

Workers' Compensation Coverage**Understanding Workers' Compensation Insurance**

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Loss Costs

Loss costs are the actual claim expenses, for workers' compensation coverage, established by the New York's Insurance Department, currently upon recommendation from the Compensation Insurance Rating Board. Based upon New York State employers' experience and future projections, the CIRB recommends a percentage increase or decrease in the loss costs to the Insurance Department each year.

New York State has moved to a loss cost system for workers' compensation rates this year. In a loss cost system, CIRB will continue to collect and aggregate industry data, but rather than file a manual rate with the New York State Insurance Department for approval, it will only submit the loss costs, which is that portion of the rate that does not include general expenses such as overhead, taxes, or profit. Rates, subject to New York State Insurance Department's approval, will then be determined using carrier-specific loss cost multipliers that are filed by each carrier and reflect each carrier's individual underwriting skill and expense structure. This lost cost approach is currently used by a majority of states. It is anticipated that this rate-setting process will increase price competition among insurers.

There are more than 500 classifications of workers, each carrying a different loss cost for determining workers' compensation premiums. A classification code assigned to an employer is based on the actual work being performed, or the classification that most closely represents the type of work being performed if there is not an exact match. In most cases, the loss cost assigned to the employer is for the classification which best represents the nature of the employer's business. Most, if not all, of the employees within the business are assigned to this class. Some of the other employees are grouped into what is referred to as standard exception classifications, which include occupations common to many businesses such as clerical workers, drivers, messengers, and outside salespersons.

Therefore, as long as a secretary works in an office and is not exposed to the hazardous part of the business, the payroll for a secretary in a construction firm will be included in the clerical class, and not a more expensive construction classification like the remainder of the payroll.

Because they entail similar risks, individual businesses doing similar work are grouped together within the same classification. Each classification is assigned its own loss cost based upon its contribution to total workers' compensation costs. The loss cost is based upon the average loss experience of all the members of the class taken as a whole, meaning the likelihood of injuries in that occupation, not the accident history of the individual company.

Each carrier rate also is assigned a carrier's minimum premium, which is the lowest premium that an insurance company will accept to provide the workers' compensation insurance. Rate percentages are multiplied by every hundred dollars of payroll, and change every year.