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Auditing the auditor: One firm's strategy to cut comp costs

With more than 600 different employee classifications and standard exceptions, determining the right workers' comp premiums can be a tough job even for the insurers who are in the business.

But if it's hard for them, how can you begin to figure out whether you're paying any more than you should be for the coverage?

That's the question posed by TMC Premium Analysis Inc., a Babylon, New York based company that scrutinizes comp premium classifications and claims to be a dominant player in that field.

The company reports that it can reduce workers' compensation costs for about 95% of companies by auditing a company's comp carrier.

TMC concentrates on recovering past overpayments for employers in every state in the U.S. except Alaska, Hawaii and West Virginia.

And they do it on a "risk-free" basis: If a company does not receive a refund from its insurer after TMC's audit, then the service is free. When the employer does get a refund, TMC usually takes about half, and guides the employer through the process of retroactive adjustments and premium refunds. TMC audits typically go back three or four years.

TMC has audited about 4,300 workers' comp insurers in the past six years and reports having triggered refunds on 80% of audited policies. One caveat to that statistic: TMC routinely certifies that a company is likely to receive an audit before contracting to do the work.

Insurance company auditors typically spend about an hour at each worksite determining employee classifications, while TMC spends about one to three days, says Anthony DeMario, Vice President of marketing at TMC. While TMC takes a slice of the refund from the insurer, employers realize profits by having their employees properly classified in the future.

Accidental misclassification

"Misclassification is not an intentional act on the carrier's part," he explains. "Mostly it is due to a lack of knowledge because every industry has its own little nuances. Also, the controllers at these companies are so busy, they don't have time to deal with the minutiae of their workers' comp agreements. What we do levels the playing field."

Misclassifying employees can add up quickly, says DeMario. For example, a clerical worker might cost an employer about 50 cents a payroll. But often a clerical worker is misclassified as a line worker, an error that costs employers $7 to $8 per payroll, says DeMario.

Employer misclassifications can be costly as well. For example, workers' comp codes 8008 and 8017 cover retail store employees. Code 8008 is for retail stores in which more than 50% of the sales are made up of clothing or dry goods, while 8017 is for retail stores with more diverse merchandise.

For one Illinois retail store with a $5 million payroll, misclassifying an 8008 for an 8017 resulted in an over-

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payment of nearly $40,000 per year, DeMario says.

Overlooked credits, miscalculated payroll and inaccurate experience modification rates are common errors that turn up in audits as well, he says.

TMC has about 70 employees devoted to the audits, and most of them are culled from the insurance industry. Manufacturing industries, food processing in particular, tend to get the highest refunds, he says. Health care providers also tend to get large refunds, in part because their premiums are so large.

Reducing risk ratings

Anderson, S.C.-based Hampshire Group Limited was audited by TMC in December of 1996. The workers' comp audit of the 20,000 employees at the sweater and hosiery manufacturing facility took about a day, says Beverly Leeper, assistant controller.

Leeper says her company expects a refund from its insurer of about $30,000 as a result of the audit, although $15,000 will go to TMC. The refund largely is due to the fact that several jobs were wrongly classified as high risk, she says.

"TMC was helpful in preparing all the correspondence for the insurer and explained the refund to them," says Leeper. "I think it's something we might do again in four years to make sure we are on track."

Western Industries, a Milwaukee-based sheet metal stamping company, expects about a $100,000 refund as a result of a TMC audit in May of 1996. Again, the refund is due to a code classification problem at the firm's five plants in Wisconsin and one in Tennessee, says Michael Ehler, Western's controller.

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Pat Elgin, human resources manager at the Columbus, Ohio, newspaper, *The Columbus Dispatch,* says his audit of his 1,300 employees in August of 1996 resulted in a refund of about $134,000. *The Columbus Dispatch* has a third-party administrator whose responsibility is to evaluate the workers' comp classifications, but the TPA had never done an audit, he reports.

"We talked about classifications of our employees with TMC and found a variety of jobs could be classified in another rating' " Elgin says.

"One example of about 100 changes we made is that our printers were classified as manufacturers when they could be in the clerical classification. That change makes a significant reduction in rating." ■