

## Q&A

As Maryland's leader and expert in workers' compensation insurance, IWIF professionals are available by phone, e-mail and in person to help answer any questions you may have. We also encourage you to contact your agent partner and to visit our website for more frequently asked questions and answers.

### What is a claim reserve?

The claim case reserve is the estimated amount of money set aside to pay medical and indemnity (lost time) expenses on a given claim for workers' compensation benefits. A reserve is *maybe money* – money that might be needed if all of the potential expenses actually occur.

#### Why are claim reserves necessary?

Insurance is described as a promise or an "intangible" product/service because the insured does not receive anything material or tangible for his or her premium dollar until a claim is paid. The payment of a claim is what consummates the insurance contract. It is especially important, therefore, that when claims become due, reserve money is available to meet those obligations.

**Karen Lowrey,**  
IWIF Catastrophic  
Claims Unit  
Supervisor

#### Who is responsible for determining the reserve?

The claims adjuster is responsible for determining the reserve and reviewing the file to maintain a proper reserve. The adjuster regularly reviews the reserves to make sure they are still adequate and that conditions have not changed that would affect the exposure. When conditions do change, it may be necessary to change the reserves to adequately cover the exposure of the new condition.

**TIP:** It is important that you, the employer, stay in contact with your claims adjuster. If you have new information or if there is a change or improvement in the status of the injured worker, it can have a positive effect on the claim reserve.

#### How is a reserve selected?

The claims adjuster anticipates the amount of money needed for a given claim, allocating it by reserve category (indemnity and medical). Each claim file is reserved on its own merits, considering such criteria as:

- Type and extent of injury
- Current treatment recommendations, type and duration
- Probable length of Temporary Total Disability (TTD)
- Potential exposure for permanent disability, either partial or total
- Medical condition of the claimant, apart from the injury
- Age of claimant
- Attorney involvement
- Possibility of surgery
- Whether transitional duty is available from the employer

#### Considering these factors, the indemnity reserve should address:

- Anticipated weeks of TTD
- Percentage of Permanent Partial Disability (PPD)
- Disfigurement – scarring, if applicable
- Potential for Permanent Total injury award

#### The medical reserve should consider the potential cost of:

- Physician (office visits)
- Surgery and hospital costs
- Anesthesia and radiology
- Therapy – physical and/or psychiatric
- Medication
- Home health care and vocational rehabilitation

#### How does IWIF identify its exposure in determining reserves?

- Through aggressive investigation
- By obtaining and reviewing medical reports, including emergency room or initial treatment records
- Discussions with claimant and/or attorney
- Special investigations
- Information provided by nurses and vocational counselors
- Independent medical exam reports

#### How much should be reserved?

Each claim file should be reserved for the full potential exposure as the conditions are currently known to be. This means the adjuster must anticipate the total cost to see the claim to conclusion, including settlement.

Permanent Partial Disability exposure should always be included:

- When an attorney is involved in the claim
- Anytime that surgery has or will occur

For more information about reserves on your claims, contact your IWIF claims adjuster.

In the next With IWIF we will answer the question: How do reserves affect policyholders' loss ratio and e-mod?

Please visit [IWIF.com](http://IWIF.com) for additional frequently asked questions and answers.