

State Fund

COMPONENTS™

*A workers' compensation resource for
State Fund policyholders*

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Workers' Comp 101

A Little Knowledge Helps Your Business

What does workers' compensation insurance mean to you? As an employer, you probably know you have to carry it to protect your business and employees. The details—such as why it matters, or what happens when an employee files a claim—may be harder to grasp, especially when you are focused on running a company. And it's not as though you majored in workers' compensation or ever enrolled in Workers' Comp 101.

That's where this issue of State Fund *COMPONENTS* comes in. We are the people you've chosen for workers' compensation insurance, and however familiar you think you are with your policy, we want to help you better understand the essentials of workers' comp. For you, improving your working knowledge can help you manage your business more efficiently.

A Quick Overview

The articles in this issue cover workers' comp essentials from the ground up, including your premium (the policy price), the claims process, and your legal responsibilities. Need to start from the beginning? Here are four basic points:

1. Workers' compensation insurance is mandatory employer coverage that provides benefits to employees who experience a job-related injury or illness, regardless of fault.
2. It covers injured employees' medical treatment and compensates them for lost wages and/or reduced ability to work. It also protects you against being sued for an employee's injury, because workers' comp was designed to be the exclusive remedy for on-the-job injuries.
3. All employers with one or more California employees must have workers' compensation insurance. Failure to do so exposes an employer to numerous risks, including penalties (stop orders and fines) as well as liability lawsuits.
4. Most employers obtain coverage through a workers' compensation insurer. You pay premium and the insurer pays out benefits for injured employees. In State Fund, you're partnering with a company that has been in business since 1914 and is California's leading workers' compensation provider.

What to Expect When an Employee Is Injured

As soon as you are aware of a possible work-related injury or illness, you should take action to provide medical treatment and report a claim. When you file a claim with your workers' comp insurance company, you are notifying the insurer of an injury or illness that may be covered by your policy. By law, you must file a claim for every occupational injury or illness, with one exception: When the incident does not cause the employee to miss work for a full day or shift beyond the date of injury or illness, and also does not require treatment beyond the legal definition of first aid.

Claims handling is one of the most complex areas of workers' comp. You can prepare your business for future claims by reviewing some useful guidelines:

- **Reporting the claim.**

You should report the injury without delay. The State Fund Claims Reporting Center is available 24/7 at (888) 222-3211. Timely reporting helps control claims costs while ensuring your employee gets prompt treatment. The legal deadline for providing your employee with the official DWC-1 claim form is within one working day of receiving notice or knowledge of the injury.



- **Validating the claim.** Reporting a claim is not an admission of liability. Your insurance



provider reserves the right to accept or deny the claim, even if the injured employee is already receiving authorized medical treatment. A key factor in approving the claim is whether the injury or illness arose out of and in the course of employment.

- **Treating the claim.** On approved claims, injured employees are entitled to receive all medical care that is reasonable, necessary, and supported by evidence-based treatment guidelines. As a State Fund policyholder, you should be directing injured employees to physicians within the State Fund Medical Provider Network.



- **Managing the claim.** Your insurer's claims adjuster determines appropriate coverage and keeps in contact with you, your injured employee, and the medical provider. Claims have varying life spans. A non-disability or medical-only claim is less complex, involving three or fewer days of lost time from work. A more serious injury may result in a disability claim, with the employee eligible to receive compensation for physical impairment and lost earnings (see related article on disability claims).



Helping Injured Employees Return to Work

When one of your employees misses work because of a workers' compensation injury, you may want to consider a "return to work" option. Under return to work, you bring injured employees back to work in either a transitional job, or in their regular job with some type of accommodation, as soon as medically feasible.

The outcome is win-win: Numerous studies have shown that employees who can return to work more quickly experience faster, more successful recoveries. And for your business, minimizing time losses can reduce claims costs and help you maintain productivity.

If you need help returning injured employees to your workplace, we've got you covered. State Fund's Return to Work Program can offer you dedicated resources and support to put a plan in motion.

Understanding the Cost of Your Policy

Workers' compensation premium is calculated differently from other types of insurance. Your cost depends on the type of business you operate, your payroll size, and other factors. You make premium payments throughout the policy term, but your exact final premium is configured after the policy term ends. Let's look at the components that go into determining your premium.

- **Classification system.** The California workers' comp system groups occupations and industries into about 500 distinct classifications. Insurance providers (like State Fund) charge a rate for each classification based on the projected claims costs for that industry. The higher the expected claims are for a classification, the higher its rate. Rates are charged per every \$100 of payroll.
- **Payroll.** For the most part, payroll includes gross wages and other remuneration paid to employees. For premium calculation, your qualifying payroll in each of your classifications is multiplied by the applicable rates. So if you have \$100,000 of payroll in one classification, and the classification's rate is \$1.36, your base premium is \$1,360. We call it "base" premium because it's calculated before any applicable credits or debits are factored in.
- **Experience modification (ex-mod) rating.** An ex-mod is a premium-adjustment factor that compares your safety record to that of your industry. If you qualify for an ex-mod, the rating may reduce or increase your premium. Let's say your ex-mod is 90%. That means your claims history is better than average for your industry, and your insurance provider will charge you premium that is 10% lower than if you had an industry-average ex-mod (100%) or no ex-mod at all.
- **Other premium adjustments.** Insurance companies may also use additional pricing modifications. For example, State Fund offers a 6% premium discount if you belong to a group insurance program and a 10% Claims-Free Credit for smaller employers with qualifying safety records. For larger employers, we may use premium adjustment factors to recognize things such as safety programs, employee health benefits, and return to work programs.
- **Paying your premium.** Employers typically pay premium during the policy term. As a State Fund policyholder, you may be reporting your actual payroll and submitting interim premium payments. After your policy expires, insurers often conduct a routine premium audit to verify your classifications and payroll. Whether or not an audit takes place, you will receive a final premium statement with a bill for any premium due or a refund of excess premium paid.

Who Makes the Rules?

A complex balance of regulations governs the California workers' compensation system. Here are some of the major players that make the rules:

- **Legislature.** Your elected representatives hammer out bills that, when approved by the Governor, affect different parts of workers' compensation law. Sometimes these laws have a major impact, as with the 2003-2004 reforms that significantly cut workers' comp costs.
- **Division of Workers' Compensation.** The DWC oversees the claims side of workers' comp, monitoring areas such as how insurers and medical providers deliver benefits and services.
- **Workers' Compensation Appeals Board.** The WCAB is a judicial panel that hears disputed cases (typically over a claim's outcome). WCAB rulings can set precedents that guide rulings in other workers' comp cases. Parties may appeal a WCAB decision to the state appellate court system.
- **California Department of Insurance.** The CDI oversees insurance company conduct, including pricing and financial stability.
- **Workers' Compensation Insurance Rating Bureau.** The WCIRB gathers insurer information to update advisory rates for all California classifications and calculate your annual experience modification.



Disability Benefits for Injured Employees

In addition to providing medical treatment, workers' comp insurance compensates injured employees for their disability and lost earnings. These compensation benefits can take several forms, depending how severe the injury is. Let's take a closer look:

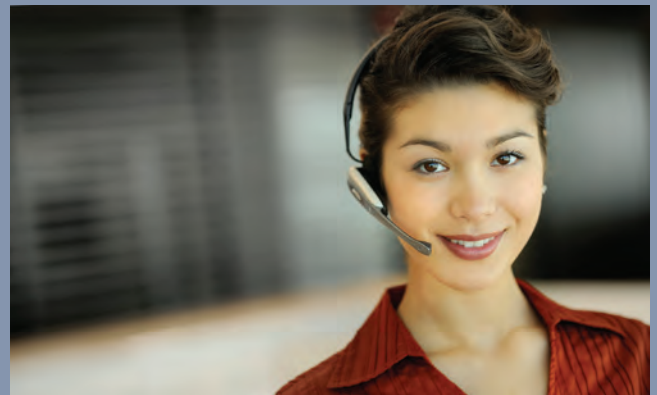
- **Temporary disability.** TD is intended to partially replace employees' wages while they are disabled due to a work injury or illness. In most cases, TD provides benefits for a maximum of 104 weeks.
- **Permanent disability.** PD is provided to employees whose medical disability permanently affects their ability to work. The exact PD benefit depends on such factors as the employee's medically determined impairment level, date of injury, age, occupation, and diminished future earning capacity.
- **Supplemental Job Displacement Benefit.** Available to qualifying employees whose injuries keep them from returning to the same job, this benefit helps pay for educational expenses to learn a new skill or trade.
- **Death benefits.** When an employee is fatally injured on the job, workers' comp pays a weekly death benefit based on the number of surviving dependents.

Don't Get Cheated: Workers' Comp Fraud and You

Fraud can take several forms in workers' comp, but the bottom line is the same: Someone is trying to cheat the system to gain an unfair advantage.

- Employees may commit claimant fraud by attempting to obtain workers' compensation benefits to which they're not entitled.
- Employers may commit premium fraud by intentionally misrepresenting their payroll, the nature of their work, or their number of employees.
- Medical practitioners and other service providers may commit provider fraud through falsified or unwarranted billing practices.

As an employer, you can make a difference in preventing fraud. Educate your employees about workers' compensation so they know the benefits for legitimate claims and the penalties for fraudulent ones. You can also be on the lookout for fraud and report suspicious cases. State Fund has a staff of fraud investigators and operates a toll-free fraud hotline at (888) 786-7372.



Want More Information? We Can Help

We hope this newsletter helps you better understand workers' compensation insurance. For more information, you are welcome to contact the State Fund Customer Service Center at (877) 405-4545 or visit our Web site at www.statefundca.com. If you are represented by an insurance broker, you may also contact your broker for assistance.

Do you know about State Fund Online? It's a great way to get a closer look at your workers' comp policy. You can check your policy and claims information, submit payroll reports and payments online, print certificates of insurance, and more. If you haven't registered yet, go to www.statefundca.com and look for the State Fund Online box at the right.

Safety First: What the Law Requires

Everyone benefits from a safe and healthy workplace, and it all starts with you. In California, the law requires all employers to implement and maintain a safety plan known as an Injury and Illness Prevention Program (IIPP). In your IIPP, you should describe your procedures for safety practices—including training employees, complying with applicable industry standards, handling workplace inspections and accident investigations, and correcting hazards.

A commitment to safety is not just a way to stay on the right side of the law. When you have fewer and less costly injuries at work, you save on workers' comp claims costs, which may reduce the premium you pay for your policy. In addition to lower business costs, a safe workplace can bring you other competitive benefits such as greater productivity and employee morale.

Your Basic Workers' Comp Responsibilities

It's time for a quick policy checkup. By law you must follow certain procedures for (1) notifying your employees about workers' compensation and (2) responding to workplace injuries. Check the lists below to make sure you're in compliance. If you need any of the forms listed here or any other help, contact our Customer Service Center at (877) 405-4545.

Required Employee Notices

These notices tell employees about their workers' compensation rights and how to get medical treatment for workplace injuries.

- Post the *Notice to Employees* posting notice (form 13708) conspicuously in the work area (and post Spanish form 13709 if you have Spanish-speaking employees).
- Provide the *New Employee's Guide to Workers' Compensation* (form 13286) and the *Employee's Guide to the State Fund Medical Provider Network (MPN)* (form 13176) brochures to all new employees when you hire them. You also must provide the MPN brochure to all employees before you implement the MPN in your workplace and to any employee who reports a work-related injury.

What You Must Do When an Injury Occurs

(1) Make sure your injured employee receives medical treatment. (2) Give your injured employee the DWC-1 claim form (form 3301) and the MPN brochure (form 13176). (3) Report the injury promptly to the State Fund Claims Reporting Center at (888) 222-3211. We will help you complete the required Employer's First Report of Injury (form 3067).



NUTS & BOLTS

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