

WORK COMP INSIGHTS

Controlling Premium Audits to Eliminate Overcharges

Due to the volume of requests they receive, insurance companies have developed a very efficient premium audit process. While they strive to be as accurate as possible, they don't have the time or resources to investigate and resolve every possible error or ambiguity that presents itself. As a result, your company may experience multiple, unintentional overcharges. If you know the rules, you can take control of the process by anticipating and preparing the exact information your insurance company needs to prevent inadvertent overcharges, saving your company money in the process.

Creating an Accurate Premium Audit Package

To prevent overcharges, you need to take control of the process and create an "overcharge-proof" premium audit package that will give the auditor complete and accurate information to work with.

To begin, you will need to collect the following source material:

- Payroll records (employee specific)
- Unemployment tax return
- 1040 Schedule C (if you are a sole proprietor)
- Federal and state payroll tax reports (940s and 941s)
- General ledger, subcontractor ledgers and journals (or 1099s)
- Certificates of insurance from subcontractors
- Your workers' compensation insurance package

Properly Classify Employees

Your business should have one primary classification. Outside sales, clerical employees and, in some states, drivers need to be classified with a separate code. Any

items the auditor cannot classify quickly with a lower-rated code remain in the governing code. This may result in charges due to the improper classification of employees who should be in standard class exemption groups (clerical, outside sales) common to all industries. This may also affect employees who could be considered for a lower industry code (manufacturing, retail and wholesale are examples of industries with multiple class codes). Auditors may also accidentally include corporate officers, who should be excluded, or may not remove excluded remunerations that should be deducted from payroll before calculating your premium liability.

If you have questions, consult the NCCI Scopes Manual; it has detailed job descriptions for most states.

Excluded Remunerations

Certain forms of compensation are not used to determine workers' compensation premium. Tips are an example of this. Allowable exclusions differ from state to state, but typically fall within 18-20 categories. Once you've added up all the excluded remunerations (by employee code), make sure to deduct them from your reported payroll.

Subcontractors

It is recommended that you only use employee-insured subcontractors, requiring them to present relevant certificates of insurance before commencing work. Provide these certificates to the auditor in order to save on premium. If you do utilize uninsured subcontractors, they must be treated like employees for workers' compensation purposes. In these cases be sure you report only their payroll to the auditor (excluding the cost of materials or other supplies that a contractor may be charging to you).

**By controlling the information used
in the audit process, you can
eliminate the possibility that
overcharges will lead to higher
premium rates.**

