

# Information Note

## Calculating Your Workers' Compensation Premium

It's that time of year when many MDs, CFOs and Business Managers review budgets and start to sweat when thinking about the cost of next year's workers' compensation premium.

The cost of workers' compensation premiums is driven by three primary factors:

1. The industry you work in (and therefore the gazette rate for your industry);
2. Your wage roll; and
3. Your claims costs.

The first two factors are largely set in stone. WorkCover WA estimates the total cost of the scheme for the next year and determines the overall amount of premium that must be collected to cover these costs. The gazette rate for each industry is calculated based on the total amount of premium required and the historical performance of individual industries within the scheme.

Within our current labour environment, the wage roll for many organisations is increasing as a result of both business growth and upward pressure on wages. There is little you can do to impact on this.

Therefore, your understanding of claims costs and how to control them is your only opportunity to impact on the cost of your workers' compensation premium.

Claims costs are the actual dollars spent by the insurer when an injury occurs, plus the insurer's estimate of what the total cost will be by the time the injury has resolved and the claim is closed.

Consider the cost of a claim for an injured worker who requires knee surgery:

Paid Costs (costs to-date)		Reserves/ Estimates (anticipated costs)		Total Incurred Costs	
Wages	\$3,000	Wages	\$15,000		
Medicals	\$500	Surgery/ Physio	\$8,000		
MRI	\$1,500	Rehabilitation	\$5,000		
		Second Schedule	\$7,000		
<b>Total</b>	<b>\$5,000</b>	<b>Total</b>	<b>\$35,000</b>	<b>Total</b>	<b>\$40,000</b>

As the employer, you can make decisions about and have legislative control over the following areas:

- ▶ Medical treatment – refer injured workers to consultant doctors with excellent communication skills;
- ▶ Wages – you may choose not to recoup wages;
- ▶ Rehabilitation – in many cases, you are capable of overseeing this with internal resources.

Your understanding of these factors, your approach to injury management and your relationship with your insurer to communicate this will impact on outstanding reserves and can

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ultimately reduce the cost of the claim. However, the establishment of a consistent, proactive support system for your injured workers is critical to achieving the above outcome. Employer controlled injury management results in:

4. Strong relationships with your injured workers;
5. Positive perception and working relationship with your insurer;
6. Close understanding and relationship with your broker; and
7. Significant reductions in overall claims costs.

The combination of these factors, across all claims, may enable your insurer to heavily discount your gazette rate or, conversely, increase it by an unlimited amount if you have very poor performance.

Another factor that may influence the final cost of your workers' compensation premium is the premium structure; for instance, you may be eligible for a retrospective discount based on meeting claims costs targets. A discussion with your insurance broker is essential to ensure that you understand how your premium cost is calculated and what targets you should be striving for to obtain future discounts.

## About Aurenda

Aurenda is a specialist, independent provider of worker injury risk management services. Our background includes a team of professionals with risk management, paramedical, workers' compensation and safety experience. Working in close partnership with some of Western Australia's foremost public and private sector organisations, Aurenda empowers clients to minimise the human and financial costs associated with workplace injury

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