



Property & Casualty Glossary of Terms

Agent

An insurance agent represents the insurance company and can enter into contractual obligations on the insurance company's behalf.

Insurance agents are licensed by each individual state. They must conform to the state requirements for licensing and in most cases participate in continuing education.

All States Coverage

Coverage provided for an insured traveling through or temporarily working in a state other than the primary location.

Anniversary Rating Date

The month and day that manual rules, rates and the experience modifier apply to a workers' comp. policy. It is usually the policy effective date and each renewal date after the policy inception. It may be a different date if the policy has been issued for a different term from the normal anniversary date. This may occur if the policy is cancelled mid-term and re-written to the same or other carrier.

Assigned Risk Plan (Pool)

Sometimes called the Pool. The Assigned Risk Plan was established by individual states to make sure employers can obtain workers' compensation insurance even if standard market insurance companies are not willing to provide coverage for their business. Assigned Risk Plan rates are generally higher than those for the same classification codes in the standard market. Assigned Risk Plans are generally the market of last resort for many states.

Audit

The act of inspecting accounting books, electronic accounts and appropriate tax records to determine the actual exposures that occurred during a specific time period (policy period) in order to develop the correct premium.

Business Owners Policy (BOP)

This represents a package policy of coverage needed to protect the assets of a business. A package policy typically consists of:

Property Insurance- Includes coverage for leased or owned structures/permanently attached equipment, coverage for personal property of the business, and business interruption insurance that may result in lost profits.

Business Liability-

General Liability- Protection from third-party claims for property damage or bodily injury due to operations on the premises, completed operations and/or products liability. Protection from claims including coverage for legal defense costs.



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A BOP can be tailored to the needs of the business owner. Because all businesses have varied needs, the Insured can add coverage specific to their needs such as Outdoor Signage, Equipment Breakdown, Computers and Media, Employee Dishonesty, just to name a few.

Cancellation

The act of terminating a workers' comp insurance policy before its normal expiration date. The cancellation can be requested by the policyholder or by the company under certain circumstances.

Casual Labor

Work that is not in the usual course of trade, business, occupation or profession of the employer (contracting party). The contractors hired are not performing duties that would normally be done by any employee; they are doing work outside the normal operational requirements.

Certificate of Insurance

A Certificate of Insurance (COI) is an informational document that provides details about insurance coverage to someone who has asked for that information to be provided.

Certificates are provided either by the insurance company who issued the policy or by an insurance agency who represents the insurance company and issues the document on behalf of the insurance company.

Classification Code

Each specific job is assigned a four-digit number which is then used throughout the workers' compensation system. These systems of codes are known as classification codes. Classification codes are a primary part of the workers' compensation pricing mechanism. Each workers' comp code has its own rate for the purpose of calculating premium on a policy. Rating authority inspections, such as the NCCI play an important role in proper classification.

Coming and Going Rule

Injury suffered traveling to or home from work or even while going to and returning from lunch is generally not compensable. The logic behind the rule is that the employee is not furthering the employer's interest or serving the business' needs.

Competitive State Fund

A competitive state fund is a state-owned and operated fund that provides workers' compensation insurance to employers who operate within that state. Some states operate a state workers' compensation insurance fund in direct competition with private insurance carriers. Employers in these states can choose to purchase their workers' compensation coverage from the state fund or

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a private insurer. State funds are typically formed with the help of the state legislature who establishes the fund and provides initial startup capital and brings in startup management.

At the time this page was produced there were 20 competitive state funds in operation. Here's a list of those states and the name of their funds:

- Arizona - State Compensation Fund
- California - State Compensation Insurance Fund
- Colorado - Pinnacol Assurance
- Hawaii - Hawaii Employers Mutual Insurance Company
- Idaho - State Insurance Fund
- Kentucky - Kentucky Employers Mutual Insurance Authority
- Louisiana - Louisiana Workers' Compensation Council
- Maine - Maine Employers Mutual Insurance Company
- Maryland - Injured Workers' Insurance Fund
- Minnesota - State Fund Mutual Insurance Company
- Missouri - Missouri Employers Mutual Insurance Company
- Montana - Montana State Fund
- New Mexico - New Mexico Mutual Casualty Company
- New York - The State Insurance Fund
- Oklahoma - CompSource Oklahoma
- Oregon - SAIF Corporation
- Pennsylvania - State Workmens Insurance Fund
- Rhode Island - The Beacon Mutual Insurance Company
- Texas - Texas Mutual Insurance Company
- Utah - Workers' Compensation Fund of Utah

Deposit Premium

The amount of workers' compensation premium an employer pays at the beginning of the workers' compensation policy period. It can be a percentage of the estimated annual premium or for smaller premiums it can be the entire estimated annual premium.

Employee

A person hired to perform services or tasks for particular wages or salary under the control of another (the employer); or a workers' hired to perform a specific job usual and customary to the employer's business operation in exchange for money or other remuneration. Employees are referred to as W-2 employees referring to the fact that the employer is responsible for giving them a W-2 form for payroll taxes.

ERM 14 Form

The ERM 14 - Confidential Request for Ownership Information Form is a workers' compensation form developed by NCCI, the National Council on Compensation Insurance, to report changes in ownership. It asks for detailed



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information about changes in ownership.

Expense Constant

The expense constant is a policy fee that is charged on all workers' compensation policies. It is designed to compensate an insurance company for the basic costs of administering the policy. It is applied to all workers' compensation policies without consideration of size or amount of premium paid.

Experience Modification Rate (EMR or EMOD or XMOD)

The Experience Modification Rate or EMR is a rating factor applied to all experience rated workers' compensation policies. The calculation includes premium and losses over a 3 year period (not including the current term) and modifies the premium based on the experience relative to other like quality businesses.

In simple terms, the formula is designed to compare a specific employer's historical claim and payroll data to other employers with similar business operations. It is the mechanism used to adjust workers' compensation premium an employer pays based on the comparison of their expected losses to actual losses incurred during the experience period.

General Contractor

An individual or entity with whom the principal/owner of a business directly contracts to perform specified jobs. Some or all of the enumerated tasks are subsequently contracted to other entities (subcontractors) for performance. Three parties are required before any entity is considered a general contractor: a principal, an independent contractor, and a subcontractor hired by the independent contractor.

General Inclusion Classifications

Some activities are considered to be an integral part of the business' operations thus the payroll of the individuals engaged in these activities is included in the governing classification. These activities include: 1) Employees that work in a restaurant, cafeteria or commissary run by the business for use by the employees (this does not apply to such establishments at construction sites); 2) Employees manufacturing containers such as boxes, bags, can or cartons for the employer's use in shipping its own products; 3) Staff working in hospitals or medical facilities operated by the employer for use by the employees; 4) Maintenance or repair shop employees; and 5) Printing or lithography employees engaged in printing for the employer's own products.

Ghost Policy

A "ghost" policy is a workers' compensation policy written for a business with no employees and which does not extend coverage to the business' owner(s).



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Independent Contractor

An entity or individual who performs specific work for another but does not fall under the direct supervision or management and is not an employee of the person or organization who contracted for their services.

Loss Runs or Loss History

Loss runs or loss history come from an employer's insurance company. If you need copies of your loss history, make a request to either your insurance agent or directly to your insurance company. When asking for loss runs, an employer should be sure to contact each insurance company where they had workers' compensation coverage for at least the last three years, five years would be better. This request should always be made in written form for documentation purposes.

Merit Rating

An adjustment to the workers' compensation premium for some employers who are too small to qualify for an experience modification.

Minimum Premium

The lowest amount at which an insurance company is willing to provide a workers' compensation policy. Each insurer offering workers' comp in any specific state will file their minimum premiums with the governing authority of that state.

Monopolistic States

Monopolistic States have special legislation that requires Workers' Compensation Coverage be provided exclusively by that State's Designated Workers' Compensation program. Insurance through private insurance companies is not allowed. There is no open market within the monopolistic states. Four monopolistic states are still in operation: North Dakota, Ohio, Washington and Wyoming. Employers' liability coverage is not offered by these states and this coverage must be procured by alternate means.

Named Insured

The named insured may be an individual, a partnership, a corporation, a LLC, a trust or some other legally recognized entity who has an insurable interest in the focus of the insurance policy.

The Named Insured on the policy must reflect the legal business name associated with the Federal ID of the business.

NCCI – National Council on Compensation Insurance

National Council on Compensation Insurance, Inc., based in Boca Raton, FL, manages the nation's largest database of workers' compensation insurance information. NCCI analyzes industry trends, prepares workers' compensation insurance rate recommendations, determines the cost of proposed legislation, and provides a variety of services and tools to maintain a healthy workers'

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compensation system. NCCI gathers specific information, calculates and issues experience modification (e-mod) factors for all employers within the states governed by NCCI.

Occupational Disease

Illness directly attributable to work conditions and exposures; such injury or illness must arise out of and in the course and scope of employment. To be considered "occupational" and therefore compensable, the disease must arise out of or be caused by conditions peculiar to the work.

Overtime

The wage increment paid to employees for working in excess of a set limit. Eight hours per day and forty hours per week is the standard for regular time. Overtime excess is not calculated in the workers' compensation definition of payroll.

Permanent Partial Disability

The employee has suffered an injury from which he will never recover, but one that will not prevent him from returning to some type of work. Amputation of a finger or leg, the loss of an eye or ear are examples of this injury classification.

Permanent Total Disability

Recovery is not predicted; the employee is not expected to ever be able to return to work. Full paralysis, total blindness and total loss of hearing are examples of such an injury.

Remuneration & Payroll

From a workers' compensation perspective remuneration is the exposure basis used in the premium calculation process.

According to NCCI rules, remuneration means money or a substitute for money and includes:

- Payroll - wages and salaries;
- Commissions and draws against commissions;
- Bonuses
- Extra pay for overtime as defined and outlined in their rule V-E;
- Holiday, vacation and sick pay;
- Payment by employer into statutory insurance and/or pension plans
- Payment for piecework, profit sharing or other incentive plans;
- Payment, compensation or allowance for tools used in work;
- Value of rental of apartment or house, provided for an employee;
- Value of other lodging an employee receives as part of their pay;
- Value of meals to employees as part of their pay;
- Value of store certificates, credits or merchandise or other money substitutes received as part of pay;



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- Payments for salary reduction, employee savings plans etc. as made through employee authorized salary reduction;
- Davis-Bacon pay or pay from other prevailing wage law;
- Annuity plans;
- Expense reimbursement to employees where employer records do not indicate a valid business expense.

Standard Exception Classifications

Some duties/activities are considered so common to most business and/or such duties may be so far outside the operational activities of the business that employees engaged in these activities are considered exceptions to the governing classification rules. Payroll for these "standard exception" classes of employees is subtracted from the governing classification and assigned to the applicable standard exception code and rated separately from the governing class. The standard exception classes include: 1) Clerical Employees- Class Code 8810; 2) Clerical Telecommuter - Class Code 8871; 3) Drafting Employees - Class Code 8810; 4) Salespersons - Class Code 8742; and 5) Drivers - Class Code 7380. Standard exception classifications are not necessarily limited to these five class codes; some states utilize state-specific class codes that are also eligible for assignment as a standard exception.

Subcontractor

An individual or business contracting to perform part of or all of another's contract.

Subrogation

Individuals or entities suffering injury and/or damage due to the acts of another person or entity have the right to recover costs and expenses from the at-fault party. If, however, the injured party chooses to seek reimbursement from its own insurance carrier, the rights of the injured party are transferred to the insurance carrier. Subrogation rights for the insurance carrier flow from the right of its insured to recover payment. If the insured does not have the right to recover payment, neither does its insurance carrier. Contractual risk transfer provisions often limit the rights of one party to recover from another party for injury or damage. When the right of the insured to recover is waived via a contract, lost is the insurer's right to subrogate.

Temporary Partial Disability

An injury from which the employee is expected to completely recover in some period of time with little or no long-term effects. A broken arm is a good example if this type of injury. Employees suffering temporary partial injuries can generally return to work under "light-duty" assignments until the "temporary" condition heals.

Temporary Total Disability

A full recovery from the injury is expected, but for a period of time the employee



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is completely unable to work due to the injury. These types of injuries might require bed rest or hospitalization while the employee recovers.

Workers' Compensation Insurance

Insurance that covers an employer's responsibility as determined by state workers' compensation laws. The coverage includes medical benefits, indemnity benefits, such as total or partial disability, vocational rehabilitation benefits and death benefits from work related injuries or sicknesses and satisfies the State requirements for coverage.

Employers who do not comply with the State law are subject to fines that can also include closing the business until coverage is obtained. In most States, employers with one or more employees are obligated to have this coverage. The exception States allow a business to elect to obtain coverage if they have less than the specified number of employees. These include:

- Alabama – less than 5
- Mississippi – less than 5
- Missouri – less than 5 unless in contracting class
- Tennessee – less than 5 unless in contracting class
- Florida – less than 4 unless in contracting class
- South Carolina – less than 4
- Michigan – less than 3
- New Mexico – less than 3 unless in contracting class
- North Carolina – less than 3
- Virginia – less than 3
- Texas – elective for all employers

It is important to note that while a state says the policy is elective, the employer will retain the responsibility of paying for the medical and indemnity aspects of work related injuries. Therefore if the employer does not carry the coverage, they will have exposure for paying for any losses.

This informational is general and not intended as insurance, tax or legal advice. The terms of any in force insurance policy and the rules and laws of the state shall govern a specific situation. If you need information on how these terms may apply to your business, please consult with a licensed insurance professional, financial or tax advisor or legal counsel. Automatic Data Processing Insurance Agency, Inc. is an affiliate of ADP, LLC. ADPIA services mid and large size clients with various insurance products and services through its other business groups. The ADP logo and ADP are registered trademarks of ADP, LLC. ©2014 ADP, LLC.