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## **How do insurers calculate reserves for workers' compensation claims?**

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You receive a loss run in the mail from your insurer for your company's workers' compensation claims and you see a familiar name with a large number next to it. You wonder what that number represents and how the insurer could possibly have gotten to that figure.

To determine the value of a workers' compensation claim, you must first understand some of the benefits for which an employee may be eligible. The combination of the applicable benefits establishes how the insurance company will approximate the value of the workers' compensation claim.

Workers' compensation, a no-fault system, mandated by state law, protects employees from losses due to work-related injuries and illness. Employees who suffer injuries receive benefits to cover medical costs and offset loss of wages during their period of disability. Claims for workers' compensation must occur in the course and scope or as a result of a worker's employment. Once compensability is established under the Workers' Compensation Act, the following defined benefits could be available from the insurance company:

### **Wage Replacement:**

In each state, an employee is eligible to receive a percentage of his/her weekly wages up to the current state limit. If they return to work for less money, by working either fewer hours or at a lower rate, they would be eligible to receive the difference up to the current state limit. Depending on how long the adjuster anticipates the employee to remain out of work, a dollar value will be assigned to lost wages.

### **Medical Benefits**

An insurance company is required to pay all reasonable and related expenses needed to cure and/or relieve the effects of a job related injury. If the treatment is deemed reasonable and necessary and is causally related to the industrial accident, the employee will not be responsible for the payment of the medical bill or for any remaining balance. The adjuster will estimate the amount and types of treatment necessary for the injury sustained and assign an estimated figure for medical treatment.

### **Loss of Function and Disfigurement**

As a result of on-the-job accidents, some employees sustain permanent loss of function and/or disfigurement. In some instances benefits of these losses are paid. If benefits are due they are paid according to a set schedule.

### **Variable factors**

Other cost drivers that are taken into consideration and which can add or subtract to the value of the claim are: the employee's age, length of employment, type of job, seriousness of injury, motivation to return to work, length of time the position can be left open, among others.

The figure that appears in your loss run is a total of the preceding relevant components. Estimating the value of a claim is a critical aspect of any claim, and it's the part of a claim that is most difficult to determine. The amount varies depending on the specific circumstances. Since the insurance company claim value will impact your company's premium through your experience modification factor, it is important to keep a watchful eye on your claim reserves.

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