



Top Five Frequently Asked Questions About Workers' Compensation Insurance

As a small business owner, it is important for you to become familiar with the following frequently asked questions and answers regarding workers' compensation insurance.

What is workers' compensation insurance and how does it work?

Workers' compensation insurance provides businesses coverage for their statutory obligations relating to employee expenses that are a direct result of on-the-job injuries and/or illnesses.

State laws establish comprehensive and specific benefits that must be provided to employees who suffer a work-related injury or illness. Usually, businesses obtain workers' compensation protection from one of four sources: private insurance carriers, state insurance funds, self-insurance or self-insured groups.

While benefits may differ from state to state, workers' compensation can include weekly payments in place of wages, compensation for economic loss (past and future), reimbursement or payment of medical expenses, and benefits payable to the dependents of workers killed on the job or in the course of employment. Workers' compensation insurance policies generally do not include damages for pain and suffering or punitive damages for employer negligence.

Workers' compensation laws generally provide no-fault benefits to employees. This means that injured workers can, in most cases, collect workers' compensation benefits regardless of whether they caused their own injury. The laws also provide the predictability of an exclusive remedy to businesses, meaning injured workers are provided defined benefits as compensation for their injury.

Do I need workers' compensation insurance for my business?

The short answer to this question is "yes." Workers' compensation insurance is required by every state in the U.S. except Texas and Oklahoma, where businesses can opt out. However, even absent a legal requirement, every smart business owner should have it. That is because, insured or not, a business may be responsible for an on-the-job injury, including injuries that take place entering or leaving a job site.

Each state has different workers' compensation requirements, so it is important to check the laws in your state to be sure you are in compliance. Some states define "workers" to include volunteers. Other states allow businesses of a certain size to be self-insured. There are also exemptions and requirements that vary from state to state.

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What happens if I don't have workers' compensation insurance?

Failure to meet a workers' compensation coverage requirement could leave your business exposed to the full costs of workers' compensation claims and/or regulatory penalties. Both could be severe.

How is my workers' compensation premium determined?

Your workers' compensation premium is determined by a formula that contains the following three primary elements:

Type of Business

Your business is assigned to an industry-defined hazard group based on the likelihood of an accident occurring in your workplace. A low-risk business such as a professional services firm will have a different hazard group classification than a higher-risk business such as a construction company. An average cost per injury and fatality is computed for each classification. As you might expect, workplace injuries that take place on a construction site will probably cost more than injuries that take place in an office environment. It is important to be sure your employees are classified correctly, as this directly affects the amount of your workers' compensation premium.

Accident History

Your workers' compensation premium is also based on the number of accidents that have occurred in your workplace relative to the average for all businesses of your classification and size. If your business has fewer workplace accidents than the average during a defined measurement period, your premium may be lower than the premium paid by a similar business that experienced more accidents than average. The possibility of lower premiums is an inducement for a business to prevent workplace injuries. Workplace safety programs can help you educate employees about safety and keep accidents to a minimum.

Total Payroll

The higher your payroll, the more you will pay in workers' compensation premium. The more employees you have, the greater the chance that someone will experience a workplace injury.

Once your business is correctly classified and your accident history is assessed, your business is assigned an experience modification rate that takes all of that information into account. This rate is then multiplied by your total payroll to determine your premium.

Where can I get workers' compensation insurance?

In most jurisdictions, businesses can fulfill their workers' compensation obligations by purchasing a policy from a private insurance company or a state insurance fund.

Companies meeting certain legal criteria can assume their own workers' compensation risk and liabilities by self-insuring. An alternative to self-insurance is self-insured group (SIG) in which companies join a group of other employers, which is responsible for the workers' compensation risk and liabilities for group members.

North Dakota, Ohio, Washington and Wyoming require businesses to get coverage exclusively through state-operated funds. These are commonly called "monopolistic state funds." A business cannot meet its workers' compensation obligations in these jurisdictions with a policy from an insurance company.



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