

Workers Compensation For The New Employer

5 Tips on how to get a workers compensation policy started for your business

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Purchasing workers compensation coverage for the first time can be a sobering experience. For many new employers the cost of workers compensation coverage can be excessive and may impose a significant unplanned increase to their cost of doing business. Here's 5 tips that may help you, as a new employer, keep your workers compensation cost in check.

1. The Basics

What you need to know to get a workers compensation policy started for your business:

- **Workers compensation coverage is mandated and controlled by the state in which you conduct business.** Work comp coverage is a state specific regulated coverage. The rules and regulations as to how workers compensation coverage will apply to your business are controlled by a regulatory authority in your specific state. Please check our website resource page to identify the regulatory authority for your state.
- **Determine if you are required by your regulatory authority to provide workers compensation coverage.** You'll find that each regulatory authority has established different rules regarding the requirement to provide coverage. As an example, Missouri requires an employer to provide workers compensation coverage when he has 5 employees. However if the employer is in the contracting business and has 1 employee, he must provide coverage. So be sure to know if you are required to provide coverage.
- **Know how your workers compensation premium will be calculated.** Simply put, your premium is calculated as a rate per 100 of remuneration (payroll) times any discounts or schedule credits that may be applied. A workers compensation policy is a 12 month policy. It will run for 12 months from the inception date of the policy. These four items usually drive premium generation for the new employer;
 - Remuneration. For our purposes in this discussion, your payroll.
 - Job classification. A classification of the work performed by your business.
 - Rate per 100. The rate per 100 or payroll for the job class assigned to your business.
 - Audit. Your workers compensation policy is an auditable policy. Any premium you pay at the beginning is only a deposit premium. After the end of your policy period the insurance company will audit your books and compare your actual exposure (payroll) base with that which the deposit premium was based on. If your actual exposure was higher they will send you a bill for the difference. If your actual exposure was lower they will return premium to you.
- **Find an Agent.** Take a little time to find an agent that is experienced with placing workers compensation coverage. Ideally you want an agent who works primarily in the commercial insurance arena, who has the experience in dealing with workers compensation and who has access to more than one insurance company. Get a referral from someone you know that runs a business. Once you choose your agent, they agent should place your workers compensation coverage with a reputable insurance company and help you work out any payment plans that you may need in order to budget your monthly expenses.

2. Develop Clear Job Descriptions

Your business will be classified into the descriptions that best match the type of the work being performed by your employees. In some cases, as with contracting, a business may have multiple job classifications. Of the 700 or so workers compensation classifications available for use, the governing classification of a business is the single workers compensation classification that applies to the majority of payroll and which may best represent an employers business. You'll depend a great deal on your agent to properly class your business operations. Be sure you ask to see the job class descriptions as generated from your regulatory authority and compare those to the job descriptions you have developed. If you are not comfortable with how your agent has classified your business, ask for justification and be sure to get it in writing.

So make sure you get the job descriptions right. Your premium will depend on the accuracy of these descriptions and the proper classification of your employees into those descriptions.

3. Accurately Project Your Payroll By Job Class

Keep in mind your premium calculation is based on payroll times the rate per 100 for the job classification in which your employees are assigned. Your "exposure basis" on a workers compensation policy is payroll so it's important that you project your job classification payrolls as accurately as possible. You also need to know that the payroll projection is for a 12 month period from when you begin your policy and that the policy period may not coordinate with the calendar year. When you begin a workers compensation policy the payroll projection you provide your agent will be used to set up your policy and calculate your "deposit premium." Remember, from above, a workers compensation policy is an auditable policy. Your final premium for the policy period will not be known until after the audit is complete and your account is balanced out. When you start a policy the premium you are paying is not your final premium!

So again, it's very important that you project your payroll as accurately as possible.

4. Monitor Your Payroll

Keep an eye on your payroll throughout the year. If you find that half way through your policy period your payroll seems to be exceeding your original projections contact your agent and ask them to adjust your payroll exposure. By being diligent with this you can help avoid an adverse workers compensation audit at the end of your policy period.

It's always better to make adjustments during your policy period rather than waiting until your audit.

5. Review Your Workers Compensation Audit

Employers lose thousands of premium dollars each year due to mistakes and errors made by insurance companies. Mistakes and errors occur in many different premium producing areas of the workers compensation process. Unfortunately most of these remain unknown to employers. Because of this, it's important that you verify all audits and review all premium calculations. It's the hidden or unknown overpayment that can hurt your bottom line.

Most employers are unfamiliar with the complicated calculations that make up their total workers compensation cost. Not just audits but all premium producing areas of a workers compensation program should be reviewed on an annual basis. Your review should include audits, job classifications, experience modification factors (if applicable), payroll, premium calculation, rate verification and premium credits. If you need help, seek out an independent professional workers compensation audit consulting firm.

Don't let an undiscovered mistake cost your business!

Armed with these simple tips, you'll be ahead of the game when it's time for you to buy your first workers compensation insurance policy. While workers compensation may be a mandated coverage, there are proven methods to help keep your cost in check. For the new employer the place to start is learning about the basics. Learn how your policy is priced and about those key elements driving your price. Most importantly learn that your workers compensation policy is not a fixed premium policy, but an auditable policy where the ultimate cost will not be determined until after the audit is complete. Hopefully I've been able to provide a little insight into these key elements for you, the new employer.

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