



Group Retrospective Rating Basics

A New Workers' Comp. Rating Option

For the first time, the Ohio Bureau of Workers Compensation (BWC) has established rules allowing qualifying associations to sponsor group retrospective rating plans, otherwise known as group retro. The benefit to participants is a premium refund based on the overall performance of the group. Group retro is not right for every employer but there are a number of employers as well as certain industries that will benefit significantly from this rating option. This year employers were not provided a great amount of time to become familiar with this option because the BWC rules were established only a short time before the start of the 2009 policy year. This article will help executives and managers determine if their organization should continue to evaluate participation in a group retro plan.

Group retro is right for an employer when they pay significantly more in premium during a year than is paid out by the BWC for the injuries that occur during that same year. The money paid out by the BWC for injuries includes medical expenses, indemnity and award payments to the worker as well as the reserves that are set by the BWC to account for the future cost of the claim. These expenses begin accumulating directly after a workplace injury occurs. The current premium an employer pays to BWC is essentially calculated based upon the money paid out for injuries that occurred between two to five years ago rather than the injuries that occurred recently or even one year ago. This concept is integral to understanding the potential benefits of group retro.

Group retro members will still pay premium based upon their individual past but will realize a refund if the group pays considerably more in premium during a year than is paid out by the BWC for the injuries that occur for all group members during that same year. Stated another way, the group retro rating option basically compares the collective premium paid by group participants during the policy year they participate to the total dollars paid by BWC for member injuries that occur during the same policy year. If the collective premium is considerably less than the collective injury costs paid out, group members divide up a refund. Each member's portion of the refund is determined by their percent contribution to the group premium pool.

Participating employers may receive up to three premium adjustments (refunds or assessments) for the one year they participate. These adjustments will occur three years after the participation year. If total injury costs exceed premium paid, the group members receive an assessment, which is the equivalent of an additional premium bill. Assessments are limited to a percentage of the original premium. This percentage is selected by the group sponsor and can range from 5% to 100%. The more risk of paying an assessment accepted by the group members the greater the refund potential. To realize the full refund potential, the group members must control their injury frequency and severity.

The theory behind the pooling of employers to spread risk is a sound insurance principle. However, the complexities of an Ohio group retro plan must be thoroughly evaluated and understood to minimize the risk of an assessment while maximizing the refund potential. Employers should be very cautious about joining a group retro plan unless they are confident that the association sponsor and the selected Third Party Administrator (TPA) are fully aware of and can simply explain the risk versus reward. For instance, there are considerably more details regarding how the group's injury costs are actually calculated and compared to the collective premium of the group members.

When first introduced to the group retro rating option, some employers do not find it attractive due to the time it may take to see an initial refund, which can be two or more years. The delay is because the BWC must provide sufficient time to allow injuries to play out before determining the group's true performance results. Employers cautious of participating for this reason should understand that their current rating plan also has inherent time lags before rewards or penalties are assessed. For instance, once an employer is disqualified from a classic group rating program, it can be three to four years before they might qualify for the group plan again. In group retro,

once the initial waiting period is overcome, an employer participating in a good performing group could begin to realize refunds annually.

Another barrier to participating in group retro often voiced by employers is the fear that they will do well but the performance of the other group members will cause an assessment. This is a very legitimate fear. Employers should be cautioned against joining a group retro plan that has minimal safety and claims management criteria by which all members must abide. The group's TPA should also have methods to identify poor performing members and built in services that support the development of each member's safety program. A strict safety program evaluation process for joining a group retro plan would assure you that other group members would also be properly scrutinized and suited for participation.

A group retro rating option facilitates competition among group sponsors because groups that consistently deliver a refund will be more attractive for employers wishing to participate. In the near future, we will see groups advertising their track record of securing refunds and offering innovative incentives to attract members. An example of such an incentive might be a safety grant program administered by the group that uses a portion of the group refund to pay for safety equipment or safety services that are then directed to the members that need them the most, such as new members. Such incentives will facilitate good performance and better ensure that refunds will be issued year in and year out.

Employers participating in group retro cannot participate in the following BWC programs: individual retrospective rating, \$15,000 medical-only program, deductible program, one claim program, classic group rating, drug-free workplace program, & self insurance. State agency public employers are also not eligible for participation.

If you have been contacted by a TPA or association sponsor about participating in their group retro plan, beware and ensure that they understand and can easily explain the risks and are capable of managing the group to better ensure a refund.

For more information or details about how Ohio's group retrospective rating plan works or to discuss any other safety or workers' compensation topics, call Brad Hunt at 330-301-3262 or email at bhunt@riskcontrol360.com.