PARTNERSHIP FOR COMMERCIAL INSURANCE & RISK MANAGEMENT

CLASSIFICATION REVIEW

THE USI ONE ADVANTAGE®

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CLASSIFICATION REVIEW

Executive Summary

Avoiding costly Workers' Compensation premium calculations and audits based upon incorrect information

PROTECTION + CONTROL + COST

Why is it Important

- With more than 650 business and job code classifications, it is estimated that 70% of companies have misclassified workers.
- Misclassification can negatively impact both annual workers' compensation premiums and experience modification rate.
- In addition, state nuances, work near or over navigable waters, and current work from home initiatives can exacerbate the issue.

Impact and Benefits to Clients

- **Reduce premium cost by an estimated 10% – 30%** by correcting classifications based on annual review.
- Positively impact workers' compensation experience modifier to reduce future premiums.

CLASSIFICATION REVIEW

Comprehensive Review Process

USI'S COMPREHENSIVE REVIEW:

Understand the nature and evolution of work being performed along with aggregate associated payrolls

Compare results to the NCCI (or state specific rating bureau like WCRIB for California) manual to identify and value the financial impact of misclassifications

Communicate changes to the insurance company and/or the Workers' Compensation board for approval and implement corrections

STEP ONE:

Red Flags for Misclassification Review

It is important to review a company's operational expansion and contraction to ensure workers are properly classified

- Has your organization expanded into other states?
- Have you done any mergers and acquisitions or changed ownership in the last twelve months?
- Have you started offering more services because a client has asked for expanded scope?
- Do you have subcontractors or independent contractors working for you?

Key Observations

- Changes to or expansion of operations can change the class codes of your employees. You may be subjecting yourself to increased or inflated worker's compensation costs.
- Subcontractors and Independent contractors who do not maintain worker's compensation coverage may cause you to become the employer on record for claims arising out of their operations thus increasing your claims and experience modification rate (EMR).

STEP TWO:

Comparing Results to State Rating Bureau

Location	Classification	Original Payroll	Amended Payroll	Premium Rate	Original Manual Premium	Revised Premium	Savings
123 American Blvd., Phoenix, AZ							
Door and Window Installation—All Types—Residential and Commercial	5102	$ 2,350,000	$ 1,500,000.00	7.865	$ 184,828	$ 117,975	$ 66,853
Installation or repair of window glass away from the insured's shop	5462	$ 500,000	$ 1,150,000.00	7.202	$ 36,010	$ 82,823	$ (46,813)
Outside Sales	8742	$ 1,000,000	$ 600,000.00	0.312	$ 3,120	$ 1,872	$ 1,248
Clerical Office Employees NOC	8810	$ 500,000	$ 1,100,000.00	0.156	$ 780	$ 1,716	$ (936)
		$ 4,350,000	**$ 4,350,000**		**$ 224,738**	**$ 204,386**	**$ 20,352**
1415 Las Altos Blvd., Las Vegas, NV							
Door and Window Installation—All Types—Residential and Commercial	5102	$ 1,500,000	$ 450,000	6.37	$ 95,550	$ 28,665	$ 66,885
Outside Sales	8742	$ 750,000	$ 115,000	0.715	$ 5,363	$ 822	$ 4,540
Clerical Office Employees NOC	8810	$ 467,000	$ 95,000	0.26	$ 1,214	$ 247	$ 967
		$ 2,717,000	$ 660,000		$ 102,127	$ 29,734	$ 72,392
Totals		**$ 7,067,000**	**$ 5,010,000**		**$ 326,864**	**$ 234,120**	**$ 92,744**

Key Observations

- Employees at AZ location were misclassified by the TYPE of work they did resulting in an overpayment of $20,352.
- Employees at NV location did not allow for the $36,000 payroll limitation and had overstated payroll for purposes of the premium calculation resulting in an overpayment of $72,392.
- By reviewing payroll and class code for operations, payroll was reduced from $7M to $5M, and Premium was reduced by **$92,744** or **30%**.

STEP THREE:

Communication with Carrier & Rating Bureau

Once discrepancies are identified, USI communicates with both the Insurance Carrier and Rating Bureau and is Key in resolving issues

- Contact the insurance with request for change
- Have documentation substantiating the changes based upon worker duties
- Provide payroll information for auditing purposes and correct determination
- If not resolved with the carrier, contact the rating bureau for a reclassification
- May require a site inspection and review to complete review

Next Steps:

- Current year's payroll by class code by state
- Description of Operations