



How to Effectively Measure Your Workers' Compensation Program

Measuring various components to track and assess the status of a workers' compensation program can be useful toward impacting an organization's bottom line. The following are three examples of workers' compensation components that, when measured, can be a good first step toward establishing performance goals.

Claim Activity

Claim activity is an obvious key component to measure, as it directly impacts all elements of a workers' compensation program. Here are a few items to consider when measuring claim activity:

- **Frequency.** Keeping track of the total number of incidents on a quarterly, monthly or annual basis will allow you to measure progress as well as compare your results to similar firms. You should also consider tracking the type of claim(s) and cost per claim, as this will provide further insight into the performance of your risk management efforts and areas to improve.
- **Lag Time Reporting.** Monitoring the time it takes for employees to report their injuries or illnesses can be very useful because of the impact it can have on claim costs. A study by the National Council on Compensation Insurance (NCCI) showed that delayed injury reporting can increase compensation claim costs up to 51%.
- **Average Closure Rate.** Tracking the amount of time it takes for claims to close out is extremely important to the overall cost of a workers' compensation program. Expectations should be discussed with your carrier or third-party administrator at the beginning of each program year.

Total Cost of Risk

Total cost of risk (TCOR) is a measurable and manageable number that can be identified and controlled. TCOR is the **total cost** of your insurance program which includes, but is not limited to: premium, retained losses, loss control cost, outside vendor cost, indirect cost, administrative cost and collateral.

Here are a few items to consider regarding TCOR:

- TCOR should be measured per \$1,000 of revenue, as this will give you the ability to compare it to similar firms.
- The ratio between direct and indirect costs according to NCCI (for claims \$10,000 and above) is 1:1.
- TCOR should be looked at annually.

Gross Revenue Required to Cover Injury Cost

This is an effective number to measure because it can be used to compare workers' compensation costs to something meaningful in the company. The formula is:

INCURRED LOSSES

PROFIT MARGIN

For example, \$50,000 in incurred losses divided by a 5% profit margin would equal \$1,000,000 in gross revenue.

There are many different ways you can measure the progress of a workers' compensation program; however, the key is to use the metrics that are most meaningful to your organization. The next step is establishing goals and objectives around those metrics. Because after all, what gets measured gets results.

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