



MICHIGAN BUSINESS GUIDE TO

WORKERS'

COMPENSATION



MICHIGAN
ECONOMIC DEVELOPMENT CORPORATION

MICHIGAN BUSINESS GUIDE TO WORKERS' COMPENSATION

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THE BASICS

WHAT IS WORKERS' COMPENSATION?

Workers' compensation is an insurance system, mutually beneficial to both employees and their employers. It serves two basic purposes:

- To provide benefits to employees who have suffered a work-related injury or illness; and
- To protect employers from costly litigation over claims of work-related injuries and illnesses.

Michigan's workers' compensation program is regarded as one of the strongest in the nation.

Benefits to the injured employee can include one or more of the following:

- Appropriate medical treatment;
- Partial replacement of lost income in cases where an employee is unable to work for more than seven days (or death benefits paid to dependent survivors in the event of a fatal injury or illness); and
- Vocational rehabilitation so the injured worker can return to gainful employment as quickly as possible.

Workers' compensation is the oldest form of no-fault insurance. First established in Germany in 1856 and adopted soon after by England and most of Western Europe, workers' compensation insurance was enacted in Michigan in 1912. By 1920, all but eight of the other states had passed workers' compensation laws.

Workers' compensation is no fault in the sense that benefits are paid without regard to who or what caused or contributed to an injury or illness that arises out of, or in the course of, employment. Before this insurance system was established, an employer could be sued for negligence and could only defend himself/herself against such lawsuits by proving that the employee was at least partially at fault, that a fellow employee contributed to the injury, or that the employee assumed the risk of potential injury by accepting the job.

WHICH EMPLOYERS MUST HAVE WORKERS' COMPENSATION INSURANCE COVERAGE?

All private employers must have workers' compensation coverage if:

1. They regularly employ three or more workers at one time; or
2. During the preceding 52 weeks, they have regularly employed at least one worker for 35 hours or more per week for 13 weeks or longer.

All public employers must have coverage.

Any other employer can voluntarily choose to buy workers' compensation coverage. By doing so, the employer is protected against being sued in the event a worker is injured on the job.

Michigan has special provisions that apply to contractors, subcontractors and sole proprietors. Details on these provisions are in the appendix at the end of this booklet, or employers may contact the Compliance and Employer Records Division, Workers' Compensation Agency, Michigan Department of Energy, Labor & Economic Growth at 517.322.1195.

WHY DOES AN EMPLOYER NEED WORKERS' COMPENSATION INSURANCE?

Workers' compensation is an employee's exclusive remedy to offset the paid and lost time of a work-related injury or illness. In exchange for prompt payment of wage-loss benefits and medical treatment, employees give up the right to sue their employers for damages.

From the employer's perspective, workers' compensation provides protection against the potentially ruinous cost of lengthy lawsuits filed by injured employees. Damages for such suits could reach into the millions of dollars. Employers who may be exempt may find that voluntarily providing workers' compensation benefits is the best way to protect workers and the business against the costs of work-related injuries.

Employers forfeit the protections of the workers' compensation laws when they deliberately cause injury to an employee (referred to as an intentional tort). An employer is considered to have intended an injury if he/she knew that an injury was certain to occur and willfully disregarded that knowledge, according to the law.

HOW DOES AN EMPLOYER OBTAIN WORKERS' COMPENSATION INSURANCE?

Employers can provide the required workers' compensation benefits in two ways:

1. Buy insurance coverage from one of the more than 300 private insurance companies authorized to sell workers' compensation insurance in Michigan; or
2. Be authorized by the state to self insure, either individually or as part of a group of similar employers. Detailed information on self-insurance is contained in a special section of this booklet—see page 7. A current listing of the approved group funds and their contact information is available on the Workers' Compensation Agency's Web site at www.michigan.gov/wca. It should be noted that not every employer is eligible to self-insure.

If an employer is refused coverage by insurance companies in the standard voluntary market, he or she can turn to the Workers' Compensation Placement Facility, which administers the state-mandated Assigned Risk Pool. This is not an actual place, as the name indicates, but a sharing of the risk by all workers' compensation carriers in the state. Detailed information on the Placement Facility is included later in this booklet—see page 10. Also, check the Web site www.caom.com for frequently-asked questions regarding the Placement Facility.

MANAGING AND REDUCING COSTS

THE IMPORTANCE OF SHOPPING AROUND

With more than 300 insurance companies selling workers' compensation coverage in Michigan, it is imperative that employers shop around to find the most cost-effective coverage for the specific situations. There are not only a large number of carriers, but also the rates they charge cover a wide range. About 20 of the largest insurance groups account for over 75 percent of the dollars paid in workers' compensation insurance premiums. The rates charged, even among these large firms, vary so widely that it is not uncommon for the highest rate available to be twice as high as the lowest rate.

However, insurance purchasers must remember that price is NOT everything. Bad service from the insurance carrier or agent will result in higher net cost while good service can result in lower net cost.

WHAT TO LOOK FOR IN AN AGENT/AGENCY?

Workers' compensation coverage is the same with all carriers. The difference is in the cost and service provided by both the agent/agency and the insurance carrier.

The insurance agent is a person licensed by the state insurance bureau who solicits, negotiates or affects insurance contracts on behalf of one or more insurance companies, also known as insurance carriers.

The insurance agency is the insurance sales office directed by a general agent, manager, independent agent or insurance company manager. The actual insurance carrier provides the insurance coverage, not the agent or agency.

An important factor to keep in mind is that there are two kinds of insurance agents:

- **Captive Agents** represent only one insurance company.
- **Independent Agents** represent an average of five to ten insurance companies.

One agent/agency cannot represent all insurance companies. Agents are there to help. Any agent should be able to answer questions about insurance and provide an assessment of the company's needs and insurance products to meet those needs. Also, any insurance agent should

provide prompt, quality service in the case of a claim whether in direct dealing, or acting as a liaison, with the insurance carrier. Company officials should expect more than a yearly renewal contact from the agent and work toward building a continuing relationship.

What to look for and questions to ask: The insurance agent should be a licensed professional with strong customer and community ties. Get references. Independent agents should be asked how many insurance carriers his/her agency represents and should provide a list of the carriers' names.

Does the agency or agent specialize in commercial insurance or is it just written incidentally? Is the agency full service, meaning that they can handle all the insurance needs, including providing assistance with claims?

Who will handle the account on a daily basis? If not by the agent, will the account be handled by a customer service representative? What is their level of training and knowledge?

Ask what the agent perceives as his/her role in handling claims and helping to resolve claims disputes between the customer and the insurance company.

Does the insurance agent hold any professional designations? This means that they have invested considerable time into additional schooling.

The agency's experience in the industry from working in the past and matching up companies with insurers who know the industry is key. Insurers familiar with the industry can reduce the effect of claims on customers through good loss-control and claims departments.

Expect excellent service and competitive prices along with a thorough knowledge of special programs to reduce costs. Expect regular reports regarding your losses and the annual Michigan Experience Rating Form.

Expect periodic reviews of the insurance coverage to keep up with changing needs. Know that a professional is handling the account in coordination with the employer.

Finally, keep in mind that agents represent the insurance carrier. Unbiased advice and analysis may be obtained from certified insurance counselors.

BUYING WORKERS' COMPENSATION INSURANCE: IMPORTANT RIGHTS

Important rights included in Michigan's Workers' Compensation Act:

- An insurance company may not require that a business buy other forms of insurance from that company before it will sell workers' compensation coverage. However, a better package may be obtained using multi-line discounts with a specific carrier. Insurance agents can provide more information about discounts.
- After making a written request and paying a reasonable fee, a business is entitled to receive a copy of all information used for its classification and rating. The State of Michigan does not set the classifications.
- If a business disagrees with the way it has been classified or rated, it may request that the insurance company review its rating decision. If the disagreement persists, the business has the right to appeal to the Commissioner of Insurance.

Any workers' compensation agent can provide information on how to request a review. In addition, insurance companies provide an annual written notice regarding its client's classifications, including review procedures and rights to appeal. This is usually the last page of the policy, entitled Michigan Notice to Policyholders. Company officials should remember to keep detailed records and written documentation.

COSTS OF WORKERS' COMPENSATION COVERAGE IN MICHIGAN

Michigan is one of 36 states with some form of open competition rating law. The state has had this type of competitive open market since 1983. Michigan's law has outpaced all other states in driving down and holding down workers' compensation costs. In most cases, our rates are lower than they were in 1983.

Prior to 1983, virtually all insurance companies used the same rates. Some states still use this type of rate setting, where the insurance companies hold the power over prices and use dividends and rebates to mask the real costs of workers' compensation coverage. Five of these states have monopolistic state funds.

WAYS TO CUT COSTS

As with most insurance, Michigan's workers' compensation rates reflect a company's experience, its commitment to safe practices and its determination to holding down costs. The formula for reducing workers' compensation costs is simple:

$$\begin{array}{r}
 \text{INJURY PREVENTION} \\
 \text{Loss control} \\
 + \text{Lowest cost insurance program} \\
 = \text{Lower workers' compensation costs}
 \end{array}$$

But, those employers who have successfully cut their workers' compensation costs report that the reality of cost reduction is very challenging and requires the attention and commitment of the highest levels of management.

A study of 5,568 employers in 29 different industries conducted by Michigan State University and the W.E. Upjohn Institute for Employment Research gives some insight regarding injury prevention and loss control. The study findings, issued in 1993, show that employers with the best records (fewest workers' compensation claims) had these common qualities:

- Placed great emphasis on safety and prevention practices;
- Were more inclined to have open managerial styles that encourage shared decision making; and
- Had consciously developed disability prevention and management strategies.

Employers are encouraged to look at their individual operations with a critical eye toward identifying ways to further reduce injuries and illness, thus improving working environments while cutting workers' compensation claims cost. Michigan companies that have successfully reduced workers' compensation costs have offered the following cost-saving suggestions:

- Set safety goals.
- Create an employee incentive program.
- Improve accident reporting and investigating.
- Make review of injury reports part of the job of top managers.
- Review injury reports promptly.
- Have front-line supervisors and employees design injury prevention programs.
- Establish training programs in safe lifting techniques, hand safety and hazard recognition.

- Purchase appropriate equipment along with making other ergonomic changes.
- Develop return-to-work programs in which injured employees are allowed to return gradually, from simulated work settings to meaningful transitional or part-time assignments to full-time duty.
- Write job descriptions that include physical capability requirements.

By making an effort to improve the safety of the workplace, companies can reduce their workers' compensation insurance costs in two ways:

- They can reduce the dollar value of business losses by limiting the severity of accidents or by eliminating them altogether.
- They may make the business eligible for schedule rating credits, premium credits and other incentive programs offered by carriers.

Nearly all insurance companies provide safety inspection services and loss prevention/control programs to help clients keep costs under control. These are services that businesses should inquire about before choosing an insurance carrier.

In addition, the Consultation Education and Training (CET) Division of the Michigan Department of Energy, Labor & Economic Growth assists employers and employees to eliminate safety hazards and reduce work injuries through education programs, training and consultation with staff specialists. Professional consultants combine their talents with the latest safety information to offer a variety of programs with proven effectiveness in reducing the frequency and severity of injuries.

CET also offers an on-site consultation program to promote voluntary compliance with Michigan's safety standards. This program provides a workplace inspection that is identical to the Michigan Occupational Safety and Health Act (MIOSHA) inspection, but without citations and monetary penalties if corrections are made within a reasonable period of time (usually six months).

For a free workplace consultation on accident prevention, safety training and other services, contact:

Consultation Education and Training Division
Michigan Department of Energy,
Labor & Economic Growth
P.O. Box 30643
Lansing, MI 48909-8143
Phone: 517.322.1809
Web site: www.michigan.gov/cis/0,1607,7-154-11407_15317---,00.html

DIFFERENCES IN WORKERS' COMPENSATION AND OTHER LINES OF INSURANCE:

Short-term penalty rates are charged to firms that switch insurance carriers in the middle of a workers' compensation policy year. This is the only line of insurance that carries such a penalty and shoppers should be careful when contemplating a switch during a policy year.

Policy dates are also important. Many employers get into problems because of changing their policy dates and causing experience to carry over for a longer than normal period.

Employers that change carriers must know that open claims will continue to be controlled by the old carrier.

These are all important issues employers must discuss fully with their insurance agent.

Below is a sample timetable involved in calculating a modification factor, and, thus the premium—each employer needs to insert his/her own policy anniversary date:

- Policy January 1, 2007–January 1, 2008 (experience and payroll covering years 2003, 2004 and 2005)
- Policy January 1, 2008–January 1, 2009 (experience and payroll covering years 2004, 2005 and 2006)
- Policy January 1, 2009–January 1, 2010 (experience and payroll covering years 2005, 2006 and 2007)

YOUR RIGHTS REGARDING WORKERS' COMPENSATION

Audits and 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 job policy is renewed. Since premium costs are based partly on a company's job classifications, the auditor also reviews the business to be certain the workers' compensation premium being charged is accurate.

The Process

The auditor will contact the business and make an appointment to review the payroll records and job classifications. Company officials should take this opportunity to also discuss any concerns about the insurance coverage. To save time for all concerned, the firm 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 Policyholders, a notice that appears as the last page of the policy as required by Michigan law. The actual notice should be reviewed for further information.

Company officials may request a payroll audit once each calendar year. The request must be in writing to the carrier and must state the payroll expenditures that have changed by 20 percent or more and must state the reasons for that change. The carrier will complete the audit within 120 days of receipt of the request if provided all the information needed to perform the audit.

Company officials may request reserve and redemption information that relates to the premium for this policy. The request must be in writing and the carrier must respond with that information within 30 days of receipt of the request. The company may submit a written request for a meeting if it believes the premiums are excessive because of unreasonable reserves or the unreasonable redemption of a claim.

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:

- A. Claims that have been made but not yet closed; or
- B. The cost of injuries or illnesses that have occurred but have not yet had claims filed.

Also, a written request may be submitted to the carrier for a review of the method by which the carrier's rates and premiums are determined. A written appeal may be made to the Commissioner of Insurance if the results of the review are unsatisfactory.

An insurance company 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 percent 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.

Premiums Based On Remuneration

Policy premiums paid by companies are based on remuneration to employees. Payroll is the most common component of remuneration, but it is not the only one. Generally, remuneration includes: regular salary and hourly pay; commissions; bonuses; overtime pay, less the premium portion; holiday, vacation and sick pay; piecework, incentive plans and profit-sharing plans; payments to employees for hand or power tools; value of rent, housing and meals provided to employees; value of store certificates, merchandise or credits given to employ-

ees; and payments of contributions required by law to statutory insurance or pension plans.

ALTERNATIVE FORMS OF WORKERS' COMPENSATION COVERAGE

Self-Insured Programs

To self-insure, either individually or as a group of employers, all applicants must first apply for approval to the Self-Insured Programs Division of the Workers' Compensation Agency, Department of Energy, Labor & Economic Growth. The agency may be contacted by accessing its Web site at www.michigan.gov/wca.

Individual Self-Insured Programs

The Workers' Disability Compensation Act allows some financially secure companies to carry their own workers' compensation risk rather than contracting with an insurance carrier. Today, more than 450 employers are individually self-insured in Michigan.

Generally, employers applying for individual self-insured status are paying premiums over \$100,000 in the traditional market. Some of the advantages of being individually self-insured include the potential for:

- Lower cost as compared to commercial rates;
- Improvement in cash flow; and
- Greater control over the claims process.

Major factors the Workers' Compensation Agency considers in granting self-insured authority are:

- Demonstration of a good financial position;
- Claims history; and
- The ability to secure favorable excess insurance. Excess insurance covers losses—either single losses or combined (aggregate) losses—beyond specified dollar amounts.

Employers seeking self-insured authority must reapply annually. Self-insured authority is based on the agency assessment of the employer's financial ability to assume the workers' compensation liability and make compensation payments directly as they become due.

All self-insured employers are required to post a surety bond or a letter of credit. The minimum security is \$100,000. The actual surety or letter of credit amount for each self-insurer is based on the financial position of the employer, the liability to be assumed and the compensation loss history.

Self-insurers are also required to secure specific excess insurance and may be required to purchase aggregate excess insurance. Generally, employers with a net worth of less than \$20 million are required to secure aggregate excess insurance in addition to specific excess insurance.

Format and language of bonds, letters of credit, and excess insurance policies must be approved by the agency. Each self-insurer must contract with a agency-approved service company for claims handling unless the employer can demonstrate an in-house capability to administer claims. Multiple entities under one approval are required to execute a workers' compensation payment guaranty. The format of these guaranties is determined by the agency, based on the facts of each situation.

Group Self-Insured Programs

Any two or more employers in the same industry may join to form a self-insured group fund. Group members must have combined assets of at least \$1 million and be able to generate a gross annual premium of at least \$500,000, as well as meet other requirements.

There are more than 30 active self-insured groups in Michigan, providing workers' compensation coverage for 6,880 employer members. These groups have been very successful in saving money for the employer members. Certain groups have realized significant savings over commercial market rates. Other advantages of belonging to a group include:

- The ability to recover surplus premiums through state-approved distributions or discounts or credits on future coverage periods based upon surplus assets available.
- Self-government through an elected board of trustees.
- The ability to have greater control over the claims process.

For example, the 840 local governmental agencies of the non-profit Michigan Municipal League Workers' Compensation Fund receive underwriting profit and investment income in the form of a dividend. Dividends have been returned every year since 1979. Dividends amount to 20 to 30 percent of members' premiums, and rates continue to be very competitive with insurance company rates.

For more information on self-insured programs, contact:

Self-Insured Programs Division
 Workers' Compensation Agency
 Michigan Department of Energy,
 Labor & Economic Growth
 P.O. Box 30016, Lansing, MI 48909
 Phone: 517.322.1868
 Web site: www.michigan.gov/wca

RETROSPECTIVE RATING POLICIES: A DIFFERENT APPROACH

Under a retrospective rating plan, an employer's final premium is based on its actual loss experience during the policy period. The firm pays a basic premium upfront and agrees to pay a final premium somewhere between a previously agreed-upon range of minimum and maximum premium. The final premium will be within this range and will be based on the firm's actual losses for that policy period. It generally takes three years or more to determine the extent of actual losses and, therefore, the final cost of the policy.

For example, the insurer would calculate a standard premium. He/she then sets the minimum premium at 50 percent of that amount and the maximum premium at 125 percent. This means that the employer would pay at least the minimum premium, plus any actual losses beyond that amount, up to the amount of the maximum premium. If the actual claims surpass the maximum premium figure, the employer would have no liability for the excess amount.

If the employer's total losses are less than the standard premium, a refund is issued for the difference between the minimum premium and the standard premium. Obviously, this type of plan offers a strong financial incentive to minimize one's losses.

In a sense, a retrospective rating is a sort of hybrid between a traditional insurance policy and the self-insured program. In fact, some employers try a retrospective rating policy for a transitional period before deciding whether to self-insure. Retrospective plans offer larger businesses more cash-flow protection against big losses than a self-insured program. A retrospective plan is generally an option only for a business with an estimated annual premium of at least \$5,000.

This type of plan could have a very negative effect if the employer has a poor loss experience.

DEDUCTIBLE POLICIES

Deductible policies 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. In the event the employer fails to reimburse the carrier for the deductible amount, the carrier is responsible in full for the claims.

Policies in Michigan are written so that the insurance company pays and administers all claims, even those under the deductible amount. The employer then reimburses the insurer for all losses up to an agreed-upon deductible amount. This may be on a per accident (usually for small deductible policies) or aggregate basis (total of all losses in a policy year).

To qualify for these programs, an employer may be required to pay a substantial premium and demonstrate financial stability in order to cover the risk of the deductible amount. The carrier will often require security from the employer covering the deductible amount. This may be in the form of a cash deposit, surety bond or letter of credit.

THE WORKERS' COMPENSATION PLACEMENT FACILITY

Some employers are not able to obtain workers' compensation coverage from the open market. These employers usually involve hazardous or rarely occurring occupations, have a history of accidents, a measurable adverse loss ratio over a period of years or have demonstrated an attitude of non-compliance with safety requirements.

Since workers' compensation is mandatory, the state has established an insurance pool in which all the state's workers' compensation carriers share a portion of the cost of underwriting higher-risk clients. In 2008, Michigan's pool premium of \$52 million represented 5.1 percent of the total statewide workers' compensation market. This indicates a commitment on the part of Michigan's employers, employees and insurance providers to health and safety on the job.

Companies covered by the pool—known as the Workers' Compensation Placement Facility—usually pay substantially higher rates than the standard voluntary market. The Placement Facility is the market of last resort for employers who cannot obtain coverage through the voluntary market. In 2008, more than 16,000 employers bought coverage through the facility.

It is a popular misconception that only poor risk employers with negative loss histories are forced to buy coverage in the Facility. This is not true.

Only a small fraction of the Placement Facility policyholders are assessed a surcharge because they have a demonstrated accident frequency problem, have a measurably adverse loss ratio over a number of years or have demonstrated an attitude of non-compliance with safety requirements. The rest are usually new employers or companies that can benefit from a quick, generic premium formula, even if it is higher than they might be able to negotiate under other circumstances. The Placement Facility is an expensive alternative, however, and most employers will benefit significantly by insisting that their agents try to place them with the voluntary market.

For more information on the Placement Facility, see the Web site www.caom.com.

RIGHTS AS A MEMBER OF, OR APPLICANT TO, THE PLACEMENT FACILITY

Companies insured through the Placement Facility retain their rights to fair treatment. They have the right to request a formal hearing before the Facility's Board of Governors for either of the following:

1. Any alleged violation of the Facility's plan of operation.
2. Any alleged improper act or ruling of the Facility affecting premiums, assessments or the coverage furnished.

If a company disagrees with the Board's response, it may appeal its ruling to the State Insurance Commissioner who can either reverse or uphold the Board's ruling.

ESTIMATING COSTS

ESTIMATING THE COST OF A WORKERS' COMPENSATION POLICY

There are eight steps in estimating the cost of workers' compensation insurance. Some policies will also include dividends or refunds that may impact the costs. Each of the steps and its special terminology will be explained in depth in the this section.

- STEP 1. Review classification codes and calculate the manual premium
- STEP 2. Adjust the manual premium for experience rating or merit rating
- STEP 3. Adjust the manual premium for schedule rating credit
- STEP 4. Adjust the manual premium for premium credits
- STEP 5. Adjust the manual premium for premium discounts
- STEP 6. Add the expense constant
- STEP 7. Calculate the final audited premium.
- STEP 8. Subtract dividends (or refunds).

Once the insurance company completes Steps 1 through 6, the business is billed for an estimated annual premium based on the estimated amount of payroll for the upcoming policy period. Generally, the business will pay a deposit of not more than \$2,500 or 25 percent of the estimated annual premium, whichever is greater. The rest of the premium is billed on a monthly, quarterly or semi-annual basis. STEPS 7 and 8 come after the end of the policy period.

STEP 1. REVIEW CLASSIFICATION CODES AND CALCULATE THE MANUAL PREMIUM

To set rates, workers' compensation insurance companies divide business activities into more than 400 different classifications, based on the principal duties involved. Each classification has its own rate of coverage, so the overall rate for a given policy will be a combination of rates for all employees in all classifications. All insurers use basically the same set of classification categories and occupations descriptions.

The employer and his/her insurance agent together determine the classifications that fit the specific business. Each employer must pay close attention to this aspect of the policy since the classifications used to calculate the premium are so critical in determining the ultimate cost of the policy. The carrier has the final word on how the policy is classified.

The employer should do the following:

- Insist that the workforce be accurately and fairly classified.
- Look over the list of classifications, which should be provided by the agent.
- Read the classification descriptions.
- Make sure the classifications fit the employees appropriately. Many carriers are willing to develop special class codes to reflect changes in technology and the workplace. The carrier may be contacted regarding its willingness to develop new codes.
- Obtain copies of the codes for company record keeping.

The few minutes a company official spends reading and understanding the classifications could save thousands of dollars on the cost of the premium.

Once the classifications are settled, the company and its agent estimate what the class-by-class payroll will be during the policy period. The estimated payroll in each class is multiplied by the rate for that class. This rate is referred to as the manual rate. The total for all classifications is your estimated annual manual premium. It functions as the starting point in calculating the premium cost.

The payroll can be divided for employees who perform work that falls into more than one classification if the company keeps detailed records. This can result in a savings on the manual premium. Most carriers will have specific guidelines and formats for dividing the payroll; the insurance agent should provide the details upon request. Also, there are three codes referred to as standard exceptions that cannot be split. They

are codes 8810 (clerical), 8742 (outside sales) and 7380 (drivers).

STEP 2. ADJUST THE MANUAL PREMIUM FOR EXPERIENCE RATING OR MERIT RATING

Experience rating is an essential building block for determining a policyholder's final premium. This step takes into account the company's safety record and allows the carrier to use the firm's actual performance to determine the amount of its policy. Each insurance company has its own experience rating formula or merit rating plan.

When computing a company's estimated premium for the coming year, an insurance carrier uses the loss experience for the three years preceding the most recent year. For instance, a 2005 policy will be based on the company's experience for 2001, 2002 and 2003. A 2006 policy will be based on 2002, 2003 and 2004.

If a firm's actual losses in the three-year rating period were lower than the expected statewide average for its classifications, the premium will be adjusted downward. If the losses were higher than average for the classifications, its premium will increase.

The exact amount of upward or downward adjustment is very subjective, based on the carrier's own formula. Differences in these formulas can sometimes cause substantial differences in the premiums a company is quoted. Thus, the same loss history can result in a different experience modification rating factor, depending on which insurance company is doing the calculating.

Most insurance carriers use an alternate formula for employers with smaller premiums. It is called a merit rating plan and is based on a more generic small business formula. For instance, an insurance company may use a merit rating plan for customers whose annual premiums are between \$1,000 and \$5,000 but use its experience rating formula for premiums above \$5,000. Merit rating plans are usually more beneficial for small employers.

STEP 3. ADJUST THE MANUAL PREMIUM FOR SCHEDULE RATING CREDIT

Carriers have the option of offering additional credits to select clients. One of these credits is known as a schedule rating credit and is offered strictly at the discretion of the carrier. The same holds true for the premium credit programs. These credits are figured after the carrier adjusts the manual premium to reflect a firm's specific loss history. The schedule rating credit can be up to 25 percent, and many carriers offer up to an additional 25 percent premium credit.

Schedule rating takes into account a business' characteristics, such as recent loss-control efforts and management practices that the insurance company believes can make a difference in reducing future losses. Schedule rating is subjective. Insurance companies use the flexibility of schedule rating discounts to attract or retain favored customers.

Employers should ask their insurance carriers if they could qualify for a schedule credit now or in the future. Employers should also ask for written documentation on the program.

STEP 4. ADJUST THE MANUAL PREMIUM FOR PREMIUM CREDIT

Premium credit plans are sometimes known by other names such as a work-safe safety program or cost-control program. It is important to note that this is not the same as a premium discount. Some of the criteria used for these programs include having pre-employment drug screening, a return-to-work program, use of a designated health care provider and an employee assistance program. Again, employers should ask for documentation on the carrier's program.

STEP 5. ADJUST THE MANUAL PREMIUM FOR PREMIUM DISCOUNT

The premium discount—not to be confused with the premium credit described in Step 4—is a non-negotiable, volume discount established by the insurance carrier. Each carrier’s manual rate includes allowances for administrative expenses. Since some expenses do not increase as premiums increase, insurers sometimes reduce large premiums by taking out some of these administrative charges, thus the premium discount. The allowed discount increases with the size of the premium. These premium discounts are not discretionary.

STEP 6. ADD THE EXPENSE CONSTANT

The expense constant is a charge added to every premium to cover certain expenses common to all workers’ compensation policies, regardless of the premium size. These include such things as auditing expenses and issuing and recording policies. This is a different factor than what is built into the basic manual rate to cover certain other administrative costs. Today, most companies’ expense constants range from \$150 to \$300.

STEP 7. CALCULATE THE FINAL AUDITED PREMIUM

After a firm’s policy has expired, it may be subject to further adjustments, either up or down. Since the manual premium is based on anticipated payroll, the insurance company can now audit the client’s actual payroll to determine how accurate that estimate was. The final audited premium will be based on the actual payroll. Classification codes may also be changed at audit.

If the company owes additional premium, it has at least 30 days from the date of notice to pay. If the insurer owes a refund, it must pay it within 60 days of the completed audit.

More information on refunds is provided in this booklet under the section titled *Your Rights Regarding Workers’ Compensation*—page 6.

STEP 8. SUBTRACT DIVIDENDS (OR REFUNDS)

The final cost of a workers’ compensation policy may be reduced even further if the carrier issues a dividend. A dividend is a refund of surplus profit and is paid after the close of the policy period. The amount of a dividend is decided by an insurance company’s board of directors. In recent years, dividends have been averaging approximately 10 percent of the premium. Under Michigan law, however, dividend amounts may not be guaranteed or even estimated at the time a dividend plan policy is sold. Also, dividends may not be held back if the firm changed carriers.

Before 1983 when all workers’ compensation insurance companies used the same rates, carriers competed for business primarily on the basis of their dividend plans. The open competition rating law has led to a greater emphasis on the front-end price of a policy and reduced the use of dividend plans to lure and keep customers.

Some employers prefer the more certain up-front savings that a low initial rate offers to the less predictable savings of a dividend plan because of the obvious cash-flow advantages of a policy with a lower initial price.

WORKSHEET FOR CALCULATING YOUR WORKERS' COMPENSATION INSURANCE PREMIUM

[SAMPLE CALCULATION]

1. To calculate the manual premium, first enter up to 5 Class Codes. Determine the proper codes with your insurance agent or carrier. A classification code manual may be found at <http://www.caom.com>
 - Enter payroll for all workers that fit each separate class code.
 - Payroll is divided by 100 because rates are charged per \$100 of payroll.
 - Enter manual rates for each code. Obtain code from agent or carrier. Prices vary among 300 Michigan insurance carriers.
 - Multiply the divided payroll by the manual rates and show the subtotals for each.
 - Add all subtotals for the manual premium.

2. Adjust for experience rating by multiplying the manual premium from Step 1 with the experience modification factor (mod factor). Consult the MI Experience Rating Form or consult with the agent or carrier regarding the mod factor. A company with an alternative merit rating should enter it here. Merit ratings usually apply to smaller businesses.

3. Adjust for the schedule rating credit by multiplying the adjusted manual premium with the schedule rating credit. A Schedule Rating may be a credit of up to 25% and, in some cases, may be a debit adjustment. A credit (or debit) reflects an employer's loss history, loss control efforts, and overall management practices that impact claims. Employers should consult with the agent or carrier regarding the criteria for the credit.

4. Adjust for the premium credit by multiplying the adjusted manual premium with the premium credit. Some insurance carriers offer a discretionary premium credit to reward an employer's loss control efforts and work-safety efforts. The credit may target specific programs like drug screening, return-to-work, designated physician and others. Employers should check with the agent or carrier regarding the availability of and criteria for a premium credit.

5. Adjust for the premium discount. The premium discount—not to be confused with the premium credit—comes from a table, is not negotiable, and is actually a volume discount. Usually an initial portion of the premium is not discounted. Employers must contact the agent or carrier regarding the premium discount schedule.

6. Add the expense constant, an administrative fee charged by the insurance carrier, to the adjusted manual premium. The agent or carrier can report the expense constant amount to the policyholder.

7. This is the estimated annual premium.

8. Final premium adjustments from payroll audits or dividends should be discussed with the agent or carrier.

1. CALCULATE THE MANUAL PREMIUM (Estimated annual payroll class codes x manual rate)

Est. Annual Codes	Payroll	Divide by \$100	x Manual Rates	Subtotals
3628	\$500,000	/\$100= \$5000	x 3.64	= \$18,200
8742	\$65,000	/\$100= \$650	x 0.80	= + \$520
8810	\$185,000	/\$100= \$1,850	x 0.41	= + \$759
				= +
				= +
				= +
Calculate the MANUAL PREMIUM				= \$19,479

2. ADJUST FOR EXPERIENCE RATING

Enter the **EXPERIENCE MODIFICATION FACTOR**

x 0.90

Calculate the **ADJUSTED MANUAL PREMIUM**

= \$17,531

3. ADJUST THE MANUAL PREMIUM FOR SCHEDULE RATING CREDIT (If any)

Enter the **SCHEDULE RATING CREDIT**(100% - Credit%)

x 0.95

Calculate the **ADJUSTED MANUAL PREMIUM**

= \$16,655

4. ADJUST THE MANUAL PREMIUM FOR PREMIUM CREDIT (If any)

Enter the **PREMIUM CREDIT** (100% - Credit %)

x 0.90

Calculate the **ADJUSTED MANUAL PREMIUM**

= \$14,990

5. REDUCE BY PREMIUM DISCOUNT

Enter the **PREMIUM NOT SUBJECT TO DISCOUNT**

- \$5,000

Calculate the **SUBTOTAL**

= \$9,990

Enter the **DISCOUNT** (100% - Discount %)

x 0.905

Calculate the **ADJUSTED MANUAL PREMIUM**

= \$9,041

Enter the **PREMIUM NOT SUBJECT TO DISCOUNT**

+ \$5,000

Calculate the **ADJUSTED MANUAL PREMIUM**

= \$14,041

6. ADD THE EXPENSE CONSTANT

Enter the **EXPENSE CONSTANT**

+ 150

Calculate the **ESTIMATED ANNUAL PREMIUM**

= \$14,191

7. CALCULATE FINAL AUDITED PREMIUM (Following a payroll audit after close of policy)

8. SUBTRACT DIVIDENDS (OR REFUNDS) (Should be discussed with agent or carrier)

WORKSHEET FOR CALCULATING YOUR WORKERS' COMPENSATION INSURANCE PREMIUM

- To calculate the manual premium, first enter up to 5 Class Codes. Determine the proper codes with your insurance agent or carrier. A classification code manual may be found at <http://www.caom.com>
 - Enter payroll for all workers that fit each separate class code.
 - Payroll is divided by 100 because rates are charged per \$100 of payroll.
 - Enter manual rates for each code. Obtain code from agent or carrier. Prices vary among 300 Michigan insurance carriers.
 - Multiply the divided payroll by the manual rates and show the subtotals for each.
 - Add all subtotals for the manual premium.

- Adjust for experience rating by multiplying the manual premium from Step 1 with the experience modification factor (mod factor). Consult the MI Experience Rating Form or consult with the agent or carrier regarding the mod factor. A company with an alternative merit rating should enter it here. Merit ratings usually apply to smaller businesses.

- Adjust for the schedule rating credit by multiplying the adjusted manual premium with the schedule rating credit. A Schedule Rating may be a credit of up to 25% and, in some cases, may be a debit adjustment. A credit (or debit) reflects an employer's loss history, loss control efforts, and overall management practices that impact claims. Employers should consult with the agent or carrier regarding the criteria for the credit.

- Adjust for the premium credit by multiplying the adjusted manual premium with the premium credit. Some insurance carriers offer a discretionary premium credit to reward an employer's loss control efforts and work-safety efforts. The credit may target specific programs like drug screening, return-to-work, designated physician and others. Employers should check with the agent or carrier regarding the availability of and criteria for a premium credit.

- Adjust for the premium discount. The premium discount—not to be confused with the premium credit—comes from a table, is not negotiable, and is actually a volume discount. Usually an initial portion of the premium is not discounted. Employers must contact the agent or carrier regarding the premium discount schedule.

- Add the expense constant, an administrative fee charged by the insurance carrier, to the adjusted manual premium. The agent or carrier can report the expense constant amount to the policyholder.

7. This is the estimated annual premium.

- Final premium adjustments from payroll audits or dividends should be discussed with the agent or carrier.

1. CALCULATE THE MANUAL PREMIUM (Estimated annual payroll class codes x manual rate)				
Est. Annual Codes	Payroll	Divide by \$100	x Manual Rates	Subtotals
_____	_____	/\$100=_____	x _____	= _____
_____	_____	/\$100=_____	x _____	= + _____
_____	_____	/\$100=_____	x _____	= + _____
_____	_____	/\$100=_____	x _____	= + _____
_____	_____	/\$100=_____	x _____	= + _____
Calculate the MANUAL PREMIUM				= _____

2. ADJUST FOR EXPERIENCE RATING	
Enter the EXPERIENCE MODIFICATION FACTOR	X _____
Calculate the ADJUSTED MANUAL PREMIUM	= _____

3. ADJUST THE MANUAL PREMIUM FOR SCHEDULE RATING CREDIT (If any)	
Enter the SCHEDULE RATING CREDIT (100% - Credit%)	X _____
Calculate the ADJUSTED MANUAL PREMIUM	= _____

4. ADJUST THE MANUAL PREMIUM FOR PREMIUM CREDIT (If any)	
Enter the PREMIUM CREDIT (100% - Credit %)	X _____
Calculate the ADJUSTED MANUAL PREMIUM	= _____

5. REDUCE BY PREMIUM DISCOUNT	
Enter the PREMIUM NOT SUBJECT TO DISCOUNT	- _____
Calculate the SUBTOTAL	= _____
Enter the DISCOUNT (100% - Discount %)	X _____
Calculate the ADJUSTED MANUAL PREMIUM	= _____
Enter the PREMIUM NOT SUBJECT TO DISCOUNT	+ _____
Calculate the ADJUSTED MANUAL PREMIUM	= _____

6. ADD THE EXPENSE CONSTANT	
Enter the EXPENSE CONSTANT	+ _____
Calculate the ESTIMATED ANNUAL PREMIUM	= _____

7. CALCULATE FINAL AUDITED PREMIUM (Following a payroll audit after close of policy)

8. SUBTRACT DIVIDENDS (OR REFUNDS) (Should be discussed with agent or carrier)

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WHEN AN EMPLOYEE MAKES A CLAIM

WHAT TO DO WHEN AN EMPLOYEE IS HURT ON THE JOB

Every year, approximately 27,000 Michigan workers suffer job-related injuries or illnesses that cause them to lose eight or more days of work. A substantial number of other workers suffer job-related injuries or illnesses that require medical treatment only or cause the employee to lose fewer than eight days of work. A prompt and appropriate response from the employer can hold down the cost of such claims.

The following are some suggestions:

Medical treatment should be promptly furnished for any work-related injury. State law requires that the treatment of a work-related injury shall include reasonable medical, surgical and hospital services and medicines, or other attendance or treatment as needed. Also, the employer's insurance carrier must provide dental services, crutches, artificial limbs, eyes, teeth, eyeglasses, hearing apparatuses and other appliances necessary to cure, so far as reasonably possible, and relieve the effects of the injury.

The state has established a maximum fee schedule that limits the amount health care providers can charge for their services to workers' compensation beneficiaries.

For information on these limits, contact:

Health Care Services Division
Workers' Compensation Agency
Michigan Department of Energy,
Labor & Economic Growth
P.O. Box 30016
Lansing, MI 48909
Phone: 517.322.5433
Web site: www.michigan.gov/wca

An employer has the option of requiring an injured worker to be treated, for the first 10 days following an injury, by a health care provider chosen by that employer. After 10 days of treatment, the worker is entitled to consult with a provider of his or her own choice. The injured employee can then continue treatment with that provider unless the employer or carrier demonstrates to the Workers' Compensation Agency that this choice is unreasonable.

The injury should be promptly reported to the insurance carrier (or your service company if you are a self-insured employer). An Employer's Basic Report of Injury (Form WC-100) must be filed with the Workers' Compensation Agency in the event of an injury resulting in more than seven consecutive days of lost work (or in the event of a death or a specific loss injury). These forms are available at www.michigan.gov/wca.

The Workers' Compensation Agency should be notified by the carrier (on Form WC-70I) once indemnity (wage loss) benefit payments have begun to the injured worker. Injured workers are entitled to benefits equal to 80 percent of their after-tax wages, up to a maximum amount equal to 90 percent of the statewide average weekly wage. The first payment is due on or before the 14th day after the employer received notice of, or had knowledge of, the injury or death. In most cases, this means the first payment will be due not more than 14 days following the day of the injury. The Workers' Compensation Agency has a calculation program available at their Web site, www.michigan.gov/wca.

Firms should stay in touch with the injured employee. When first injured, most employees are very fearful about their future and their ability to return to their job. This uncertainty can hinder their rehabilitation. Studies have shown that the longer an injured worker is off from work, the more difficult is the return to work, both physically and psychologically.

The employer can help speed up the healing process and rehabilitation by reassuring the injured employee that he or she is cared about and wanted back on the job as soon as possible. Some employers convey that concern and maintain the link to the work place by sending cards or flowers and encouraging their supervisors to visit injured employees in the hospital and at home.

Employers have also found great success in transitional work centers for injured or ill workers who cannot yet handle the demands of their jobs. This option can be made available to the workers whether or not the injury or illness is work-related. The goal is to help employees to gradually ease back into the rigors of an eight-hour shift as they heal, regain their strength or learn new job tasks.

Firms should learn from past injuries to prevent future injuries. Many employers have recognized the importance of injury and illness prevention in holding down the cost of both their workers' compensation and health insurance programs. Some companies have even established a health clinic to perform comprehensive health testing. The company then reviews the results with employees and encourages the use of appropriate diet and physical fitness programs.

In addition, others have adopted the use of ergonomics to redesign workstations and work operations. For example, it may be possible to add waist-high conveyors, vacuum lifts and positioning tools to prevent common back, wrist and hand injuries.

The objective of these efforts is to return injured or ill workers back to work as soon as possible and eliminate or drastically lower the disputed or litigated workers' compensation claims.

A firm should consider using outside vocational rehabilitation providers. Early intervention by trained vocational rehabilitation practitioners often facilitates a timely return-to-work and avoids problems of re-injury which often occur when a worker returns to work under coercion. Sometimes, it is helpful for employers to use an outside provider who is perceived by the worker as neutral and is willing to advocate for him/her.

A list of approved vocational rehabilitation facilities can be found on the Workers' Compensation Agency's Web site at www.michigan.gov/wca.

ACCOMMODATIONS—A STRATEGY TO REDUCE COSTS

Injury prevention is an important aspect of many companies' workers' compensation cost-containment programs. Two prevention strategies are accommodations and ergonomics.

Accommodations are changes or adjustments to a job or work environment that will enable a worker to perform the job. Types of accommodations include: making existing facilities readily accessible and useable; restructuring job duties or tasks; modifying work schedules; acquiring or modifying equipment or devices; providing readers or interpreters; and modifying exams, training materials or policies.

Ergonomics is the term used to describe a process of designing user-friendly jobs and eliminating job hazards that can cause injury and illness. Some jobs require awkward postures, use of excessive force or constant vibration. Making ergonomic improvements in the workplace can result in fewer injuries, reduced absenteeism, decreased turnover, increased efficiency, improved work quality, higher morale and lower workers' compensation costs.

Businesses can obtain more information on these strategies from Michigan Rehabilitation Services (MRS), a division of the Michigan Department of Energy, Labor & Economic Growth. MRS provides assistance and information to businesses that are considering workplace adjustments for their workers. This assistance is available at each of the MRS offices throughout the state. Call 800.605.6722 (voice) or 888.605.6722 (TTY) for office locations or more information. The initial consultation is free.

The state also operates the Michigan Accommodation Center with locations in Lansing and Farmington Hills. These centers use a comprehensive team approach to design and provide accommodations and ergonomics for specific employer needs. Services to businesses include:

- Work station and seating evaluations.
- Ergonomic risk factor assessments.
- Design and fabrication of custom accommodations.
- Assistive technology assessments.
- Complete follow-up on all services provided.

The Michigan Accommodation Center can be contacted in Lansing by calling 888.271.8337 (voice/TTY). The center's Farmington Hills office may be contacted at 877.901.7361 (voice/TTY). The Marquette office's telephone number is 800.562.7860(voice/TTY).

Also, the Jobs Accommodation Network can be contacted toll free at 800.232.9675 or www.jan.wvu.edu. This is a free service which provides the following types of information:

- Information on reasonable accommodations;
- Assistance in construction and renovation specifications;
- Ideas on how to change applicant interviewing procedures, job descriptions and employment policies; and
- Current information about other service agencies, training programs and funding sources.

WHAT TO DO WHEN YOU DISAGREE WITH A WORKERS' COMPENSATION CLAIM

Approximately 80 percent of claims for workers' compensation benefits are paid without any dispute over their legitimacy. However, each year more than 10,000 Michigan workers file claims that are disputed by their employers or by their employers' insurance carriers. Disputed claims have traditionally been resolved or disposed of by a variety of methods, up to and including a formal hearing presided over by a workers' compensation magistrate who renders a decision either awarding or denying benefits to the claimant.

In 1985, the Michigan Legislature passed a number of significant administrative reforms to make the decisions of magistrates more definitive, thereby discouraging the high rate of appeals that had clogged the old system.

Over the last few years, disputed claims have been resolved or disposed of as follows (year 2008 data):

- 66 percent were negotiated and settled, usually in the form a lump-sum payment;
- 16 percent were either withdrawn or dismissed;
- 13 percent were voluntarily paid by the employer or carrier,
- 5 percent were formally resolved by a magistrate.

Mediation

A mediation program was one of the alternatives created in the 1980s to resolve workers' compensation disputes. Mediation is an informal discussion process between disputing parties. Sometimes this takes place face-to-face, and other times it occurs over the telephone.

A mediator from the Workers' Compensation Agency holds conferences with the parties in dispute and works toward a voluntary resolution of their differences. The mediator's role is to assist the parties in the resolution process. Cases that cannot be resolved by mediation are assigned to the Board of Magistrates.

This system is intended to be less adversarial than the hearings held by magistrates. Mediators use a process that calls for early and complete exchange of information between an employee and employer (or insurance carrier) and an informal approach, rather than formal hearings.

The Agency provides mediation services in an attempt to resolve at least the following types of disputed claims:

- Claims covering a closed period of time, where the employee has returned to work subsequent to the injury in question.
- Claims for medical benefits only.
- Claims in which the claimant is not represented by an attorney.
- Any other claim the Agency believes will be successfully settled through mediation.

To begin the hearings process, claimants or their counsel must file an Application for Mediation or Hearing (Form WC-104A) with the Workers' Compensation Agency. That application must contain factual information regarding the date of the injury, the nature of the injury, the names and addresses of any witnesses (excluding anyone working for the same employer), the names and addresses of any doctors, hospitals or other health care providers who treated the injury and the names and addresses of any other employers the injured party currently works for or has begun working for since the injury occurred. In addition, the claimant must provide the insurance carrier with any medical records in his or her possession that may be relevant to the claim.

The Agency then sends a copy of the application to both the employer and the insurance carrier. Within 30 days of receiving a copy, the carrier must file a written response with the Agency. The carrier may:

- A. Decide the claim is legitimate and voluntarily start to make payments, or
- B. Challenge the claim through a formal response, including disagreements on specific factual information provided on the claimant's application. The carrier's response must also provide the claimant with any medical records it has that are relevant to the claim.

In 2008, mediators held hearings on 2,779 cases and resolved 51 percent of the disputes.

Board of Magistrates' Hearings

If a claim cannot be resolved informally, the dispute will be scheduled for a formal hearing before a magistrate. These hearings are similar to, but less formal than, a trial in a court of law. Witnesses must testify under oath and a record of the proceedings is kept. Testimony of physicians is usually taken by means of sworn depositions, rather than given in person at the time of the trial.

The injured worker has the responsibility to prove his or her right to benefits by showing greater evidence in favor of the claim than against it. The magistrate will render a written, legal decision deciding the merits of the claim, thus granting or denying the payment of benefits.

A magistrate's decision may be appealed to a five-member Workers' Compensation Appellate Commission. The appealed decision is reviewed by either a panel of three commission members or by the full commission.

A decision of the Appellate Commission may be appealed to the state Court of Appeals, and ultimately to the state Supreme Court; but such appeals are infrequently accepted by these courts.

Specific questions should be referred to:

**Workers' Compensation Agency
Michigan Department of Energy,
Labor & Economic Growth
P.O. Box 30016
Lansing, Michigan 48909
Phone: 1-888-396-5041
Web site: www.michigan.gov/wca**

The booklet, **An Overview of Workers' Compensation in Michigan**, is available upon request from this agency. The booklet and other helpful information are also available on the Web site.

REDEMPTIONS

Historically, 55 to 65 percent of all disputed workers' compensation claims have been settled by use of redemptions. Because redemptions are used so often to settle disputed claims, it is important for employers to understand their rights when a redemption is proposed.

A redemption is a negotiated lump sum payment (or series of payments for a set period of time) that redeems the employer and insurance carrier's liability for an injury or illness under dispute. In most cases involving redemptions, the employee believes the injury or illness to be work-related, but the employer believes the injured employee is not injured (or ill) or that the injury (or illness) is not work-related. A redemption is NOT considered to be an admission of liability.

All redemptions must be officially approved by a workers' compensation magistrate at a formal hearing. If an insurance carrier wants to redeem or settle a workers' compensation claim, the carrier must notify the employer in writing at least ten business days prior to the hearing on the proposed redemption.

The insurance carrier's written notice must include the following:

- A statement of the employer's right to object to the proposed redemption.
- The time and place of the hearing.
- The amount and conditions of the proposed redemption agreement.
- Instruction on requesting a private informal conference to discuss the proposed redemption. The name and phone number of the insurance carrier's representative responsible for the case in question must also be included.

The following conditions must be met before a redemption agreement will be approved by a workers' compensation magistrate:

- The redemption serves the purposes of the act, is just and proper under the circumstances and is in the best interests of the injured employee.
- The redemption is voluntarily agreed to by all parties. If an employer does not object in writing or in person, the employer is considered to have voluntarily agreed to the redemption.
- The injured employee is fully aware of his or her rights under the Act and the consequences of the redemption agreement.

Each party to a redemption must pay a \$100 fee to help defray the administrative expenses of the Workers' Compensation Agency.

REFERENCE AND RESOURCES

APPENDIX

Contractors, subcontractors and sole proprietors. A contractor could be legally responsible for paying workers' compensation benefits to any injured employees of an uninsured subcontractor.

Contractors can protect themselves from this responsibility by either:

- A. Obtaining documentation from the subcontractor that he/she has workers' compensation coverage for his/her employees; or
- B. Obtaining a copy of the subcontractor's **Notice of Exclusion (Form WC-337) filed with the Workers' Compensation Agency.** This exclusion form may be used by certain entities (such as sole proprietorships, partnerships, limited liability companies, and stock corporations) in which all employees have chosen to legally exclude themselves from coverage under the workers' compensation statute.

For more information on compliance and exclusions, contact:

Compliance and Employer Records Division
 Workers' Compensation Agency
 Michigan Department of Energy,
 Labor & Economic Growth
 P.O. Box 30016
 Lansing, MI 48909
 Phone: 517.322.1195
 Web site: www.michigan.gov/wca

Contractors bear the burden of proving to his or her insurance carrier that the subcontractor is, indeed, a subcontractor and not an employee. A general contractor can use the following factors or documentation to prove that a subcontractor maintains a separate business and is not acting as an employee:

- The subcontractor's federal identification number.
- A copy of an assumed name certificate filed with the county.
- A copy of the subcontractor's articles of incorporation or partnership papers.
- A copy of the subcontractor's IRS 1099 form, given in lieu of a W2 form.
- Evidence that the subcontractor maintains his or her own separate place of business; physically distinct from the contractor's place of business.
- Evidence that the subcontractor furnishes all of the materials and equipment necessary to perform the job tasks.
- A copy of a written contract that spells out the relationship between the general contractor and the subcontractor.
- Proof that the subcontractor can realize a profit or suffer a loss as a result of the services rendered.
- Proof that the subcontractor has the right to hire or fire its employees without securing permission from the general contractor.

The following factors may be used to determine if the subcontractor holds itself out to, and renders service to, the public:

- The subcontractor is listed in the Yellow Pages and/or advertises in newspapers, trade journals, on television or on the radio;
- The subcontractor is included on a list of other general contractors or individuals who have recently hired the services of the subcontractor.
- The subcontractor performs specific services for prices that are agreed upon in advance, and the subcontractor pays expenses incurred in the performance of those services.

Other factors to be considered include:

- A sworn statement from the subcontractor that the subcontractor has no employees,
- A sworn statement that the subcontractor does not primarily depend upon the payments from one general contractor for his/her livelihood.

In summary, the general contractor has the burden of proving to the insurance carrier that he or she should not be charged a premium for a subcontractor (and for the subcontractor's employees) because the subcontractor is legitimately an independent contractor with no employees, or is an independent contractor with employees under current insurance coverage, or has a workforce that is legally excluded from coverage.

Contractors and independent subcontractors with questions about their status and about coverage requirements or possible exclusions, should consult with an attorney and/or insurance agents regarding the comparative benefits and responsibilities of the various options.

Additional assistance regarding contractors and subcontractors may be obtained by contacting the following:

Compliance and Employer Records Division
Workers' Compensation Agency
Michigan Department of Energy,
Labor & Economic Growth
P.O. Box 30016
Lansing, MI 48909
Phone: 517.322.1195
Web site: www.michigan.gov/wca

HOW TO GET HELP

Questions about buying workers' compensation insurance should be directed to the following:

Office of Financial and Insurance Regulation
Michigan Department of Energy,
Labor & Economic Growth
P.O. Box 30220
Lansing, MI 48909
Phone: 517.373.0220

Questions about the handling of a claim should be directed to the following:

Workers' Compensation Agency
Michigan Department of Energy,
Labor & Economic Growth
P.O. Box 30016
Lansing, MI 48909
888.396.5041 (toll free)

Questions about self-insured programs should be directed to the following:

Self-Insured Programs Division
Workers' Compensation Agency
Michigan Department of Energy,
Labor & Economic Growth
P.O. Box 30016
Lansing, MI 48909
Phone: 517.322.1868

Questions about workplace safety programs should be sent to the following:

Consultation Education and Training Division
Michigan Department of Energy,
Labor & Economic Growth
P.O. Box 30643
Lansing, MI 48909
Phone: 517.322.1809

Questions about medical fees or health care rules should be directed to the following:

Health Care Services Division
Workers' Compensation Agency
Michigan Department of Energy,
Labor & Economic Growth
P.O. Box 30016
Lansing, MI 48909
Phone: 517.322.5433

The Workers' Compensation Cost Control Service may be contacted at the following:

Michigan Economic Development CorporationSM
300 N. Washington Square
Lansing, MI 48913
Phone: 517.373.9808

WEB SITES

Cost control strategies and other business resources and information

Michigan Economic Development CorporationSM
<http://www.michigan.org>

Modification Factors and the Michigan Placement Facility (Assigned Risk Pool)

Compensation Advisory Organization
of Michigan
<http://www.caom.com>

Rules, regulations, self-insurance and other topics

Workers' Compensation Agency
<http://www.michigan.gov/wca>

Safety information and links

<http://www.safetyinfo.com>

Job accommodations and employability of people with disabilities

Job Accommodation Network (JAN)
<http://janweb.icdi.wvu.edu>

Workplace injuries and illnesses information and sources

CTDNews
<http://www.ctdnews.com>

Americans with Disabilities Act (ADA)

U.S. Department of Justice, ADA home page
<http://www.usdoj.gov/crt/ada/adahoml.htm>

Equal Employment Opportunity Commission (EEOC)

<http://www.eeoc.gov/ada/adadocs.html>
<http://www.eeoc.gov/types/ada.html>

Insurance industry information, resources and links

Michigan Association of Insurance Agents
<http://www.michagent.org/home/industry.htm>

International Association of Industrial Accident Boards and Commissions (IAIABC)

<http://www.iaiaabc.org>

North American Industry Classification System (NAICS)

<http://www.naicscod.htm>

Consumer news, resources and advice for the insurance buyer

<http://www.insure.com>

State-by-state information from a non-government source

<http://info.insure.com/states/>

Disability management and return-to-work information

<http://www.watsonwyatt.com>

Drug-free workplace kit

U.S. Department of Health
& Human Services
<http://www.workplace.samhsa.gov/WPWorkit/workitindex.html>

Michigan Supreme Court Decisions

<http://www.icle.org/michlaw>

GLOSSARY

A

ACCIDENT An unforeseen, unintended event; something unexpected or something which could not be considered as a foreseeable occurrence and consequence of an undertaking which sometimes results in personal injury or damage to equipment or material.

ACTUAL PRIMARY LOSSES Losses that reflect claim frequency. The maximum primary value for each loss is \$5,000. For each loss equal to or less than \$5,000, the entire amount is issued as the primary value. For each loss over \$5,000, the primary value is \$5,000. For medical only losses (Injury Type 6), the primary value will be reduced by 70 percent (most carriers are using this rule).

ADDITIONAL INSURED A person, firm or corporation, other than the named policyholder, who is protected against loss by the terms of the policy.

AGENT A person who represents insurance companies in a sale or service capacity and who is wholly or partially paid on a commission basis. The agent is licensed by the state in which he or she operates and is governed by the terms of the agency contract and state laws.

APPLICATION OF POLICY The policy section that states that the job-related accident (or the last day of exposure to a compensable disease) must occur during the policy period, even though payment of injury benefits may extend over many years. It clarifies liability as regards to an occupational disease that has been gradually mounting over a considerable time period.

ASSIGNED RISK PLAN (POOL) A coverage plan that provides a means for insureds who are unwanted risks (due to high hazards or poor experience or small premium size, etc.) to secure workers' compensation insurance. In Michigan, this is sometimes called the Assigned Risk Pool because policyholders are assigned to one of six insurance carriers for their

coverage. The assigned risk pool has its own schedule of manual rates which are revised each year by a governing board of directors representing the insurance industry. The assigned risk pool is not a state program (see Placement Facility).

AUDIT PREMIUM See Final Premium.

AVERAGE WEEKLY WAGE LOSS This is the difference between a claimant's average weekly wage prior to disability and earnings while disabled.

B

BALLAST A stabilizing element designed to limit the effect of any single loss on the experience modification. It is added to both the actual primary losses and the expected primary losses. The ballast value increases as expected losses increase. These values may be obtained from the Tables of Weighting and Ballast Values filed by each carrier.

BENEFIT The sum provided in an insurance policy to be paid for certain types of loss under the terms of an insurance policy. For example, a workers' compensation policy may provide that certain sums be paid for death, loss of limbs or sight, or loss of time. These specified amounts are the benefits provided by the policy.

BODILY INJURY BY ACCIDENT; BODILY INJURY BY DISEASE The policy definition that points out the difference between a bodily injury due to accident and bodily injury due to disease, so that one injury cannot be deemed to fall within both categories. An employer's limits of liability apply differently to each.

BROKER An insurance solicitor, licensed by the state in which he or she operates, who represents the policyholder. The broker places orders for coverage with insurance companies. Brokers are governed by state law and the terms of the brokerage contracts with carriers. Unlike agents, a broker usually does not have authority to bind coverage. Also see Producer.

C

CANCELLATION Termination of an insurance contract before the end of the policy period, by the insured or insurer, usually in accordance with provisions in the contract. The following are three types of cancellation.

- Flat Cancellation of an insurance contract as of its date of inception, without premium charge.
- Pro-Rata Termination of an insurance contract or bond, the premium charge then adjusted in proportion to the exact time the protection has been in force.
- Short-Rate Cancellation of an insurance contract at the request of the insured with return to the insured of less than the proportion of the premium payable upon pro-rate cancellation.

CAPTIVE AGENT An insurance agent that represents and sells coverage for only one insurance company.

CASH BENEFITS Benefits that include both scheduled loss benefits and disability benefits. The former are paid whenever there is an amputation or a limb's loss of use, while the latter is paid whenever there is a disability, which is a loss of wage earning capacity.

CLAIM A demand for payment under an insurance contract or bond.

CLAIMANT One who makes a claim.

CLASSIFICATION CODE NUMBER A unique identifying number for an occupational classification listed in the Workers' Compensation Manual.

CLASSIFICATION OF OPERATIONS The job tasks performed by the insured's business, which are described in the information page of the policy.

CLASSIFICATION PAGES The section of the Workers' Compensation Manual that lists the different kinds of occupations according to the work performed or the type of product produced, and provides definitions and guidelines that are useful in classifying and rating risks.

COMPENSABLE INJURY Injury arising out of and in the course of employment; injury must be accidental and not self-inflicted.

COMPENSATION ADVISORY ORGANIZATION OF MICHIGAN (CAOM) Not a state agency. This organization is mandated by law to exist and some of its functions are to serve as the Data Collection Agency and promulgate modification factors for carriers. This is also the Michigan Workers' Compensation Placement Facility.

CONDITIONS The portion of the insurance contract that outlines the duties and responsibilities of both the insured and the insurer.

CONTRACT A legal agreement between two parties or consideration. An insurance policy is a contract.

D

DATA COLLECTION AGENCY The agency established for the purpose of performing the workers' compensation data requirements of the Insurance Code of 1956.

DEPOSIT PREMIUM A premium which is based on the probable amount of payroll, and is calculated at the beginning of the policy year.

DESIGNATED ADVISORY ORGANIZATION The advisory organization designated by the Data Collection Agency.

DIRECT WRITER An insurance company that sells its policies through salaried employees (licensed agents) who represent it exclusively, rather than through independent, local agents.

DISABILITY A limitation of an employee's wage earning capacity in work suitable to his/her qualifications and training resulting from a personal injury or work related disease.

DISABILITY BENEFITS Payments that compensate the disabled employee for some portion of his/her loss of earned income.

DUAL CAPACITY CLAIM A demand made by injured employee against employer acting in a capacity other than employer, such as a manufacturer of a product involved in the injury.

DIVIDEND Return of a portion of one's premium, which is issued after the final payroll audit and usually 18 months or so after the close of the policy period.

E

EFFECTIVE DATE The starting date of a policy; the time at which the insurance protection begins.

EMPLOYEE One who performs services for another under a contract of hire (express or implied) acting under the direction and control of the person by whom he or she is hired and who performed a service for a valuable consideration (pay).

EMPLOYER A person, firm, partnership, association, corporation, a legal representative of deceased employer, or the receiver or trustee of a person, partnership, association or corporation who uses or engages the services of another under a contract of hire.

EMPLOYERS LIABILITY INSURANCE Insurance that protects an employer against the claims for damages which arise out of injuries to employees in the course of their work. A workers' compensation policy insures the employer against liability under state compensation laws. Employers Liability Insurance provides protection in cases not covered by the compensation law.

ENDORSEMENT An amendment in writing (including print or stamping) added to and made a part of the insurance contract for the purpose of changing the original terms—either to restrict or expand coverage.

EXCLUSION(S) Provisions not covered by the policy and specifically so stated in the policy contract.

EXCLUSIVE REMEDY The legal doctrine which says that an employee's exclusive remedy or relief for a work-related injury or illness are those benefits due him/her under the state's workers' compensation statute and which are either self-funded by the employer or secured through an insurance policy. If not for the exclusive remedy provision, then employees injured as a result of an employer's negligence, for example, might be able to also successfully sue that employer for damages in a tort claim.

EXPENSE CONSTANT A charge which is applied to every policy and is added to the premium. It covers expenses such as those for issuing and recording policies and auditing. Most carriers are currently using an expense constant of \$150–\$300.

EXPERIENCE MODIFICATION FACTOR Most policyholders will be given an experience modification factor by their carrier once they have been in business at least two years. The experience modification factor is a comparison of a given employer's actual losses with the expected losses for the average employer in a specified classification code. The factor itself is calculated by means of a somewhat complicated formula that may vary slightly from one insurance carrier to another due to the use of differing expected loss rates, but follows the same general format developed by the insurance industry nationally. That formula generally tends to penalize employers more for the frequency of claims than the severity of claims. An employer will be fully experienced rated once three years of loss history is available for comparison. Those employers whose premiums are too small to qualify for experience rating are usually subjected to a merit rating plan developed by their specific carrier.

EXPERIENCE RATING The system of measuring an employer's workers' compensation loss history compared to the expected losses of the average employer in the same industry. The experience period used in a risk's modification generally consists of three completed years of experience ending one year prior to the effective date of the modification.

EXPIRATION DATE The date at which insurance protection on a policy will end (e.g., coverage will cease on an annual policy at the end of 12 months from the effective date).

F

FINAL PREMIUM A premium which is based on the actual amount of payroll, and is calculated at the end of the policy year (after an audit has been conducted).

G

GENERAL EXCLUSIONS Work operations that are not anticipated in the classification code number assigned and are special activities that require a separate classification code number.

GENERAL INCLUSIONS Side operations at the workplace that are normally included as part of the risk's primary operation.

GENERAL RULES The section of the Workers' Compensation Manual that contains usage guidelines and rules concerning the classification and rating procedures.

GOVERNING CLASSIFICATION The classification which carries the largest amount of payroll.

H

HAZARD Anything that increases the chance of loss.

I

INDEMNITY Repayment of wage loss.

INDEPENDENT AGENT An insurance agent who represents and sells coverage for an average of five to ten insurance companies.

INFORMATION PAGE That portion of the insurance contract which contains such data as name and address of the insured, policy period, coverage and premium.

INTENTIONAL TORT A situation where an employee has been injured and the injury was caused by something which the employer knew (or should have known) would cause the harm. An injured worker can bring an intentional tort law suit even if they have received workers' compensation benefits.

INSPECTION The investigation of certain risks which may be made by independent inspection firms or by the company before issuance or during the term of the policy.

INSURANCE A social device where many share the losses of a few by transferring a portion of the loss to the insurance company in exchange for certain costs.

INSURED The person purchasing the insurance policy.

INSURING AGREEMENTS The portion of the insurance contract which states those perils insured against the coverage afforded by the policy.

L

LIMITS OF LIABILITY Maximum amounts which an insurance company under its contract agrees to pay in case of losses.

LONG-TERM POLICY The policy condition that states that although the policy may be written for a term of three years, for example, all provisions of the policy apply separately to each consecutive year and the premium is computed annually.

LOSS Death or injury that is the basis for a valid claim for repayment under the policy; the amount paid by the insurer.

LOSS CONTROL The management of work site factors at an insured company's business that can reduce claims and increase safety.

LONGSHOREMAN'S AND HARBOR WORKERS' COMPENSATION ACT COVERAGE ENDORSEMENT The endorsement that is required by federal law for employers who employ persons to work in, on, or around navigable waters of the U.S. and its territories.

M

MANUAL PREMIUM The premium calculation made by multiplying each manual rate times the appropriate portion of the insured's payroll. These results are then summed and divided by \$100 to yield the total manual premium.

MANUAL RATE The starting price for a given classification code before any adjustments are applied for experience rating, schedule credits (or debits), expense constants, premium credits or premium discounts.

MEDICAL BENEFITS Payment of benefits to cover medical expenses. These payments are usually provided without dollar or time limits. In the case of most job place injuries, only medical benefits are provided since substantial impairment or wage loss is not involved. Employees have their choice of treating physicians after the first 10 days of medical care.

MERIT RATING A merit rating is a factor used for accounts that do not meet minimum premium size requirements to be eligible for an experience modification factor.

MINIMUM PREMIUM The lowest price for which an insurance company will sell a workers' compensation policy, regardless of how small the covered payroll. It is intended to cover certain basic administrative overhead costs.

MIOSHA Michigan Occupational Health and Safety Act (Public act 154 of 1974) which was passed so that the State of Michigan could be responsible for regulating workplace safety rather than the federal government.

N

NEGLIGENCE Failure to do what a prudent individual would ordinarily do under the circumstances of a particular case, or doing what a prudent person would not have done. Negligence may be caused by acts of omission, commission or both.

NOC Abbreviation of the phrase 'Not Otherwise Classified.' This definition applies to risks that do not have a classification definition which specifically describes their operation.

NO-FAULT LIABILITY Basic legal concept of workers' compensation whereby the cost of occupational injuries or diseases is assessed against the employer even though he or she was not negligent or otherwise responsible under common law.

O

OCCUPATIONAL DISEASE An injury arising out of employment and due to causes or conditions characteristic of, and peculiar to, the particular trade, occupation, process, or employment. In Michigan, since 1982, mental disabilities and conditions of the aging process, including but not limited to heart and cardiovascular conditions are considered compensable.

OCCUPATIONAL INJURY Injury occurring in the course of one's employment and caused by inherent or related hazards.

OPEN COMPETITION The requirement in Michigan, since 1983, that each insurance company set its own rates for workers' compensation insurance independent of any other carrier or organization. Many other states either have a form of cartel rating (administrative pricing) or exclusive state funds.

OSHA (Occupational Safety Health Act) The federal law that encourages employers and employees to reduce hazards in a work place and improve safety and health programs.

P

PAYROLL AUDIT An examination of the insured's payroll records by a representative of the insurer to determine the premium due on a policy.

PERMANENT PARTIAL DISABILITY A condition which actually or presumptively results in partial loss of earning power.

PERMANENT TOTAL DISABILITY A condition which actually or presumptively is considered the equivalent of a complete and permanent loss of sight, loss of both hands or both legs, and shall constitute permanent total disability regardless of the insured's ability to do some work.

PLACEMENT FACILITY Commonly known as the market-of-last-resort for employers who cannot obtain coverage through the voluntary market for any reason (see Assigned Risk Plan).

POLICY The document issued to the insured by the company; the policy states the terms of the insurance contract.

POLICY PERIOD The specified length of time that the policy is in effect, usually one year, and it is the period for which the premium is paid.

PREMIUM An amount of money paid to an insurance company in return for insurance protection.

PREMIUM CREDIT A discretionary credit deviation from the manual premium offered by an insurance company to some, but not all, policyholders. It is available to qualifying policyholders who practice certain loss prevention and cost containment activities. Some carriers call this program by a specific name such as workplace safety program. Credit amounts vary by carrier and can be up to 25 percent; they are in addition to a schedule rating.

PREMIUM DISCOUNT A provision—not to be confused with the premium credit—designed to distribute the cost of workers' compensation insurance equitably among risks of all sizes, so that the large risks pay no more than their fair share of loss costs and insurance company expenses. This discount is usually only available to policyholders whose premiums exceed \$5,000. The discount acts as a volume discount, comes off a table, and is not discretionary.

PRODUCER A term commonly applied to an agent, solicitor or other person who is paid a commission to sell insurance, producing business for an insurance company.

PURE PREMIUM RATE The estimated portion of a manual rate which is needed to pay only for the costs of anticipated losses (and loss adjustment expense) for claims attributable to a given policy year. An advisory pure premium rate is established each year for each of the over 400 classification codes by a centralized data collection agency called the Compensation Advisory Organization of Michigan (CAOM). These rates are not allowed, by state law, to include any trend factors or allowances for profits or expenses.

A number of workers' compensation insurance carriers doing business in Michigan use the CAOM's advisory pure premium rates to derive their own schedules of manual rates by simply multiplying a common factor (such as 1.4) times the pure premium rates.

R

RATE The cost of insurance per payroll before adjustment for an individual insured's size, exposure or loss experience.

RATING SYSTEM Every classification, rating plan, merit rating plan, rating value and rules manual used by an insurer in the determination of premiums.

REDEMPTION A settlement of a disputed claim, usually through a one-time lump sum payment, that fulfills the employer's or insurance company's potential liability for an injury or illness, which the employee alleges to be work-related.

A redemption is not considered to be an admission of liability, however. Redemptions are also occasionally used to terminate liability for ongoing payment of benefits in claims where benefits have been paid on a voluntary or uncontested basis for a number of years. Redemptions must be approved by a workers' compensation magistrate according to criteria set forth in law.

REHABILITATION A process of restoring the handicapped to the fullest physical, mental, social, vocational, and economic usefulness of which they are capable.

REHABILITATION BENEFITS Payments of benefits covering the cost for medical rehabilitation and/or vocational rehabilitation for those cases involving severe disabilities.

REMUNERATION The entire earnings, money or other substitutes for money of all employees engaged in the work operations covered by the policy (including executive officers and other employees engaged in operations covered by the policy) during the policy period.

RESERVE An amount representing actual or potential liabilities held by an insurance carrier to cover debts to policyholders.

RETROACTIVE PERIOD Most state compensation laws provide a retroactive period for disabled employees who are out of work for a long period of time. If a disability continues past a specified number of work days or weeks, then the compensation benefits will be paid retroactive to the date of injury, including the waiting period. In Michigan, if the disability continues beyond 14 days, benefits are due from the first day of disability onward.

RETROSPECTIVE RATING PLAN A plan that establishes an insured's actual loss experience during the policy term, subject to a minimum and a maximum premium, with the final premium being determined by a formula. Under this plan, the current year's premium is based on the current year's losses, although the premium adjustments may take months or years to determine the actual cost of the policy. These plans are used mostly with large accounts.

S

SCHEDULE RATING A deviation from the manual premium (either in the form of a credit or debit) offered by an insurance company to some, but not all, policyholders. It can total up to 25 percent and is usually based on factors such as loss control efforts, quality of management, and ability to reduce future losses.

SCHEDULED INJURY An injury listed in the workers' compensation law, such as loss of a finger or toe, for which specified compensation is payable regardless of whether or not the employee suffers a loss of earning power.

SECOND INJURY FUNDS A program (or similar arrangement) developed to meet problems arising when a pre-existing injury combines with a second to produce disability greater than that caused by the latter alone. The funds (1) encourage hiring of the physically handicapped and (2) more equitably allocate costs of providing benefits to such employees.

SELF-INSURANCE Ability of an employer to carry its own workers' compensation coverage without purchasing a policy through the private market. An application for approval must be filed with the Workers' Compensation Agency, Michigan Department of Energy, Labor & Economic Growth. Applications may be submitted by a single employer or through a group self-insurance fund on behalf of two or more employers in the same industry.

SHORT RATE CANCELLATION The cancellation of a policy by a policyholder that results, in some cases, in an additional charge.

SETTLEMENT See Redemption.

STANDARD EXCEPTIONS Certain types of work which are separately rated regardless of the governing classification.

SUBROGATION The condition that allows the insured to transfer the rights of recovery to the company when the company pays a claim brought against the insured.

SURVIVOR BENEFITS These are benefits that attempt to compensate the widow or survivor of an employee whose death results from a job-related injury.

T

TEMPORARY PARTIAL DISABILITY A condition which results in a partial loss of earning power but from which recovery can be expected.

TEMPORARY TOTAL DISABILITY A condition which disables the employee from working, but from which complete or partial recovery can be expected, enabling him/her to return to employment.

THIRD PARTY ADMINISTRATION Administration of the claims function by a third party for companies with self-insured-workers' compensation insurance.

TOTAL STANDARD PREMIUM The premium arrived at after the experience modification factor has been applied.

U

UNDERWRITE TO INSURE Scrutinizing a risk and deciding on its eligibility for insurance.

V

VOLUNTARY COMPENSATION AND EMPLOYERS LIABILITY COVERAGE ENDORSEMENT

The endorsement that provides workers' compensation benefits and employees liability insurance on a voluntary basis for employees who are not included under the workers' compensation law for various reasons, or whose status is doubtful.

VOLUNTARY MARKET The private, open or openly-competitive insurance market where a company official seeking insurance obtains coverage through an insurer of his or her own choice with no help from the state government.

W

WAITING PERIOD A legally-mandated period that must elapse before income benefits are payable. In Michigan, the initial waiting period is seven days; indemnity (wage loss) benefits are payable beginning with the eighth day of disability. This waiting period affects only compensation; medical and hospital care are provided immediately. If disability continues for a certain number of days or weeks, most laws provide for payment of income benefits retroactive to the date of injury. In Michigan, if a disability continues for 14 days, benefits are payable from the first day of disability onward.

WORKERS' COMPENSATION The coverage required by state law for compensation (medical and loss wages) to workers who are injured on the job, regardless of the employer's or employee's negligence.

WORKERS' COMPENSATION LAW Rules of conduct or action, prescribed and enforced by a controlling authority, governing employer and employee relations in handling occupational disabilities. All states, the District of Columbia and the U.S. territories have enacted a workers' compensation law.

WORKERS' COMPENSATION MANUAL A publication containing underwriting rules, classifications, and premium rates for workers' compensation insurance.



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