Advisory Service - De-Mystifying the Worker's Compensation Codes

By Lynda Artesani

Annually reviewing insurance costs is an easy way to lower some expenses for your client's firm. Understanding worker's compensation insurance and how it is calculated can be one way you can help your client lower costs and make you shine as their advisor.

While this insurance may be mandatory, how can we, as the accountant for the firm, lower the worker's compensation premiums? First, we need to understand how these rates are calculated:

Premium Calculation Understood

The calculation looks like this ~ Employee Classification Rate x Employer Payroll (per $100) x Experience Modification Rate = Workers Compensation Premium

Payroll

Payroll is a major part of the equation in the calculation of the worker's comp premium. The payroll total is divided by 100 and then multiplied by experience modification rate.

Included compensation

1. Gross wages
2. Commissions received by a worker
3. Bonuses
4. Vacation, holiday and sick pay
5. Overtime (but it is calculated as straight time)
6. Payments for profit sharing and incentive plans
7. Payments or allowances for tools that workers use to perform their job
8. The rental value of an apartment or rental, if provided to the employee as part of their compensation
9. Payments deducted from workers' gross pay, ie retirement or savings plans
10. Uninsured subcontractors for the time they worked on the job they were hired to do.

Excluded compensation

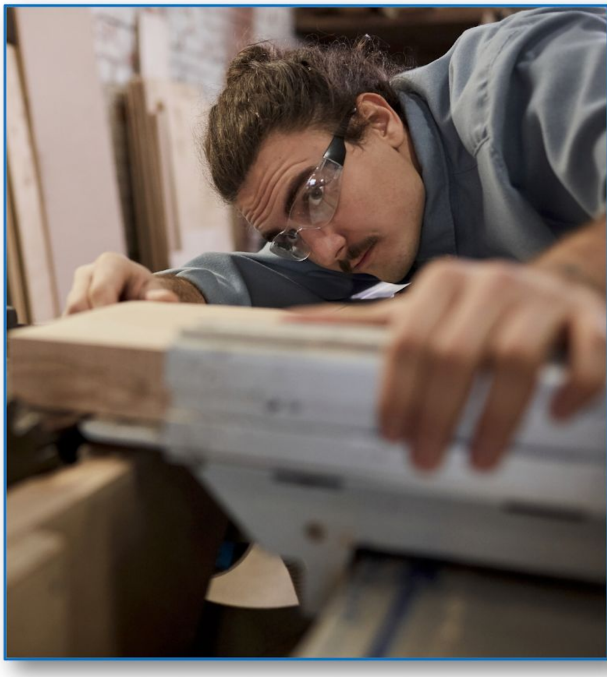
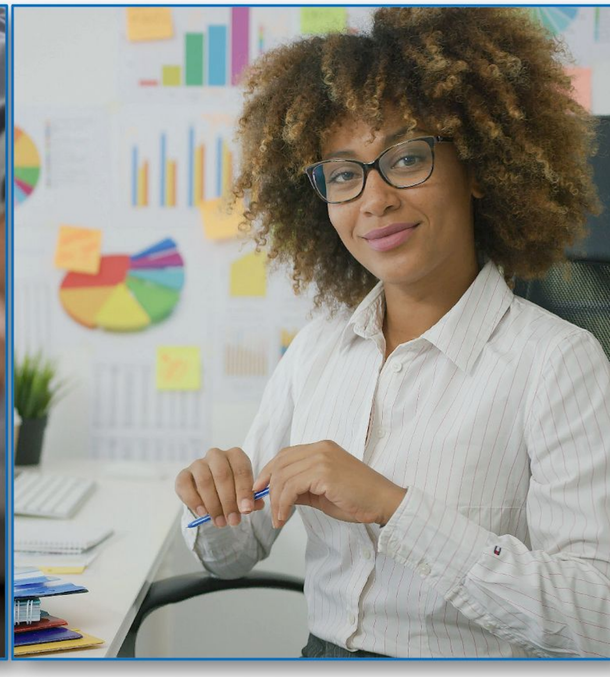
1. Tips
2. Severance pay
3. Reimbursed business expenses

4. Uniform allowances
5. Pay for active military duty

Classification Rates

Simple math will get you the calculation of the premium. In most states, the insurance company uses classification rates. A classification rate is assigned by a rating bureau; most commonly, that bureau is the National Council on Compensation Insurance (NCCI). In some states, it is defined by a state rating agency. This rate varies by state and occupation type. For example, a Carpentry - Interior Trim & Cabinet Work in the state of Florida has a rating of $6.91. This rate is assigned based on the risk of injury per job type. So an employee of a tree trimming company will have a much higher classification rate than an office clerk. The risk of injury for the office worker is much lower than an employee that has to use heavy equipment or climb ladders.

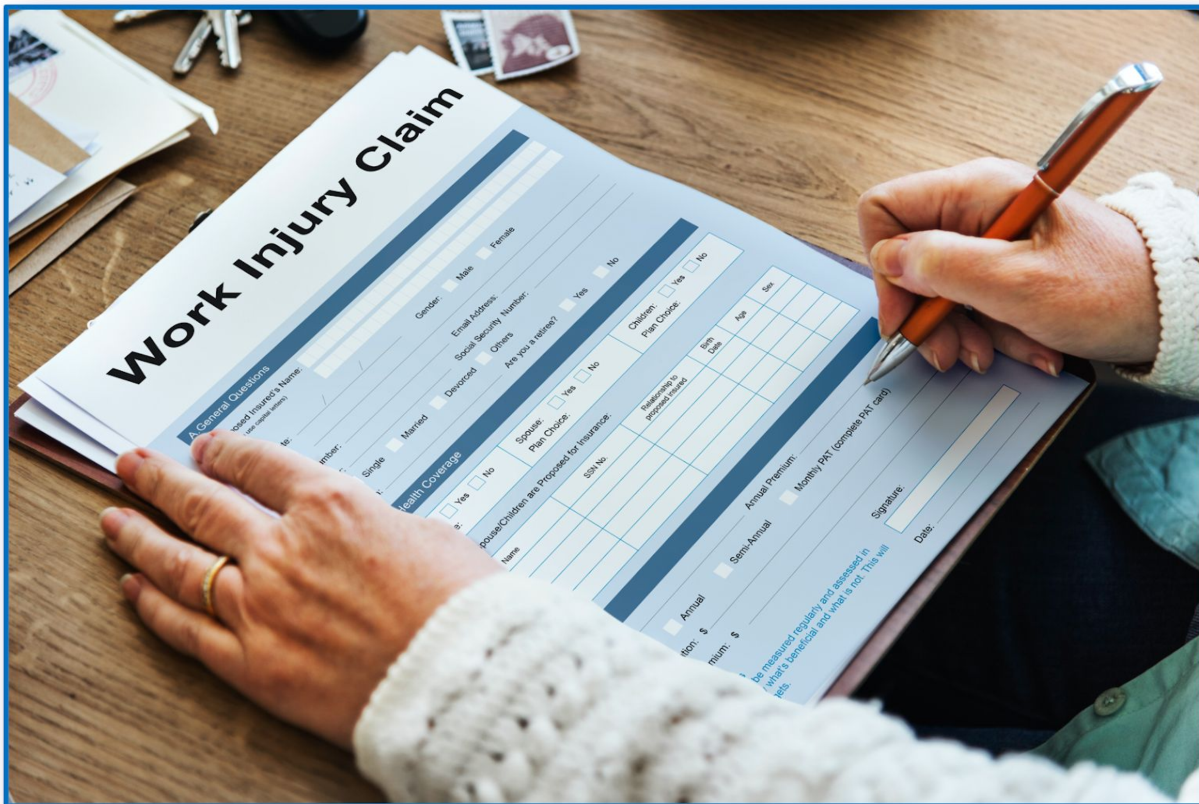
To provide advisory services, you can examine the client's job classifications on their worker's compensation policy. Start with having the employer define the employee's individual job description. Depending on your location, an employee can have more than one classification. With the assistance of the insurance agent, you can determine the correct classifications per employee. Making sure that each staff member's role has the right class code will help you ensure that your client is being charged the proper premium. Finding mistakes with misclassifications can make you the accountant superstar, especially if the classification means the client is overpaying for the employee's specific job.

The Experience Modification Rate

The experience modifier is also part of the calculation of the premium. I can remember the first time I opened this paperwork up from the insurance provider and thought, "how did they calculate this figure"? This rating is just a method for the insurance industry to rate a particular company. The number is based upon the company's prior experience with workers' compensation claims and uses the premise that the past will predict the future chances of a workers' compensation claim. It also is based upon industry. Carpenters are compared to other carpenters and office workers are compared to other office workers. The group is then averaged. The employer's loss is then compared to other group averages. If your client's firm has had fewer injuries than the norm, the experience modification rate will be less than 1.0. This experience modifier is then multiplied by the premium. Some rules vary state by state, and typically a business has to be in business for a specified time period, generally, three or more years before they get the experience modification rate.

Every year, this rating is sent to your client, and you can see how it was calculated. It will list the classification codes, the payroll, and any claim numbers and losses that were used in the calculation of the rate.



In Conclusion

Investigating all options and not just letting the policy rollover to a new policy period is the first step. Start looking at getting prices at least two months before the end of the current policy period.

Additionally, you should look into Intuit's offering through their payroll program, and AP Intego called PayAsYouGo (PAYG)as it has helped quite a few of my clients that had policies that were based on installments, including a substantial upfront deposit. PAYG has helped them pay when their employees are working, which provides for a more refined, accurate policy premium and a much smoother annual audit.

The best thing we can do as accountants is to become a partner with our client to help reduce costs. Once you know how workers' compensation premiums are calculated, you can assist the client in instituting a safety program that allowed for a sound reduction in the premium. This is what I call "advisory services." It is going above and beyond as an accountant to help your client. And there is nothing better than the smile on their face when they reduced their expense and provided a safer working environment for their employees. I call that a win-win!

Lynda Artesani is the president of Artesani Bookkeeping where she uses her expertise and organizational skills to help her small business clients grow their firms, thrive and become profitable. Her specialty is working with attorneys.

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