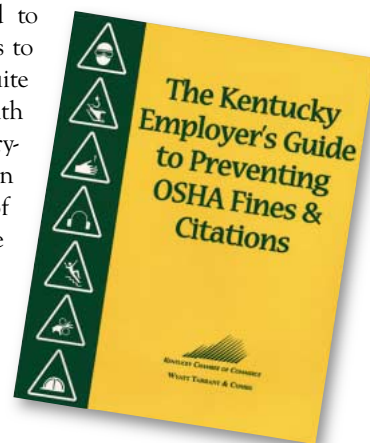
Angela Hockensmith, *Marketing Assistant*



## *Avoid OSHA Fines & Citations*

The Kentucky Chamber of Commerce has published *The Kentucky Employers' Guide to Preventing OSHA Fines & Citations*, a user-friendly guide designed to assist Kentucky businesses in their efforts to comply with the numerous, and often quite complex, occupational safety and health standards. In this guide, you'll find everything you need to know to prepare for an OSHA inspection, a full explanation of your rights, and information about the consequences of non-compliance. It covers both current and proposed standards and provides an overview of the most common citations and what you can do to avoid them. Also included in the guide are samples of OSHA required forms and a list of Kentucky OSHA contacts.

This comprehensive and invaluable publication is available at a cost of \$63 for KY Chamber members and \$84 for non-members. For additional information about its contents or availability, please contact the Chamber at 502/695-4700. ■



# Recognize the Signs?!



## • Lost Productivity

Substance abusers in the workplace are 33% to 50% less productive than non-abusers.

*Doreen was all stressed out about the data entry until she took one of Ann's valiums...*

## • Absenteeism

Abusers miss an average of three weeks more work per year than non-abusers, and they are late to work three times more often than non-abusers.

*Joann was out partying last night and today she's home "sick"...*

## • Accidents

Abusers are 3.6 times more likely to have accidents on the job, and they are 5 times more likely to file workers' comp claims for injuries suffered on (and off) the job.

*Jim "forgot" to lower the highlift before going through the doorway...*

## • Medical Claims

Substance abusers are likely to have 300% to 400% more medical claims for themselves and their dependents.

*Roger is constantly seeing doctors for his "bad nerves and stomach problems"...*

## • Pilferage, Loss, & Theft

50% to 80% of pilferage loss is due to substance abuse.

*Joe's shop seems to "lose" about one expensive power tool a month...*

# Achieving a Drug-

## The Problem

In 1992, the U.S. Department of Health and Human Services (HHS) reported that 67.7% of the substance abusers in America were employed. By 1998, that figure was reported at 74%. The number of employed substance abusers increased 8.8% in just six years and continues to hold steady.

According to recent HHS studies, employers with fewer than 500 employees are at the greatest risk of hiring and keeping workers who use drugs. The majority of the U.S. workforce (82%) is employed in companies of this size. In these small companies, 16.4% of the workforce are illegal drug users, and 17.5% are heavy alcohol users.

Due to their limited resources, small employers are less likely to take the necessary steps to protect themselves against the ravages of substance-abusing employees. Their lack of anti-drug programs is what makes them attractive to substance-abusing applicants. Because these employers are at such critical risk, the new Drug-Free Workplace Act of 1998 (federal legislation) specifically targets small employers for drug-free workplace efforts.

On average, substance-abusing workers cost their employers between \$7,000 and \$25,000 per employee due to the use of illegal drugs, misuse of alcohol, or abuse of prescription and over-the-counter drugs. These dollars accumulate from lost productivity, increased absenteeism and tardiness, increased use of medical benefits, pilferage, and accidents resulting in workers' compensation claims. It is often easiest to understand the costs as they relate to accidents:

- Abusers are 3.6 times more likely to have an accident on the job and 5 times more likely to have an accident off the job. (U.S. Dept. of Health & Human Services)
- Forty-seven percent of workplace accidents result in serious injury; 40% result in death. (Occupational Medicine)
- Thirty-one to fifty percent of workers' compensation claims in America involve alcohol and other drugs. Abusers file five times more claims than non-abusers. (National Council on Compensation Insurance)
- Co-workers are 40% more likely to be injured by a substance-abusing employee. (U.S. Bureau of Labor Statistics)

In short, substance-abusing employees clearly compromise workplace safety, productivity, and financial resources.



Source: Franklin County Alcohol, Drug Addiction, and Mental Health Services Board (ADAMH), Columbus, OH

# Free Workplace

by Dee Mason, President  
Working Partners®/BASA Coalition



## The Solution

So, what exactly is a Drug-Free (Substance-Free) Workplace Program, and what should an employer consider when establishing such a program? The following five components are universally embraced by most organizations:

### 1. Written Policy and Procedures

Policies/procedures should reflect the strong commitment of the employer to a workplace free of illegal drugs and other substance abuse and should itemize the responsibilities of the employer and the employee.

### 2. Employee Awareness and Education

This effort should focus on the specific dangers of substance abuse. The training agenda should include articulation about what assistance is available, what rules, testing, and corrective actions are included in the company's program.

### 3. Supervisor Training

Training should build supervisors' skills in the recognition of signs and symptoms and teach them how to document/confront/refer an employee for testing and/or assistance services. It should also focus on where the boundaries are.

### 4. A Plan for Employee Assistance

A plan should be in place in the event someone voluntarily asks for help or is discovered through a positive chemical test.

### 5. Drug and Alcohol Testing

*(as is appropriate for your environment and objective)*

Systems presence testing (drug and alcohol testing) serves as scientific, objective, defensible evidence that a certain level of substance exists within an employee's system. However, decisions about testing must balance the cost and practicalities against the benefits. An employer considering a testing program has a myriad of decisions to make, including such questions as when testing will be done (there are 25 different options), who will be tested, what drugs will be tested for, at what cut-off levels, under what protocols, and what laboratory, etc. In addition, compensation issues, return-to-duty, and corrective actions need to be thought through and integrated with a company's testing program.

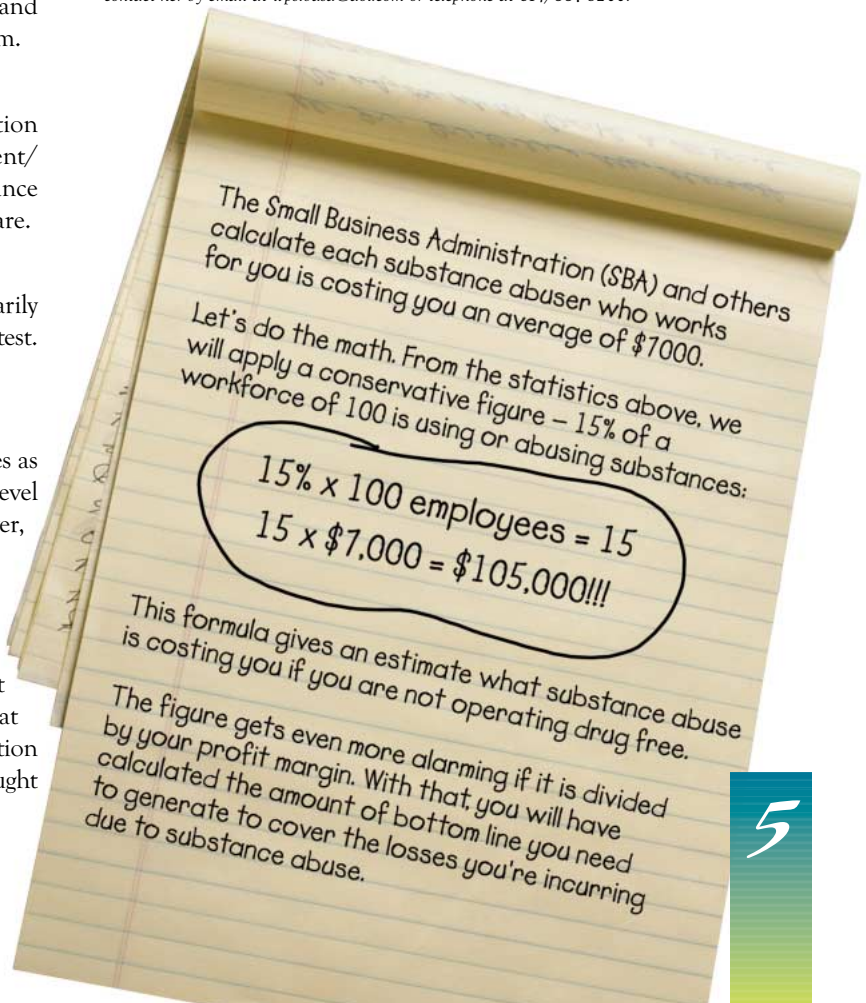
A well thought-out, high quality, substance-free workplace program is valued by both employees and the employer. Employees with a problem are encouraged or forced to get help. Those employees without a problem are protected from accidents and performance problems of those who are substance abusers.

Finally, a substance-free workplace protects an employer in these major ways:

- protection from operation losses attributable to substance-abusing employees (including public image and lost managerial time);
- protection from liability for the damages substance-abusing employees can cause; and
- potential cost savings where systems permit. A soundly designed program may enable an employer to negotiate discounts and savings on rates for health, workers' compensation, auto, and liability insurance.

Done appropriately, a substance-free workplace program is a win-win proposition. Such a program will help save lives, time, and money. ■

Dee Mason is the President of Working Partners®/BASA Coalition located in Columbus, Ohio. Her operation provides a full turn-key system of services for any company developing and/or maintaining a substance-free (drug-free) workplace. For further information, please contact her by email at [wpsibasa@aol.com](mailto:wpsibasa@aol.com) or telephone at 614/337-8200.



From time to time, we would like to introduce our readers to some of the people at KARE who make our organization so successful. An excellent place to start is with one of our underwriters, Greg Tardy, CPCU, ARM.

## Meet Underwriter Greg Tardy

..... An underwriter's job is to review existing and potential clients from the standpoint of workplace exposures and to assess employer control of such exposures. From this review and other historical performance data, the underwriter prices the account accordingly. Greg performs these types of

functions on a daily basis, and has developed many long-term relationships with clients and agents based on his "can do" attitude in assisting with proper insurance pricing and placement.

Greg began his insurance career in 1989 with Aetna Life & Casualty in Indianapolis, Indiana, as a property and casualty underwriter. In 1992, he joined Risk Management Administrators (RMA), a third party workers' compensation administrator in Indianapolis. At RMA, Greg led a team of underwriters in building a very profitable client base. In 1996, Greg joined KARE as a senior underwriter where he continues to build solid relationships with agents and customers.

In Greg's own words, "I'm particularly driven toward providing exceptional customer service to my clients."

You may notice a series of initials after Greg's name. Continuing insurance education is an ongoing process that allows underwriting professionals to stay on top of the current products, methods, and programs within our industry in order to provide the best underwriting decisions possible.

After receiving a bachelor's degree in finance from Ball State University, Greg achieved the Associate in



Risk Management (ARM) designation from the Insurance Institute of America in 1993, and his property and casualty agent's license from the state of Indiana in 1996. Recently, he also completed the Chartered Property and Casualty Underwriter (CPCU) designation after three years of study.

On a personal note, Greg, his wife, and their newborn daughter reside in Oldham County, Kentucky, and Greg is currently training to compete in an Ironman competition in 2001.

We are delighted to have Greg as part of our team and know he looks forward to assisting you with your next workers' compensation opportunity. ■

## Views

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