Workers’ Compensation Insurance

Getting to know the Basics

This presentation is for educational purposes only. A Workers’ Compensation policy must be consulted for actual coverage, terms, and conditions.

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Getting to Know the Basics

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- Who Needs to Purchase
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- Premium Basis & Computation
- Ease of Quoting, Binding and Doing Business
The Basic Concept of Workers’ Compensation Insurance

- Workers’ Compensation (WC) Insurance is state-mandated insurance that provides compensation to employees who suffer “job-related” injuries and illnesses.
  
  - Employees relinquish their right to sue employers if they suffer a job-related injury or illness. In return, employers agree to provide state-mandated benefits if such injuries or illnesses occur.
  
  - To ensure employers will have the money to pay these mandated benefits, most states require that employers purchase Workers’ Compensation Insurance to prove they have the financial ability to pay any claims that may arise.
Generally, if a business has employees they must purchase Workers’ Compensation.

Each state’s requirements are different.

When is Workers’ Comp NOT mandatory?

Examples:

- Sole Proprietors
- Independent Contractors
Many state Workers’ Compensation laws require an owner to purchase WC Insurance based on the number of employees and/or type of business.

<table>
<thead>
<tr>
<th>State</th>
<th>Requirements</th>
</tr>
</thead>
<tbody>
<tr>
<td>AL</td>
<td>All employers with five or more employees</td>
</tr>
<tr>
<td>AK</td>
<td>All employers with one or more employees</td>
</tr>
<tr>
<td>AZ</td>
<td>All employers with one or more employees</td>
</tr>
<tr>
<td>AR</td>
<td>All employers with three or more employees, except for employers engaged in repair work (two or more), contractors who subcontract part of their work (one or more), and subcontractors (one or more)</td>
</tr>
<tr>
<td>CA</td>
<td>All employers with one or more employees</td>
</tr>
<tr>
<td>CO</td>
<td>All employers with one or more employees</td>
</tr>
<tr>
<td>CT</td>
<td>All employers and employees</td>
</tr>
<tr>
<td>DE</td>
<td>All employers and employees</td>
</tr>
<tr>
<td>DC</td>
<td>All employers and employees</td>
</tr>
<tr>
<td>FL</td>
<td>All employers with four or more employees; 1 or more in construction/construction related trades</td>
</tr>
<tr>
<td>GA</td>
<td>All employers with three or more employees</td>
</tr>
<tr>
<td>HI</td>
<td>All employers with one or more employees</td>
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<tr>
<td>ID</td>
<td>All employers with one or more employees, unless specifically exempt.</td>
</tr>
<tr>
<td>IL</td>
<td>All employers and employees</td>
</tr>
<tr>
<td>IN</td>
<td>All employers and employees</td>
</tr>
<tr>
<td>IA</td>
<td>All employers and employees, including proprietors and partners who elect to be covered</td>
</tr>
<tr>
<td>KS</td>
<td>All employers and employees; employers whose payroll for the preceding year was less than $20,000 and who don’t expect the current year’s payroll to exceed $20,000 are excluded</td>
</tr>
<tr>
<td>KY</td>
<td>All employers with one or more employees</td>
</tr>
<tr>
<td>LA</td>
<td>All employers with one or more employees</td>
</tr>
<tr>
<td>ME</td>
<td>All employers and employees</td>
</tr>
<tr>
<td>MD</td>
<td>All employers with one or more employees</td>
</tr>
<tr>
<td>MA</td>
<td>All employers with one or more employees. Employees include students participating in a work-based experience as part of the school-to-work program</td>
</tr>
<tr>
<td>MI</td>
<td>All employers with three or more employees or less than three if the third employee is employed for 33 hours per week for 13 weeks by the same employer</td>
</tr>
<tr>
<td>MN</td>
<td>All employers and employees</td>
</tr>
<tr>
<td>MS</td>
<td>All employers with five or more employees</td>
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<tr>
<td>MO</td>
<td>All employers (except construction employers) with five or more employees, construction employers with one or more</td>
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<tr>
<td>MT</td>
<td>All employers and employees</td>
</tr>
<tr>
<td>NE</td>
<td>All employers with one or more employees</td>
</tr>
<tr>
<td>NV</td>
<td>All employers with one or more employees</td>
</tr>
<tr>
<td>State</td>
<td>Requirement</td>
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<td>-------</td>
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</tr>
<tr>
<td>NV</td>
<td>All employers with one or more employees</td>
</tr>
<tr>
<td>NH</td>
<td>All employers with one or more employees. In addition, any provision in an agreement that requires employers or insurance carriers to waive any rights of subrogation granted under the workers’ compensation law is prohibited.</td>
</tr>
<tr>
<td>NJ</td>
<td>New Jersey requires that all employers provide for the payment of obligations to injured employees or to the dependents of deceased employees through a workers’ compensation insurance policy or through self-insurance approved by the Commissioner of the Department of Banking and Insurance. Sole proprietorships and partnerships and limited liability companies (LLCs) are exempt from this rule if the only employees are the business owner or partners or members of the LLC.</td>
</tr>
<tr>
<td>NM</td>
<td>All employers with three or more employees and all employment that exposes employees to radiation</td>
</tr>
<tr>
<td>NY</td>
<td>All employers with one or more employees</td>
</tr>
<tr>
<td>NC</td>
<td>All employers with three or more employees and employers licensed under the Construction Industries Licensing Act.</td>
</tr>
<tr>
<td>ND</td>
<td>MONOPOLISTIC - All employers with hazardous employment.</td>
</tr>
<tr>
<td>OH</td>
<td>MONOPOLISTIC - All employers with one or more employees</td>
</tr>
<tr>
<td>OK</td>
<td>All employers and employees</td>
</tr>
<tr>
<td>OR</td>
<td>All employers with one or more employees</td>
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<tr>
<td>PA</td>
<td>All employers and employees</td>
</tr>
<tr>
<td>RI</td>
<td>Employers with one or more employees</td>
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<tr>
<td>SC</td>
<td>All employers with four or more employees</td>
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<tr>
<td>SD</td>
<td>All employers and employees</td>
</tr>
<tr>
<td>TN</td>
<td>All employers with five or more employees (all with one or more employees for employers that mine or produce coal)</td>
</tr>
<tr>
<td>TX</td>
<td>Covered employment includes an employee in the service of another under a contract of hire, including express or implied, oral or written. Certain exceptions exist.</td>
</tr>
<tr>
<td>UT</td>
<td>Employers with one or more employees</td>
</tr>
<tr>
<td>VT</td>
<td>All employers and employees; however a corporation or limited liability company (LLC) may elect to exclude up to four executive officers, managers or members and coverage is elective for sole proprietors and partners</td>
</tr>
<tr>
<td>VA</td>
<td>All employers with three or more employees</td>
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<tr>
<td>WA</td>
<td>MONOPOLISTIC - Employers with one or more employees</td>
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<tr>
<td>WV</td>
<td>All employers with one or more employees</td>
</tr>
<tr>
<td>WI</td>
<td>Employers who pay wages of $500 or more in a calendar quarter</td>
</tr>
<tr>
<td>WY</td>
<td>MONOPOLISTIC - All employers and employees</td>
</tr>
</tbody>
</table>

Texas is the only state that does not require Workers’ Comp. As of 2013
Monopolistic States

So what is a Monopolistic State? It’s simple, “Monopolistic State Funds: Jurisdictions where an employer must obtain Workers’ Compensation insurance from a compulsory state fund or qualify as a self-insurer (as is allowed in two of the jurisdictions). Such insurance is not subject to any of the procedures or programs of the National Council on Compensation Insurance (NCCI). Instead, each jurisdiction has its own rules and regulations that govern the placement and administration of Workers’ Compensation Insurance.”

- These states mandate that the employer purchase Workers’ Comp from the State Fund.
- Employers Liability may be purchased on a separate policy. Commonly known as “Stop Gap.”

Monopolistic state include:
- Ohio | North Dakota | Washington | Wyoming
Parts of a Workers’ Comp Policy

\[ Part I – Statutory Coverage \]
\( \quad \) Medical Benefits
\( \quad \) Death Benefits
\( \quad \) Rehab Benefits
\( \quad \) Disability

\[ Part II – Employers Liability \]
\( \quad \) Protects Employers from claims not covered in Part I

\[ Part III – Other States Insurance \]
\( \quad \) Provides temporary coverage in other States
Types of Coverage

Part I: Workers' Compensation Coverage. Workers' Comp coverage provides benefits for injured workers as required by state law — regardless of who is at fault for the injury or illness. In other words, whatever benefits the state requires that employers provide for injured workers, the Workers' Comp policy provides.

Part II: Employer's Liability Coverage. This additional coverage provides employers with liability protection in case they are ever sued for damages arising from employment-related accidents or diseases.

- However, to collect benefits provided by Employer's Liability Coverage, both the employee, as well as anyone else not covered by workers' compensation laws (i.e. spouses and dependents), would have to prove that the employer was actually legally responsible for the employee's injury or disease.

Part III: Other States Coverage. This coverage provides Workers’ Compensation (Part I and Part II) in other states where the insured temporarily enters on work business.
Workers’ Compensation insurance is designed to provide benefits for employees. However, the individuals that are defined as employees are determined by state law.

The Employer's Liability insurance included in a Workers' Compensation policy can also provide coverages to injured workers separate from their Workers' Compensation benefits. Family members and other third party claimants may also receive benefits under this coverage -- if they prove the employer's legal liability.

- Specific limits of liability apply: For example $100/$100/$500
  - $100,000 for bodily injury by accident – each accident
  - $100,000 for bodily injury by disease – each employee
  - $500,000 for bodily injury by disease – policy limit
Part I: Benefits Provided

- **Medical Benefits** for a covered injury or disease - including medical, hospital, surgical, and other related health care costs, as well as physical therapy and prosthetic devices;

- **Death Benefits** - including a flat amount for burial expenses, as well as partial replacement of the worker's weekly wage;

- **Rehabilitation Benefits** - including services to help an injured worker return to productive work, such as vocational rehabilitation;

- **Disability Income Benefits** - including compensation for lost wages.
Types of Injuries / Illnesses Covered

} Work-Related Injuries
  ○ If an employee is accidentally injured while on the job, a Workers' Compensation policy will pay for a wide range of services to aid the injured worker's recovery and return to productive work. These services can include the cost of medical care, compensation for lost wages, and rehabilitation therapy.
  ○ If an employee is accidentally killed while on the job, the policy will also provide death benefits -- including burial expenses and partial replacement of the worker's weekly wage.

} Occupational Illnesses
  ○ If some condition in the working environment causes an employee to become ill or contract a work-related disease, Workers' Compensation will provide a wide range of benefits to help treat this illness and speed the employee's recovery. These benefits will typically cover the cost of medical care, compensation for lost wages, and other required therapy.
  ○ If an employee dies from this disease, the policy will also provide death benefits - including burial expenses and partial replacement of the worker's weekly wage.
Part II: Third Party Suits Against the Employer

If an employee is injured in an accident, they may try to sue a "third party" (a company other than the insured) -- if they believe that party is somehow responsible for their injury. In turn, that third party may sue the insured - if it believes the insured is legally liable for the accident.

Example: an employee injured while using a piece of equipment may sue the equipment manufacturer for alleged malfunction or faulty design. However, the manufacturer can then turn around and sue the insured - if they believe the accident was instead caused by the insured’s improper maintenance of the equipment.

In this situation, the Employer's Liability coverage of the policy would pay any damages awarded by the court to compensate for the bodily injury.
Classification of Employees

} Class codes and descriptions may vary by state.

} Classifications are usually defined by a state approved organization such as
  ◦ NCCI (National Council of Compensation Insurance); or
  ◦ WCIRB (Workers’ Compensation Insurance Rating Bureau)

} Classifications are based on tasks of the particular job of each Employee. Every employee is classified according to their job description.
  ◦ Owners, Partners, and Officers may be included OR excluded from coverage.

} Governing Class is defined as the class that generates the most payroll aside from standard classes such as clerical or sales.
**Premium Basis**

- **Remuneration**: the basis for calculating Workers’ Compensation premium; primarily payroll, but may also include other forms of employee compensation.

- Workers’ Compensation is computed by applying varying rates *(for different classifications)* per $100 of the annual remuneration payroll.
  - NOTE: Annual payroll is subject to audit.

- **Experience Modifier** *(aka Experience Mod)*: an adjustment to the base premium, calculated by an advisory organization *(rating bureau)* based on the insured’s historic loss history and payroll.
  - Computed by the bureau using data from the prior four (4) years loss history.
  - Will adjust each year using the most recent three (3) years eliminating the current year.
  - Applied to base premium amounts by carriers writing coverage for the particular account.
  - Usually based on a “Premium” threshold that is sizable.
Annual Payroll \( (\text{per} \ 100) \times \text{Rate} \times \text{Experience Mod} \)

\[ = \text{Annual Premium} \]

\( \Rightarrow \) Each Classification is rated separately.

\( \Rightarrow \) Subject to annual audits.

\( \Rightarrow \) Various Expense Constants are charged per carrier.

**Rating Example of Clerical Employee (8810)**

\[
\begin{align*}
$100,000 \times 0.40 &= $400 \\
\text{Annual Payroll} & \quad \text{Rate} \quad \text{Ann’l Prem}
\end{align*}
\]
Ease of Quoting and Binding

》 Workers’ Compensation is easy to quote and submit.
   - NEA’s Single-Entry, Multi-Carrier, Multi-Line Quoting and Request Bind Platform.
   - Join one of our LIVE DEMOs to see how easy it is to Quote and Request Bind in NTrack.

》 Cross sell WC with every GL and Auto account.
   ◦ If you’re not writing it, someone else is!!

》 Mono-line policies are available.
# Ease of Doing Business

## NEA Call Center

### New York
*Servicing states*: CT, DC, DE, MD, MA, ME, NH, NJ, NY, NC, OH, PA, RI, SC, VT, VA, WV

- **Hrs of Op:** 8:00am – 4:30pm EST
- **Phone:** 800.333.0980
- **Placement Email:** NortheastTeam@NEAgencies.com
- **Service Email:** NortheastTeamCS@NEAgencies.com

### Texas
*Servicing states*: AL, AK, AZ, AR, CO, GA, ID, IL, IN, IA, KS, KT, LA, MI, MN, MS, MO, MT, NE, NM, NV, ND, OK, OR, SD, TN, TX, UT, WA, WI, WY

- **Hrs of Op:** 8:30am – 5:30pm CST
- **Phone:** 800.844.3899
- **Place/Service Email:** NEATXBranch@NEAgencies.com

### California
*Servicing the state of*: CA

- **Hrs of Op:** 8:30am – 5:00pm PST
- **Phone:** 866.404.1083
- **Place/Service Email:** NortheastTeamCA@NEAgencies.com

## Florida
*Servicing the state of*: FL

- **Hrs of Op:** 8:00am – 4:30pm EST
- **Phone:** 866.290.9680
- **Place/Service Email:** NortheastTeamFL@NEAgencies.com

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## Carrier Direct Service Centers

For your convenience, as well as the insured’s, NEA provides the agent and the insured direct carrier Service Center access to accommodate all servicing needs including: change requests, certificates of insurance, billing, etc.

**IMPORTANT:** when calling a carrier service center, indicate that you are an agent who wrote a policy through Northeast Agencies.