



BEN GREEN INSURANCE AGENCY

“The Cost/Benefit of Education as an Employer”

Recently I had the opportunity to meet with business owners and educators who are working to develop an education class for employees moving into supervisor roles. The classes cost approximately \$2,000 and offer instruction on the many aspects of a new supervisor’s role.

As a believer in the statement, “You can’t manage what you can’t measure”, I asked, “What are the indicators on the rate of return for the investment?” The following will highlight how workers compensation costs vary under 3 typical scenarios.

Scenario: A Southern California machine shop that employs 50 people. 10 of these employees would be clerical (Work Comp Code 8810) and 40 would be in the shop (Work Comp Code 3632) The base rate per the WCIRB is \$.044 per \$100 of payroll for 8810 and \$4.11 per \$100 of payroll for code 3632. The clerical payroll would be \$300,000 and the machine shop payroll would be \$2,000,000. This illustration uses solely the cost of workers compensation for comparison purposes.

Employer A (Average Employer)

Experience Modifier: **1.00**
Premium: **\$95,400**

Basic work comp cost would be \$95,400. This is the average factor for businesses allowing for average claim activity.

Employer B (2x Average Employer)

Experience Modifier: **2.00**
Premium: **\$190,800**

Basic work comp cost would be \$190,800. The losses on the account are double the allowable for the industry. This could be driven by a number of factors; however it is typically driven by a lack of employee morale. Low morale is directly related to the lack of education. When employees are in an environment where the owners are not active and the environment is not controlled, they tend to look for alternate ways to justify their self-worth. Many times there are copycat claims. Most likely this employer is not active in employee development.

Employer C (Lower Risk Employer)

Experience Modifier: **0.64**
Premium: **\$61,056**

Basic work comp cost is \$61,056. This is an employer who has employees who appreciate what they do. They are given education opportunities, involved in the business plan and have a general understanding of their value and importance in the industry they serve.

Controllable Modifier

In the industry, the difference between the current modifier and the lowest modifier of an insured is the “controllable modifier”. In the example above, comparing Employer B (experience modifier of 2.0) to Employer C (experience modifier of 0.64) results in a difference or controllable modifier of 1.36. **Related to dollars, this controllable modifier represents and annual premium difference of \$129,744.**

Identifying a controllable modifier allows employers a metric that is real, specific and measurable. It also allows the employer to identify a budget that can be used for education.

Employer Mindset

Employer B is in a reactive state, often providing excuses to justify why their business is being penalized. Fraud, the government and/or the workers compensation company practices are typical excuses. In reality, the cause of the higher premium is the existing employer practices or complete lack thereof. This revolves around education. They rarely will invest more money to remedy the problem(s) and hope their situation will change over time.

Employer A is unaware. This employer thinks that a 1.00 modifier is acceptable and may not be educated to the opportunity to enhance their position and reduce expenses.

Employer C represents a business owner that has a track record of education. They take pride in their business and look for opportunities to improve. They can recite their Experience Modification at a moment’s notice, because they understand that it helps them win bids and retain revenue that Employer A may or may not realize but Employer B certainly will not.

Final Thoughts

In reading this article, you may have more questions. Please recognize that there is an opportunity for each category of employer to improve their existing modifier. Employers should have well-informed agents that can educate themselves and others in their business to the factors surrounding this illustration.

Education helps considerably. It provides the employer a better lifestyle, the employee to be more productive personally and professionally and it can bring up the level of competition for the entire industry. Education keeps products reliable and people safe.

“Ben Green is a licensed insurance agent, Certified Workers Compensation Advisor and agency owner. This is not an offer of insurance. The opinions expressed in the article are solely those of Ben Green. Many variables make up a client’s overall program. For an in depth review, contact Ben at (626) 290-0888.” Remember to take a kid fishing!

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