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Q&A—What Factors Affect My Workers' Compensation Premium?

When you secure a workers' compensation policy, you're asked to provide your estimated annual payroll. The premium calculation multiplies your estimated payroll by your business entity classification rate. This becomes your "standard premium." Once your standard premium is determined, other factors such as premium discounts, scheduled credits, and loss experience modifications are applied. The final figure is your total "estimated deposit premium."

At the end of your workers' compensation policy period, an audit is conducted to compare the estimated payroll information you provided with your practice's actual payroll and operations. The result of this comparison determines your premium adjustment—either a refund or a payment due to the insurance carrier for the adjusted difference. To avoid an unexpected premium due at audit time, try to accurately estimate your payroll at the policy inception, report any sizeable payroll changes mid-term, and classify your business entity correctly on the policy. Pay close attention to whether executive officers are to be included or excluded. Please call the AAHA Business Insurance Program to report changes that affect your policy or to ask questions about your workers' compensation coverage.

Three Key Tips to Prevent Unexpected Charges at Your Audit:

1. Be as accurate as possible when estimating your payroll.
2. Report sizeable changes to your gross payroll throughout your policy year.
3. Make sure your business entity classification is reflected correctly on your policy declaration page. Depending on your state and your entity type, you may have the option to have executive remuneration included or excluded from the calculations.

Overlooking any of these critical details may result in additional charges.



Broker and Consultant: HUB International Midwest Limited, HUB International Midwest Insurance Agency (CA)