



PURE MICHIGAN<sup>™</sup>  
Michigan Economic Development Corporation

# Workers' Comp Cost Control Service

## Michigan Economic Development Corporation

[www.michiganadvantage.org](http://www.michiganadvantage.org)

-This service is **FREE OF CHARGE!**

-We will provide you with tools to negotiate and save on your WC insurance.

-As employees of the MEDC, we are advocates of all businesses in the State of Michigan and we understand that agents and carriers are businesses in Michigan. In fact, we have been invited to give this very presentation to a group of agents.

-I know for a fact that there are very good agents out in the marketplace and we advocate long term relationships with those GOOD agents and carriers.

-More importantly we advocate that you as an insurance buyer do your due diligence to ensure that you are indeed working with a GOOD agent and carrier.

-We do NOT provide quotes and we do NOT advocate one carrier or agent over another.

-Did I mention this service was FREE?

42%

This is the average potential savings our free service found over the last 2 years.

# Agency Dynamic

- Employer has big say in decisions
- Agency Stakeholders

2. Carrier

1. Agent

3. Insured/Customer

-As an insurance buyer you have options in your insurance coverage and therefore you have leverage in the negotiation process.

-Statements such as “No carriers will insure your class of business” are false.

## WHAT ARE YOUR AGENTS TOP 3 PRIORITIES?

-Always remember that your Agent's is rationally self-interested and his first priority is running a successful/profitable business. He/she is in the business to make money and there is nothing wrong with you, as a buyer, being in the business of saving money and making sure you get the best deal possible.

-Your agent's next priority is maintaining a solid relationship with their carriers so they continue to have a product to sell. Since the agent has direct contact with the carrier he should know or it least be able to find out what activities the carrier offer credits for. Use them as a resource to better your program and take advantage of all available credits.

-The third priority for the agent is the buyer. The customer. You pay them so it's important that you demand quality service and advice for that money you pay them.

## WC Insurance Structure

- Voluntary market
  - Guaranteed costs – \$0 deductible
  - Don't pay small claims unless you have a deductible policy
- Group self-insurance funds
- Individual self-insurance funds

- The majority of insured's are in the voluntary market.
- Self insurance funds usually involve a heavier upfront cost but can be more cost effective in the long run.
- We provide a current list of group funds with our service.

## Approximately 300 companies write workers' comp

### Travelers

Travelers Indemnity Co.  
Travelers Casualty & Surety  
Travelers Indemnity Co. of America  
Travelers Indemnity Co. of CT  
Phoenix Insurance Co.  
Plus 10 others

### ACE – USA (used to be CIGNA)

ACE American Ins. Co.  
ACE Fire Underwriters Ins. Co.  
ACE Property & Casualty Ins. Co.  
Bankers Standard Ins. Co.  
Indemnity Ins. Co. of North America  
Pacific Employers Ins. Co.

### Accident Fund

AF of America  
AF National  
AF General  
United Wisconsin

-Of the approximately 300 companies filled to write WC in the State of Michigan, some share common ownership. This is done as a pricing tool.

To illustrate this further:

A parent company ABCD may own company A, company B, company C and company D all listed on our authorized list of 300 companies. Company A may have stellar rates while company D may mediocre rates (comparatively), while B and C are somewhere in between. Company ABCD will use company A's rates for those "risks" (insurance buyers) that they deem most desirable and want to aggressively pursue. Company D's rates will be reserved for less attractive "risks" that company ABCD still would like to write, but they are less aggressive in pursuing.

-It is possible for insurance buyers to negotiate to be placed with a more competitive company while essentially staying with the same carrier.

For example:

Jumping from company B to company A.

-Our service provide a list of the rates (by code) for each of these "companies" so you would be able to compare your rates to the other rates provided by your carrier.

<b>WC Code</b>	<b>Annual Payroll</b>	<b>Rate/\$100 of Payroll</b>	<b>Rate x Payroll</b>
3628	\$1,000,000	<b>3.64</b>	\$36,400
8742	\$120,000	<b>0.80</b>	\$960
8810	\$210,000	<b>0.41</b>	\$861
		<b>Manual Premium</b>	<b>\$38,221</b>

- The class codes, for the most part, will be universal among carriers.
- Make sure that you are giving each quoting party the same payroll information for an apples to apples comparison.
- The manual rates are per \$100 of payroll.
- Our service will provide you with the manual rates for each of the approximately 300 carriers authorized to write WC in the State of Michigan (for your class codes). This will allow you to make additional comparisons outside of the scenario we provide.

## Experience Modification Factor covers three years

Policy Year	Claims Years		
January 1, 2012- January 1, 2013	2008	2009	2010
January 1, 2013- January 1, 2014	2009	2010	2011

-Your Experience Modification Factor (MOD) is calculated using the prior **3 COMPLETE years** of experience. So, when you receive a quote for a 1/1/12 renewal date in November of you **WON'T** use the partial year 1/1/11-11/1/11 in your calculation.

## Compensation Advisory Organization of Michigan (CAOM)

- Non-state agency
- Data collection agency for workers' comp
- Promulgates experience mods

[www.caom.com](http://www.caom.com)

-CAOM is the organization that promulgates experience rating factors on behalf of most of the insurance industry. The state of Michigan does not promulgate the factors, nor does it set prices.

Customized Analysis:	ABC Inc.	
		XYZ Ins. Co.
<b>Manual/Starting Premium</b>		<b>\$38,221</b>
<b>x Experience Mod Factor</b>	<b>x</b>	<b>0.90</b>
	<b>=</b>	<b>\$34,399</b>
x Schedule Credit	x	0.75
	=	\$25,799
x Premium Credit	x	0.75
	=	\$19,349
(-Premium Not Discounted)	-	\$5,000
	=	\$14,349
x Premium Discount	-	10.0%
	=	\$12,914
(+Premium Not Discounted)	+	\$5,000
	=	\$17,914
(+Expense Constant)	+	\$200
(+Terrorism Coverage)	+	\$181
Final Estimated Premium	=	\$18,294

-This is how the MOD impacts the manual premium. 1.00 is about “average” while the .90 above translates into a 10% reduction in premium.

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		XYZ Ins. Co.
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	=	<b>\$34,399</b>
<b>x Schedule Credit</b>	<b>x</b>	<b>0.75</b>
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-Most companies (except for the Assigned Risk Pool) are filed to provide up to a 25% discount (but you have to negotiate for it).

-The Premium Credits vary more between carriers and are traditionally assigned to different “safe” activities (safety programs, drug testing, physicals, etc.). The majority of companies are offering up to 20-25% total, but some go up to 30% (again, you have to negotiate for them). Your agent should know (or at least be able to find out) which carriers are offering what credits and how to qualify for said credits.

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		XYZ Ins. Co.
Manual/Starting Premium		\$38,221
x Experience Mod Factor	x	0.90
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<b>(+Expense Constant)</b>	+	<b>\$200</b>
<b>(+Terrorism Coverage)</b>	+	<b>\$181</b>
<b>Final Estimated Premium</b>	<b>=</b>	<b>\$18,294</b>

-The Premium Discount is non-negotiable and comes off of a table. This is a volume discount and usually applies after a certain premium threshold, in this case, that threshold is \$5K.

-The Expense Constant is another non-negotiable fee (usually between \$100 and \$300) that is the same regardless of premium level.

-Another non-negotiable and non-optional fee (for WC insurance) is terrorism coverage. This is usually 1-2% of the end premium.

Customized Analysis:	ABC Inc.
	XYZ Ins. Co.
<b>Manual/Starting Premium</b>	<b>\$38,221</b>
	<b>vs.</b>
<b>Final Estimated Premium =</b>	<b>\$18,294</b>

-Manual Premium vs. Final Premium: What a difference credits & discounts make!

# Remember: Price is NOT Everything

- Bad Service from your Carrier or Agent will result in *higher* net costs
- Good Service can result in *lower* net costs

-This is why it is important to develop a relationship with a *GOOD* agent and carrier that knows your business and provide you with services that help you promote safety and control costs.

## Sources

- MI Biz Guide to Workers' Comp
- Overview of Workers' Comp in MI
- Independent Contractors Booklet
- Fact Sheet & Letter-of-Authorization

-Letter of Authorization (LOA) is included in materials.

-If you desire that we compare 2 specific companies, please note that on the LOA and we will do our best to accommodate.

\*Please note that in order to obtain the service, the Compensation Advisory Organization of Michigan requires that a company officer sign this request in order to protect the privacy of your firm.

# Resources

- Mediators
- [www.michigan.gov/wca](http://www.michigan.gov/wca)
- Consultation Education Training (CET)
- C.A.O.M. ([www.caom.com](http://www.caom.com))

**Contact us:**

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-Please feel free to contact Jake Schroeder or Tom Rico at any time to request a WC Cost Analysis Report or with general WC questions. We are happy to help!