

## The Basics of the Workers' Compensation Premium Audit

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### The Workers' Compensation Audit

By: *Jason Mickey*

Premium Audit Account Analyst

#### The Workers' Compensation Policy

The concept of insurance is simple. It's a contract between two parties where one pays a premium and the other is responsible for certain losses that may occur during a period of time. A workers' compensation policy is a contract but when it comes to premium, it can get a little confusing. There are two main components that determine your premium: classification and payroll. Classifications are developed by rating bureaus and vary by state. In general each business gets one classification that groups them with other like businesses

*"The purpose of the classification system is to group employers with similar operations into classifications so that*

- *The assigned classification reflects the exposures common to those employers*
- *The rate charged reflects the exposure to loss common to those employers"*

- NCCI Basic Manual 2001 Edition

Then there's payroll which is unique to every business and can be difficult to project. People are hired and fired, business levels ebb and flow, weather, market conditions, and many other factors can make it nearly impossible to estimate.

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#### Estimating Payroll

All policies will start out with a good-faith payroll estimate as a base for the premium. This can be based on last year's payroll or anticipated payroll and should be determined with the aide of your agent.

#### Premium Audit

Rating bureaus need actual payroll figures to develop fair and accurate rates. This is where the premium audit comes in. When your policy expires you will receive our audit forms in the mail.

*If you are signed up in our [insured service center](#) you will also have access to [these forms online](#). [Just see the policy term that is being audited \(usually the previous year\)](#). If you have provided us with a valid e-mail address you will also receive a reminder e-mail.*

Generally, the following information is required in addition to completed audit forms:

- Owner/Officer information – We realize that ownership can change at any time. Please make us aware of these changes.
- Employee gross payroll– It's always best to provide a payroll report summarized by employee showing total wages and deduction amounts for the audit period. Let us do all the work!
- Detailed job descriptions – The more detailed the job duties the more accurately we can classify employees.
- Subcontractor information – be sure to collect all workers' compensation certificates of insurance for any subcontractors used as this may have a premium impact.
- Completed underwriting questionnaire - The yes or no questions at the end of the audit forms. We understand that most of these will not apply, just give a brief description if they do.

Once the audit information is received a premium audit specialist will review it

and contact you if they need anything else. In reviewing the payroll it will then be assigned to the correct classification for the business.

*"Subject to certain exceptions, it is the business of the employer within a state that is classified, not separate employments, occupations or operations within the business."*

- NCCI Basic Manual 2001 Edition

Once an audit is completed the audit explanatory statement will be mailed to your address on file. This statement summarizes the classifications, rates, payroll amounts, and changes in your policy from the audit. Audit timeliness is very important. Each rating bureau has a timeline for reporting audited policies. To meet their deadlines we strive to have the requested audit information back to us within 45 days of policy expiration\*.

\*Need a few extra days to get the audit in? We are as flexible as we can be. Just ask!

#### Audit Dispute

We understand how complicated an audit can be for a business owner. On average, **less than 3%** of our policies result in a second review. If something doesn't look right or clarification is needed; please feel free to [contact us](#). Disputes are handled by our state-specific audit analyst who is an expert in your state and can assist you with any questions you may have. They can be contacted by phone (888-500-3344), email (click the name below), or fax (800-319-0697).

- **Gabby Nero**  
Ext. 271047 – AL, CT, GA, KY, MS, NC, NH, RI, SC, TN, VA, VT, WV
- **Jason Mickey**  
Ext. 271431 – DE, MD, NJ, NV, PA
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## Are Owners Covered in Workers Compensation?

By *Kirsten Ginger*  
Premium Audit Analyst

Although your workers' compensation policy requires all employees to be covered, as an owner and integral part of the business you may have the option to cover yourself. Due to the additional benefits workers compensation can offer, many owners will choose to cover themselves if state rules allow it. This option is frequently overlooked and due to state specific rules can often lead to audit issues.

**Q: As an owner, officer, or member why would I want to be covered under a workers' compensation policy?** As with your employees, a workers' compensation policy will provide coverage in the event of a work place injury for both wages and medical expenses.

**Q: Why would I want to be covered when I have medical insurance?** While a standard medical insurance policy should provide medical coverage for you as an owner, it comes at the cost of co-pays and deductibles that can be financially draining. Also, a health insurance policy will not provide for lost wages. Be sure to review your specific needs and be aware of the limitations that your health insurance may have.

**Q: Am I automatically covered under my workers compensation policy?** You may be. Each state has specific rules on the issue. To include or exclude some states only require a signed application, others require a separate signed form, and a few require you to sign up via online registry. At the beginning of a policy you may be included by default until you notify the insurance company otherwise and vice versa. These rules are determined in hand with your entity type and percentage of ownership so make sure to update your agent with the correct business filings within your state.

## Q: What about my payroll? What wages are used for an owner?

Workers compensation is based on payroll. Some owners do not have payroll and some do. Because of the variance, states have determined specific limitations for owners selecting coverage. Most states have placed either a flat payroll amount or minimum and maximum payroll thresholds when calculating payroll for owners. These amounts are updated yearly and determined by your states' applicable insurance bureau.

## Payroll Questions and Answers

By *Shawn Malik*  
Premium Audit Analyst

What is included in payroll? This is a common question that most business owners have when compiling information for an audit. The answer to this question depends on a number of things including which state your business is located, in which industry you operate, and how you pay your employees.

**Q: So what is included in payroll for an audit?** Audits are based on gross wages which generally include everything before deductions including salary, commissions, overtime, bonuses, sick, vacation, and holiday pay. Although overtime and tips are included in the total gross wages, they should also be listed separately in case an adjustment can be made.

**Q: Why are gross wages used instead of net pay?** For simplicity and consistency. Gross wages are more consistent from company to company and net pay can include multiple deductions that vary by employer or employee. Some states allow certain deductions to be excluded from gross wages for premium computation as long as they are reflected on the payroll report. We will deduct anything that your state allows so please provide detailed records!

**Q: Do I need to submit a payroll report?** We highly recommend including a payroll report with your audit. There are many inexpensive options, including payroll service companies, employee payroll software, or local Certified Public Accounting firms that should be able to assist you in streamlining the process.

## Frequently Asked Questions

**Can the audit result in a refund?** If the audit creates a premium decrease, any credit due will be applied to outstanding balances first. Any additional credit will be issued as a refund. If the audit creates a premium increase, a bill for the additional premium will be included on the next billing statement.

**Do I have to complete all sections on the audit documents?** Please do so unless the information is elsewhere (such as a payroll report that gives all the employee info). If something doesn't apply to you just put "N/A."

**How does the audit affect my current policy term?** If the audit results in a 25% premium difference we will automatically adjust the payroll estimate on your current policy using the audit results. If this wouldn't be an accurate projection for the current term, contact your agent or the state assigned audit analyst to review it.

**Should I list inactive or unpaid officers under Section 2 of the audit documents?** Yes. Please always provide all officer information regardless of inactivity or wages.

**Do I have to fill out Section 5 if I am providing a payroll report?** Nope! Just make sure job duties are provided.



If you are unsure if you're covered or are thinking of changing your status as an owner, please contact your agent or a Markel FirstComp representative today!

**Chat:** Click to Chat (Monday - Friday, 8AM - 5PM CST)

**Call:** 888-500-3344

**Fax:** 866-338-2667

**Write:** P.O. Box 3009, Omaha, NE, 68103-0009

**Email:** [CustomerService@MarkelCorp.com](mailto:CustomerService@MarkelCorp.com)

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