

Utilizing L&I's Retro Program to Manage Workers' Compensation Risk and Save Money

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Effectively Controlling Workers' Compensation Cost: Employers operating at the most profitable level have a firm grasp on the below workers' compensation cost mitigation strategies:

1. Implement strong safety program to prevent accidents
2. Understand how insurance premiums are calculated, including the significant financial impact of the company's experience modification rate (EMR)
3. Participate in the L&I Retro program to earn refunds on premiums

Safety: The single biggest impact an employer can have in controlling workers' compensation costs is preventing accidents before they occur. Implementing a strong safety program starts at the top of the company and filters down. The Department of Labor & Industries has many resources available designed to measure and improve safety standards.

Understanding How Workers' Comp Premiums are Calculated: Understanding the factors affecting a company's workers' comp premiums will help employers make sound financial decisions. Each employer is assigned a rating which is a numerical value based on your past claims that estimate what a company's future claims are likely to cost. This number is referred to as an experience modification rating (EMR). The base rate value is a 1.000, which is the "average" for an industry. If a company has a good safety program and proactively manages claims, they can reduce their EMR and receive a discounted insurance premium. The discount can be as much as 40% or increase as much as 10 times the base rate:

EMR	Annual Premium
.60	\$45,000
1.000 (base rate)	\$75,000
1.25	\$93,750

A company's EMR is calculated annually in June, and employers can review their proposed rates for the following year in October. Washington caps the amount a company's EMR can go up or down to 25% annually.

Not all claims affect a company's EMR in the same way. Washington allows a medical discount for claims in which L&I does not have to reimburse the employee's wages or pay for permanent partial disability. This discount is adjusted annually and in 2023 the medical discount is \$3,570. If a claim is closed with costs under the medical-only discount amount, it will not impact the company's EMR. L&I rewards employers who have zero or only medical claims for 3 consecutive years with a "claims-free" discount. Once a company has achieved the "claims-free" discount, only a claim with salary reimbursement, permanent partial disability or miscellaneous payment will cause a company to lose the discount the following year.

Claims that occur today will not impact a company's EMR for two years, and the company will be exposed to the claim for the following three years. It is financially beneficial to continue paying an injured employee's salary (KOS) to keep the claim from negatively impacting the company's EMR and, thus future rates. Spending money up-front to reimburse injured workers wages (instead of L&I) can save the company significantly more money in premium reductions.

Value of Participating in Retro: L&I established the Retro program in 1981 to financially incentivize employers for safety and returning injured employees back-to-work. Retro has proven to be lucrative for employers who are committed to following the rules each association establishes for participation in the group. Groups are organized by risk class and sponsored by a trade association. The association is responsible for overseeing performance, removing companies negatively impacting the group, approving new members and distributing refunds. Once in a group, the employer's premium and losses will be aggregated into the group and losses developed together. At the time of adjustment, the groups losses will be compared to premium to determine each member's refund.

One of the biggest benefits of participating in Retro is access to professional claims and risk management solutions. For many employers, this alone is enough of a reason to consider the program, as it provides a great cost control mechanism at a very low fee-for-service. Some associations manage their member's claims and retro services in-house, while others utilize a third-party administrator.

Each group, via the association decides its own fee structure, underwriting criteria, additional services, and how individual refunds are calculated and distributed. Refunds are distributed annually based on the groups "plan year". A company can join a group at the beginning of any quarter, (if they are not currently enrolled in a retro program) but can only leave a group at the end of their respective plan year.

Successful Retro Participation: Clearly understanding how to successfully participate in Retro is key to maximizing refund performance. Each time a claim is opened, a reserve is set which could impact a company's refund and the group's performance. It is important to have the claim closed or the reserve set as low as possible prior to the retro freeze date (date the group refund is calculated). Retro coordinators with claims management experience are well versed in communicating and partnering with employers to help them manage claims to increase refund potential. Retro coordinators help employers control their claims costs from recognizing red flags, ensuring occupation disease claims are adjudicated fairly, advising clients when it is time for legal intervention and performing financial analyses to help employers make the right decisions. Early intervention and communication are fundamental for a successful Retro participation outcome.

Conclusion: Group administrators do their very best to control all the factors that could negatively impact the group. The partnership employers enter when joining a group is taken very seriously by all parties. Retro has been extremely lucrative for employers who are serious about controlling their workers' comp costs. The refund will vary from year to year depending on how the Retro group performs, and how your company performs within the group. The good news is Retro is thriving in Washington because groups have learned how to manage claims for maximum refund performance and have structured their participation requirements to align with best practices.