Cutting an Inflated Workers' Compensation Reserve **Before It Hit the Bottom Line**

Story Overview

A large California construction company participating in a workers' compensation captive faced a significant reserve increase on a routine injury claim. Because reserves directly affect premium, collateral, and long-term cost exposure in a captive structure, ensuring the estimate accurately reflected the claimant's risk profile was critical.

Challenge

A non-surgical elbow fracture with minimal permanent disability was assigned $170,000 in future medical reserves as the claim transitioned to long-term management. The projection appeared inconsistent with the claimant's treatment history, clinical guidelines, and actual utilization patterns. Once reserves are established at this stage, reductions are uncommon, making early intervention essential. Left unchanged, the reserve would increase the client's collateral requirements and influence its risk profile for years.

IMA's Strategy and Actions

IMA's workers' compensation claim advocacy team:

- Reconstructed the future medical projection using evidence-based treatment guidelines and actual claim utilization
- Evaluated carrier assumptions against realistic treatment expectations and clinical standards
- Identified unsupported projections, including excessive assumptions regarding future care
- Translated complex medical and regulatory considerations into a clear, defensible position
- Engaged the adjuster and supervisor to align reserves with realistic exposure

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Why It Worked

IMA combined carrier-side experience with deep knowledge of California workers' compensation regulations and medical treatment guidelines. By grounding the discussion in clinical evidence and actual claim behavior, the team presented a credible alternative to the carrier's assumptions while clearly demonstrating the financial implications for the client.

Key Takeaways

Reserve increases are often driven by conservative assumptions rather than expected medical outcomes. Early, evidence-based advocacy can help validate those assumptions before costs become embedded. This is particularly important in captive structures, where reserve levels directly affect collateral requirements and long-term financial performance.

THE RESULT:

The future medical reserve was reduced from $170,000 to $85,000, cutting the exposure in half. The reduction lowered the client's immediate collateral requirement and reduced the claim's long-term impact on its overall risk profile and cost structure.