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Workers' comp premiums rarely questioned, always paid

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Worker's compensation insurance premiums are sometimes a company's largest administration expense other than payroll. Sadly, it's one of the most confusing and difficult items for a business to control. If the phrase "workers' compensation" makes you cringe, you're not alone.

However, a lack of attention and understanding of workers' compensation premiums can be financially detrimental. An estimated 90 percent of all Colorado companies have overpaid on their workers' compensation and miscalculated their premiums.

The fact is, employees of insurance companies and insurance agents may only tell you what you need to know, not everything you should know. Therefore, it becomes your responsibility to ask the right questions to keep your workers' compensation costs to a minimum.

A basic understanding of workers' compensation premium calculations can help reduce your premium expenditures and identify areas where costly overcharges can occur.

Classifications or classification codes are applied to identify the type of work a company conducts. These classification codes may be based on industry, trade, service or process. In Colorado the classification system was developed and is maintained by the National Council on Compensation Insurance (NCCI). The NCCI is funded on a cost-for-service basis and provides the framework for workers' compensation pricing.

With more than 600 classification codes available, it is not uncommon to find a company that is misclassified. In most cases, a request for the classification description maintained by the NCCI can help a company identify if it is classified correctly. Even if a company has been classified under a certain code for a number of years, it is important to review the description of each

code annually since classification codes and their descriptions change frequently. A description of your classification code or codes is located in the manual issued by the NCCI and may be obtained from your agent or insurance carrier.

Workers' compensation premiums are determined by multiplying a company's payroll (less exclusions) by a rate for each classification of work performed. The rates applied for each classification (indicated as a dollar amount per \$100 of payroll) vary with each insurance carrier. Also, due to the different exposures to injury, rates applied to each classification code vary from year to year. For example, the rate for a roofing contractor will be higher than a retail store operation due to the differing risks of injury associated with these businesses.

All payroll records should be detailed to reflect the correct classification code for each employee, with special attention to how the payroll is calculated upon the annual audit. A common error involving payroll occurs in the assignment of overtime pay.

Overtime is usually reflected as time-and-a-half or double time of the normal hourly rate. According to the NCCI rules and regulations, this "premium" portion of overtime pay is not to be included as payroll for workers' compensation premium calculations. To eliminate this potential overcharge, it is recommended that you obtain a copy of the auditor's worksheet upon completion of the annual audit. With the worksheet in hand, you can verify if the payroll for each classification code was applied correctly.

Claims reduction and loss control are also two factors that greatly affect the amount a company will pay for its workers' compensation coverage. If a company controls its claims, it will ultimately reduce the amount it pays for its workers' compensation coverage.

The first step in controlling losses is to be certain all employees are aware of the

company's claims reporting policy and that all employees understand that even though workers' compensation insurance covers the costs of medical treatment, lost-time benefits, etc., the company pays for the claims through higher premiums.

Another means of controlling losses is through mandatory safety meetings. These meetings should be held to distribute information on safety procedures and precautions. In some cases, employers encourage job safety by providing incentives for a loss-free environment. However, an employer must balance this type of program with the need to have its employees report all work-related injuries immediately.

In Colorado, companies can also reduce their workers' compensation premiums by conforming to the guidelines established within the Colorado Cost Containment Program administered by the Colorado Department of Labor and Employment. The guidelines require a several-step process that includes appointing a safety committee and conducting safety meetings.

Another important aspect in claims management is managed care. In a managed-care system, the employer selects a designated provider from a network of medical providers. Except in an emergency, all injured employees must see the designated provider in case of a workplace injury. A managed-care program helps prevent fraudulent claims and controls the costs for medical treatment. In Colorado, insurance companies are required to provide a discount on your workers' compensation premium if you agree to participate in a managed-care program.

Gregg Schiff is vice president of Workers' Compensation Services Inc., an independent review company specializing in recovering workers' compensation premium overcharges and providing cost-saving recommendations on a contingency fee basis. Contact him at 800-530-8657 or visit the Web site at www.workcompaudit.com.