

PROTECT & DEFEND

# It's Not If, It's When

Your practice will almost certainly use workers' compensation insurance this year. Here's how it works, and how to make sure you're not overpaying.

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**W**e see our fair share of injury claims come through our agency, often thanks to minor bites, needle sticks, or slips in the treatment area. But every so often, we see more serious injury claims, like a recent claim involving a facial bite from a large dog. The bite caused significant injuries requiring lengthy treatment and recovery. It also disrupted the practice's operations, caused staffing challenges, and emotionally impacted the entire team.

Workers' compensation is the insurance policy that your practice will most likely use at least once this year, if not more. It's not a matter of if; it's a matter of when. It's a core part of operating a veterinary practice with employees. The sooner you understand how it works and how to manage it, the better positioned you will be to control costs and protect your team.

In this article — Part 1 of a two-part series — we'll explore workers' compensation insurance for your practice, how policies are structured, how premiums are generated, and where practices overpay.

## **The Reality of Workers' Compensation in Veterinary Medicine**

For the purposes of insurance, frequency is how many claims happen during a given period of time, usually the annual policy term or three years. Severity is how costly those claims are.

Veterinary practices tend to have a higher frequency than other medical professionals, like dentists or optometrists, because of the unpredictable nature of your patients. You work with animals that are often scared, in pain, or reacting to unfamiliar environments. Even with the best training and protocols, incidents happen. However, your severity exposure is much lower than that of higher-risk professions, like roofing or construction, where injuries can be catastrophic.

What this means is your practice is likely to have a higher number of smaller claims, while a roofer may only have one claim every five years, but

when they do, the injuries are much more severe and costly.

Insurance companies prefer low-frequency and low-severity risks. As a veterinary practice, you are typically a high-frequency, low-severity risk. That means you have more opportunities for claims to occur simply because there are more incidents. The more claims you have, the greater the chance that one of them becomes a costly or severe claim. Reducing frequency lowers the chances of high-severity claims. The two go hand in hand.

Many veterinary practices focus on the big, rare event, but they ignore the steady stream of smaller injuries that add up over time and drive their costs higher every year. Running a safe practice for your team is one of the most effective ways to reduce claim frequency and employee injuries, which in turn helps control your long-term insurance costs. More on this in Part 2.

## **Parts of a Workers' Compensation Insurance Policy**

Workers' compensation policies include two components: employee benefits and employer liability.

### **1 Employee Benefits**

The employee benefits portion covers medical treatment and lost wages when an employee is injured on the job. In most cases, there is no cap on these benefits, and they can be





## AVOID THIS COSTLY MISTAKE

If you underestimate payroll, it will be corrected during your year-end audit. An audit premium is due in full, with no payment plan. Underestimating by a small amount may not matter, but if you add staff and do not account for it, you could owe thousands of dollars at the end of your policy term.

paid for the life of the employee depending on the severity of the injury. This includes doctor visits, prescriptions, rehabilitation, and — in more serious cases — long-term disability payments.

For serious injuries — especially those involving permanent impairment or the inability to return to the same role — the insurance carrier may look to negotiate a settlement to close out the claim.

### 2 Employer Liability

Employer liability coverage protects the practice if the employee or their family sues you. It covers legal defense, settlements, and judgments.

Basic employer liability limits are:

- ▶ \$100,000 each accident
- ▶ \$100,000 each employee for disease
- ▶ \$500,000 policy limit for disease

Higher limits of \$500,000 or \$1,000,000 are available and often cost less than \$100 per year. For most practices, increasing these limits is a simple and inexpensive way to add an extra layer of protection.

In short, workers' compensation pays the claim. Employer liability protects you if that claim turns into a lawsuit.

### Workers' Compensation Premiums

Workers' compensation often makes up 50% to 60% of an established practice's insurance costs.



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It's often the largest single-line item in a practice's property and casualty insurance program.

Managing claims and employee injuries is critical to maintaining a healthy insurance program, but understanding how the premium is calculated is just as important.

Workers' compensation is driven by payroll and job duties. The premium is based on a simple formula. For every \$100 of payroll, you pay a set premium. On your policy, payroll is listed as "estimated remuneration," which simply means estimated payroll. The rate charged per \$100 is the "rate of remuneration."

A class code is how the insurance company categorizes each employee's job to assign a risk level and calculate the premium. Different roles carry different levels of risk and, therefore, different rates.

Class code 8831 is one of the common class codes used in the veterinary industry and may include veterinary hospital operations, drivers, groomers, and boarding and kennel attendants. Some states allow separate class codes for large animal (8845) and small animal (8844) operations. Rates will vary by state and class code, and even small differences in the rate can have a significant impact on your total premium.

#### The formula for calculating the premium is:

$\text{Payroll} \div 100 \times \text{Rate per } \$100 = \text{Premium}$

#### Example:

$\$750,000 \div 100 \times \$1.05 = \$7,875$

Prevent overpaying for your policy by ensuring your payroll is accurately estimated, your team is properly classified, and your rate is competitive.

Workers' compensation insurance is more than just a policy you carry. It's a core part of how your practice operates every day. From how your team is trained, to how injuries are reported, to how your payroll is managed, it all connects back to this one coverage. That's why you should understand how your policy is structured and how your premium is calculated.

In Part 2 of this series, we'll break down what happens after an injury occurs, how claims are managed, how your annual audit works, and how your experience modification can significantly impact what you pay each year. **TVB**