

Risk Monitor



Monitoring Experience Modifiers Can Reduce Workers' Compensation Premiums

Employing a rigorous and consistent workplace safety program will bring many benefits to your company. Among these is the potential to reduce your company's experience modifier and in the process substantially lowering workers' compensation premiums. An experience modification (E Mod) rating is a comparative analysis of your company's claims and loss reserves for workers' compensation to other businesses within the same class code as your business.

E Mod is like making par in golf. The more birdies and eagles you make, the lower your score. But unlike your golf game, an E Mod rating requires a team effort. Everyone needs to be conscious of workplace safety. And you need to ensure the factors for figuring your E Mod number are accurate and computed correctly.

Developed by the National Council on Compensation Insurance (NCCI), an E Mod gives employers some power over controlling the cost of their workers' compensation programs. Each year, NCCI, or a separate rating bureau in some states, evaluates your company's payroll and claims experience for the past three years and calculates your E Mod. The average factor is expressed as 1.00. A firm with a factor below 1.00 will pay lower premiums while a firm with a factor greater than 1.00 will pay more.

Experience modification is not optional. It is applied to all qualified firms, whether privately insured or by companies covered through state insurance pools. Understanding what the E Mod rating is and how it is calculated can be confusing, but mastering the procedure can deliver big premium savings for your company.

Usually, a company warrants an E Mod rating when it has paid at least \$5,000 of workers' compensation premiums in each of the last several years or has paid \$10,000 or more in premiums in a single recent year. Typically, payroll and loss data going back four years is used to figure the rating in the first year. The most

recent completed policy year is excluded from the computation. For example, an E Mod effective August 1, 2003, would use policy data from the policies in 1999, 2000 and 2001.

Is your E Mod correct?

Once your company receives its E Mod rating, you may question whether it was figured correctly, and what can be done to make it lower? Rating bureaus, including the NCCI, base their calculations for your rating on data that was reported to them by your insurer. If incorrect or incomplete data was reported, your rating will be inaccurate, and may end up costing you more. If possible, you should have the rating bureau explain how it determined your rating to ensure it was done in an accurate manner. If you discover an error, you must convince your insurer to resubmit its data to the rating bureau to correct the problem. In some states, errors can be corrected over multiple-policy years, and if the error generates a premium credit, your revised rating can bring big savings.

An area that is often overlooked by employers that can negatively affect their E Mod rating is open claim reserves. Loss claim reserves are treated the same as paid claims when an E Mod is calculated. A loss reserve that does not realistically reflect the potential claim can create an overcharge to the employer and raise your rating. Correcting this improbable loss reserve is difficult once the insurance company has reported it to the rating bureau. The best advice is to closely monitor each reserve for a workers' compensation claim. Can appropriate reductions in reserves be negotiated? Can the case be closed? This review of loss reserves is especially imperative toward the end of the policy year.

While making par for most golfers is an achievement more dreamed of than realized, implementing sound safety programs and closely monitoring the reporting and calculation process used to determine this factor can help obtain a lower E Mod rating.

This newsletter is designed to give you timely and important information regarding employee benefits, government regulations, new products, and other areas of interest to employers and their employees. We value you, your employees, and your business and continue to strive to provide you with the very best products and service available.

We hope you have seen our new sign in downtown Fort Worth!



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The 2005 Identity Fraud Survey Report

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The Better Business Bureau and Javelin Strategy & Research recently released The 2005 Identity Fraud Survey Report, an update of the FTC's 2003 Survey. The new Report features a number of interesting conclusions, with implications for consumers on how to avoid identity theft.

One conclusion that may surprise many is that identity crimes are more frequently committed offline than online. Internet related fraud problems are less severe, less costly, and less widespread than previously thought. Those accessing online accounts were earlier to detect illegal activity and suffered considerably lower losses on average than those victimized through paper statements. The most frequently—reported source of information used to commit fraud was a lost or stolen wallet or check book. Computer crimes accounted for less than 12% of all identity fraud during 2004; about half of the computer crimes were a result of spyware. In those cases where the perpetrator was identified, half of all identity fraud was committed by someone known to the victim: friend, family member, relative,

neighbor, or in-home employee. One of the most encouraging conclusions of the survey is that identity theft is not on the rise but rather on the decline in terms of number of victims. The average time to resolve an identity fraud crime has declined by 15%. The Survey also found that the majority of identity fraud crimes are detected by the victims, emphasizing further the advantage of monitoring transactions online as opposed to waiting for paper bills or statements.

These conclusions have a direct impact on how consumers can better protect themselves against identity fraud. Consumers must guard personal financial information; this could include such things as conducting more business electronically, shredding private documents, and signing up for automatic payroll deposits. Consumers can be more alert to unauthorized activity by monitoring their bills and statements more closely and reviewing credit reports at least once a year. For more information and tips on how to avoid identity fraud, consult www.bbb.org/idtheft.

Note: Many of our Homeowners policies will add Identity Theft coverage for a nominal amount.

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incidents. The difference was proven statistically significant when compared to the 14 percent decline in the average construction firm during the same time period.

- As a result of fewer job site accidents and injuries, the average company that drug tests in the study sample experienced an 11.41 percent reduction in its workers' compensation experience-rating modification factor. At the same time, companies that did not implement drug testing programs saw no decline in their workers' compensation experience-rating modification factor. This means that companies that drug test can save substantially on their workers' compensation premiums
- Drug test is most effective in reducing workers' compensation experience-rating modification factors in the first three years immediately following the implementation of a program.
- The vast majority of respondents, whether or not they utilized drug testing, think substance abuse is a "moderately serious problem" in the construction industry. The majority of company officials who responded to the survey think the problem of drug and alcohol abuse on the job has dropped in the past five years.
- Seventy-two percent of respondents with drug-testing programs in place said they think the benefits of drug testing

outweigh the costs.

- Company officials generally believed their drug-testing programs had a positive impact in virtually every respect. The most positive impacts of the programs concerned the overall safety of the work environment, reductions in workers' compensation costs, and the quality of job applicants.
- The number one reason why employers in the construction industry drug test their employees and job applicants is to promote the safety of their workers and those who use the products and services. In addition, company officials believe that drug testing contributes positively to a company's image and is an effective deterrent in preventing drug abuse.

The number one reason why some employers in the construction industry do NOT drug test their employees and job applicants is a concern for increased legal liability. Other reasons include concern that drug testing is too costly or that it is prohibited or restricted by state legislation.

The study also revealed that larger construction companies are significantly more likely to test workers for drugs and alcohol. This could make small firms particularly vulnerable to substance abuse problems as drug users may intentionally seek employment where they are not likely to be detected.

What Are Surety Bonds?



Surety bonds are a form of protection that dates back to Babylonian times. Such bonds are a key piece of many public and private sector transactions. U.S. Customs, for example, requires importers to carry bonds to ensure compliance with rules and regulations. Courts require bail bonds to release criminal case defendants. Property or project owners require contractors to carry performance bonds. The Airline Reporting Corporation requires travel agents to meet certain requirements when carrying airline ticket stock, and an ARC Bond meets those requirements.

In the U.S., suretyship is considered a form of insurance and is regulated accordingly. This is something of a misnomer since insurance is typically a two party transaction, while surety bonds are a three party transaction. The three parties to a surety contract are:

- **The Principal:** The party that takes out the bond as a guarantee against a stated obligation.
- **The Obligee:** The party to whom the guarantee is made by the surety on behalf of the principal. In the above examples, a property owner, U.S. Customs, and the Airline Reporting Corporation are potential obligees.
- **The Surety:** The entity that steps in and pays the obligee in the event of a specific failure to perform or meet an obligation on the part of the principal.

There are two primary categories of surety bonds. Contract Surety Bonds and Commercial Surety Bonds. Contract Surety Bonds provide financial security and construction assurance on building and construction projects by assuring the project owner (obligee) that the contractor (principal) will perform the work and pay subcontractors, laborers, and material suppliers.

Contract surety bonds include:

- Bid bonds - financial assurance that the bid has been submitted in good faith.
- Performance bonds - protection for the owner from financial loss should the contractor fail to perform the contract in accord with its terms and conditions.
- Payment bonds - guarantee that the contractor will pay certain subcontractors, laborers, and material suppliers associated with the project.
- Maintenance bonds - guarantee against defective workmanship or materials for a specified period.
- Subdivision bonds - guarantee to a city, county, or state that the principal will finance and construct certain property and infrastructure improvements.

Commercial Surety Bonds guarantee performance by the principal of the obligation or undertaking described in the bond.

Commercial surety includes:

- License and permit bonds - required by state law or local regulations to get a license or permit to engage in a particular business.

- Judicial and probate bonds, also known as fiduciary bonds - secure the performance on fiduciaries' duties and compliance with court order.
- Public official bonds - guarantee the performance of duty by a public official.
- Federal (non-contract) bonds - those required by the federal government, e.g. Medicare and Medicaid providers, customs, immigrants, excise, and alcoholic beverage.
- Miscellaneous bonds, e.g. to guarantee employer contributions for Union benefits, and workers compensation for self-insurers.

One of the main differences between an insurance and surety contract is that an insurance premium is usually based on a certain expectation of losses. Surety contracts are designed to prevent loss, according to the Surety Information Organization (www.sio.org). In this model the underwriting process involves pre-qualification and the bond is underwritten with little expectation of loss. The premium is mainly a fee for pre-qualification services. In some cases a surety company will require indemnity of the owners of a closely held corporation. The two main reasons for this requirement are that the surety company requires all personal/business assets to back the guarantee and that there is less chance a principal will avoid stated responsibilities if personal/business assets are at stake. If an underwriter is unable to approve a bond request based on the qualifications given by the principal, the company may suggest depositing some form of collateral as an inducement to write the bond. In practice, many bonds are written on this basis, particularly ones that are considered financial guarantees.

Obtaining a surety bond is like opening a line of credit. And similar to a banking experience, developing a long-term relationship with a surety company can be an important step for you or your business. Call us for further details on surety bonds and how they apply to your business.



Be sure to notice our new sign on the West Freeway!

Research Correlates Drug Testing to the Reduction of Workers Compensation Mods in the Construction Industry

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Ithaca, N.Y. – From large international corporations to small local contractors, construction companies that drug test appear to be successfully reducing workplace injuries, according to a new Cornell University study. “While drug testing is controversial, this study provides useful data on a readily-measurable outcome,” says the study’s author, Jonathan Gerber, a student at Cornell University’s School of Industrial and Labor Relations who conducted the study as part of an independent research project. Professor Robert Smith served as the advisor of this study.

In the last 15 years, drug testing in the workplace has gone from ground zero to widespread universal employer acceptance. In 1983, less than one percent of employees were subject to drug testing. Today, approximately 49 percent of full-time workers are subject to some form of workplace drug testing, according to the Substance Abuse and Mental Health Administration.

This growth is particularly evident within the construction industry. High rates of drug and alcohol-abuse in the

construction industry, coupled with the high-risk, safety-sensitive nature of the industry’s jobs have prompted many companies to implement a variety of safety strategies including drug testing – particularly when the safety of workers and the public hand in the balance.

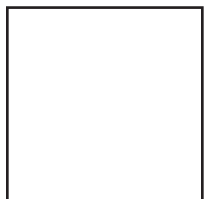
The study, titled “An Evaluation of Drug Testing in the Workplace: A Study of the Construction Industry,” was undertaken to test the efficacy of workplace drug-testing programs in establishing safer workplaces by examining company injury incident rates and workers’ compensation experience-rating modification factors over a period of five years. The results reported are based on scientific analysis of data collected from 71 companies by a voluntary survey faxed to a randomly selected national sample of 405 construction companies in December 1999. Additional data was provided by the National Council on Compensation Insurance (NCCI).

Among the study’s findings:

- The average company that drug tests in the study sample experienced a 51 percent reduction in its injury rate within two years of implementing a drug-testing program from a rate of 8.92 incidents per 200,000 work-hours to 4.36

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