

PREMIUM AUDIT GUIDE

Worker's
Compensation



Alliance
Insurance Agency
We've got you covered

Introduction

At Alliance Insurance, we believe in providing our commercial clients with the highest level of service. A key element of commercial insurance includes Workers' Compensation audits by carriers to ensure that you are only paying premiums for your actual business' exposure to loss. Since premiums are initially based on your best estimate of the rating base (which is comprised of payroll, sales, total cost, etc.) for the policy term, it is import to stay vigilant of any differences between you estimates and your actual exposures. Carriers oftentimes audit clients for a variety of reasons. In order to prepare your company for an audit, we have compiled this audit guide to help explain what is included, why, and what you need in order to go through your carrier audit with ease.

Remuneration

When going through a Workers' Compensation audit, the considerations of what is payroll versus remuneration is a focus for any auditor. What is remuneration you ask? It includes any form of compensation that an employee receives outside of their wages and tips. There are two determinations that an auditor is looking to make:

1. How much you paid your employees and any temporary laborers in wages or other forms (remuneration).
2. What type of work was performed by employees and temporary laborers to ensure correct classification.

Below is a chart of what types of additional compensation are classified as remuneration that need to be **included** when an auditor assesses your company's actual exposure. Please keep in mind that these are general rules and each state may have exceptions. Your Alliance Team will be able to guide you through your state's requirements.

Included Remuneration

Included Remuneration		
<p>1. Wages or salaries, including those that are retroactive.</p> <p>2. Total cash received by employees for commissions and draws against commissions.</p> <p>3. Bonuses including stock bonus plans.</p> <p>4. Extra pay for overtime work.</p> <p>5. Pay for holidays, vacations, or periods of sickness.</p> <p>6. Payment by an employer of amounts otherwise required by law to be paid by the employee's statutory insurance or pension plans such as the Federal Social Security Act.</p> <p>7. Payments to employees on any basis other than time worked such as piecework, profit sharing, or incentive plans.</p>	<p>8. The rental value of an apartment or house provided for an employee based on comparable accommodations.</p> <p>9. The value of lodging, other than an apartment or house, received by employees as part of their pay as show in the policyholder's records.</p> <p>10. The value of meals received by employees as part of their pay as show in the policyholder's records.</p> <p>11. The value of store certificates, merchandise, credits, or any other substitute for money received by employees as part of their pay.</p> <p>12. Payments for salary reduction, retirement, or cafeteria plans (IRC 125), which are made through deductions from the employee's gross pay.</p>	<p>13. Davis-Bacon wages paid to employees or placed by an employer into third-party pension trusts.</p> <p>14. The value of Automobile Allowance received as part of pay as shown in the records.</p> <p>15. Prevailing wage which is the wage paid to an employee for a government contract, which pays a higher wage than is normally paid to the employee. The insured must pay the prevailing wage to the employee and any of the extra benefits that the government requires. All of the wages and the benefits are included in the payroll if they are shown on the W-2 or 941.</p>

Excluded Remuneration

Excluded Remuneration		
1. Tips and other gratuities received by employees.	4. Dismissal or severance payments except for time worked or accrued vacation.	7. Sick pay paid to an employee by third party, such as by a policyholder's group insurance carrier, which is payment of disability income benefits to a disabled employee.
2. Payments by an employer to group insurance or group pension plans for employees other than payments covered by items 6 and 13 above.	5. Work uniform allowances.	8. Expense reimbursement to employees substantiated in the employer's records (cell phones, mileage, etc.).
3. The value of special rewards for individual invention or discovery.	6. Payments for active military duty.	

Types of Labor

During your audit, your payroll and general ledger will be reviewed to determine the exposure for the audit period. The type of labor is defined based on the employer/employee relationship and the payment process. The definitions are as follows:

Employee Labor (FICA)

FICA (Federal Insurance Contributions Act tax) is a full or part-time employee that performs services in the course of the trade, business, profession, or occupation who is hired and paid directly by you (the insured). These employees are issued a W-2 at the end of the calendar year which can be verified to Federal and/or State tax forms. As such, mandated taxes for employment, social security, etc. are deducted from their pay. Your employees of this classification may or may not receive additional benefits provided by your company.

Statutory Employee Labor

Any full or part-time individual that performs services in the course of the trade, business, profession, or occupation who is hired and paid directly by you (the insured). The key difference here is that this individual is paid as a 1099 and you do NOT withhold taxes on their behalf.

Leased Labor

A full or part-time individual who performs work in the course of the trade, business, progression, or occupation for you (the insured) who has been hired through a leasing company (a contract labor company, recruiting firm, etc.). As such, you don't provide benefits but rather a fee to the leasing company for the services. Typically, in this arrangement, Workers' Compensation exposures are covered by the leasing company, but your policy will include the General Liability.

Temporary Labor (Non-FICA/Subcontractor/1099)

This is a full or part-time laborer who you hired to perform part or all of an entire job and is paid by cash, check, or credit card. It is the responsibility of the individual to carry valid General Liability insurance and/or Workers' Compensation coverage or to prove that they are an independent contractor.

Independent Contractors are a type of subcontractor and can be an individual or a business that provides services or goods to another company under the terms of a specific contract. They are not employees as they do not work regularly for one company and may have a limited number of hired workers themselves. Independent Contractors are NOT required to carry Workers' Compensation coverage, however, they should have an exemption certificate (depending on state) and General Liability insurance. **The burden of providing proof to their own respective insurance company is the sole**

responsibility of the Independent Contractor. The Independent Contractor Statement (form FM-901) can be used as a means of proof. We recommend collecting this statement at the beginning of a contract as the information can be difficult to track down once a contract has been completed.

Casual Labor

The classification is designed for employment that does not, due to its casual nature, occur in the usual course of trade, business, profession or occupation of the employer. Some of the terms that can be used to describe this type of labor are sporadic, brief, unpredictable, and irregular.

Workers' Compensation

Your company's policy is based on your **estimated** exposures. Audits are performed to gather and verify the information required to calculate the **actual** exposure for the policy period.

Officers

Each state specifies the special minimums and maximums for business officers and owners. As such, you should inform your broker as soon as possible of any changes as it could affect the total exposure for each class code. If you elect to be included or excluded, the forms take place with the current term and cannot be retroactive, so keeping your Risk Advisor in the know is essential.

Employee Classification

The job duties or services performed by employees in their scope of employment are what determine the classification of class code(s) for each individual. In order to best reflect the company's operations, these class codes are routinely reviewed so that the accurate payroll amount is reported for each separate class code.

No-Payroll Division (NPD) Classifications

Some wages for specific types of employees cannot be divided on the payroll between class codes which are known as no payroll division (NPD) codes. These can include clerical, drafting, and outside sales. However, the state of employment and scope of job responsibilities will determine whether the exposure can be divided.

Interchange of Labor

Businesses often have employees that do a wide variety of tasks, a circumstance referred to as an interchange of labor. If you have employees that fit into this category, be advised that their wages may be allocated to different class codes (with the exception of NPD codes) if the allocation is:

- Shown separately in the insured's original entry records.
- Based on the actual payroll incurred in each operation.
- Not based on an estimate or percentage.

Overtime

In many states, companies that maintain records to show overtime pay separate from straight time pay that are summarized by classification are able to deduct the sums paid in excess of standard wages. However, in 2016, the Department of Labor issued the Final Overtime Rule which helps determine whether or not white collar employees are exempt from the Fair Labor Standards Act's minimum wage and overtime pay protections. Consult with your Risk Advisor to ensure that you are properly classifying your employees in regards to these changes.