

INSURANCE FACTS
for Pennsylvania Consumers

Your Guide to
**Workers’
Compensation
Insurance**

1-877-881-6388
Toll-free Automated *Consumer Line*

www.insurance.pa.gov
Pennsylvania Insurance Department Website

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Introduction

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The purpose of this guide is to give a brief introduction to workers' compensation and how it affects employers in the Commonwealth of Pennsylvania. This guide will also help employers comparison shop for an insurance company which is right for them.

When an employee sustains a job-related accident resulting in bodily injury or suffers an occupational disease in the course of employment, the employer is subject to liability. The workers' compensation laws establish this liability as well as the benefits of the injured worker. Generally, any employer who hires at least one employee, part-time or full-time, is required to provide workers' compensation coverage. Employer's requirements may be met by purchasing a policy from an insurance company for workers' compensation. Eligible employers may opt to self-insure.

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Origin of Workers' Compensation Insurance

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Workers' Compensation originated in Germany during the 1880s and was later adopted in England. It was adopted in the United States in 1911. The state of Wisconsin enacted the first workers' compensation law. States which had more industrial accidents were the first to follow Wisconsin's lead. The Commonwealth of Pennsylvania established its law in 1915. Today, all 50 states and the District of Columbia have enacted workers' compensation legislation.

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Common Duties of the Employer to Employees

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Employers are required to exercise reasonable care for the safety of their employees. This general duty of care can be broken into these specific duties owed by the employer:

- Provide a safe place to work.
- Provide the employee with an adequate number of competent fellow employees.
- Provide safe tools and equipment.
- Warn the employee of inherent dangers.
- Make and enforce rules for the safety of all employees.

Benefits

The employer is obligated to provide for medical expenses and lost wages for work-related disability or death. The self-insured employer or the employer's insurance company directly pays the injured or disabled employee. The Pennsylvania Workers' Compensation Act provides for a percentage of the average weekly wages (most often 66 2/3% of gross wages) to be paid as compensation. Workers' compensation benefits depend on the status of the injuries. The status of injury are classified as follows:

- Temporary Total Disability
- Temporary Partial Disability
- Death
- Permanent Partial Disability
- Permanent Total Disability
- Medical

The Pennsylvania Department of Labor and Industry is responsible for the administration of the workers' compensation law. For further details, contact the Bureau of Workers' Compensation Claims Information Helpline at 1-800-482-2383.

Classifications are a way of grouping together businesses of similar types. Each insured employer is assigned a classification which most accurately describes its line of work. The Pennsylvania Compensation Rating Bureau (PCRB) assigns every business a classification code. In Pennsylvania, there are over 300 different classifications that are used in workers' compensation insurance. See Table 1 for a list of the codes.

Pennsylvania Classification Plan

Classifications ensure that types of businesses with low potential for loss do not pay the same rate as those with high potential for loss. For example, a company employing individuals who have desk jobs would not be expected to pay the same rate as a company employing factory workers, as there is a greater chance that a factory worker will be injured on the job. It is common for two employers in competition with each other to fall under the same classification code because they conduct the same type of business, although their operations may not be identical. For example, two theaters (one indoor and one drive-in) both are classified as code 967, even though their operations differ.

In 1993, the legislature authorized insurance companies to create **subclassifications** which depart from the PCRB classifications. These subclassifications must be approved by the Pennsylvania Insurance Department. The rates for a subclassification may differ from the rates for the general classification code. For a pamphlet on the Pennsylvania workers' compensation classification plan contact the PCRB at (215) 568-2371, ext. 261.

What you pay for coverage will depend on the insurance company you choose. Depending on your type of business, you are placed in a classification with similar businesses (see section entitled “Pennsylvania Classification Plan” – above). Your basic premium is then determined. It is based on your classification code, the rate and an estimate of your annual payroll. The rate is derived from the insurance company’s **multiplier** for your classification code.

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***Determining Your
Rate***

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Businesses with premiums of at least \$10,000 will receive an experience modification. This modifies their premium based on their loss history. Businesses with premiums less than \$10,000 may qualify for a merit rating plan. The merit rating plan enables businesses to receive a 5% discount or surcharge based on their loss history. For details on experience modification, contact the PCRB at (215) 568-2371, ext. 261. For details on the merit rating plan, contact your insurance agent.

Your insurance company may conduct an **audit** after your policy expires. The purpose of this audit is to determine if you are paying the correct amount of premium. Company auditors may ask for records that verify your business’ payroll. Also, your business operations may be reviewed to determine if there has been a change in your classification. Changes in business operations or corrections to initial classification may result in an increase or decrease in premium. Auditing ensures that the business owner was not misclassified at the beginning of the policy period.

The actual premium will be determined by the insurance company when the policy expires. The payment of premium that was made at the beginning of the policy period was only a “*deposit*.” The employer will be billed or reimbursed for the difference.

Shop Around

Your annual payroll is an important factor in determining your premium. However, consider the following points when shopping for a policy:

Premium Factors

Many factors affect the premium you will be charged. A key component in determining your premium is the rate for your classification. Insurance companies may charge different rates. The rate is derived from the insurance company's multiplier for your classification code. In general, a company with a lower multiplier will have a lower rate. A list of multipliers is included in Table 2.

Ask other employers how their experience has been with a specific company. An insurance company with untimely or unprofessional service may cause tension between the employer and the employee.

Ask about Subclassifications

Your insurance company may offer a different rate for your type of business. For example, rates for fast food restaurants may be lower than rates for fine dining restaurants. Ask your insurance agent for details.

Deductibles

You may be able to reduce your premium by selecting a deductible. Every company is required to offer \$1,000, \$5,000 and \$10,000 deductibles. Some companies offer higher deductibles. Deductibles can reduce premiums significantly. Make sure that you have the financial means to pay the deductible amount in the event of a loss.

Safety Committees

If you establish a safety committee for the purpose of hazard detection and accident prevention, you may be eligible for a 5% discount which can be continued for five years. Contact the Pennsylvania Department of Labor and Industry at 717-772-1917 for details.

Schedule Rating Plan

Your insurance company may have a schedule rating plan. These plans allow for credits or surcharges based on specific characteristics of employers. For example, one company calculates credits or surcharges based on loss history, safety environment, condition of premises and location. Contact the Pennsylvania Insurance Department at 717-787-4192 for details.

Group Insurance

Some companies will give a discount for groups of five or more similar businesses. Contact your insurance agent for details.

Self-insure

If you have the financial means to provide coverage for your employees, you may self-insure. Contact the Pennsylvania Department of Labor and Industry at 717-783-4476 for details.

Questions Frequently Asked by Employers

Who is required to provide Workers' Compensation coverage?

Generally, any employer who hires at least one employee, part-time or full-time.

Who can be exempt from workers' compensation coverage?

Generally, executive officers and domestic workers; however, there are a few others. For more information, contact the Bureau of Workers' Compensation Employer Services Helpline at 717-772-3702.

May I appeal the rating classification assigned by my insurance company?

Yes, classification issues can usually be resolved cooperatively between the employer, the insurance company and the PCRB. However, if differences of opinion still exist, the PCRB will perform a comprehensive reassessment. In this case, the employer must submit a written request for review along with all information supporting the appeal. For more information, contact the PCRB at 215-568-2371, ext. 261 and request a pamphlet on the workers' compensation classification plan.

Where can I go if no insurance company will issue me a policy?

If no insurance company will issue you a policy, you can be insured by the State Workers' Insurance Fund (SWIF). This is a "last resort" insurance company for many businesses. However, any employer can go to SWIF for workers' compensation insurance, even if a policy is offered elsewhere. You can contact SWIF at the following address, phone number and fax number:

State Workers' Insurance Fund, Scranton State Office Building
100 Lackawanna Avenue, PO Box 5100
Scranton, PA 18505-5100
Phone: 570-963-4635
Fax: 570-963-4261

When will the first compensation payment be made to the employee?

The first payment should be made twenty-one calendar days after the employer's knowledge of the employee's injury or disability.

How often are compensation payments made to the employee?

Compensation payments usually follow the same schedule as the injured employee's regular wages.

At what rate of pay are benefits payable?

Benefits are payable at 66 2/3% of weekly gross wages. There are some exceptions for lower paid employees. This amount cannot exceed the state average weekly maximum for the year of injury (\$588 for 1999).

Questions Frequently Asked by Employers

Are compensation benefits taxable?

Compensation benefits are fully exempt from state and federal tax if they are paid under a workers' compensation act.

An employee claims he or she was injured on the job. Will there be an increase in my premium?

There will not be an increase in your premium for the current policy period. However, if you are experience or merit related (see "Determining Your Rate – page 2), your future premiums may be affected.

Under what circumstances may the insurance company cancel or nonrenew my policy?

The insurance company may only cancel (terminate mid-stream) a policy due to nonpayment of premium. There are no restrictions on the nonrenewal (terminate at end of the policy term) of a policy. An insurance company may choose to nonrenew for any nondiscriminatory reason.

I have paid my premium for the term. Why am I receiving a bill for additional premium?

Initially, the payroll used to calculate your premium is an estimate. Once your actual payroll has been determined, adjustments may have to be made and you could be audited and billed accordingly. Any changes to your business within the policy term that affect the rate of your policy can lead to an audit and possible billing. A change in classification or personnel are two examples.

My insurance company lowered its rates after I received my policy. May I cancel my current policy and buy a new one to take advantage of the lower rates?

No, you may not take advantage of the lower rates. When your policy is renewed, the most recent rates will apply. For example, suppose you bought a one-year policy on June 1, 1995 and lower rates were approved for September 1, 1995. The rate for your policy will remain in effect until June 1, 1996. When you renew your policy on June 1, 1996, you will receive the lower rates.

I have already been issued a policy. I noticed that another company decreased its rates. May I cancel my current policy and purchase one with the other company?

Yes, you may cancel your current policy and switch to another company. However, the rates that will apply will be those that were in effect on the date that you purchased your original policy. Be aware that your original company may retain its minimum premium. Ask your insurance company for more details to be certain you will see some savings.

If my insurance company becomes bankrupt, who will pay my claims?

The Workers' Compensation Security Fund will pay your claims.

<i>Accident</i>	An unexpected, unforeseen event which is not intended and results in a loss to the injured worker; the “accident” must arise out of the work that the injured person was employed to do.
<i>Audit</i>	Examination of payroll and other factors which may affect your premium.
<i>Benefits</i>	Financial help in the event of a work-related injury or disability.
<i>Claim</i>	Written notice to the employer from the injured employee requesting compensation for injury.
<i>Classification</i>	A way of grouping together businesses of similar types; these codes are set by the PCRB.
<i>Compensation</i>	Payment of medical expenses and lost wages of an injured or disabled employee.
<i>Deductible</i>	The amount the employer has agreed to reimburse the insurance company for each claim.
<i>Liability</i>	Legal liability to pay for a loss to the injured worker.
<i>Multiplier</i>	A factor used in determining the rate for a specific company; a lower multiplier corresponds to a lower rate.
<i>Occupational disease</i>	A disease to which the injured person is exposed by reason of his or her employment or the employment was a significant factor in causing the disease’s development.
<i>Premium</i>	The amount paid for an insurance contract.
<i>Rate</i>	An amount for a classification which is taken into account when determining the premium; the multiplier accounts for variability in a company’s rate; also referred to as “ <i>loss cost</i> .”
<i>Subclassifications</i>	Classification codes which represent departures from the PCRB codes.

For questions concerning claims, benefits, safety groups or self-insurance write to:

Pennsylvania Department of Labor and Industry

Bureau of Workers' Compensation, Room 103

1171 South Cameron Street

Harrisburg, PA 17104-2501

Or call:

Employer Services Help Line: 717-772-3702

Claims and Benefits Help Line: 717-772-4447 or 1-800-482-2383

Safety Committee Certifications: 717-772-1917

Self-Insurance: 717-783-4476

Religious Exemptions: 717-787-3567

For questions concerning classification codes and experience modifications:

Pennsylvania Compensation Rating Bureau (PCRB)

Union Plaza Building, Ste 1500

30 South 17th Street

Philadelphia, PA 19103-4007

Phone: 215-568-2371 (class codes, ext. 460, experience modifications, ext. 450)

Fax: 215-564-4328

These agencies may be able to help you in areas other than those specified in this Guide.

*For general information, contact your insurance agent or company. For questions concerning rates, premiums or the termination of a policy contact the Pennsylvania Insurance Department toll free at **1-877-881-6388**, visit the website at www.insurance.state.pa.us, or contact our regional office:*

Harrisburg Regional Office
Room 1321 Strawberry Square
Third and Walnut Streets
Harrisburg, PA 17120
(717) 787-2317
fax (717) 787-8585
TTY/TDD: (717) 783-3898

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