

# Controlling Your Workers' Comp Insurance Costs

## Understanding Rates and Basic Premium Calculation\*

A basic overview of the different components that go into the creation of a basic estimated annual premium for an IWIF workers' compensation policy.

\*This article provides a simplified explanation and does not include all elements utilized in setting premium.

### Class Codes

All businesses are assigned a four-digit classification code based on the nature of their operations. Examples: Residential roofing, 5551; restaurants, 9082; and office clerical, 8810. IWIF currently uses more than 600 class codes.

### Base Premium Rate

Each classification code is assigned a premium rate established by IWIF. These rates reflect the hazards of a particular employment exposure. IWIF rates are annually set and approved by our Board and are reviewed every five years by the Maryland Insurance Administration.

Your premium – the price you pay for workers' compensation insurance – is determined by multiplying the rate (per \$100 of gross payroll) for a business classification by the amount of payroll in that classification. If you have several classifications in your business, (for example a roofing contractor may employ roofers, sales professionals and clerical employees), your premium is the sum of the totals for all classifications.

### Tiers

A tier is an additional premium factor applied to the base rate. Employers are assigned one of several IWIF tiers. Your assigned tier is based on your business:

- Operations
- Loss History
- Effectiveness of Safety and Risk Management Programs
- Premium Size

### Association Discounts

You may qualify for one of IWIF's 16 Associations/Safety Group discount programs. These membership programs can include additional discounts on premium, dividends, or a combination of both. Visit IWIF.com for a complete list of association programs.

### Premium Discounts

Premium discounts are applied to your final premium calculation based on your premium size.

### Experience Modification Rating

The experience rating or e-mod is the safety saves incentive factor that is directly related to **your** business' claims incurred during the prior three year policy terms. An experience modification of less than 1.00 will help decrease your final premium. An experience modification of greater than 1.00 may increase your final premium. Visit IWIF.com for a more detailed overview of the e-mod calculation.

### Expense Constant

The Expense Constant is a policy administering/processing fee of \$150 charged on every workers' comp policy, regardless of the policy size.

### Terrorism Risk Insurance Act (TRIA)

This law provides a federal financial backstop for the insurance industry for claims from certain terrorist attacks, and requires that every U. S. property and casualty insurance organization offer and sell terrorism insurance to its commercial policyholders. (Refer to your policy for full coverage description.) A premium charge of .04 of total payroll/100 applies.

### Catastrophe

(other than Certified Acts of Terrorism)

This provides coverage for any single event, resulting from an earthquake, noncertified act of terrorism, or catastrophic industrial accident, which results in aggregate workers compensation losses in excess of \$50 million. (Refer to your policy for full coverage description.) A premium charge of .01 of total payroll/100 applies.

Please contact your agent or IWIF anytime you have a specific question about your policy or premium invoice.

**The basic formula for a workers' compensation premium:**

1. Start with total payroll ÷ 100
2. Multiply X Rate [Base rate of Class codes X tier]
3. Multiply X E-Mod
4. Multiply X discounts (if applicable)

<b>SAMPLE Premium Calculation</b>	<b>Base Tier</b>
Payroll/Remuneration	\$150,000
Payroll ÷ 100	\$1,500
Rate = Base Rate x Tier	5.00
Manual premium: [Payroll ÷ 100] x Rate	\$7,500
Experience Modification E-Mod	.90
Modified Premium [Manual premium x E-Mod]	\$6,750
Premium Size Discount [Varies by premium range] 10%	\$6,075
Expense Constant	\$150
TRIA - Terrorism	\$60
Catastrophe Coverage	\$15
<b>Total Estimated Annual Premium</b>	<b>\$6,300</b>

**How IWIF influences rates**

- Our unwavering focus on workplace safety
- Our group program discounts and appropriate pricing tiers
- Our proven claims management expertise
- Our mission to operate as a not-for-profit workers' compensation insurance organization. Any profits are returned to policyholders through the rate-making process. There are no underwriting profit incentives, other than to ensure IWIF meets mandated surplus requirements and remain financially sound.

**How YOU can control your overall workers' compensation costs**

*Connecting the dots*

**Prevent workplace injuries and illnesses**

- Take seriously IWIF's Loss Control recommendations
- Embrace a total workplace "Safety Culture"
- Implement safety programs to reduce and eliminate workplace hazards
- Institute best practices for hiring, training, and retaining a skilled workforce

**Proactively manage all claims**

- Report all injuries promptly
- Conduct and document a thorough accident investigation
- Always show honest care and support for your injured worker

- Stay actively involved throughout the claims process. Make sure someone in your business is closely monitoring all workers' comp claims.
- Report any suspicions you may have about the injury claim
- Implement a Return-to-Work Program and help injured workers return to work as soon as they are medically able. The goal is to reduce lost-time injury claims. As your lost-time days go down, so will workers' comp costs.

**Ultimately these efforts will help with:**

- Lowering your E-Mod
- Appropriate tier selection
- Potential group discounts

**The Safety \$aves bottom line**