

Surviving Insurance Premium Audits

By Julie A. Rourke, CIC

It's month end and the phone won't quit ringing and now your insurance carrier wants to perform a premium audit on the prior year's policy — is there anything more worthy of an eyeball roll? Yet the process is an important one to keeping your insurance costs in line with your company performance and yes — it's even required by the terms of your policy. Prompt, detailed response to the auditor can make the process less painful.

Payroll and sales estimates made on your liability and workers' comp policies are just educated guesses — we all know how things can change in the span of a 12-month policy cycle. The theory is that if you have higher sales, your potential claim exposure is higher. More employees equals more risk for an injury to occur. If your sales take a hit or there are layoffs, your potential claim exposure should theoretically be lower. Premium audits set this right and adjust for overpayment or underpayment of premium on the risk at hand.

So what should you have ready to promote an efficient and fair audit? First off, review your policy declarations pages to remind yourself of the latest estimates. Then gather the actual gross payroll or gross sales reports. For workers' comp, make sure your employees and their corresponding payrolls are sorted according to the classification code they fit into — i.e. 3629 for precision machining vs. 8810 for clerical. On the liability side, you might need either payroll figures broken into the classifications or gross sales figures for the products you manufacture — check your policy declarations page for which basis of premium is used on your policy.

Next make sure your information is for the policy dates requested. Most policy terms are not calendar year and a quick sort by month might be necessary. Many payroll



companies will do all of this for you if you provide the dates needed. Other key data to have available include owners' names and titles, profit & loss statements, general ledger reports, 941s, 1099s and certificates of insurance for any subcontractors.

The key to proper payroll calculations: gross pay includes bonuses, commissions, holiday pay, sick pay, vacation pay and piece work payments. All overtime pay should be separated out as that it will be reduced and added back into the total. Also include separate totals for any Pre-Tax/Section 125 or 401(k) amounts. Be sure to know if your owners/officers are included or excluded from workers' comp coverage as that determines whether their payroll is included or not. Also, an employee performing two job functions can often have their payrolls split between class codes to save money *if* it is tracked separately — although there are exceptions for sales, clerical and driver codes.

Phone and mail-in audits are common for smaller manufacturers

and can sometimes be requested if you prefer not to have an auditor show up at your shop. But keep in mind the detail needed for a physical audit is still going to be required.

After the audit you can still verify accuracy by requesting the worksheets from your auditor or your agent. Make sure employees are listed in the correct categories and that overtime has been accounted for. If you see a discrepancy, write up a quick letter describing the dispute and ask your agent to advocate for you to have the audit corrected. ⚙️



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