



**WORKERS' COMP
TRAINING CENTER**

How to Properly Classify Employees to Pay the Least Workers' Comp Premium

Introduction: (5 minutes)

- Welcome to WC Mastery training
 - 2 sides of workers' comp cost, premium & injury management
 - Can be master of injury management, and still pay too much for work comp
- Introduce 3 Main Points:
 - Why Properly Classifying is Important
 - The Step by Step Process to Properly Classify Employees
 - Putting This Into Practice

Main Point #1: Why Properly Classifying is Important (10 minutes)

- How premiums are calculated
 - $\text{Payroll} \times \text{Rate} \times \text{Exp Mod} \times \text{Adjustments} = \text{Premium} + \text{Losses (high deduct)}$
= Total WC Cost
 - Adjustments: schedule credits/debits, premium discounts, other credits drug-free, etc.; or deductible discount
 - Injury management focuses on Losses, Adjustments, & Impact on Exp Mod
 - Calculations points to note:
 - Exp Mod impact.
 - Takes into account Expected Losses, lower rated class can backfire
 - Renumeration:
 - Technical term for employee compensation
 - Includes payroll AND others like:
 - Rental value of house
 - Value of store certificate



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- Where whole system starts
 - What can I do NOW?
- How Common Are Errors?
 - Examples of financial impact
 - Impacts small and large companies
 - Moving Company example of overtime
 - Opportunities:
 - Incorrect Class Code
 - \$15 per \$100 of payroll vs \$10 per \$100 of payroll
 - Clerical vs Governing Class
 - .83 per \$100 of payroll vs \$10 per \$100 of payroll
 - Differences can sometimes be subtle
 - Changing where someone works or how do something can make a difference
 - Inflated payroll
 - Overtime = 33% reduction
 - Double-time = 50% reduction
 - Severance = 100% reduction
 - Large bill after audit from doing it wrong at beginning



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Main Point #2: The Step by Step Process to Properly Classify Employees (35 minutes)

- Premium Audit Process
 - Not new to this
 - Prepare audit before the audit happens, learn how whole process works
- Step by Step Process.
 - **Step #1: Start With A Spreadsheet**
 - List everyone - know their title & what codes they go under, can organize by department
 - **Step #2: Understand Payroll Deductions in your State**
 - Big 3:
 - Overtime, Double-time, Severance
 - Premium portion of overtime
 - \$15/hr regular
 - \$22.50/hr overtime
 - \$30/hr double-time
 - **Trying to get the most accurate assessment of your risk**
 - Others:
 - Officer excess (not everyone is an officer)
 - Minimum & Maximum amounts
 - Exp. \$25k min; \$125k max
 - Uniform allowances
 - Gratuities
 - Employer provided perks
 - Bonuses – certain states
 - **If you do not show the auditor, you can't deduct**



- Reference
 - NCCI Basic Manual for Workers' Compensation
 - Scopes Manual
 - Ask your broker
 - Ask your premium auditor
 - Ask the audit manager
 - “Are there any other deductions I need to know about?”
 - Call NCCI help line
- Independent / Subcontractors
 - Need certificates of insurance to exclude payroll
 - Call up and validate to avoid fake certs
 - make sure endorsed on policy
 - Separate labor and material costs for ICs on your payroll
 - If including, price into job & document
 - Keep a copy of invoice and put in audit file
 - Exp. \$20k job
 - \$10k labor
 - \$10k materials
 - If don't document, materials will be included
- **Step #3: Understand Classification Rules**
 - Standard exceptions
 - Pyramid example
 - Clerical
 - Outside Sales
 - Drivers
 - Governing Class
 - **No “mostly” does xyz; what else besides that?**
 - **If do different work just once/year then drop down**
 - More than One Governing Class



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- Each separate legal entity
- Types of businesses:
 - Construction & Farming
 - Each separate job
 - Exp. Painting, Framing, Hay, Crops, Cows, etc.
 - Employee Leasing
 - Classified same as direct employee
 - keep payroll records from start every pay period – leverage technology
- Tend to default to lower class, actually default to higher class
 - Can make big impact on premium if reallocated payroll at audit
 - “reallocation of payroll”
- **Classify based on business operations, not individual employee tasks**
 - exp. Janitor at manufacturing company; doesn't go under janitor
 - Rate considers various tasks within operation
- **Step #4: Verify accuracy of class codes in your business**
 - Don't need to be expert on all codes, but do need to review those that apply to your business
 - Ask broker for code description from basic manual
 - **Read your one code, does it sound right?**
 - Scopes Manual vs Basic Manual
 - Obtain Last Year's Audit - Comes down to SMELL Test
 - If doesn't make sense, ASK QUESTIONS
 - Goal is tight relationship with broker / carrier
 - Claims handling partnership
 - More work on front end, easier in future years



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- Contact broker
- Contact auditor
 - Make support their answer
- Contact audit manager
- State department of insurance, NCCI help line
- NCCI inspection – starts around \$300
- Litigation
- Other:
 - Talk with competitors
 - Industry associations
- Service Audit
 - Sample audit mid-year
 - No money on the table
 - Helps to prepare correctly for end of year audit
- Common mistakes:
 - “this is how we’ve always done it”
 - Just copy prior policy
 - Employer operations changed, class code didn’t
 - Code correct in one state, wrong in another
 - Miscellaneous employees that don’t exactly fit into one code
- **Step #5: Fine tune rules & class codes tailored to your business**
 - Escalation protocol:
 - Case specific / Difficult cases
 - Broker
 - Auditor
 - Audit Manager
 - NCCI Help Line
 - NCCI Inspection
 - Litigation / Expert Witness
 - Combine / eliminate job functions to fall into higher class code



- Clerical can't touch machine, he is making \$80k in payroll
- Class Code Nitty Gritty
 - Company makes printer you can plug into the wall;
 - Asked questions, inspected, wrote report
 - Every company changed code
 - If no conversation, never would get there

Main Point #3: Putting This Into Practice (10 Minutes)

- Biggest Mistake
 - “I just didn't know”
 - “We had no idea”
- **Prepare Throughout the Year**
 - Make it easy on yourself
- Resources to Leverage:
 - Relationship with premium auditor from beginning
 - Service audit – 2 month sample during start of policy period
- Prepare For Premium Audit
 - Within 3 months after renewal
 - Prepare 30-60 days prior & gather:
 - Auditors report from previous audits
 - Payroll records
 - Payroll tax returns
 - Certificates of insurance
 - Invoices showing breakdown of materials & labor for subs
 - Can auditor easily determine payroll exclusions (must provide)
 - Overtime, double-time, severance
 - Separation of payroll
 - Executive officers
 - Certificates of Insurance
 - Summarize:
 - Class codes



- Document WHY if any changes
 - Excluded remuneration
 - Copies of Certificates
 - Copies of Materials & Labor invoices
- A Word on Rebate Companies
 - First work through claims partnership relationship
 - Not recommended when good relationship
 - Large deductible – many factors determine premium
 - Useful when relationship not working