

Understanding Workers' Compensation: An Overview for Employment Social Enterprises

What is Workers' Compensation?

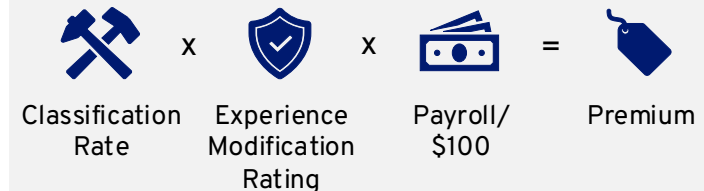
Workers' compensation (or "workers' comp") insurance protects both your enterprise and your workers if someone gets hurt or sick on the job. It covers medical care, rehabilitation, partial wage replacement, permanent disability benefits, and death benefits for dependents.

Workers' comp is a **no-fault system**: workers don't need to prove that their employer did anything wrong, just that their injury or illness happened at work. In return, workers generally cannot sue their employer. This is often called "**the Grand Bargain**": Workers get guaranteed benefits. Employers get protection from litigation risk.

Cost Drivers of Workers' Compensation

Workers' comp premiums are set by state regulation and insurer pricing. The cost you pay comes down to a few factors:

- **Your Payroll:** Premiums are calculated per \$100 of payroll. More payroll = higher premiums.
- **The Type of Work you Do:** Each job classification (janitorial, clerical, etc.) has a base rate that reflects risk. The higher risk a job is, the higher your base premium rate is. For instance, clerical jobs tend to carry the lowest risk, while jobs in construction and healthcare are often deemed the riskiest, reflecting higher workers' comp rates.
- **Your State:** Every state sets its own laws, benefit levels, insurance purchasing rules, and regulations – causing premiums to be baseline higher in some states, and lower in others.
- **Your Claims History (Experience Modification Rating or EMR):** EMR compares your claims experience to similar employers. EMR is influenced by your organization's injury frequency & severity, how quickly workers return to work and claims are closed, and your workplace safety practices.
- **Adjustments:** Insurers may apply extra discounts or surcharges to your premium. These are based on subjective assessments of your safety practices, training, and overall risk. Insurers usually must justify these adjustments, but it's always worth asking if there are any available credits or discounts they can offer.



Experience Modification Rating (EMR)



Your EMR is a number that insurers use to adjust your workers' comp premium based on past claims (similar to a credit score for safety). If your EMR is less than 1.0, you receive a discount on your premium. If it's above 1.0, you pay more. You can find your EMR on the declarations page of your policy or by asking your insurance agent. It may also be called a mod rate, experience modifier, or e-mod.

Example Workers' Comp Premium Calculation

Let's practice calculating workers' comp premiums to understand how the cost drivers impact the price you pay. In this example, there is an ESE operating in Montana. Their social enterprise trains and employs participants in lawn maintenance jobs. They also have several staff that handle clerical work. This ESE historically had a high number of injuries, and their insurance agent informed them that their EMR is 1.75. The ESE has recently changed their operating model and implemented formalized safety procedures reducing their overall injury frequency in the last year. They have had no recent injuries. Because of these improvements, their insurer has offered them a 10% discretionary credit. Let's walk through how you might calculate their workers' compensation premiums.

Cost Drivers

Payroll Breakdown	\$200,000 – Clerical \$300,000 – Lawn maintenance	Classification Rates in Montana	Clerical: \$0.90/\$100 Lawn maintenance: \$5.70/\$100
E-Mod	1.75	Adjustments	10% discretionary credit applied by insurer



Step-by-Step Premium Calculation

1. Classification Rate × (Payroll / \$100)

- Clerical:
 $\$0.90 \times (\$200,000 \div 100) = \$1,800$
- Lawn maintenance:
 $\$5.70 \times (\$300,000 \div 100) = \$17,100$
- **Subtotal: \$18,900**

2. Apply EMR

- $\$18,900 \times 1.75 = \$33,075$

3. Apply Adjustments (-10% Discretionary Credit)

- $\$33,075 \times 0.90 = \$29,767.50$

Final Estimated Annual Premium: **\$29,768**

**This example is for educational purposes only.
All figures and details are illustrative and do not
reflect a real organization.*



Impact of Switching Business Lines

The ESE switches their business operations to furniture moving. What happens to their premium? The furniture moving classification rate is \$11.49 per \$100 payroll.

1. Classification Rate × (Payroll / \$100)

- Clerical: \$1,800
- Furniture Moving:
 $\$11.49 \times (\$300,000 \div 100) = \$34,470$
- **Subtotal: \$36,270**

2. Apply EMR

- $\$36,270 \times 1.75 = \$63,472.50$

3. Apply Adjustments (-10% Discretionary Credit)

- $\$63,472.50 \times 0.90 = \$57,125$ (more than \$27,000 higher!)

Final New Estimated Annual Premium: **\$57,125**

Takeaway: Higher-risk work and a high EMR can dramatically raise premiums. In this example, the EMR increased the base premiums by 75% and simply moving to a higher-risk industry increased costs by more than \$27,000. The good news: insurers may offer adjustments that have an immediate and meaningful impact on your premiums.

Choosing The Right Coverage

Your Options for Purchasing Workers' Compensation Insurance

- **State Fund:** Some states offer insurance through a state-run insurance fund. "Competitive State Funds" compete against private insurers. If private carriers aren't allowed, the state fund is called an "Exclusive State Fund."
- **Private Insurance:** In most states, workers can buy coverage from private insurers that are regulated by the state's workers' comp system.
- **Self-Insurance:** Large employers with strong finances may be allowed to "self-insure," meaning they pay claims directly rather than buying a traditional insurance policy. This option generally isn't appropriate for smaller ESEs.

Brokers and Agents: Understanding the Difference

Insurance brokers represent the employer and solicit quotes from multiple insurance carriers. They are typically compensated through commissions paid by insurers, though they may charge clients a fee.

Recommended for: early-stage organizations new to workers' comp. Brokers can quickly help you find the right plan, and if you have minimal claims, there is no need to form a deeper relationship with an agent.

Insurance agents represent one or more insurers and sell policies on their behalf, also earning commissions.

Recommended for: Large/ growing organizations. Agents have deeper visibility into their carrier's claims processes, pricing structure, and available discounts. We recommend meeting with your agent at defined points during the year to review past claims, project costs, and receive hands-on support with open claims.

Key Questions to Ask Your Broker or Agent

Coverage & Pricing	
Am I correctly classifying the work we do?	Correct classification avoids overpaying by ensuring you're not being charged for higher-risk work than you actually do.
What discounts can we qualify for? Does our state offer discounts for safety programs, drug-free workplace, or return-to-work programs?	Many employers miss out on savings simply because they don't ask. State-mandated credits specifically can reduce your premium, but they are easy to overlook if you aren't proactive.
Can we bundle our workers' comp policy for greater savings?	Some insurers offer discounts when you bundle workers' comp with other insurances.
Do you offer pay-as-you-go plans? Are we the right fit?	Pay-as-you-go helps smooth cash flow by preventing large upfront payments. Your plan will be adjusted each pay period based on payroll.
Am I the right fit for a high-deductible workers' comp insurance plan?	These are best for large organizations that can pay some claims costs themselves. These plans reduce premiums but only save you money if what you save upfront is greater than what you pay out in claims.
Safety & Claims Support	
Do you offer free safety audits or training?	Safety audits help identify hazards before they cause injuries, and many insurers provide them at no cost.
Can you help us build a return-to-work program?	Return-to-work programs reduce the length and cost of claims, which helps lower your EMR and future premiums.
Transparency	
Can you walk me through how our premium was calculated this year?	Knowing the "why" behind your premium helps you identify mistakes, catch incorrect classifications, and understand what's driving costs.
What changes do you recommend before next year's renewal?	Your agent should help you plan ahead so you can take steps, like hazard controls or training investments, that reduce next year's costs.
What premium increases do you project next year?	Your agent should have a sense of how your recent claims will affect your premium so you can budget accordingly.

Benchmarking

Benchmarking for workers' compensation costs is difficult because an organization's actual premium relies heavily on their organization's specific EMR, as well as any adjustments their organization receives, the state they are incorporated in, their industry, and size. That said, this section aims to provide preliminary cost benchmarks to help organization leaders understand where their costs fall in relation to national averages, and other ESEs, and is a good first step towards assessing their rates.

Average Workers' Comp Rates by Industry (2024)¹

Industry	National Average Rate (per \$100)
Clerical	\$0.13
Restaurant : Fast Food	\$1.13
Restaurant NOC	\$1.16
Park NOC-All Employees and Drivers	\$2.58
Buildings-Operation	\$2.66
Chimney Cleaning	\$2.73
Carpentry-Dwellings Low	\$10.85
Garbage, Ashes or Refuse Collection and Drivers	\$13.71

Benchmark Against Other ESEs

State	Industry	Workers Comp as % Total Payroll Expenses
MN	Food Prep & Serving	0.44%
MA	Equipment Repair	0.49%
MN	Food Prep & Serving	0.56%
WA	Retail	0.91%
NY, DC	Food Prep & Serving	1.15%
CA	Retail	1.72%
CT	Landscaping	1.84%
MN	Retail & Recycling	2.44%
GA	Staffing	2.87%
MT	Landscaping, Cleaning & Maintenance	4.04%
CA	Firefighters, Land Maintenance, Conservation	4.30%
TN	Landscaping, Construction, Cleaning & Maintenance	5.19%
CA, AL, OR, NM	Street Cleaning, Public Safety	7.59%

Key Points:

- **Workers' comp rates vary widely across industries due to underlying risk.** Lower risk jobs (e.g. clerical) carry lower base rates while higher risk jobs (e.g. carpentry) have a higher base rate.
- **Some states offer more favorable baseline workers' comp rates than others.** In 2021, employer workers' comp costs (per \$100 of payroll) ranged from \$0.35 in Washington D.C. to \$1.83 in Wyoming³.
- **Workers' compensation is a cost of doing business and it can be significant.** Active claims management and forward-looking premium planning with an insurance agent are critical to keeping costs predictable.

According to the U.S. Bureau of Labor Statistics, in 2024, workers' comp costs for civilian workers averaged **\$0.45 per hour for employers.¹**



How ESEs Can Reduce Workplace Risk

A strong safety program is the most effective way to reduce injuries and lower your workers' comp premium. In addition to reducing injuries, safety programs often provide direct financial benefits. In many states, employers with documented safety programs may qualify for premium discounts. Investing in safety can therefore improve both workplace outcomes and an ESE's bottom line. Here are four focus areas, based on OSHA recommendations, that will help you craft your safety program and reduce workplace risk.

Build a Strong Safety Culture

Your safety program works best when leadership sets expectations and workers help shape solutions.

- Make safety a core value and talk about it during staff meetings
- Set clear safety goals (ex: reduce trips/falls, proper PPE)
- Give workers a voice in identifying hazards and solutions
- Encourage open reporting of workplace hazards and incidents, with no fear of retaliation
- Address barriers (e.g. Language access, shifts, literacy, etc.)

Find and Fix Hazards Early

Injury prevention starts with routine hazard spotting and quick control of risks, especially in high-turnover environments.

- Perform weekly walkthroughs to find hazards
- Investigate all incidents, including near misses, to find the root cause
- Develop checklists that highlight hazards typical in your workplace to look out for.
- Track progress and verify your fixes are working

Train Your Workforce

Frequent, short, practical training sessions help ensure safety sticks.

- Train all workers on the basics of workplace hazards and safe work practices
- Train managers and supervisors on their role in safety
- Offer trainings in multiple languages (if needed).
- Reinforce learning through daily and weekly safety huddles.

Keep Improving

Continuous improvement protects workers and reduces claim frequency over time.

- Regularly evaluate whether controls are reducing injuries.
- Review trends in types of injuries (e.g. Slips, strains, cuts)
- Coordinate clearly with staffing partners, contractors, host employers, or off-site training sites – share hazards at each work site and align on safety expectations/emergency procedures.



Additional Resources

The strategies above are primarily adapted from OSHA's *Recommended Practices for Safety and Health Programs*. For additional resources, visit OSHA's website at <http://www.osha.gov/safety-management>. Two particularly helpful resources are listed below:

- [Recommended Practices for Safety and Health Programs](#)
- [Safety and Health Program Implementation Checklist](#)