

WORKERS COMP EDUCATION SERIES

PART ONE: WHAT IS WORKERS COMPENSATION?

Workers Compensation (aka Workers Comp, aka Workman's Comp) is an insurance policy that protects employees from injury or illness suffered on the job. It provides coverage for medical expenses and wages for your employees for time lost due to a covered injury or sickness.

LET'S CLEAR UP SOME COMMON MISCONCEPTIONS: Workers Comp is not a tax. Workers Comp is not an automatically included deduction from your payroll.

Workers comp is an insurance policy that needs to be purchased independently from your other business insurance policies. In most states (including Pennsylvania and New Jersey) Workers Comp is required by law when you have employees.

OK. You now know what workers comp covers and that you have to have it. The next logical question is, "what's it going to cost me?" There are a couple of factors that we start with...

CLASSIFICATION AND PAYROLL (AND AUDIT)

These are the major things that effect the policy's premium. The classification is determined by reviewing the specific operations that your employees perform. There might be one workers comp class code that encompasses all the operations of all your employees, or there might be a number of different class codes.

Determining the classifications that are relevant to your business and what your employees do is where we come in. We work with you to determine what class or classes that would apply on your Workers Comp policy.

Each class code has a different rate that gets applied as a factor of payroll. We'll also work with you to determine how to best estimate what your payroll will be over the next 12 months.

AT THE START OF THE POLICY PERIOD, we use an *estimated* payroll to determine what your *estimated* policy premium will be. I say *estimated* because all workers comp premiums are subject to an annual audit in which there can be significant adjustments.

We'll go into detail in another post about what the audit is, how it works, and what you're required to do – for now, know that there are solutions to the annual audit and the uncertainty of pricing.

Once we get to this point, we can start working up pricing with the various carriers we work with – at least for most businesses. For some businesses, we may have to get more detailed information.

SOME EXAMPLES

If you're at all like me, I find that I often understand a topic better through an example, so I'll run through a couple here.

EXAMPLE ONE – SALES ORGANIZATION

In this example, we'll take a look at a professional office with two types of employees: the sales people who meet with clients and generate sales with at least part of their time outside the office; and the employees who work solely in the office providing administrative and organizational support. This type of business has two classifications for Workers Comp: Salespeople and Office/Clerical employees. Both of these classes are relatively inexpensive and a premium calculation might look like this:

Office Employees: \$250,000 (payroll) x 0.20% (rate) = \$500 (premium)

Sales Employees: \$500,000 (payroll) x 0.40% (rate) = \$2,000 (premium)

The total premium is estimated at \$2,500, which then gets subject to some additional taxes and fees that vary by state. You can see that Sales is a higher rate than Office. This is because sales people are more likely to get injured simply because they spend time in their cars and outside a professional office, which is generally a safe work environment.

EXAMPLE TWO – HOME REMODELING CONTRACTOR

In this example, we'll take a look at a company that does home remodeling work. Performing remodeling work in someone else's home is an inherently more dangerous workplace and is therefore subject to higher Workers Comp premiums; however, the underlying principals remain the same. In this example, we'll assume that there are again office and sales staff, but also employees that work in carpentry, plumbing and electrical wiring. A premium calculation for this type of business might look like this:

Office Employees:	$\$100,000$ (payroll) \times 0.20% (rate) = $\$200$ (premium)
Sales Employees:	$\$150,000$ (payroll) \times 0.40% (rate) = $\$600$ (premium)
Residential Carpentry:	$\$215,000$ (payroll) \times 13.00% (rate) = $\$27,950$ (premium)
Plumbing:	$\$87,000$ (payroll) \times 5.75% (rate) = $\$5,003$ (premium)
Electrical:	$\$112,000$ (payroll) \times 5.00% (rate) = $\$5,600$ (premium)

In comparison with Example One, the overall payroll here for all employees combined is less, but the premium is much higher. This is because of the greatly increased risk for serious injury, as well as the physical requirements for performing the work. One of the major costs of a Workers Comp claim is the lost wages that are payable to injured employees. For the same injury, it might be easier for an office employee to return to work doing normal job duties than it would be for a carpenter.

In the second example, the total premium based on these rates would be $\$39,353$; however, there are significant discounts that could get applied, such as a Premium Size Discount, an Experience Modification Rate, Construction Class Premium credits, as well as credits for a safety program.

LOOKING FOR MORE?

In later posts, we'll get into some of the details about complications to Workers Comp, additional rating factors that can be applied and how to take advantage of them, as well as some of the unique solutions we can offer. Any additional information we've published will be linked here as they get posted:

WHAT NOW?

For now – here's what to do:

If you have employees and don't have any Workers Comp coverage – or if you have Workers Comp and none of this has been explained to you before – call me (215-643-3490 x23) or email me (ryan@robertjstillwell.com) or click [HERE](#) to submit your contact info through our website and we'll get in touch with you soon.

With just a 5-minute conversation, we can get you on your way to getting covered. We also don't shy away from getting into details. If you have in-depth questions and want to go through your options in detail, we'd be happy to take the time with you to do that.