

What You Need to Know About Workers' Comp

Navigate the basics of workers' comp to make sure you, and your employees, are protected.

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Once you start hiring for your growing business, paying for workers' compensation insurance, better known as workers' comp, is in your budgetary future.

"Most states have laws requiring coverage, although some states, such as Texas, make coverage optional for employers," says Sarah Tupper, vice president of sales at Clearwater, Florida-based [FrankCrum](#), a professional employer organization and HR outsourcing service for small businesses. "Other states, like Florida, may set requirements based on the number of employees a business has. For instance, any Florida business with five or more employees must have coverage."

If you're getting workers' comp for your first employee, and especially if you can buy it through your existing business insurance agent, the transaction is pretty straightforward. But as you add more employees—and more coverage—the more complex everything becomes. If you're new to the world of workers' comp, here are some key aspects you should understand about the process.

How to Buy It

For most small-business owners, purchasing workers' comp insurance is a simple process. "In the majority of states, the insurance agent who helps you with your business insurance will also be able to help you with workers' comp," says Seattle-based [Dan Weedin](#), a risk and crisis management specialist.

But while you *can* buy it from your insurance agent, that doesn't mean you have to. Weedin suggests investigating other organizations that sell workers' comp to see if you can get a better deal. "There are growing opportunities through trade associations, buying groups and other professional affiliations where you can get special deals and retro programs to save money," Weedin points out.

If your business is based in North Dakota, Ohio, Washington, West Virginia or Wyoming, however, you don't have the option of going through an insurance agent because these states require you to buy workers' comp directly from the state. The same is true for two U.S. territories: Puerto Rico and the U.S. Virgin Islands. Each state and territory has its own workers' comp website through which you can purchase insurance. A quick Google search should point you in the right direction.

If you're based in the 45 states where you can get your workers' comp through an insurance agent or other organization, the process is easier than going through the state, from what Weedin has experienced.

What You Can Expect to Pay

One of the primary factors that can affect the amount you'll be asked to pay for workers' comp is the industry you're in and the danger involved with your employees' jobs—the more dangerous their jobs, the more you'll probably have to pay in workers' comp insurance. "A low-risk category code would be office workers, and a high-risk category code would be roofers," Tupper notes. "So you can expect to pay a substantially higher premium for your roofing guys versus your office [assistant], who would only be pennies on the dollar."

Another factor that can contribute to the rates you'll pay is where you're located. To get some idea of how much

workers' comp costs, Oregon's Department of Consumer and Business Services released a [survey](#) last year showing the amount that businesses spend on workers' comp in each of the 50 states.

According to the survey, California businesses spend the most—\$3.48 for every \$100 of payroll. Connecticut is the second-most expensive state for workers' comp (\$2.87 for every \$100 in payroll), New Jersey is third (\$2.82), followed by New York (\$2.75) and Alaska (\$2.68). According to the survey, North Dakota businesses have the lowest costs for workers' comp—for every \$100 in payroll, just 88 cents goes to cover workers' comp.

Understanding the Claims Process

You may have heard how expensive workers' comp claims can be. But how much will you actually pay if one of your employee's files a claim? It all depends on the state you work in, but it's common to have to pay two-thirds of an injured employee's paycheck for the time they miss work, plus medical expenses.

The claims process itself can be a headache for everyone involved, in large part due to red tape, claims [Charles Krugel](#), a Chicago-based, management-side, labor and employment attorney and an HR counselor to businesses. "You may need to be an aggressive advocate for yourself, your company or your employees," Krugel says, in order to get through the claims process. Krugel adds that he frequently hears from employers who are frustrated because they can't get the answers they need, whether the injury is fraudulent or legitimate.

"Stay on top of your insurance broker or company to make sure that illegitimate claims are handled appropriately," Krugel advises. "Moreover, and just as important, make sure your good employees and those who file legitimate claims are treated well."

Incentives for Keeping Your Workplace Safe

The more work-related accidents you have that lead to a workers' comp claim, the more likely it is you'll see your rates rise. That's because, as Tupper explains, "premiums are based on loss history."

But that also means the longer you go without a workers' comp claim, Tupper points out, the more likely it is you'll get a discount from your insurer. You may also be able to get additional discounts by making your workplace safer by designating it an alcohol and drug-free zone, for instance, or by having a defibrillator or other life-saving equipment on site.

Striving to keep your workplace safe should be a no-brainer. Not only will your employees feel more confident about the safety of their work environment, but you'll also be able to keep operating costs lower, suggests Jason Zickerman, president of [The Alternative Board](#), an executive peer advisory board in Westminster, Colorado. That's because the more you try to keep your workplace a danger-free zone, the more you'll be able to avoid the accidents that can lead to workers' comp claims and the payments that go with them. Furthermore, staff morale will likely go up if everyone recognizes that you're trying to look out for your employees' welfare.

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