



# Premium Calculations

This section provides the tools to understand and estimate workers' compensation (WC) insurance premiums. It is most effective when used in conjunction with the MEDC's WC Cost Analysis.

What follows is a blank worksheet along with an example of how to calculate an estimated WC premium. This worksheet can be especially useful if payroll figures vary significantly under differing scenarios.

Lastly, details are provided about the audit process and deductibles, which can impact the final premium.







# Your Rights Regarding Audits & Refunds

A workers' compensation insurance policy, like all other insurance, is a legal contract. The policyholder agrees to pay a certain amount of money each year and the insurance company is required to adhere to the provisions stated in the policy. As with any legal contract, an insurance policy must be maintained. The ongoing requirement of a workers' compensation policy is the audit.

An initial premium is based on a company's own estimates of its payroll and job classifications. The audit compares those estimates against the actual payroll and job classification figures for the year the policy was in force. Any difference between estimates and actual payroll figures is reflected in the adjusted premium.

Audits are done as soon as possible after coverage is concluded or after the policy is renewed. Since premium costs are based partly on a company's job classifications, the auditor also reviews your business to be certain the workers' compensation premium being charged is accurate.

## The Process

The auditor will contact you and make an appointment to review your payroll records and job classifications. You should take this opportunity to also discuss any concerns about your coverage. To save time for all concerned, you should have the following records available: Federal Income Tax Return Form 941, the general ledger and payroll records.

## Know Your Rights

The following information is excerpted from the **Michigan Notice to Policy Holders**, a notice that appears as the last page of your policy as required by Michigan Law. Please review the actual notice for further information.

You may request a payroll audit once each calendar year. Your request must be in **writing** to the carrier. You must state that you believe your payroll expenditures have changed by 20% or more, and you must state the reasons for that belief. The carrier will complete the audit within 120 days of receipt of your request if you provide all the information needed to perform the audit.

You may request reserve and redemption information that relates to the premium for this policy. Your request must be in writing to the carrier and they must provide you with that information within 30 days of receipt of your request. If you believe the premiums are excessive because of *unreasonable* reserves or the unreasonable redemption of a claim, you may submit a **written** request for a meeting.

Insurance companies can **reserve** a portion of a client's premium to cover the projected cost of paying for claims against a specific client. These reserves may be held for:

- claims that have been made but not yet "closed"; or
- the cost of injuries or illnesses that have occurred, but have not yet had claims filed.

You may also submit a written request for a review of the method by which the carrier's rates and premiums are determined. If you are not satisfied with the results of your review, you may appeal to the Commissioner of Insurance.

Insurance companies must make payments it owes in a "timely" manner – generally on or before the date specified in the policy or, if no date is specified, within 60 days after the policy expires. It must pay a 12% per annum simple interest penalty on any late payments. Specifically, dividend payments must be made within 60 days of the policy's expiration; premium refunds resulting from payroll audits are due within 60 days of the audit's completion; and premium refunds resulting from a retrospective rating plan are due within nine months of the policy's expiration.

Agents can provide information on how to request an audit, a meeting with management, or information on premium factors. The insurance company also includes this information with its policies, as the Michigan Notice to Policyholders.

For more information, contact the Michigan Economic Development Corporation at (517) 373-9808.



# Deductibles and Workers' Compensation

Deductibles are becoming increasingly popular in workers' compensation insurance. Simply put, the policyholder (employer) takes on the portion of the risk below the deductible with the amount exceeding it to be paid by the insurer. Michigan, as well as most other states, now allows both small and large deductible programs.

Under a large deductible program, the employer pays for all losses up to an agreed upon deductible amount. This may be on a *per accident* or *aggregate* basis (total of all losses in a policy year). Most of these policies are written so that the insurance company pays and administers all claims (even those under the deductible) with the employer reimbursing the insurer. To qualify for these programs, an employer must produce a substantial premium and be financially stable in order to cover the risk of the deductible amount.

The obvious difference with a small deductible program is that the deductible amount will be lower. This type of program usually is written on a per accident and not an aggregate basis.

## **Should you consider a deductible?**

The advantage of using a deductible program is a reduction in premiums and improved cash flow. Since employers are sometimes more able to recognize their costs, they may be more responsive to safety issues and return-to-work programs. Large deductibles are also a good stepping stone for firms considering self-insurance.

The main disadvantage of deductible programs is that the employer assumes a greater risk. There is an added responsibility of payment of losses and internal administration of the program. Since the carrier is not bearing much of the initial risk, there is less incentive for them to be aggressive and the burden lies with the employer.

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