

Three Tips to Prevent a Massive Workers Comp Audit

Audit is a dirty word. For most people, it carries a negative connotation because of the horror stories we hear from friends, from work contacts, and in the news media. In insurance, an audit is simply a review of the policy and policy premiums to establish if the risk presented at the start of the policy period is in-line with the actual risk experienced. For a workers compensation insurance policy, an audit is performed to assess the risk of providing insurance coverage for the employees of a company and the risk of injury associated in their profession. The horror typically is experienced when the estimated risk and the actual risk of the insurance coverage doesn't sync, which can result in huge changes to your insurance premium.

Here are a few practices you can adopt in your business to make sure you don't get stuck with a massive audit bill.

Make Sure You're Periodically Reviewing and Reporting Payroll

Depending on how your workers compensation policy is structured, you may be reporting your payroll to your workers compensation carrier everytime you run payroll or only at the end of your policy term. If you have your workers compensation policy integrated with a payroll company such as ADP, your payroll is already being reported each time you're processing paychecks. If your payroll isn't consistent, or you're not setup with a payroll company, make your you're reviewing your payroll at least once a quarter to see if it is in line with your estimated payroll when starting the policy. If it's not, this is a huge red flag that a correction will be made at audit.

Let's look at an example. You started a workers compensation policy with an estimated \$100,000 payroll for a 12 month period, and are paying a set premium monthly. But your business is growing and you had to hire some more employees. After six months, you realize your payroll for the year is closer to \$200,000, \$100,000 higher than your beginning estimate. Since you're making a set payment based on the original payroll estimate, there will be additional premium due to the carrier on the increased payroll. Being proactive and notifying your broker of the increase means that additional premium can be added to each monthly payment rather than as a lump sum at the end of the policy period.

Hiring a new employee is a great time to re-evaluate your business insurance and report changes in payroll to your workers compensation carrier. A new employee invariably means an increase in your employee payroll totals. Keeping your insurance carrier up to date with the latest annual payroll estimates will make sure your end of year totals are in-line with estimates.

Classify Your Employees With The Appropriate Class Code

A class code is a numerical identifier that corresponds to the operations performed by each employee, and each carrier assigns their own rate to each class code. Your workers compensation

premium is calculated from the rate of your list of class codes and how much payroll is estimated within each class. Clerical employees, or office staff, are assigned class code 8810 and have a rate with AmGUARD Insurance of .54 in California (the rate will vary by state). To calculate your payroll premium, you would multiply this rate by your estimated payroll for your office staff.

Classifying your employees with the appropriate class code is incredibly important because you will be paying that class codes rate within your workers compensation premium. However, if operations of your employees fall outside of that class code, an auditor will assign a different class code to those outside operations and assign the appropriate amount of payroll based on how much work was performed. If that new class code has a higher rate than your original class code, you may be looking at a hefty bill. Also, if the different operations are not tracked, an auditor will have to assume the highest rated class code for all work, meaning you may be paying much more than you need to be.

Let's look an example of this within the construction industry. You've hired some employees to perform painting on your residential remodel projects. But they routinely help out with flooring, cabinet installations, and running electrical while their paint is drying. An auditor will likely reclassify your employees class code to general carpentry. A painting class code of 5454 carries a rate around 16.00, whereas a general carpentry class code of 5403 has a rate around 23.50. Since the correct class code was not assigned, that additional policy premium will be coming due at audit.

Not sure if your employees are correctly classified? Review your workers compensation policy with an agent today.

Double Check That Your Subcontractors Have Workers Compensation Insurance

One of the biggest reasons for receiving a massive workers compensation audit bill actually doesn't concern employees, but rather, subcontractors. Subcontractors differ from employees because these are the key guys (and gals) who have the specific training and know-how for those specialized tasks of your project, yet operate under their own business umbrella. Before you let a subcontractor onto your jobsite, make sure they provide you with a certificate of insurance showing proof of workers compensation. A certificate with workers comp listed is one of the things you should be collected from your subcontractors because it is a requirement from your own workers compensation carrier.

If a subcontractor is hired by your company, and that subcontractor doesn't have their own workers compensation policy in place for their company, your carrier will automatically assume the risk and provide coverage should a work-related injury occur. This scenario is bad for you in two ways: it leaves your policy open to a claim, and it may result in a heavy premium increase. The increase in the risk assumed by the carrier has to be paid for somehow, and that somehow is by increasing your workers compensation premium. In short, collecting a certificate at the start of their work is a lot easier than writing an unexpected check when the work is complete.

If you feel you may be at risk of a huge workers compensation audit, the first thing to do is review. Discuss your concerns with your independent insurance agent.