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Workers' Compensation

Reduce costs by spotting workers' comp overcharges

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There are three definites for an American business: payroll, taxes and workers' compensation insurance. Let's face it, workers' compensation insurance is a necessary evil. However, just because the law requires it, doesn't mean you need to overpay for premiums.

Studies show that roughly 90 percent of Colorado businesses reviewed are overcharged for their premiums. In fact, most businesses don't ever realize that they have been overcharged. The easiest way to review your records for overcharges is to contact an independent review company. This would be a company that is not affiliated with your insurance agent or insurance carrier, but will analyze the premium calculations from your point of view, in complete confidence.

In the meantime, the following suggestions can help you lower your workers' compensation premium costs and limit your exposure to workers' compensation premium overcharges:

Step 1 -- Locate copies of your workers' compensation policy information.

You should go back at least five, if not seven years. These items would include: proposals for insurance/renewal billing statements, audit billing statements, NCCI (National Council on Compensation Insurance) experience rating worksheets, auditor's worksheets and loss history summaries. Some of these items may not be in your files; they can, however, be requested from your insurance agent or carrier. There are some statute of limitations on specific recoveries, but for the most part, if an error is located, the insurance company must make the correction and provide you with a refund.

Step 2 -- Review your experience rating calculations.

Experience rating modifications are calculated based upon your audited payroll and losses for a period of three years. One misconception is that the experience rating factor compares a company's past premiums with past losses. Rather, it essentially compares the loss data of your company to average loss data for all other employers in your state that share the same classification codes.

Each year, the oldest policy year is eliminated from the calculation and a new policy year of payroll and loss data is included. Although there are certain factors in the calculation that cannot be verified without the NCCI tables, you can verify payroll and loss information indicated in the calculation with copies of your audit billing statements and loss history summaries that was accumulated per Step 1. Since the experience rating is calculated based on data reported to the NCCI by your past insurance carriers, incorrect or incomplete data can cause incorrect experience ratings. If payroll is revised on a final audit, often the insurance carrier will fail to submit the corrected payroll amount to the NCCI. Again, this can affect your experience modification calculation.

Step 3 -- Review the auditor's worksheets.

The auditor's worksheet is a critical document as the information gathered will have an impact on your final premium and can also affect your experience rating. Oftentimes many forms of compensation including tips, premium overtime and severance pay are included when they are actually excludable for workers' compensation premium calculation purposes. In addition, it is necessary to verify that the payroll for each classification is correct and the payroll figures have not been transposed or placed within the wrong classification. Since your agent does not receive a copy of the worksheet, you should request a copy from the auditor and review the payroll calculations. Don't think that just because you received a refund (or paid a small audit additional), that the audit is correct.

Step 4 -- Verify classifications.

There are more than 700 basic classification codes and several "state special" classification codes located in the NCCI Workers' Compensation Manual. Classifications change constantly and lower-rated classification codes are created. Often, the insured is not informed of changes that would reduce premium costs.

Step 5 -- Hire an independent consultant.

The consultant will review your records, locate the overcharges, and will assist you in obtaining your refund(s). There is no out-of-pocket expense for the independent consultants' services as they earn a percentage of your refund.