

# Worker's Compensation Glossary

## Advisory Organization

An organization which compiles rating data (like NCCI) for use by member insurance companies.

## Assigned Risk Adjustment Program

An additional fee placed on Assigned Risk policies (In NCCI jurisdictions) with experience modification factors higher than 1.00.

## Assigned Risk Plan – Assigned Risk Pool – State Fund

A state designated program that ensures all employers can have access to workers' compensation insurance even if insurance companies are not willing to voluntarily write the insurance. Often the last resort option for companies with poor experience ratings. Assigned risk plans usually have higher rates than the voluntary market.

## Audited Premium

The final premium for the term of the policy, calculated by auditing actual payroll values for the type of work being performed. Employers using a Professional Employer Organization (PEO) or employee leasing company are not usually subject to audits since they are on a pay-as-you-go basis.

## Carve-Out (PEO Work Comp Policy)

A hybrid PEO arrangement where the employers maintains their own work comp policy and does not obtain coverage through the PEO work comp master policy.

## Classification Code – Workers' Compensation Code

Also called work comp code or class code. Each type of work has risk of injury. Work comp codes are established that identify the type of work being performed and provide an associate code. Work comp premium rates are established by codes and are meant to be commensurate with the risk associated with that workplace exposure. Codes descriptions are maintained by NCCI in the SCOPES manual.

## Certs – Workers' Compensation Certifications

A certificate issued by a carrier or PEO that demonstrates work comp coverage. Used most often by contractors and sub-contractors to prove to their clients that they are covered for any injury claims and that the client is not liable for workplace injuries of employees of a subcontractor.

## Claim – Work Comp Claim

An insurance policy claim for payment due to an injury suffered by an employee.

## Dec Page – Declaration Page

The agreement page of a workers' compensation insurance policy that defines the work comp codes in use. It defines all associated charges for the policy.

## Dividend

For standard work comp policies, a return of premium, calculated after policy expiration, based on the over-all performance (claims) of the policy holder or insurance company. Although Some PEOs may offer dividends plans, the return of premium cannot be guaranteed in advance.

## **Excess Losses**

In the Experience Modification Factor , the amount of loss for individual claims over \$5,000.

## **Experience Modification Factor – Ex Mod – Mod Rating – Experience Mod**

An adjustment to manual insurance premium , calculated by an advisory organization or a rating bureau such as NCCI, based on a company's historic workers' compensation insurance claims. Click here for more information about understanding Experience Modification Factors.

## **Experience Period**

The window of time for loss and payroll data used to calculate an experience modification factor for an employer. Traditionally a three year period, starting four years prior to the effective date of the experience modifier. Rating bureaus may not wait until three years before establishing an experience rating for an employer. If an employer reaches a certain, relatively low threshold of workers' compensation insurance premiums in any one of the three years in the experience period the employer is eligible for experience rating. Each state has different thresholds for premium amounts before a company is eligible for experience rating. For example, California's threshold was \$30,900 in 2004.

## **Governing Classification**

The classification code on an employer's workers' compensation insurance policy that generates the most payroll.

## **Guaranteed Cost**

A work comp insurance policy that is cannot be adjusted due to losses that occur during the policy term. Only payroll values affect the premium charge. Most PEO arrangements are similar to guaranteed costs policies.

## **Incurred Losses**

Paid losses plus additional loss reserves for anticipated future claims. Many loss sensitive insurance policies adjust premium based on incurred losses rather than solely on paid losses

## **Interstate Rating**

An experience modification factor that applies across several states. Interstate ratings are calculated by a rating bureau (like NCCI) for employers operating in more than one stated. Most, but not all states (Michigan, Pennsylvania, and Delaware are exceptions), participate in the interstate rating system. Employers can have one experience modifier applying to their operations in most states but a separate modifier calculated by the stand-alone state rating bureau. The separate state modifier(s) apply only to workers compensation insurance premiums for the employer's operations in that stand-alone state.

## **Loss Runs – Workers' Compensation Loss Runs or Loss History**

A report prepared by the insurance provider or master policy holder (PEO) that details the cost associated with actual claims paid during a defined time period.

## **Manual Premium**

Workers' compensation premium calculated by multiplying payrolls by appropriate rates, before application of experience modifier, schedule credit, or premium discount. Manual rates are established by a ratings bureau.

## **Master Policy – Professional Employer Organization - PEO**

A workers' compensation insurance policy that covers worksite employees of a client of the PEO in a co-employment arrangement.

## **Merit Rating**

A premium adjustment used in some NCCI states for employers too small to qualify for an experience modification factor. It provides either a premium credit or a debit for such employers based on prior claims (or lack of them.)

## **Modified Premium**

Workers' Compensation premium calculated after application of experience modification factor.

## **Monopolistic**

State operated insurance company used in Workers Compensation Insurance in some states where the risks are so great that the commercial insurance companies cannot operate at affordable rates.

## **NCCI: The National Council on Compensation Insurance**

The organization responsible in many states for determining proper workers' compensation classifications, experience modification factors, and collecting data used for establishing work com rates. NCCI also writes the manuals used in many states to calculate Workers' Compensation premiums, and also administers the assigned risk plan in many jurisdictions. NCCI is a private company.

## **Premium Discount**

A premium discount, based on size of the premium paid. A premium discount is usually at the discretion of the insurance provider.

## **Primary Losses**

In the experience modification factor, the total of the first \$5,000 of each work comp claim (loss).

## **Rating Bureau or Rating Organization**

Some states maintain their own separate rating bureaus. Currently, the states of California, Delaware, Hawaii, Indiana, Massachusetts, Michigan, Minnesota, New Jersey, New York, North Carolina, Pennsylvania, Texas, and Wyoming operate their own non-NCCI rating bureaus. Many of these largely follow NCCI rules for computing premiums and classifications, but California, Delaware, Texas, and Pennsylvania are notably different than NCCI in some aspects of classification and premium computation.

## **Remuneration**

The basis (usually payroll) for calculating Workers' Compensation premium. Remuneration, but may also include other forms of employee compensation. Workers' Compensation premium is computed by applying varying rates for different work comp classifications per hundred dollars of remuneration.

## **Residual Market**

Workers' comp written through an assigned risk plan.

## **Retrospective Rating**

A Workers' compensation insurance policy that adjusts the premium due, after policy expiration, based on actual losses generated during the policy period.

## **Scopes Manual**

Document produced by NCCI which defines workplace exposures and assigns the particular workers' compensation classification codes.

## **Sliding Scale Dividend**

A premium adjustment (rebated) after policy expiration, based on the actual loss experience of the insured business. The size of the dividend varies depends on the actual loss ratio of the insured.

## **Short Rate Penalty**

An early policy cancellation penalty.

## **Standard Exception**

Work Comp classifications which are not normally included in the governing classification. These are clerical, outside sales, and sometimes drivers.

## **Standard Premium**

Premium after application of Experience Modifier and Schedule Credit/Debit, but before Premium Discount.

## **Voluntary Market**

Workers' Compensation insurance written by private insurers outside of the Assigned Risk Plan.

## **Workers Compensation Insurance**

An insurance policy required by law (in all states except Texas) to be purchased by all employers. Intended to provide benefits to workers who are injured in the course of performing their job.