

# The Case for a Bigger Retro Program

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WHITE PAPER





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# Introduction

Every business is looking for ways to decrease costs and increase profits.

Workers' Compensation insurance can be a considerable expense and is required for every employee in the state of Washington, including part-time employees. Because Washington is a monopolistic state, coverage must be purchased through the Department of Labor and Industries' (L&I) state fund or paid for by employer self-insurance.

According to the *National Academy of Social Insurance*, the estimated employer costs for workers' compensation premiums in Washington is \$1.70 per \$100 in covered payroll. Add in higher-risk industry rates, plus a company's personalized insurance experience rate, and the premiums can add up quickly.

In 1981 L&I started offering a voluntary Retrospective Rating program, also known as "retro." Retro programs are safety incentive programs providing the opportunity for employers to earn refunds on L&I insurance premiums as a reward for creating safe work environments. Archbright began sponsoring its first retro program in 1985 and ***manages the largest and one of the highest performing retro groups for manufacturing companies in the state of Washington.*** In the over 35-year history of our manufacturing retro program, we have never received an assessment.

Several organizations sponsor retro groups, and it can be daunting for employers when choosing which group to join. There are many factors to consider, for example: what are the group fees, does the group require injured workers to be kept on salary, has the group ever received an assessment, and what is the group's performance history?

## **A question that employers should be asking is: How large is the group's premium pool?**

This whitepaper lays out the benefits of not only joining a manufacturing retro program but why joining a large retro program in Washington State could help your organization lower upfront costs as well as increase the amount of workers' compensation insurance premiums being returned to your business. The less money you spend, the more you can invest in your business and your most important asset, your people.

# How Does Retro Work?

The retro rebate program is voluntary, and even if employers choose to participate, they must still pay their workers' compensation insurance premiums as they usually would. Because Washington's workers' compensation insurance is a guaranteed cost program, your insurance rates stay the same throughout the entire year, regardless of your claims' costs. Claims' costs will, however, impact your future insurance rates.

***The retro rebate program calculates your insurance premium after the fact, or “retrospectively” and compares it to your claims’ costs, offering a refund on unused insurance.*** It is considered a risk/reward program because if the cost of your claims exceeds your insurance premium, you could be responsible for additional insurance costs. The potential for this additional assessment is the risk, while the reward is the opportunity to receive a refund.

Retro programs have a 12-month coverage period but can begin any calendar quarter depending on the participating individual or group's plan period. About ten months after the retro coverage period ends, L&I looks back at your experience (claims' costs) and calculates a retrospective premium for that 12-month coverage year.

Next, L&I determines your “standard” insurance premiums, which are the portion of your workers' compensation premiums that are eligible for rebates, and then “develops” claim costs to capture the costs over the entire life of the claim. Depending on the type of claim, development factors can vary. Typically, a claim that has time loss or indemnity will have a higher development factor than claims that are medical aid payments only, as there is a greater likelihood of the indemnity claim accruing additional costs over the life of the claim.

***If the cost of your developed claims for the coverage year is less than what was anticipated, you earn a partial refund of the difference between the retro premiums and the standard premiums.*** Each plan period is evaluated and adjusted three times by L&I.

Because the retro program is a risk, it may not make sense for every employer. ***Participation requires a commitment to improving safety, preventing injuries in the workplace, and aggressively managing the claims that do occur.*** If your developed claim costs are higher than the amount of standard premium you paid, it could result in you having to pay an assessment. There is a preselected limit to this assessment based on plan selection, and it's essential that you recognize and understand this risk.



# Better Together: Individual vs. Group Programs

There are two options for companies to participate in a retro program, either as a member of a group program or in an individual program.

## Individual

Less than 1% of retro participants participate in an individual program. There is more risk involved in an individual program because you are essentially on your own. Of the companies that do choose an individual program, they, on average, are paying more than \$400,000 in standard insurance premiums a year. This larger premium base is crucial because of the risk involved. One expensive claim can take you from refund to assessment. Participants must choose their plan selection, determining how much they are willing to risk losing should they perform poorly, and what is the most they can gain in a year they perform well.

The benefit of being in an individual program is that if you perform well, you don't share a refund with other companies. The risk is that the refund or assessment is based entirely on your performance without the aid of a group to help subsidize an expensive claims' year. If you perform poorly, you must pay L&I an assessment based on your plan selection. Additionally, ***even a well-performing individual retro participant will likely earn fewer refunds than a positive performing member in a positive performing group.*** The group's size itself allows for larger premium returns to all members who perform well.

## Group

Most employers choose to participate in retro as part of a group. The group's administrator determines which plan to participate in, which means less for you to research and decide. A key benefit to participating in a group is that the risk is spread across the group. This means that if you have a poor performance claim year, you may still receive a refund or, at the least, won't have to pay an assessment as you would if you were on your own.

Additionally, many groups offer services to improve the group's retro performance, including safety training and assistance, and third-party claims management. These services can help members reduce the frequency and severity of injuries as well as help improve members' experience factor and workers' compensation insurance rates over time.

The most significant advantage, though, is that groups typically have better refund potential because they have a larger premium total. ***Retro is premium sensitive, meaning the higher the premium, the greater the percentage refund for a given amount of risk.*** A large group risking 10% might realize a 20-40% refund, whereas if you are risking 10% on your own, you might only realize a 3-15% refund. If you're a small premium payer, your potential refund is lower than large groups.

## KEY BENEFITS:

### Individual:

If you perform well,  
you don't share  
a refund with  
other companies

### Group:

Typically have better  
refund potential  
because of a larger  
premium total

## Better Together: Individual vs. Group Programs

### *Continued*

However, if you have a positive performance claim year, but the group performed poorly, your refund could either be reduced or you could be responsible for part of a group assessment. This risk is one of the reasons a company must understand the performance history of a group they are evaluating for membership.

***Groups are made up of companies in similar industries with similar hazards. L&I does not require a minimum annual premium for companies to enroll in a retro group though most groups have a minimum premium requirement to help mitigate risk.***

### **Group Fees**

To participate in a group program, companies must be a member of the association that sponsors the group which will have membership dues. Most groups also charge their members a fee in return for administering the Retro group, which may include:

- A flat fee
- A percentage of premiums
- A percentage of refunds or a fee added onto assessments if there are no refunds
- A combination of these



# Well Suited: Evaluating Groups for the Best Fit

## Enrollment

If you determine that retro group participation is right for your company, it is vital to choose a group that best suits your company's needs. Are you only interested in potential refunds, or are you more interested in a membership association that can help you provide a safer work environment for your employees and lower your upfront workers' compensation insurance costs? Is there a group that can provide it all?

It is necessary to take the time to learn what enrollment means for any group you are considering. You need to understand the group participation rules you must agree to as well as how the group allocates refunds. This will help avoid misunderstandings when the group goes through the adjustment process.

When you enroll in a group plan, the sponsoring association will typically ask you to sign at least two documents:

1. **An Application for Group Membership**, which is a single-page agreement generated by L&I. This application will include the name of the group, coverage period, and general provisions of enrollment.
2. **An Association Administrative Contract**, which is generated by the group and provides the details of how the group is to be administered. L&I is not a party to or involved in the creation of this contract.

Companies typically have four quarterly opportunities to join a Retro group a year. Applications are due to

L&I on the 15<sup>th</sup> of the month before the coverage date, although most groups will have an earlier deadline to evaluate and organize their enrollment package. Each group has a different start date to the fiscal plan year, so it's necessary to understand when their enrollment period is especially if you are considering switching groups.

## Underwriting

Most retro groups evaluate prospective members to ensure that the company is a "good risk," choosing to either approve or deny enrollment. The same criteria may also be utilized to assess continuing membership, ensuring successful group performance.

Groups may choose to approve or deny enrollment or re-enrollment based on benchmarks such as a company's:

- Standard premium size
- L&I experience modification factor
- Past retrospective performance
- Claim frequency and severity rates
- Safety programs in place
- Commitment to early return to work practices
- Willingness to keep injured workers on salary

It might be important to you as a prospective member to know the types of companies that are being admitted to your group. This goes back to the importance of understanding your group's participation rules outlined in the Association Administrative Contract.

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# Questions to Ask

When evaluating groups, it is paramount that you ask questions before joining to ensure that you are finding a group that aligns with your retro participation goals and provides the workplace safety solutions that your company values.

## **What are the group's membership rules?**

When joining a group, you are typically signing a contract stating you will follow the group's outlined participation rules. For example, some groups require strict kept-on-salary (KOS) policies to cut costs on claims. On paper, this may seem like the best way to reduce losses, but in reality, this could be more costly in payroll, production as you lose a skilled worker, and employee morale.

A better way to control costs is to focus on early return to work practices. Some groups will require employers to offer light-duty jobs right away to injured workers, which helps the employee transition back to work at a rate that conditions the employee for the work environment. This early return practice is beneficial both to the employer and the employee. For the employer, the employee is still able to contribute in one form or another while also helping to keep claims costs down. For the employee, they are more likely to be engaged, knowing that they are a valued team member.

In addition to injured worker practice requirements, you should understand the entirety of the group's membership rules before joining and there are consequences for not following them.

## **How many members are in the group, and what is the average member premium size?**

A group can have a large premium pool with a few members or a large member base with low premium. Both situations could potentially be damaging for members:

- If a group has a significant premium base but only a few members, there is going to be a risk if one or more of those members exit the group, leaving the group with a significantly smaller premium pool.
- On the flip side, if a group has many members, but those members all pay small premium amounts, the group pool will be insignificant. A few expensive claims could be detrimental to the entire group.

For a retro group to best ensure it can support all of its membership, it is best to have a large premium pool with members of various premium sizes.

## **How much is the group risking?**

Make sure the group isn't risking more than you could afford to be assessed if the group doesn't perform well.

A larger group can take on more risk because it can absorb more losses. Some groups choose a high-risk plan selection, which can generate a larger reimbursement. If the group has a smaller premium pool, it could increase the likelihood of an assessment in a poor performance year.

When considering joining a group, ask them how much of the group's premium is at risk should they receive an assessment. In the unfortunate event of an assessment, you must understand how the cost is passed to participating members.

**For a retro group to best ensure it can support all of its membership, it is best to have a large premium pool with members of various premium sizes.**

## **How has the group performed historically?**

Do your due diligence and research the group. Knowing how long the group has been enrolled in a retro program, and how their performance has been over the entirety of that period, will help with the decision process. Look to see how many years the group received



refunds, how large the premium pool was for the years receiving refunds, and what percentage of the refund was returned to members. Equally as important to know is how many years the group received assessments, including the group size and amount assessed during those periods.

### **How are refunds/assessments distributed among group members?**

L&I calculates a cumulative refund or assessment for each retro group based on group performance. It is then up to each group to distribute the refund or assessment among their membership.

It is important to know before joining a group what distribution method is being used so that there are no surprises later. Common distribution methods include:

- **Pro-rated:** Every member receives the same percentage refund/assessment the group earned as a whole, regardless of individual performance.
- **Merit-based:** A member's share of the refund/assessment is based on their individual performance in the group.
- **Hybrid:** Refunds are partially merit-based and partially pro-rated.

### **When are refunds distributed to group members?**

Each retro plan year undergoes three adjustments cycles where the group is evaluated for a refund or an assessment. The first adjustment from L&I is made about ten months after the coverage period ends. The second and third adjustments occur on an annual basis after that. Depending on the group, refunds may be distributed at any time after each adjustment or may be held for future adjustments.

### **What services are provided for members to promote injury prevention and claims management?**

Some groups just sponsor the retro program for their members, and other groups provide additional employment services to their membership. It is important to know what's included because service fees for each group may not include the same level of service and support. Check to see if the group provides a claims management team. A third-party claims team can provide needed relief for your HR department and could be the driver to close claims quicker.

Additionally, groups that provide safety services and loss control services can assist in identifying injury trends and provide safety resources that can help prevent workplace accidents.

What matters most is keeping your people safe. Because not all groups offer the same services, ask how the group plans to help keep your employees from getting hurt on the job. Find out what other services the group can provide to your company. Employee development training, professional HR and legal advice, and employee engagement services work to support your company holistically.

### **Are there any exit clauses if you choose to leave a group?**

Because retro refunds are distributed over a three-year adjustment period, you may have to continue a level of membership with the sponsoring organization to continue to receive future refunds from the date you wish to discontinue membership. Make sure you understand these contractual obligations.



# A Nice Piece of the Pie: Evaluating Group Size

Possibly one of the most significant considerations when joining a group is how much premium is already in the group from other members. Group size can significantly impact the refund that each participating member receives.

According to L&I, “Groups typically have better refund potential because they have a larger premium total. Retro is premium sensitive, meaning the larger the premium, the greater the percentage refund for a given amount of risk.”

How does this boil down to member refunds? L&I has a set amount of money to be rebated to all retro programs state-wide. Given similar plan choices and performance, **a group with more premium will always get a larger return.**

The example chart below assumes the same plan choices with all groups having a 60% claim loss.

Looking closer at the chart, the first thing that you may notice is that Group 1 has the largest refund amount in this scenario. The refund percentage is higher for the larger group, but of note, in addition to more money being returned, the insurance costs are lower for the larger group. Therefore, **the larger group is starting with fewer program costs than the smaller program.**

Insurance costs are applied by L&I based on your size and your plan choices. They act like losses in your plan year, so it is advantageous to have the lowest insurance costs possible.

The break-even loss ratio (BELR) is the point at which a group switches from a refund to an assessment by comparing the developed claims costs to the standard premiums. If the developed

claims cost percentage exceeds the BELR, the group will receive an assessment. The BELR is determined by both group size and plan selection. The chart shows that if all groups had the same plan choice and developed claim's loss percentage, it would be **harder for a larger group to receive an assessment than it would be for a smaller group.**

## Larger Premium Equals Less Risk

Of the last fifteen retro groups in the state to receive a final assessment, only one group was over \$25 million in standard premium. The average size of the groups being assessed was \$11 million in standard premium. Larger premium based groups have more money to cover costs making it less likely to receive an assessment, even in an especially poor group performance year. The larger the group, the lower the risk.

## Group Size & Performance Chart

(Plan Choices and Claim Loss Being Equal)

	Standard Premium Size	Assumed Refund \$	Assumed Refund %	Insurance Costs	Break Even Loss Ratio
Group 1	\$50,000,000	\$14,385,670	28.8%	2.5%	85.8%
Group 2	\$25,000,000	\$7,078,712	28.3%	3.2%	85.2%
Group 3	\$10,000,000	\$2,726,276	27.3%	5.0%	83.9%
Group 4	\$4,000,000	\$907,184	22.7%	12.4%	78.6%

# The Archbright Difference: Size, Services, & Distribution

So, where does the money go? It is easy to focus on refund percentages when comparing groups. Many groups will advertise based solely on their refund percentage, yet this does not paint the whole picture. Other factors that impact how much money an employer will be refunded are **the size of the group and how the group allocates the refund to its members.**

**If a group touts that they received a 25% return, what is the total premium that 25% is based on? Is it 25% of \$1 million, or is it 25% of \$10 million? And to how many members is that return being distributed? Does the group take their fees out of that return? Does every member get part of that return, or is it only shared with positive performing participants?**

As you can see, we need to dig further to truly understand how much money is returned to member's pockets. Make sure you have the answers to these questions before you join any program.

## More Money for Archbright Members

One of the biggest advantages of Archbright's retro program is the size of the program. **Archbright's manufacturing program is the largest in the state, with over \$50 million of standard group premiums.**

Equally as important, Archbright does not keep any of the refunds. All monies returned to the group are distributed to members based on merit, meaning only those that had positive performance years receive a refund.

Statistically, all companies will have an adverse claims year at some point, and Archbright believes that they should not be penalized. Instead of paying a fee for a poor performance year, a member that does not qualify for a rebate pays **no additional penalties.** The whole point of joining a group program is to share the risk and avoid paying an assessment.

**Archbright closely monitors each member's performance and continually offers support to identify trends, reduce injuries, and aggressively manage claims.** If a member is struggling with their claims for whatever reason, the Archbright team is there to support them and will develop a custom plan to get them back on track.

A custom plan could look like moving the company out of the group while they work on improving safety performance, thereby protecting the rest of the group's returns. These decisions are made with the member in mind and are not taken lightly. Plans are developed with the member and are presented to the Archbright Retro board, which consists of participating members in the program.





# An In-Depth Look at Alaskan Copper

Let's take a closer look at how Archbright's program benefits our members.

At the most recent first adjustment for the 2017/2018 fiscal year, Archbright earned an 18% return. Because our group's premium amounts to \$50 million, 18% represents \$9 million, **the largest refund in the manufacturing industry that year.** And, because we are a merit-based program that does not take a percentage of the refund as our service fee, the amount being refunded to **members who qualify for a refund** is much greater than 18%. While not every member earned a refund, the members that did, earned on average 25% of their standard premiums at the first adjustment. With two additional adjustment periods remaining, more money is being returned to our members.

Longstanding Archbright member Alaskan Copper has been a member of our program since its inception in 1985. During that time, Alaskan Copper has received over \$2.6 million in retro returns.

For a clearer picture of how our refund process works for individual members, let's take an in-depth look at Alaskan Copper's most recent years of participation.

## The Last Three Years to Be Fully Adjusted

### 2013/2014 Plan Year

Group received \$10,284,272 in total refunds, or 24.9% of the group premium. Alaskan Copper, however, performed extremely well, had a loss ratio of 10.2%, and, therefore, in the merit-based system, received a 43.7% return on their \$541,983 in premium. Their refund was \$237,017!

### 2014/2015 Plan Year

Group received \$11,119,624 in total returns, or 24.8% of the group premium. Once again, Alaskan Copper had an exceptional year with an 11% loss ratio, which led to them receiving a 37.8% return on their \$512,236 in premium. The refund was \$193,561!

### 2015/2016 Plan Year

Group received a \$6,194,245 return, or 13.5% of the group premium. This year, however, Alaskan Copper had more claims cost, which was slightly below the group average. Because of this, they received a 12.5% return on their \$452,007 in premium. Though Alaskan Copper didn't perform as well as they have in the past, because their claims cost didn't exceed the premiums they pay, they still received a \$56,359 return!

Looking at an individual member's performance like this helps illustrate how Archbright delivers its refunds to members.

When an individual member performs well, the Archbright group size, merit-based refund system, and policy of not taking a portion of the refund for fees, allows that member to consistently earn the refund they deserve.



## Beyond Returns: Keys to Success

There is more to being successful in retro than simply choosing the group with the largest returns. If a company truly wants to lower costs and increase productivity, they not only have to make sound financial decisions, they must also take steps at creating a safe and engaged workplace culture.

Often companies look at the upfront costs of doing business; it's time to look to how a company's culture can impact business even more in the long run.

Here are the key components of a strong safety culture:

- **A clear understanding of workers' compensation insurance with an accurate understanding of what is driving claims costs**
  - At all organizational levels
  - Regular loss control reviews
- **The right hiring policies**
  - Clear and consistent
  - Comprehensive interview techniques Reference checks

- Pre-employment physical capacity exams
- Applications and signed work history on file for each employee
- **Proactive safety practices**
  - Review safety programs with all new hires
  - Active and engaged safety committee
  - Personal protective equipment (PPE), and proper usage
  - Ongoing safety training for all employees
  - Routine equipment maintenance and replacement of defective equipment
  - Ensure employees are following proper safe work practices
  - Understanding of nature of injuries and corrective actions

- **Commitment to early return to work practices (ERTW)**
  - Early and regular reviews
  - Develop ERTW for all positions
  - Utilization of Stay-At-Work (SAW) reimbursement program
  - Work to close claims quickly
- **Knowing your risks**
  - Review regularly to make sure that the program is working for you



## Earning the Refund You Deserve with Archbright

Every business is looking for ways to decrease costs and increase profits, and Archbright's retro program can help. Our program provides proactive safety support to keep your people safe and at work. Our loss control services monitor injury trends and continually review insurance costs identifying opportunities for you to save money. Every retro member has their own personal claims management team for not only aggressive claims management but support during those tough decisions.

These workers' compensation services, in conjunction with our expert HR and Legal advice, employee and management training, and other consulting services help elevate your workplace's performance. Your company should be rewarded for its commitment to creating a safe work environment. Because of our group size, merit-based refund system, and policy of not taking a portion of the refund for fees, Archbright members continuously earn the refund they deserve.

We understand it can be daunting for employers when choosing which group to join, or whether to join a group at all. When considering your options, be sure to assess:

- Group premium size
- Number of participating members
- Groups historical performance
- How group fees are paid
- How refunds are allocated
- What other services are included?
- Group requirements

For over 35 years, Archbright has managed the largest and one of the highest performing retro groups for manufacturing companies in the state of Washington. Our manufacturing retro group has never received an assessment, and has refunded the largest amount to our members.

### The Archbright advantage includes:

- Our group size
- A merit-based refund system
- Not keeping a portion of the refund for administrative fees
- Expert HR, safety, legal, and claims advice and employer services

**Why not be rewarded for your commitment to safety?**

**Earn the refund you deserve with Archbright.**





## Connect with Archbright

To find out more, email us at [info@archbright.com](mailto:info@archbright.com),  
call us at [206.329.1120](tel:206.329.1120) or [509.381.1635](tel:509.381.1635),  
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