

Landscape Escapades, Inc.

Dear Employer:

Please find the following report developed for **Landscape Escapades, Inc.** The report is designed to serve as an analysis of **Landscape Escapades'** workers' compensation costs. Please note that the analysis is based on information available through National Council on Compensation Insurance (NCCI) and the Workers' Compensation Insurance Rating Bureau (WCIRB). The information used provides a firm indication of how an employer's exposure was managed during the period analyzed. **The period used for this analysis is 7/30/2008 to 3/31/2012, and the estimated annual Premiums used is \$671,500.00**

These days outsourcing business processes is commonplace (payroll, IT, etc.). We introduce workers' compensation process outsourcing. Workers' compensation seems simple and benign on the surface. What most employers don't know is that underneath, it is extremely complex. And, we have found, in most circumstances, regardless of the sophistication and effectiveness of the structures in place, large sums of money are still being left on the table. Hence, our method will not only allow you to sleep at night, but will save you money.

We deal with what most people don't know they don't know about workers' compensation, unravels the mystery, and provides the structure necessary to manage these things. By plugging into our method an employer immediately has the most sophisticated workers' compensation management system available for relative pennies while providing peace of mind and allowing the employer to focus on core activities. Our method falls into two categories. Claim Management is designed to create a structure that drives down costs going forward, and Data Management cleans up current and past messes.

### **Claim Management**

At some level, all workers' compensation cost drivers are a function of claim costs. Therefore, central to any comprehensive program designed to manage workers' compensation costs would be a structure to manage claim costs. Our method has one purpose in mind – to bring an employer's costs to within 10% of minimum costs, and keep them there forever.

Something most people don't know they don't know about workers' compensation is the actual impact claim costs have on workers' compensation premiums. Workers' compensation works more like a deferred claim payment plan (with 50% plus annual interest rates) than insurance.

## What Claims Actually are Costing **Landscape Escapades**?

Item	Impact on <b>Landscape Escapades</b>	Explanation
Claim Cost	\$1,376,030	Claim cost is the primary driver of workers' compensation insurance costs.
Claim Impact on Premium	\$1,157,316	Workers' Compensation Claim costs have <u>direct and measurable</u> impact on insurance premiums. The cost of a claim will impact premiums for three consecutive years. This is the impact it will have over the three year period.
Primary Impact	2.81 to 1	The first \$5,000 (Primary Claim Costs) of each claim has a greater impact on future costs than the amount above \$5,000 (Excess Claim Costs) does. \$1.00 in primary claim cost will cost <b>Landscape Escapades</b> \$2.81 in future premiums.
Gap	\$386,750	This is the amount of annual controllable costs. In other words, <b>Landscape Escapades</b> could conceivably be paying over \$56,000 per year less in premiums.

There are numerous variables that will affect the cost of claims. There are also variables that will affect the impact claim costs have on premiums. There are five broad areas (inside of which are additional variables) that our method is designed to manage.

### Controllable Variables

Item	Impact on <b>Landscape Escapades</b>	Explanation	Our method
Artificial Claim Costs	\$938,876	The amount of claim cost used to determine experience mods may include estimated costs (reserves). Reserves can be arbitrary and excessive. This is <b>Landscape Escapades</b> costs due to claims containing reserves.	The cost of a claim is filed for experience rating the same day each year. We drive management of, and negotiate reserves in order to ensure the most effective application of these costs possible.
Fraud	\$826,842	Fraud is a big problem in controlling claim costs This is <b>Landscape Escapades'</b> costs due to potentially fraudulent claims.	We have 19 years experience thwarting fraud. Preemptively, we <u>insert a digitally recorded call</u> at the time of injury that almost eliminates the potential for fraud in most circumstances.
Indemnity Claim Percentage	20%	It is estimated that there may be as much as a 75% reduction in the cost of claims when lost-time payments are eliminated. 20% of <b>Landscape Escapades</b> claims incurred indemnity costs - the national average is 24%	Lost time costs are the bulk of controllable indemnity costs. <u>The call at the time of injury</u> allows us to gather details, refer for care and initiate physician contact. On average, only 5.7% of all injuries handled by us incur indemnity costs.
Missed Rating Discounts	\$79,683	In AL, IL, MS, SC, TN, and VA, NCCI gives a 70% discount on the impact a claim has on future premiums if the claim incurs no indemnity costs. This is the impact on premiums of lost discounts due to controllable indemnity costs.	Temporary disability (lost time) costs are the bulk of controllable indemnity costs. <u>The call at the time of injury</u> allows us to gather details, refer for care and initiate physician contact. We use that to return employees to work and eliminate these costs.
Unnecessary Claims	13	We have found that 37% or more, of all injuries that become claims would not benefit from physician treatment.	<u>The call at the time of injury</u> is made to a registered nurse who triages the injury. On average, 37% of the time the injured employee is referred for "Self Care". This is most common with soft tissue issues such as lower back injuries.

## Data Management

There are literally thousands of variables that go into the formula that determines what an employer pays for workers' compensation. And, because there are many entities involved in these variables the possibility of error is enormous. We are committed that the statistical data process works in the best interest of the employer, and manages the data with that end in mind.

Item	Impact on <b>Landscape Escapades</b>	Explanation	Our method
Significant Past Claims	\$1,097,773	Much of an employer's claim associated premium cost is due to larger claims. Numerous opportunities to limit the impact these claims have on workers compensation costs are missed.	We research all significant past claims, open and closed in order to uncover and correct missed opportunities to limit the impact the claims have on premiums.
Class Codes	\$?	In many circumstances, employers miss the opportunity to take advantage of rules in regards to classifications. In this case, there may be misclassifications.	We review the employer's operations for opportunities to adopt lower rated classifications.
Experience Rating	?	Experience modifications are basically the ratio of actual claim cost to expected claim costs. Anything that affects either factor will alter a modification. 70% or more of all experience mods we review are in error. In this situation, it does not appear that there are errors on the experience rating form.	It is possible that through further investigation errors may be found. If so fixing errors will usually result in savings.

## Proposal

The investment for one year of our method services for **Landscape Escapades** is \$43,509<sup>1</sup>. We guarantees 100% return on investment.

Sincerely,  
Steve W.



<sup>1</sup> ROI calculation would include any money recovered, or credited to **Landscape Escapades** as well as projected savings in the future due to the calculated decreases in the impact claims have on costs. Our company's hard costs are not subject to potential refund.