Managing the Impact of Inflation on Workers Compensation Insurance

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Eastern Insurance Group
The effects of inflation are most often discussed in terms of consumer goods and rightly so. It’s difficult to ignore the sudden impact of rising costs on individuals and families, many of whom experience financial hardship during inflationary times. Less immediately apparent are the ways in which escalating costs—including wage inflation—challenge commercial industries, including workers compensation insurance. Below is a general overview of what many employers may expect during inflationary times and general best practices for mitigating workers compensation risk. For information specific to your plan, contact your insurance representative.

**How Inflation Influences Workers Compensation Insurance**

Many of the forces driving the inflation of consumer goods also impact commercial industries—the long-term effects of COVID-19; continued supply chain instability; labor shortages; and Russia’s illegal war in Ukraine. Among these trends, there are a few that exert special and direct influence on the workers compensation insurance market.

**Wage Inflation**

Whether the result of the so-called “Great Resignation,” or a sign of much broader tectonic shifts playing out within the labor market, employers in the U.S. continue to experience challenges filling open jobs. For many, this means paying higher wages to attract and retain employees. Higher wages lead to expanding payrolls and increased costs for workers compensation insurance premiums.

**Workforce Instability**

Compounding the payroll challenges associated with labor shortages is the continuation of a shift toward shorter-tenured employment. Whether people are seeking better benefits, better wages, or have relocated to a new region, today’s employees are frequently changing jobs. While it’s been decades since workers in the U.S. planned to remain at one job throughout their working lifetime, during this post-pandemic period, the rate of job-hopping has escalated. The costs of managing a constantly-shifting payroll and the difficulty in predicting a stable workforce can increase worker’s compensation coverage costs.

**Rising Medical Costs**

Technological advancement in the medical industry can save lives and improve the quality of life for countless others, but it also drives up claims costs. Fortunately, many states create fee schedules that govern worker’s compensation services, keeping costs at a more predictable rate.

**Best Practices for Managing Risk**

Inflation is here for the near term. Employers seeking to mitigate the risks associated with its potential impact on their workers compensation premiums should consider implementing a few workplace best practices.
Maintain a Safe Work Environment

One of the most effective ways to manage workers compensation premiums is by reducing claims. The first step related to claims reduction is ensuring a safe work environment for everyone. This is especially important now when many businesses are welcoming previously remote workers back into the office after pandemic protocols. Employers creating or reviewing their workplace safety strategy should consider the following guidelines:

- Maintain a generally well-kept floor space that is free of debris;
- Ensure electrical and other utilities function properly;
- Prevent cords from becoming a trip hazard;
- Train employees to safely handle and maintain the equipment in excellent working order;
- Keep vehicles such as cars, trucks, landscape and agricultural vehicles in top condition; make sure they are operated only by licensed individuals;
- Stay up-to-date on OSHA and other federal and local workplace safety and health protocols and post OSHA information in on-site places where employees congregate;
- Establish, communicate, and practice emergency procedures (fire, storm, live shooter, etc.)
- Create and communicate a policy for employees who are returning to work following illness.

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Sharpen Your Payroll Projections

Your plan rates and benefits are determined by your payroll projections. To avoid potentially devastating consequences and shortfalls, be sure your predictions are as accurate as possible - having a mid-year review with your broker can ensure your payroll estimates are updated in a timely manner.

Review Your State’s Fee Schedule

Understanding your state’s workers compensation fee schedule can help you manage claim costs by empowering you to make sure employees get the specific medical attention they are entitled to when it comes to job-related illnesses and injuries.

Efficiently Process Claims

Unfortunately, employees do get sick or hurt from time to time, even in the safest of workplaces. Establishing and maintaining a transparent claims management process will position you to respond quickly when claims do arise, enabling you to provide timely and appropriate treatment for the sick or injured employee while also protecting your business.

Seek Alternative Programs

For large enough programs with good loss control and injury management programs in place, there are a number of alternatives including dividend, large deductible, loss sensitive, and group captive programs which provide substantial savings/returns for right-fit employers.
In this unpredictable inflationary moment, you may mitigate rising workers compensation premium costs by establishing and communicating onsite best practices. You may also wish to review your plan with a trusted advisor to make sure your coverage aligns with today’s challenges and long-term business goals. Contact us today at info@easterninsurance.com.