

# Builders' PROFIT TIP

## Tips to Help You Save Money on Workers' Compensation

By Dan Smith

For many years contractors have paid Workers' Compensation premiums based on the most common—and most expensive—job function classification. This is a simple method, but also a very costly one.

Now, however, in most states construction companies can utilize Workers' Compensation rates that are appropriate to the task being performed. Because this ability to segregate a worker's time into the most appropriate risk group is limited to certain trades and states, ask your Workers' Compensation insurance carrier if this is available to you. If your carrier says no, don't stop there—some insurance companies do not offer this benefit, but others may. Check with your local building association or other local professional groups about their experience with segregating Workers' Compensation by work performed.

Here's how this works: If an employee spends four hours forming sidewalks, and four hours framing the subfloor on a house, his time card must reflect the two different tasks in order to take advantage of the lower Workers' Compensation rate for flatwork forming. Assuming that you are paying the employee \$20 per hour for both types of work, here's how the math works out:

Method	Calculation	Amount You Pay
Single Classification	8 hours x \$20/hr x .25*	\$40.00
Multiple Classifications	4 hours x \$20/hr x .25	\$20.00
	4 hours x \$20/hr x .09**	\$7.20
	Total	\$27.20
	Savings	\$12.80

\* Workers' Compensation rate for forming sidewalks

\*\* Workers' Compensation rate for flatwork forming

Notice how the lower rate of 9 percent for flatwork forming saves you \$12.80 in just 4 hours of employee time!

This does take more effort when filling out time cards. This extra care in noting different jobs performed, however, will add up to substantial Workers' Compensation premium savings over time. Computer business management software programs also have made the entering of this kind of information easier and simpler.

Please note that when segmenting work performed, you will need a business management system with the appropriate audit trail to provide the necessary supporting data. Insurance auditors want to be able to check all reports against timecard entries and general ledger postings. One contractor who kept these calculations on a spreadsheet received at the end of the year an unpleasant surprise: his auditor said that while the spreadsheet looked accurate, there was no way to verify the information it contained. The contractor in this case had to pay at the highest Workers' Compensation rate regardless of the work performed—plus fees, penalties, and interest.

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## Experience Modification

As you probably are aware, the Experience Modification (also known as a modifier or modification rate) also influences your Workers' Compensation premium. The Experience Modification, set by a state agency or the group insurance plan to which you belong, depends upon your company's safety record. Those businesses with strong safety records are rewarded with lower Workers' Compensation payments, i.e., they pay lower premiums for the same coverage. Quickly, here's how Experience Modification works:

Premium	Experience Modification	Calculation	Amount You Pay
\$27.20	95%*	\$27.20 x .95	\$25.84

\* Used as an example. This number will vary based on a company's safety record. A company with a poorer safety record than the one shown could have, as an example, an Experience Modification of 110 percent.

Note: Intuit Master Builder allows you to add your Experience Modification when doing payroll. See the "Experience Mode" column in the 5-3-2 Workers' Compensation menu.

There are several key issues to note regarding Experience Modification.

### Issue One: Beware Estimating Pitfalls

Lowering your Experience Modification takes time; it decreases slowly. However, it can jump rapidly if your business sustains a work-related accident or other safety claim. You should be aware of this when creating estimates. If you estimate a job at a current Experience Modification rate, then have a job-site accident, you could be paying a significantly higher Workers' Compensation premium than you estimated, which reduces your profitability.

### Issue Two: Focus on Safety

The issue of worker safety is a large one (I'll devote future articles to this topic). What's important to note now is that while your Experience Modification will decrease slowly over time if you have a strong safety record, a single claim can increase substantially the amount you pay in Workers' Compensation (just like with any other type of insurance). Your organization should do everything possible to limit accidents, both for worker safety and to decrease your out-of-pocket payments.

For safety information and suggestions, contact the trade association you belong to (at both the local and national levels) or search the Web. Two good safety-related sites are:

- Occupational Safety & Health Administration: [www.osha.gov/doc/topics.html](http://www.osha.gov/doc/topics.html)
- Construction Safety Council: [www.buildsafe.org/cscheme.html](http://www.buildsafe.org/cscheme.html)

### Issue Three: Leverage the Power of a Group

Local construction-related trade groups are another way to lower your Workers' Compensation premiums. By joining, you often will be able to receive a lower Experience Modification based on the group's overall performance in combination with your company's membership. In addition, many groups provide a dividend-return plan, in which a percentage of a company's Workers' Compensation premiums are returned to each member company if certain group safety performance standards are met.

## Conclusion

Workers' Compensation costs can spiral dramatically up—or they can be managed or even significantly reduced. Segregating a worker's time based on functions performed and utilizing ways to reduce your firm's Experience Modification are two ways to save you considerable money and add profit to your bottom line.

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