



FARMER BROWN

# MITIGATING WORKERS

COMPENSATION RISKS

## **Mitigating Workers' Compensation Risks: Table of Contents**

Page 1 - *Understanding Your Business Risks*

Page 2 - *Navigating Workers' Compensation*

Page 4 - *Practicing Good Risk Management in Construction and Contracting Jobs*

Page 6 - *Calculating Workers' Compensation Costs & Getting the Most for Your Insurance Money*

## Understanding Business Risks

All companies will encounter business risks that pose threats to the longevity of their businesses, regardless of the type of business in question. This is especially relevant to construction businesses and general contractors, who face advertising and personal injury risks in tandem with the risk of physical damages inherent within their industry. There are consistent ways to mitigate some of the risks that come with your business, even though it isn't possible to avoid all of it.

Perhaps the better question to ask would be this: *What constitutes effective risk management?* Some industry standards include consistent tool maintenance, annual or semi-annual training, and attendance of seminars and conventions. Training sessions and seminars provide fresh information about industry changes, as well as learning opportunities and ways to maintain your equipment safely. The only drawback is that these services often cost companies thousands of dollars per year, something which many small businesses cannot afford.

Moreover, insuring business risk creates a financial burden. Insurance companies factor into your general liability cost the type of work you do, the age and number of employees on your staff, your accident record, and more. Since many of these factors cannot be avoided, this can cause premiums to go through the roof. Most businesses realize that accidents happen frequently in their industry, and when they do happen, paying out of pocket as a consequence usually costs far more than simply paying the insurance premium in the first place.

If this sounds familiar, then congratulations! You know that covering your company against avoidable accidents is one of the most pressing issues you face as a business owner. Your insurance company can't make your coverage decisions for you, but insurance companies will always stress that without proper coverage, your company stands to lose income and assets when faced with a legal liability. Acquiring an overarching general liability insurance plan is the first step in mitigating risks to your company, but your clients aren't the only entities you must consider in this regard.

It is important to your business as well as the livelihood of your employees that your company practices reflect their safety and best interests. Therefore, your general liability insurance provider may also provide workers' compensation insurance, which is a type of insurance that protects your workers in the event of an accident. It is important to your business as well as the livelihood of your employees that your company practices reflect their safety and best interests.

There are steps you can take to identify and prevent industry risks to your employees. Not only will you reduce the medical expenses that come from liability claims, but you can also save money on your monthly workers' compensation insurance premiums.

Understanding the risks that are unique to you as a business owner is an essential part of organizing and running a modern construction or general contracting business. However, this shouldn't be something you should have to do on your own.

To help you better protect your employees and your company assets, Farmer Brown Insurance has put together this eBook to give you a complete understanding of what you need to mitigate workers' compensation claims in the future. With your industry knowledge and our understanding of insurance claims combined, we believe it is possible to create a safer and more profitable workplace.

## Navigating Workers' Compensation

Most people understand what workers' compensation insurance is on a general level, but because it is not legally mandated in every state, it's important to go over the details. Workers' compensation insurance covers workplace injuries sustained by those employed by your company. This includes business owners and employees alike, and it covers a variety of medical issues caused by your company. Each state has its own laws on the subject, but many workers' compensation requirements include workplace injury and its subsequent medical payments, lost wages during a period of unemployment due to a workplace injury, disability pay, and post-treatment rehabilitation expenses.<sup>1</sup>

### *How Does Workers' Compensation Work?*

Workers' compensation functions in a similar way to general liability insurance for clients and third parties. In this case however, workers' compensation covers the inherent risks to body and mind while working in a strenuous industry like construction or general contracting.

Your insurance agent goes over company statistics, facts, and insurance records with you and determines your scope of coverage. Your company will then make premium payments toward the protection of your workers. If an employee becomes either disabled because of a workplace accident, injured by workplace equipment, or sustains bodily injury because of something else related to the job, even the most dedicated employee will turn to their employer for medical help. When that time comes, your previous payments into your workers' compensation package covers the monetary and legal issues that arise from these situations.

Even in states with more relaxed workers' compensation laws, legal requirements still exist when it comes to covering employees.<sup>2</sup> Websites and legal assistance are available outside of insurance agencies, but the best and most accurate information about state and local workers' compensation regulations comes from the insurance agencies themselves. Even if your state does not require you to cover a certain workers' comp-related claim, it is still worth your time and money to discuss employee rights and this type of insurance with your insurance agency.

Some of the things an agent will go over with you include:

- How many employees your company has
- The ages of your employees
- Your insurance background and accident history
- What type of industry your business is a part of
- The age of your company

### *What is the Claims Process Like?*

Like any other insurance package out there, the claims process is not an overnight process. The employer and employee must follow specific instructions if they want to benefit fully from the insurance policy. The claims process is when many employers find out that their insurance policy does not benefit their workers, and this is when lawsuits are most often filed. For those with proper coverage, employees report their injury to

---

1

<https://www.hg.org/workers-compensation-law.html>

2

<https://www.hg.org/legal-articles/how-does-workers-compensation-work-35401>

their employer. Employees have their pride, and some may be embarrassed by their injuries, so it is necessary for employers to handle claims with care, as well as emphasize that openness in the workplace is encouraged. Additionally, a failure to report injuries before a certain amount of time can result in loss of benefits for the injured.

No employer wants to deal with the loss of an employee because of injuries sustained but never reported. Following a quick reporting schedule, filing a claim with your insurance company, and keeping in contact with the injured is in the best interest of both parties.

Workers' compensation is a necessary and beneficial program, but it is still worth it to discuss the risks present in your workplace and how to prepare against them - even after working with an agency regarding your workers' compensation insurance. Instances of prevention are easily identified by your providers, which can save you a lot of trouble later. While risk management through insurance is preferable, so too is the adoption of business practices which prevent needless accidents.

## **Practicing Good Risk Management in Construction and Contracting Jobs**

Preventative measures are in place within nearly every modern industry today. They are especially important for jobs that contain high-risk situations. Most construction sites have general requirements – wearing hard hats and harnesses for jobs that involve climbing or heights are basically industry standards – but these only cover the bare minimum of safety requirements and overlook some of the underlying situations that cause accidents.

Prevention starts with identifying the problem and preventing it rather than protecting against its effects. In our line of work, Farmer Brown has seen innumerable events of damage that ultimately could have been prevented. As we have worked together with our clients, we simultaneously put together some of the best risk management practices you can implement for your construction or contracting business.

### *Train Your Employees*

Many construction companies get stuck on the idea that their employees are specialists, therefore they are always aware of hazards on the job. The truth is, employees are just as human as you are. The things they learned may have become obsolete as technology changed, or they might simply forget about them just as you would lose your car keys. That's why you should treat your employees to an up-training session a few times a year, which allows those who might be a little rusty to brush up on their skills. They will thank you for it down the line when they are consistently capable of preventing a disaster with their skills.

### *Document Accidents and Talk About Them with Employees*

No one likes to get hurt, but accidents do happen, whether anyone wants them to or not. Should something ever happen, always encourage those who witnessed them to document the events. This strengthens everyone's awareness of dangerous situations and allows you to add vital content to whatever training modules that needs it. Communication after an event does your company the same sort of justice. Additionally, documentation of a workplace accident encourages accident reporting, which helps those who need help from a workers' compensation claim to get the help they need when they need it.

### *Maintain Equipment (and Allow Employees to Participate in Maintenance)*

Machines and equipment need to be properly maintained to function safely. It might seem like an extra expense at first, but it costs less to have a well-functioning machine than it does to pay thousands of dollars in medical bills after an injury was caused by that machine. Rotate maintenance schedules, that way everyone gets a chance to maintain equipment. Your staff can see how the equipment functions, as well as understand the risks involved with use. Knowledge in either of the two factors will help prevent future accidents.

### *Keep Integrating Newer Technology into the Workplace*

Many business owners will scoff when they see the words “technology” and “integration” next to one another. Regardless, statistics have made it clear that keeping up with technological innovation has vastly improved workplace safety. AI at large companies like NVIDIA and Komatsu has greatly reduced the number of workplace injuries that take place at their factories.<sup>3</sup> Even though this necessitates additional training and

---

3

<https://www.nasdaq.com/article/how-advanced-technology-can-make-workplaces-safer-cm983346>

investments into new technological systems, it can save thousands of dollars in medical payments and workers' compensation bills.

*Supervise and Communicate*

There are plenty of jokes about the workers who stand around at construction sites, but it is important that someone stand around to supervise jobs where accidents are more likely to take place. Even the most aware employee can miss a potentially dangerous situation. Thus, having an extra set of eyes increases the likelihood that accidents won't happen. Supervisors should also communicate with those whom they supervise. This openness encourages a safer environment where everyone at your company has each other's back. Practicing good risk management protects your employees from physical harm, but it also does much more than that. To see how it can reduce your payments and give you the most for your money, be sure to read this final section of the eBook.

## Calculating Workers' Compensation Costs & Getting the Most for Your Insurance Money

Some of the most frequently asked questions that insurance companies hear regarding their insurance policies is how much they cost and what their business can do to reduce the costs. Some of the things insurance companies consider when calculating policy rates are as follows:

- *How old your company is.* Although insurance companies value all their customers, those with established businesses have survived for as long as they have for a reason. They've put their customers first, they've mitigated their risks, and they've produced quality products with quality employees. All these things indicate that their risk of workplace accidents might be lower than newer companies. This, of course, is something your company can change as it ages.
- *How many employees your company has.* This factor is simple – the more employees your company has, the more likely it is that an employee-related accident will occur. Rates might be reduced in the future, based on your workers' compensation claim statistics.
- *Your company's claim record.* If your company has had many workplace injury claims, it will make your insurance rates slightly higher than average, conversely if your company has a good safety record your rates will be lower. There is a technical term for this called Experience Modification. This is normally referred to as Experience Mod. A simple explanation of how it works is as follows. Your Worker's Compensation Insurance base amount is multiplied your Experience Modification. The base Experience Modification is 1. So if your base Worker's Compensation Insurance Premium is \$5,000 you would multiply this number by your Experience Mod. If you have a bad safety record your Experience Mod. might be 1.5 so you would pay \$7,500. (1.5X\$5,000). Conversely if you had a good safety record your Mod maybe .7 so you would pay \$3,500(.7X\$5,000). With some Worker's Compensation policies costing well over a \$100,000 a year the cost savings can be tremendous.
- *The type of work you do.* For construction companies, chances are likely that your employees will experience accidents regularly. This has nothing to do with competence or anything any of your employees might do, more so with the nature of the work itself.

### *How Can I Protect My Employees and Get the Most for My Premium?*

The good news is that premium amounts change over time. Due to state laws, your company will most likely need a workers' compensation plan. Regardless of legality, an insurance plan is the best way to protect your employees in a high-risk industry. However, mitigating accidents through risk management practices deemed to be the best in your field is one of the best ways to quickly lower your premium while also preventing workplace injury.

Set up standards of training, work toward technology innovations in your business, and create a non-toxic and openly communicative workplace to stop workplace injury before

i

t

g

h

a

p