

Who Needs Worker's Comp

Q: I recently started a business, and I need to find out about setting up workers' compensation insurance. Does every business need it? Where do I get it?

A: Workers' compensation insurance covers injuries and occupational diseases picked up at work. Fault doesn't matter; employers are liable even if the employee may have contributed to the injury or illness. It's required in every state except Texas, and specifics vary from state to state.

Workers' comp can cover all these areas:

- ✓ Injuries or loss of limbs
- ✓ Diseases like emphysema or repetitive motion
- ✓ Injury inflicted at work
- ✓ Medical treatment
- ✓ Rehabilitation needed so workers can return to work
- ✓ Lost wages (up to two-thirds of the employee's salary)
- ✓ Death
- ✓ Liability insurance for the company for lawsuits filed by injured employees

Not every employer needs workers' comp-in some states, small companies with fewer than three to five employees don't. Many states also give the employer the option to self-insure, that is, to cover the costs flowing from on-the-job injuries themselves. Whether this is a good idea depends on the business you're in and the financial state of your company.

Let's say you do need workers' comp, and you don't choose to self-insure. How much coverage do you need per employee, and how much will it cost? What you'll pay depends on the kind of business you're in-here are about 700 "occupational codes" used by insurers, each carrying a different premium. (These codes are developed by the National Council on Compensation Insurance Inc.) Premiums are calculated for each \$100 of payroll.

For example, a relatively low-risk occupation like administrative assistant might cost 30 cents per \$100 of payroll. Premiums rise as jobs become more hazardous, with contractors costing about \$4 per \$100 and even higher-risk occupations like truck drivers costing as much as \$10 per \$100.

Rates are commonly set for three years, during which the insurer tracks how many claims you submit. After three years, the "experience modification factor" kicks in-an evaluation of how your claims compared to other, similar businesses in your state. Coming in with fewer, less costly claims can earn a dividend (a refund of part of your premium) from some insurers. And building safety practices into daily operations can earn an additional discount.

Like other types of insurance, there are better and worse deals available. Once you've established a good history with few claims, you may qualify for a "preferred" rate instead of a "standard" one. Some businesses are unfortunate enough to pay above-standard rates if the insurer sees them as risks.

Where can you ask questions about premiums and find workers' comp insurance? Again, it depends on what state you live in. In most states, you can get insurance through carriers you already know: Travelers, Fireman's Fund, Liberty Mutual, CNA and The Hartford. Some states (North Dakota, Ohio, West Virginia, Washington and Wyoming) have a state agency that sells all workers' comp insurance in that state.

Whether or not your business needs workers' comp insurance now, it's good to know what to expect when your profits and size grow to a point where you do.

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