



Workers Compensation Insurance Unveiled

This material is provided for informational purposes only. Before taking any action that could have legal or other important consequences, confer with a qualified professional who can provide guidance that considers your unique circumstances, including state-specific employment laws.

Virtually all companies with employees purchase workers compensation (WC) insurance. Yet few understand the ins and outs of WC coverage and how they can manage their premium costs. Recognizing that the specific rules and regulations can vary substantially from state to state, let's take a cursory look at what you can do to ensure you receive the right coverage for your employees at the lowest cost.

How it Works

The first thing you need to understand about workers comp insurance is how your premiums are calculated. Primary factors that will be used in this calculation are the size of your payroll, the classification of your company (what it does), and the specific duties of each of your covered employees.

Your payroll represents your exposure in the eyes of your workers comp insurer. The more hours your employees work, the greater the chance they will be injured on the job and the higher your WC premium will be.

Your company classification signifies the riskiness of the type of work you perform. As a service firm, your risk of workplace injury is likely substantially lower than that of companies performing more demanding physical work. Therefore it's particularly important for design firms to have the right classification applied to their premium calculation. For example, if a structural engineering firm is misclassified as a heavy construction firm by its workers comp insurer, its premium will be significantly higher than it should be. ▶



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Also, the insurance company needs to know the duties of each of your covered employees. An administrative assistant at an architectural firm will be considered a lower risk than a project representative who spends substantial time on job sites. An insurance agent or broker who knows your industry can greatly assist you in making sure your company and its employees are optimally classified.

Fashioning Your Mod

Another important factor in determining your workers comp insurance premium is your experience modification rating, or “mod” for short. Put simply, the mod is a number that reflects a company’s risk relative to other companies in the same line of business and within the same geographic territory.

For example, let’s take an architect in the state of Indiana. The insurance industry, based on rolling data over the previous three-year period ending one year prior, calculates an expected level of workers comp claims for an architect in Indiana and assigns it a mod rating of 1.0. If an architect has fewer claims than expected, then its mod will be less than 1.0 -- for example, a mod rating of 0.8. If the architectural firm has a greater than average level of claims in its history, it may end up with a mod rating of, say, 1.2.

Why is this important? Because this mod will be used as a multiplier to determine how much you pay for your workers comp insurance. Let’s say that based on your payroll level, the job classification of your firm and the actual duties of each of your employees, your architectural firm with a 1.0 mod pays an annual premium of \$20,000. If your firm had a 20% better than average mod rating (0.8) you would pay only \$16,000 in annual premiums for the same coverage. If you had a 20% worse than average mod (1.2), you would pay \$24,000 for equal coverage. In our example, that’s a potential \$8,000 annual difference based solely on a slight shift in mod ratings.

This is a somewhat simplistic example and other factors go into determining your final premiums, based on the laws in your state. For example, in some states, the mod is not applied to smaller companies with premiums below a given

level. Also, in states that use experience rating adjustments (ERAs), only 30% of a medical-only claim will be reflected in your mod.

How do you improve your mod rating? By minimizing the number of workers compensation claims in your firm.

Lowering Your WC Claims

Here are some tried-and-true methods recommended by workers comp authorities to lower your mod and, in turn, reduce the size of your workers compensation insurance premium. Your insurance carrier and agent/broker will likely offer a number of tools to help you apply these suggestions.

Establish an employee safety committee. Putting a group of employees in charge of workplace safety and gaining their buy-in to the concept of accident prevention is crucial to getting improvements in your claims records and mod rate. Top management must show its full support for the committee and provide the resources it needs to identify hazards and carry out safety-improvement suggestions. A formal safety manual should be compiled and formally presented to all employees in a companywide meeting.

Put together an accident response manual. As part of your safety manual, include step-by-step instructions for caring for injured employees and contacting emergency agencies. Compile a list of preferred medical providers, including board certified specialists for occupational medicine and therapy. Include an injury reporting procedure and require employees to complete an accident investigation report for each injury. Any injury that requires more treatment than minor first aid must be reported to your workers compensation insurer, typically within five days.

Get first aid training. The Red Cross and similar agencies can provide employees basic first aid training and ensure you have an adequate first aid kit to handle minor injuries. Bonus: in some states, you don’t have to report minor injuries to the workers comp insurer (and take a ding to your mod) if they are adequately handled with first aid delivered by trained employees.

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Manage your WC claims. Work with your claims adjuster and insurance agent to ensure the workers comp claim and its reserves are properly managed. Keep the injured worker fully informed of the status of the claim as well, and let him or her know that a full recovery is your top priority.

Develop an early-return-to-work program. As the employee recovers, work with the physician and employee to create a transitional work plan with the goal of returning the employee to full unrestricted employment as soon as possible. Identify any medical restrictions and modify the employee's duties as necessary to accommodate these disabilities.

Look out for fraud. Unfortunately, workers compensation fraud is part of the employment landscape. Some employees fake injuries or extend their time off of work far beyond what is reasonable and necessary. Signs of possible fraud include an accident with no witnesses, the late-reporting of an injury, or the employee's refusal to cooperate with an accident investigation. Never accuse an employee of faking an injury. If you suspect fraud, alert the workers compensation insurer and let them handle any investigation.

Two Common Questions about Workers Comp

In closing, here are two more workers comp issues we are often asked about.

1) Should I, as a principal or company officer, be included under my company's workers compensation policy? Most, but not all states allow company principals, such as sole proprietors, partners and members of limited liability companies, to be excluded from their company's workers comp coverage. In some states, the same holds true for company officers. Check your state laws. If you can be excluded, then you'll want to check to see what other coverage you have -- e.g., health, disability and accident insurance -- to take care of your exposures.

If you have adequate health and accident coverage elsewhere, you may want to opt out of WC coverage. (This may require completing a form for your workers comp insurer.) If you have gaps in your personal health/accident coverage, and, in your state, can elect to be covered under your company's workers comp policy, you may want to do so. In fact, some states offer incentives for corporate officers to be included on the policy, such as capping the officer's applicable salary, making coverage more affordable.

2) What happens if am I audited by my workers compensation carrier? Don't freak out if you get notice from your workers comp insurer that your company is being audited. This is not the IRS. A workers comp audit is a standard procedure used to make sure your business is properly classified and paying appropriate premiums. Often, questions come up regarding new hires (who are automatically covered when they join the firm midway through the policy term) or employees who have left the firm. An audit will pick up the payroll changes and adjust your premium accordingly. Be cooperative and answer all audit questions as best you can. Collect and organize the records the auditor asks for. Contact your insurance agent or broker for assistance, especially if a new office in a new state is being considered as you expand operations.

Can We Be of Assistance?

We maybe able to help you by providing referrals to consultants, and by providing guidance relative to insurance issues, and even to certain preventives, including the development and application of sound human resources management policies and procedures. Please call on us for assistance. We're a member of the Professional Liability Agents Network (PLAN).

WE'RE HERE TO HELP!

