Mergers & Acquisitions

Workers' Compensation in California

California has some of the highest workers' compensation rates in the country. As an example, based on published premium rates, the cost of workers' compensation for a clothing manufacturing employer in California is 50% higher than the same employer in Nevada.

Controlling Workers' Compensation Costs in California.

Despite this disparity in premium rate, with the right plan and flawless execution, costs are controllable and this gap can be bridged. Alliant M&A has a dedicated team of risk control and claim experts to help your portfolio companies control workers' compensation costs in any state, including California.

This case study summarizes a recent challenge our private equity client faced and how, with the help of Alliant M&A, the portfolio company was able to reduce expenses by over 40%.

Private Equity

Global Private Equity firm headquartered in New York

Portfolio Company:

Clothing manufacturer with all production in southern California

Challenge

The portfolio company was facing uncontrollable workers' compensation premium and claims, an expense in excess of $2.5 Million. While the company had implemented strategies for safety, an increased focus was needed. Additionally, the claims management function was deficient and claims went unchallenged and largely unmanaged. The company secured coverage under a fully insured program (e.g. guaranteed cost, $0 deductible), limiting their ability and their advisor/broker's influence in managing claims costs.

Solution

Alliant M&A worked with the portfolio to implement the following:

Risk Transfer Program Allowing for Control of Claims While Limiting Volatility: Alliant M&A was able to design an insurance program which carried a high deductible but capped ultimate cost to the portfolio company at $2.3 million with the potential for cost to be as low as $1 million. This program allowed for the following benefits:

1. **Control of Claims:** The portfolio company was able to design special claims handling instructions, gaining control on such things as settlement authority, reserving practices, selection of defense counsel, etc.
2. **Potential to Control Costs:** The ultimate potential for cost reduction was largely dependent on how well the portfolio company did in managing safety as well as claims. The better they did, the lower the cost.
3. **Limit Potential Volatility**: While the program structure allowed for fluctuation based on claim experience, the maximum potential payout was lower than the cost of a fully insured program. This was incredibly important to private equity firm which, like, Alliant is focused on stability and increasing EBITDA.

Improving Safety Control and Incentives: For a safety program to be effective, it needs to start from the top. Working with the CEO of the portfolio company and private equity sponsor, Alliant helped implement the following strategies which led to a reduction in the number of claims/injuries:

- **Cost allocation variable for each division/manager:** The managers' performance was in part measured on divisional EBITDA and by allowing for some variability in workers' compensation costs to be part of this, the managers took a greater interest in creating a safe environment and also getting employees back to work.
- **Creating Safety Culture:** With the support of Alliant M&A, the portfolio company created a culture which celebrated safety results, including certain KPIs such as days without incidents, a slowdown in "near misses" and the number of "no lost time" incidents.
- **Rewarded Team Leaders and Staff for Safe Environment:** The company created a program which ultimately cost approximately $20,000 annually, however, the ROI was significant. The pool of money was used to provide gift cards, cash incentives and other gifts as well as celebrations for employees and team leaders achieving certain safety metrics. An unintended result was also a lower rate of employee turnover, partially attributed to team environment created around safety.

Conclusion

While the above, is not all inclusive of the challenges faced and solutions delivered, a reduction in expense of over 40% or $1 million was significant. This was particularly important given the portfolio company was slated for sale over next 12-18 months.

Alliant M&A is a leading advisor to the private equity community, comprised of a team of approximately 100 people nationwide.

Focused on solutions for private equity firms from Letter of Intent to Investment Exit including the following disciplines focused on pre-close advisory and portfolio management solutions:

- Insurance/Risk Management.
- Employee benefits/Human Capital.
- Transactional Risk (e.g. Rep. and warranty insurance, tax insurance, litigation insurance).
- Cybersecurity, technology and privacy consulting.