Butwin Insurance Group
Founded 1925

Understanding Workers Compensation

Workers' compensation is Statutory (mandatory) Coverage in all states except Texas. It provides compensation for medical expenses (functioning as a form of **health insurance**) for employees who are injured in the course of employment, in exchange for mandatory relinquishment (also referred to as "sole remedy") of the employee's right to sue his or her employer for the injury. Employees also may receive weekly payments in place of lost wages (functioning as a form of **disability insurance**). There are also benefits payable to the dependents of workers killed during employment (functioning as a form of **life insurance**).

The rates and benefits for Workers Compensation are controlled by each state's Workers Compensation Board. Benefits vary greatly amongst states. For example the maximum weekly benefit for lost wages is $400 (NY), $794 (CA), and $728 (NJ). These benefits are all subject to restrictions such as a percentage of wages and whether the injury resulted in a permanent or partial disability. Separately, this illustrates a potential gap in coverage with insurance bought from a State Insurance Fund or facility. **In many cases, such as New York, the State Fund will only pay the benefits of their state but the employee is entitled to the benefits of their place of employment or place of injury, whichever is greater.** So for example in this case, if you are a New York firm with a State Fund policy and your worker gets disabled in another state (let's say CA), the employee would be entitled to collect $794 per week yet the policy would only cover $400 per week. In the case of a permanent disability this would present a severe gap in coverage.

Employers' Liability Insurance is an additional section of Workers Compensation which depending on the state protects the employer against lawsuits due to employmentrelated injuries or illnesses which are permitted (excluded from the relinquishment or sole remedy). These lawsuits can come from the employee, his/her family members, relatives and third parties. The Employers' Liability portion is usually offered under Part Two and provides additional coverage included in Workers' Compensation.

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Promulgation of the Premium

The premium is developed by determining the workers "class of operations" (or "code"), taking their salary and multiplying it by the "rate" (per $100 of remuneration). This produces the **"Manual Premium"** which is subject to an **"Experience Modification"**. Note: certain classes of business, most notably "Executive Officers", are capped at a maximum payroll. In NY the maximum payroll for Executive Officers in 2010 is $91,000.

"Class Code" X "Rate" = Estimated Annual Premium

An **Experience Modification**, referred to as **"The Mod"**, is calculated for each employer by the state or by the NCCI (National Council on Compensation Insurance) if the employer is in multiple states. It is a complex calculation which essentially compares your loss experience by "class code" to everyone else in your state in each of the same class codes. This calculation is an average of claims for the prior 3 years excluding the immediate prior. It caps large **"severity"** claims and weighs more heavily on smaller **"frequency"** claims. The result produces a debit or credit which is designated in the format of 0.00. In other words, a mod of 0.90 produces a 10% credit. A mod of 1.10 results in a 10% debit or surcharge.

"Manual Premium" X "Experience Modification" = Standard Premium

On top of the standard premium each state may add charges for other expenses (expense constant), terrorism or taxes. An individual carrier may also apply for and add specific discounts.

"Standard Premium" + "other expenses, taxes and discounts" = Total Est. Premium

The premium is subject to an "annual audit" where the carrier will retroactively recalculate the premium based on the "actual payroll" for the prior year.

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