

Covid-19, Costs and Workers Compensation

August 2020

While most property and casualty lines of coverage are experiencing increases – with catastrophe-exposed property, excess liability and professional and management liability lines leading the way – it seems that workers compensation premiums will decrease or remain flat, at least in the short term. That’s good news for employers. However, the driving factors for this prediction are alarming and warrant attention.

While each state has its own WC system, with rules governing rates, eligibility, benefits, and claims processing, premiums for Workers’ Compensation (WC) are based primarily on the employer’s payroll, with rate classifications based on the type of work employees perform. Loss experience and regulation also play a role. WC premiums typically represent from 20-percent (office exposures) to 50-percent (construction) of a risk’s total insurance cost. Here are the main factors influencing the prediction:

➤ **Payroll**

In July, the nationwide unemployment rate fell to 10.2-percent, down .9 percentage points from June with 1.4 million less unemployed Americans. Good news, but there are still 16.3 million unemployed persons (Bureau of Labor Statistics). Leisure and hospitality, mining, and transportation and utilities have the highest unemployment rates. With the number of reported COVID-19 cases rising, some states are postponing the next phase of reopening or reversing prior orders and ordering certain business to close. This will not improve the unemployment numbers; payrolls for many industries will decrease or remain at lower-than-average levels.

➤ **Classifications**

The rating factor assigned to a job classification reflects the risk of injury to the worker. Mechanics, employees working in the trades, sanitation workers and truckers pay much higher rates than clerical-office workers and retail employees. The COVID-19 pandemic has created extraordinary circumstances for insurers, regulators and employers. For example, how to treat payroll for idled workers who are not performing work and are still getting paid, and how to rate employees who are working remotely – both of which will likely decrease premiums for affected employers.

➤ **Loss Experience**

Loss experience – particularly frequency – decreases during times of lower employment. Expect a reduction in overall loss frequency for those industries experiencing above-average unemployment, or where operations are still restricted. Frequency will plateau or increase in those industries employing essential workers who are not negatively impacted by the pandemic, and those businesses that are now open and operating. Severity is more difficult to predict – patients scheduled for surgery or other medical procedures that were postponed due to state orders may experience extended or complicated medical outcomes – which could increase severity. If deemed compensable, the cost of COVID-19-related medical costs and indemnity payments will at least partially offset the effects of lower loss experience and decreased payroll.

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➤ **Regulatory Changes**

The compensability question concerning COVID-19 infection claims is evolving and varies by state. Some states have passed presumption laws and governors have issued orders making it easier for certain workers (such as first responders and healthcare workers) to receive workers compensation benefits. The effect of these laws and executive orders on the workers compensation system as a whole is uncertain.

Employers are urged to stay in touch with their insurance representatives and keep abreast of any changes promulgated by their workers' compensation insurer. All state workers' compensation boards issue updates through their websites or social media accounts. States have adopted emergency regulations to protect policyholders with regulations suspending cancellations, nonrenewals and initiating grace periods for late premiums. If self-funded or covered by a pool or group plan, seek advice from the third-party administrator.

Maintaining detailed payroll records showing changes in employment status (such as idled employees) will help in the event a premium reduction is possible. COVID-19 claims by employees should be handled – probably submitted to the carrier – with advice from your insurance representative.

Have a question about your Workers' Compensation program? To see how we can help, contact David Mocklow at 516 962 4618 or dmocklow@gramercyrisk.com

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