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Many companies are paying too much for their workers comp policies, mainly because their insurers are putting them in the wrong categories.

(Mis)class action

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It's July. For one out of three U.S. companies, it's when new workers compensation insurance policies go into effect.

Are you paying too much?

Many firms do, mainly when their insurers misclassify them as those in categories with higher frequencies of injured workers.

Workers compensation pays for medical care and physical rehabilitation of injured workers and replaces their lost wages while they are unable to work. The worse a company's record of injured workers, the higher the premium can be upon renewal.

That can be a big sock to the pocketbook of small and medium-sized firms. And that's why they are hiring their own auditors to make sure they're not overpaying.

"These miscalculations are not a deliberate act, just a simple process that gets out of control," said Anthony DeMario, vice president of TMC/Premium Analysis, an auditing firm in Bohemia, N.Y.

"The insurance carrier does an audit every year, but the main purpose is to make sure the carrier is paid the proper premium," he said. "Secondarily (the company) is making sure tile employer's not cheating by misclassifying employees or doing other unsavory things.

But insurer audits do little to save money for misclassified companies.

"Look at manufacturing facilities," Mr. DeMario said. "You have 500 people who manufacture widgets. But in the manufacturing department there may be two to three supervisors, a secretary, a dispatcher. Because these people are on the manufacturing department's payroll, they just get lumped in" with workers who have a greater potential for injury. And that forces rates up.

That happened at C.M. Smilie & Co., a manufacturer of industrial machine components in Ferndale, Michigan, and a TMC customer.

"We were continually being overcharged by our insurance company," said Alfred Olson, the company's controller.

The audit discovered wrong payroll and workers compensation classifications, he said. Once the proper changes and calculations were made, the firm found it had saved $80,000.

Not every employer is paying more. For instance, in Virginia, the National Council on Compensation Insurance filed for a 1.5% decrease in the loss costs on which insurers base their rates, and a 2.9% decrease in premiums paid by the high-loss firms insured through the state's assigned risk plan.

Marie Kinietz, an NCCI director, attributed the decrease to cost savings worked out by insurers and employers such as modified and light duty return to-work programs, and managed care as a way of capping worker medical costs.

But in five states, including Ohio, employers buy workers compensation through a state run monopoly.

"You have to use the state fund or be self-insured," said Jay Waters, director of corporate risk management for Forrest City Enterprises, a real estate developer in Cleveland that is self-insured for its Ohio operations.

That can be costly in these states considering the number of state-imposed requirements on employees, managed care and record keeping.

But Mr. Waters' company is "very lucky," he said. "Our workers comp experience is very good. It doesn't mean we're not trying to improve, but we don't have a huge number of repetitive strain injuries."