

Office of the Ombudsman for Small Business, DCBS
350 Winter St. NE, Salem, OR 97301-3878
Telephone: (503) 378-4209

HOW WORKERS' COMPENSATION PREMIUM GETS PAID

If you are about to purchase a workers' compensation policy, there are a few things you should know about how the premium is actually paid. Before you approach a workers' compensation insurer in Oregon, you should have some idea of how much payroll you expect to pay your employees within a **12-month** period. Even if you are going to "use up" this payroll in a shorter period of time (like during the summer months), you should still "annualize" the payroll. If you gave them a monthly payroll, they would automatically multiply it by 12. The insurance agent or company will then multiply your estimated annual payroll by a rate that is charged per \$100 of payroll, will do some other additions and subtractions, and the end result will be your "estimated annual premium." This remains in an "estimated" status until the end of the year when an audit is done to determine the "final audit premium." The audit occurs within 2 or 3 months after your policy expires.

If your premium is \$2,000 per year or under, your insurer will probably ask for the entire amount "up front." If your premium is larger than that, your insurer will ask for a "deposit," which will be a *percentage of your estimated annual premium* — anywhere from 25% up to and including 75%. The amount of the deposit required is determined by each individual insurance company and sometimes on a case-by-case basis. This deposit is actually a "*security*" deposit, from which the insurer would recover unpaid amounts of premium, after the final audit, that you had failed to pay during the policy period. **The deposit cannot be used to pay overdue premiums while the policy is still in force — it is used only AFTER the policy has been cancelled or has expired and the final audit has been completed.**

Once the deposit is paid, the insurance company will place you on a schedule of "reporting." This schedule can be as often as each month or as infrequently as once a year. We suggest that you request to be placed on "monthly" reporting if possible, because it will be easier for you to budget for the cost of the insurance.

Periodically, you will receive a "payroll report" from your insurer. There will be **from and to** dates on the report, and you will be asked to fill in the amount of payroll that you have had during that period, followed by a calculation. **The end result is the amount you must send to your insurer for payment of your premium.** The report is usually due back to the insurer (with your payment) by the 15th of the following month. **If you have any reporting periods where you have had no payroll, you must still return the payroll report to the insurance company, indicating that you have had no payroll during the period in question.**

If you are purchasing your coverage from the Oregon Workers' Compensation Insurance Plan (also known as the "assigned risk pool"), the percentage of your deposit premium is determined by the size of your estimated annual premium. If your premium is *under* \$1,000, you will be asked for a deposit of 100% and you will be sent a payroll report once a year. If your premium is *at least* \$1,000, you will be asked for a deposit of 66.67% and you will be sent a payroll report twice a year. If your premium is *at least* \$7,500, you will be asked for a deposit of 41.67% and you will be placed on quarterly reporting. If your premium is *at least* \$25,000, your deposit will be 25% of your estimated annual premium and you will be sent a payroll report on a monthly basis.

If you are in the risk pool and if your deposit percentage is **higher than 25%**, you can purchase a **surety bond** to satisfy the *remainder* of any deposit percentage above 25%. For instance, if your estimated annual premium is \$10,000, your deposit would be \$4,167 or 41.67% of the *estimated annual premium*. If you chose to use the bond provision, you could put down a mere \$2,500 and buy a bond in the amount of \$1,667. You would provide a copy of the bond to the assigned risk pool when you submit your deposit. This is allowed under OAR 836-043-0028 (3). The only provision required in this option is that 25% of the estimated annual premium must be *equal to or greater than* the minimum premium for your business's governing classification. If you wish to use this option, call the Contractors Bonding Insurance Company at 1-800-926-2242 or 1-503-287-6000 and ask for the name of an agent in your area who can write the bond. You can ask the assigned risk pool what the minimum premium is for your classification when you complete your application.

A short time after your policy expires, your insurer may perform an audit. If you have changed insurance companies, any remaining amount of your deposit will be refunded to you after the audit has been completed. If renewing, the company may "roll over" your deposit to the next renewal period.