

Firms need to guard against worker comp overcharges

By Todd Schiff

Many Colorado business owners are not aware they are being overcharged by insurance carriers for workers' compensation premiums. The overcharges may not be intentional, but they exist within the workers' compensation system.

Our company found that nine out of 10 small Colorado business operations have been, or are currently being, overcharged on workers' compensation premiums. The majority of overcharges are due to errors not detected by the employer or employees. The lack of detailed knowledge on how premiums are determined, and what deductions are available to reduce the premiums charged by insurance carriers, is another area where overcharges occur.

Code errors

In Colorado, the Division of Insurance has appointed the National Council of Compensation Insurance, or NCCI, as the rating bureau to maintain the classification and rating system. Although there are more than 650 different classification codes available, not all apply to Colorado business operations.

A company is assigned a classification code or codes from an agent or underwriter of the insurance carrier when the business applies for insurance coverage. A different rate applies to each classification code, depending on the amount of risk associated with the job description, and will change every year that a general rate filing is processed by the NCCI and approved by the Colorado Division of Insurance.

Once classification codes are endorsed, operations covered in each classification code may change. And the description of operations covered in each classification code may also change.

A classification code description, for example, may include drivers associated with the delivery of a company's manufactured items. A change may then exclude the drivers and separate their payroll to a lower rated classification code. This may or may not be recognized when the audit is performed and billed to the insured. Without an

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independent review, the business would be overcharged for its premiums.

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All Colorado employers pay workers' compensation premiums based on an estimate of labor costs for a one-year period. Payment plans may vary for each insurance carrier. Some employers have a single payment for the entire year, while others may pay quarterly or monthly.

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Some insurance carriers require a deposit of 25 to 50 percent of the annual premium. Other plans may require a letter of credit in lieu of a deposit, while other policies may not require a deposit at all.

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Overcharges have been detected where payments processed by the insurance carrier do not match the amounts indicated on the insurance carrier's billing statements. In some cases, errors have been documented where the deposit premium was not returned to the employer upon cancellation of a policy.

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Audit errors

Every policy year, the insurance carrier will perform an audit of the employer's records to figure out actual labor costs to determine the correct premium. Errors have been found on the audit worksheet prepared by field auditors. Proper exclusions also are often omitted, resulting in additional premium charges. Sometimes, employees are not classified to the proper classification code because of the lack of information or the lack of a complete job description.

Rating errors

Although all premiums are paid to the insurance company, the NCCI determines a company's experience rating. Errors have been detected where the information filed by the insurance company is either not correctly reported to the rating bureau or is not processed correctly by the rating bureau. Incorrect reporting of information often leads to overcharges in the calculation of the experience rating modification.