

Calculating Workers Compensation Premiums



All workers compensation (WC) policies are essentially the same by statute. These policies cover the same employee injuries at the same coverage limits. However, the cost of coverage can vary widely - even for schools that have similar payrolls and employee counts. Understanding how premiums are calculated is the first step to controlling costs and saving money for your school.

Total Annual Payroll - is the main driver of WC premium cost. Three additional factors are then applied to determine the total policy amount: the applicable rate (which is based on the industry rate of school workers), the experience modification factor of the school, and the fees, surcharges and discounts of the carrier.

Workers Compensation policy costs can be calculated by a simple formula:

$$\frac{\text{PROJECTED ANNUAL PAYROLL}}{100} \times \frac{\text{APPLICABLE INDUSTRY RATE} \times \text{EXPERIENCE MODIFICATION FACTOR (MOD)}}{100}$$

Carriers then apply applicable discounts, surcharges, and fees to this formula, resulting in the total premium amount.

The Applicable Rate - is based the types of employees at the school. States assign a specific code to each profession class and determine a rate for that profession based on the historical and perceived hazard of the role.

Your broker should always be evaluating the market to make sure your school is accessing the best value policy. FFB regularly reviews policies and finds schools are spending 20%-30% more than needed on workers compensation. Be sure that your broker is working for you.

The Experience Modification Factor of your school is a number determined by your state rating bureau or NCCI using a specific formula that varies slightly by state. Generally the formula takes into account the frequency and severity of any workers compensation claims over the previous three years, excluding the current year, and compares that to similar employers to calculate your deviation from average.

Fees, Discounts, and Surcharges - are layered onto workers compensation policy costs by carriers. These can significantly impact the total cost of your workers comp policy - both positively and negatively. For example, there are safety groups in some states composed exclusively of schools with strong claims histories, which enable members to access large discounts. Most carriers even offer multiple WC programs under different names, each with different costs and discounts. Your broker should do the legwork to find your school the best option available.



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