



# Workers' Compensation 101

## *Small Business Guidebook*

# The Basics & Key Things You Need to Know

Create a smart strategy to help you protect your business and employees.

**Start with Workers' Compensation coverage.**

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# Question 1

## What is Workers' Compensation coverage?

Insurance that protects employers and their employees if a workplace accident or illness occurs. Coverage provides benefits, such as medical care and compensation for lost income, to employees who suffer accidental injury or an occupational disease on the job.



# Workers' Compensation Coverage Includes



## Medical

Pays for an injured employee's medical bills, including doctor visits and hospital care to prescription medication, physical therapy and other medical treatments.



## Disability Benefits

Partial replacement of income due to lost time on the job.



## Vocational Rehabilitation

Enables employees to learn a new skill if they cannot return to their prior occupation due to injury.



## Death Benefits

Paid to the spouse and minor children of an employee who dies in a work-related accident.



## Keep In Mind

1. Coverage must be in place when you hire your first employee
2. You renew your policy annually
3. There is no set limit for statutory workers' compensation coverage – but amounts paid to each injured employee is set by the workers' compensation board in each state
4. Workers' compensation coverage is not a substitute for health insurance – employees are only covered for on-the-job injuries or illnesses



## Question 2

# Why does a business need it?

It protects employers/business owners from financial consequences related to injuries and catastrophic loss – regardless of who is at fault. In most states, it is also the law!

## Question 3

# What happens if you don't get coverage?

Expect the possibility of stiff penalties, which vary in type and intensity from state to state. They can range from civil fines to criminal penalties and may even result in the state shutting down business operations. In addition, not having workers' compensation coverage may exclude you from bidding on contracts.





## Question 4

# Do workers' compensation requirements differ by state?

Yes! Most states require coverage if a business has one or more employees. However, workers' compensation laws and regulations differ by state.

# Workers' Compensation Requirements



## Mandatory Coverage States:

Require workers' compensation insurance coverage once you hire your first employee. In addition, if you utilize subcontractors that don't have workers' compensation insurance, your business would be responsible for the medical and indemnity aspects of work-related injuries to the subcontractor.

## Monopolistic States:

Require businesses to buy coverage exclusively through state-operated plans. These include Ohio, North Dakota, Washington, and Wyoming.

## Elective Coverage States:

Coverage is elective if the employer has less than a specified minimum number of employees. These states include – Alabama, Arkansas, Florida, Georgia, Mississippi, Missouri, New Mexico, North Carolina, South Carolina, Tennessee, Virginia, and Wisconsin. (Minimums vary by state.) Strict reporting requirements are placed on the business owner with stiff penalties for noncompliance.



### For example:

In Texas, businesses are not required to acquire a workers' compensation policy to cover work-related injuries. However, employers are responsible for medical and other expenses if there is a workplace injury or illness.



### State Disability:

Some states require employers to provide disability benefits coverage to employees for an injury or illness that occurs outside of work, or if they become disabled due to pregnancy. Disability benefits include cash payments only – employers and insurance carriers are not responsible for medical care.



# Question 5

## Who is covered?

- 1. W-2 Employees** – State laws require coverage for all W-2 employees, including part-time employees, interns, and temporary workers.
- 2. Business Owner / Executive Officer** – State laws and requirements for owners and officers can vary by state, company structure, type of business entity, and sometimes requires inclusion/exclusion by endorsements. Personal risk rules also apply. **Tip: Review your personal health coverage before excluding an owner or officer from a workers' compensation policy. Many personal health policies today exclude work-related injuries.**
- 3. Subcontractors** – The employer is generally responsible for coverage, unless the contractor provides written proof of coverage – i.e., a certificate of insurance issued by the carrier who issues the policy (or the carrier's authorized representative).
- 4. Contractors paid via Form 1099** – If the person is working at the direction and control of an employer, they would be considered an employee of the company for which they are working in the event the subcontractor does not have workers' compensation coverage.





# Question 6

## What is covered?

- 1. Accidental on-the-job injuries** – Examples: an employee falls off a ladder, slips on wet floor...or suffers a cut, burn, or other injury while operating machinery
- 2. Occupational diseases or illnesses** – Examples: a computer programmer suffers carpal tunnel syndrome, an employee contracts a respiratory disease like black lung or cancer...or a worker develops an illness caused by stress in the workplace



### Note:

Employer's liability coverage is included in workers' compensation coverage to protect employers from legal liability relating to an employee's job-related injury or illness

1. Protection from lawsuits from outside individuals or companies that may be adversely affected by an injury to a worker
2. Policy limit pay outs – per employee, per injury, and per illness
3. Typically covers legal fees, court costs, damages and settlements

# Question 7

## How are workers' compensation premiums calculated?

Premium calculations are generally based on:

1. Classification of employees (based on job duties)
2. Total payroll for each classification
3. Classification of your business (industry you're in)
4. The state where coverage is issued
5. Your past loss experience (claims experience)
6. Adjustments (e.g., possible credits for workplace safety programs)



### Keep In Mind

Your key cost drivers are your industry, annual payroll, and your past workers' compensation claims record



## Question 8

# How do you purchase coverage?

Employers can purchase coverage by utilizing the services of a licensed agent/broker to place the insurance with a private carrier, or through private insurance companies directly.

# Exceptions

- 1** **New employers and those businesses considered “high risk”, where coverage may not be available through a private insurance company, can purchase coverage from:**
  - Competitive State Funds – run by a state to provide coverage
  - Assigned Risk Plans – a pool of private carriers required to insure certain amounts of high-risk clients
- 2** **In “Monopolistic States”** – Ohio, North Dakota, Wyoming and Washington – coverage is only available from a state-operated plan.
- 3** **Self Insurance** – Typically reserved for larger businesses that have the financial capacity to directly pay workers’ compensation claims. There are significant collateral requirements imposed by states for companies to qualify as a self-insurer.

# Question 9

## Is there an audit process for workers' compensation policies?

Yes! Most states require insurance carriers to conduct an end-of-policy ("annual") audit either by a physical visit to a company's premises, over the phone or by mail. In some states, a physical audit may be required due to select premium sizes and industries.



Note:

A carrier can audit your policy more frequently at their discretion.



# Audit Process

The prime reason for the audit is to help insurance companies set proper rates. Comparing actual premiums based on actual payrolls – combined with total actual claims paid – helps identify a true loss ratio on which future rates can be set.

- 1 The final workers' compensation premium reflects actual payroll attributed to specific classifications over the period of the policy**
- 2 If your paid premium was too low, you may owe additional premium**
- 3 If the paid premium was too high, the carrier may return the difference**
- 4 Audits usually take place between 30 and 45 days after the policy expires for a given year**

### Special Tip!



Conduct your own policy audit during the policy period and before the insurance company does theirs. This will help you identify all credits that are due to your company and any job classification errors that could adjust your premium



## Question 10

# What about claims and risk management?

A workers' compensation claim is a declaration from an employee to his or her employer that he or she has been injured on the job or has become ill, because of the worksite or the nature of the work performed. Injuries due to faulty equipment or unhealthy worksite conditions (such as asbestos or other harmful dust) can affect the cost of workers' compensation coverage.

**Good claims and risk management can help control your costs**





# Claims and Risk Management

Manage risk with a strategy based on information and action.

- 1 Know the accident trends for your industry and work environment**
- 2 Remove physical risks in the workplace that can impact employees' health**
- 3 Implement safety programs that can help minimize avoidable accidents and injuries**
- 4 Focus on work safety every day**

# Question 11

## How can you manage your workers' compensation coverage after purchase?

Some carriers and third-party service providers offer value-added assistance.



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## Management Tools



### Premium Payment Programs

Allow you to remit your insurance premium over the term of your policy, in some instances letting you pay a portion of your premium with each payroll



### Workplace Safety Programs

Enables you to potentially reduce future insurance premiums by creating a work environment that helps to reduce risk



### Loss Control Management

Helps you evaluate your risk-related losses and apply solutions to control them, such as manager/worker training and ergonomic applications



## Take Home Thoughts

- 1** Choose adequate employer's liability coverage to complement your required workers' compensation protection
- 2** Review estimated payrolls and business and employee classifications for accuracy – payroll is a key rate-driver in workers' compensation coverage calculations
- 3** Insist that your subcontractors have their own coverage (if required by law)
- 4** Seek out safety programs that will help you avoid claims and higher premiums



# Useful Links

**Learn about ADPIA's workers' compensation offerings:**

<http://insurance.adp.com/en/what-we-offer/property-and-casualty/workers-compensation.aspx>

**Learn about managing your certificates of insurance through ADPIA:**

<http://insurance.adp.com/what-we-offer/property-and-casualty/adpia-certificates-manager.aspx>

**Learn how to review your workers' compensation policy for savings opportunities:**

<http://insurance.adp.com/~media/Insurance/Docs/PC-3-Steps-to-Savings-PC-IK-00FS.ashx>

**Learn how to handle insurance claims:**

<http://insurance.adp.com/~media/Insurance/Docs/3-Steps-for-Handling-Claims.ashx>

**Learn about ADP's Pay-by-Pay® Premium Payment Program for workers' compensation:**

<http://insurance.adp.com/what-we-offer/property-and-casualty/pay-by-pay.aspx>

**Learn how to implement a workplace safety plan:**

<http://insurance.adp.com/~media/Insurance/Docs/Implement-5-Workplace%20Safety-steps.ashx>

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