

WORK COMP INSIGHTS

How Loss Cost Multipliers Can Raise Your Premiums

One of the biggest factors that goes into your workers' compensation premiums are the classification codes for each type of work done at your business. Each of these codes has an associated loss cost that represents the expected amount insurers will need to pay for a claim. And even though each of these costs are standardized by the National Council on Compensation Insurance or state governments, your actual premiums may be higher because of a concept called loss cost multipliers.

What are Loss Cost Multipliers?

Standard loss costs are the amount insurers pay for a policy's coverage, such as medical care, prescriptions and lost wages. However, many insurers face significant overhead costs when handling a claim and transfer these charges to policyholders with loss cost multipliers. Essentially, these multipliers reflect an insurance carrier's expenses, such as:

- Payrolls
- Commissions
- Taxes, licenses and fees
- Sales and marketing charges
- Rent and utilities

Because each insurer operates differently, they all need to file separate loss cost multipliers with state insurance agencies. But, since multipliers alter standard loss costs and can vary greatly between different insurers, businesses may discover unexpectedly high premiums.

How Multipliers Impact Your Premiums

To determine a standard premium, insurers first take the loss cost for a specific employee classification code and factor in their unique loss cost multiplier. This figure is called the rate, which is then applied to your payroll to calculate a standard premium.

Insurers also weigh other factors to determine your final premium, such as your experience modification rate. However, because some insurers have loss cost multipliers of 2.0 or more, standard premiums have a significant impact on the final price of your policy.

How to Save on Workers' Compensation

Although it may seem strange to pay for another company's expenses through loss cost multipliers, there are still ways to save on workers' compensation:

- Look up each insurer's multiplier on your state insurance agency's website when you buy or renew a policy.
- See if insurers use separate loss cost multipliers for different employee classification codes.
- Check with insurers to determine if they use various underwriting companies with unique loss cost multipliers.
- Call us at (877) 450-1872 to discuss all of your workers' compensation needs.

Many insurers face significant overhead costs when handling a claim and transfer these charges to policyholders with loss cost multipliers.

This Work Comp Insights is not intended to be exhaustive nor should any discussion or opinions be construed as legal advice. Readers should contact legal counsel or an insurance professional for appropriate advice. © 2019 Zywave, Inc. All rights reserved.