

The following article is the first of four by our Senior Vice President, Bill Stankevitz and was featured in the *Business Ledger* on Monday, February 8, 2010. For any follow up discussion or specific questions, feel free to post to his blog, "Insurance Answers for Business" at www.mysweethaven.com/blog.

Understanding workers' compensation (part I)

First Steps toward ensuring accurate workers' comp premiums

Editor's Note: This is the first of four consecutive articles by Bill Stankevitz on the topic of workers' compensation insurance. The remaining articles will be available in immediate upcoming issues, as well as online at www.thebusinessledger.com.

Since its inception in the early 1900s, workers' compensation insurance has been a way for people injured "on the job" to receive coverage for medical care, compensation for lost wages during recuperation, and settlement for permanent and temporary, full and partial disabilities as the result of those job related injuries.

By 1950 virtually every worker in the U.S. was required by state and federal law to be covered by workers' compensation insurance. Every state requires the insurance be purchased by the employer or the employer to meet the state requisites to self insure.

Some states operate their own exclusive monopolistic funds and are the only legal source of coverage, other states have competing funds which provide an option to private insurance, and the majority of states, like Illinois, require the insurance be purchased from an approved private insurance company.

The state laws have become so strict in recent years that many uninsured independent contractors, or 1099 workers, are deemed to be employees and must be insured by their employer. Their contract cost becomes the payroll basis for premiums.

Illinois has given approval to 374 insurance companies to write policies for businesses operating in this state. Compiling statistical information on types of businesses, specific job performance risks, historic losses and recommended rates has been outsourced to one organization, the National Council on Compensation Insurance (NCCI).

Every approved insurance company provides payroll and loss information on each policyholder to NCCI for tabulation of statistical information and calculation of recommended rates for each payroll classification. NCCI establishes the classifications and the recommended rates for each.

The bottom line is that the coverage is mandatory, covers virtually everyone, is potentially more volatile than health

insurance to the employer, is a huge component of most businesses insurance expense and has a rating system that contains more variables than any group health insurance policy. With so many variables, the potential for errors and overcharges are huge and are often never identified.

How important is accuracy?

There is an old adage that the devil is in the details. For workers' compensation calculations, this is especially true. For example, an employee making \$75,000 and performing work on metal goods can have a premium variance of over \$2,500 depending on the classification used and how the potential risk of injury is identified.

Even with an accurate classification, insurance company base rates often vary from company to company by as much as 15 percent to 20 percent. A high risk business that is forced to buy its insurance from the "assigned risk pool" could experience a rate differential of almost 40 percent.

A change of classification can be risky though, and it can be overturned if the NCCI and insurance company inspections do not concur with the new classification. In this case, utilizing the help of an experienced advisor is most important.

While multiplying rates by payroll to determine a base premium may sound simple, there are often errors in the identification of what is, and what is not, includable payroll. Premium pay for overtime, bonuses, maximum limitations and minimum imputed payroll levels for officers can all impact the cost and need for additional scrutiny to ensure accuracy. For any business, proper classification, proper rate and correct payroll are essential as the first steps in verifying proper premium cost.

Bill Stankevitz is a senior vice president of St. Charles-based Wine Sergi & Co, LLC. He has been an insurance broker, risk manager, underwriter and consultant for 45 years and has been involved with procurement and analysis of workers compensation insurance for companies of all sizes. For any follow up discussion or specific questions, feel free to post to his blog, "Insurance Answers for Business" at www.mysweethaven.com/blog.