ADVANCED PREMIUM AUDIT TOPICS

Employer Education Series

This presentation is for informational purposes only and not meant to be taken as legal advice.

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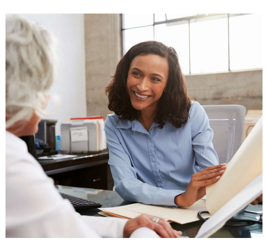
Purpose of a Premium Audit

- Review your payroll and ensure that you are charged the correct amount of premium for the policy term
- Update any details that may affect your coverage and rates
- Confirm actual payroll for calculating your experience modification



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Audit Guidelines

Workers' Compensation Insurance Rating Bureau of California (WCIRB) Guidelines

- Annual premium is $10,500 or more
- Annual premium is less than $10,500 - at sufficient interval.
- Contractors holding a C-39 license (Roofing) - includes a site inspection
- Exposure in high-wage construction classes - at least every three (3) years

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General Classification Rules

- **Single Enterprise Rule**
  one classification that most accurately describes the entire business
- **Multiple Enterprise Rule**
  separate classifications for operations that are physically separated and conducted with no interchange of labor

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Standard Exception Classifications

Clerical Office Employees - 8810
- Engaged **100% in clerical activities** with no additional duties
- Physical separation
- Not exposed to the operative hazards of the business

Salespersons, outside - 8742
- 100% of work time in the field calling on customers
- Outside salespersons on part-time basis with strictly clerical work while at employer's location
- Not exposed to the operative hazards of the business

Telecommuters - 8871
- Perform their work **at least 51% of the time from home** office or other office away from the employer's location
- Not exposed to the operative hazards of the business

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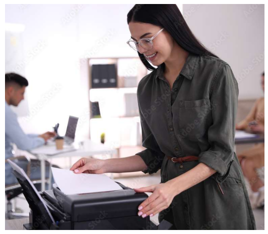
General Classification Principles

1. **Review the overall operations of the business**
2. **Check classification phraseology**
   - "Includes Clerical"
   - "All Employees"
   - "By Contract for Others"
   - Incidental Operations in Construction



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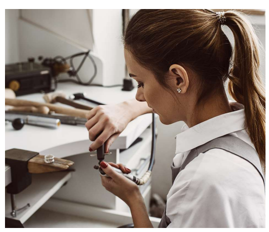
General Inclusions

Certain activities specifically included in classifications and may not be separately classified

- **Manufacturing of containers** e.g. bags, bottles, boxes, cartons, or packing cases
- **Maintenance of the employer's buildings or equipment** when performed by employees
- **Printing** e.g. printing instruction sheets or product labels
- **Stamping, welding, drilling, blasting** in connection with other construction or manufacturing operations
- **Drivers and their helpers**
- **Supervisors**



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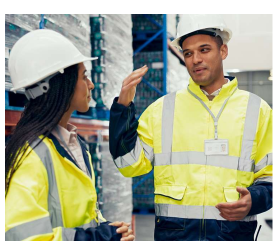
Supervisor Inclusion

Supervisors that are directly responsible for the day-to-day operations would generally be **classified the same as those they are supervising**.



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General Exclusions

Certain operations present a unique exposure that is not common or prevalent in most industries, so these employees must be assigned to a separate classification.

- **Aircraft operations**
- **New construction or alteration work**
  (work that goes beyond facility maintenance or repair)
- **Foundry operations**
- **Asbestos abatement**
- **Day care services if provided by the employer**
  primarily for use by its employees' dependents

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Remuneration / Payroll

- Gross wages/salaries
- Commissions, bonuses, allowances
- Sick, vacation and holiday pay
- Overtime payments
- Market value of gifts
- Housing (in lieu of wages)
- Employee contribution to pension or retirement plans
- Any substitute for money

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What Is NOT Considered Payroll?

- Tips
- Meals
- Overtime Excess
- Severance Pay
- Employer Contributory Payments
- Auto & Travel Reimbursement
- Employer matching funds to pension/ retirement/ cafeteria plans
- Internal Revenue Code 125 (IRC 125)
- Lodging (some lodging may be excluded)
- Some prevailing wage fringe

Uniform Statistical Reporting Plan – Remuneration Table

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Owner and Officer Payroll Inclusions

Owner and officer payroll is subject to **minimum** and **maximum** amounts

Effective September 1, 2026:

- Minimum $66,300
- Maximum $171,600

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Payroll Segregation

Division of a Single Employee's Wages

Wages may be divided between two or more classifications in accordance with,

- the Multiple Enterprise rule **OR**
- as directed by specific class footnotes or phraseologies

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Dual Wage Classifications

Employers must **keep daily time records** showing employee's hours worked, **including daily start and stop times and lunch breaks**

- Hourly rate of salaried employees is calculated at 2000 hours per year, not daily time records
- For valid collective bargaining agreement with regular hourly wage rate by job class, an employee roster by job classification may be used in lieu of daily time records.

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Overtime Excess

Premium is calculated based on the straight time portion ONLY of the overtime pay.

- Straight time portion of overtime pay
  - **Employee's hourly wage = $10/hour**
  - **Overtime rate of pay = $15/hour (time and a half)**
  - **Overtime excess = $5/hour**
- Does not include extra pay for swing or graveyard shifts

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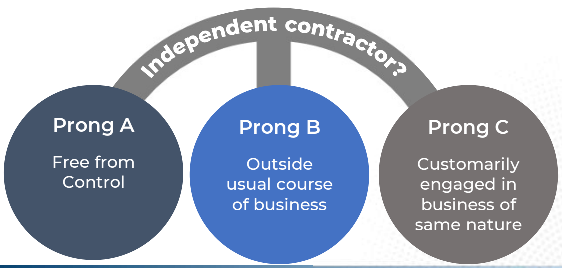
The "ABC Test" - Employment Status Determination



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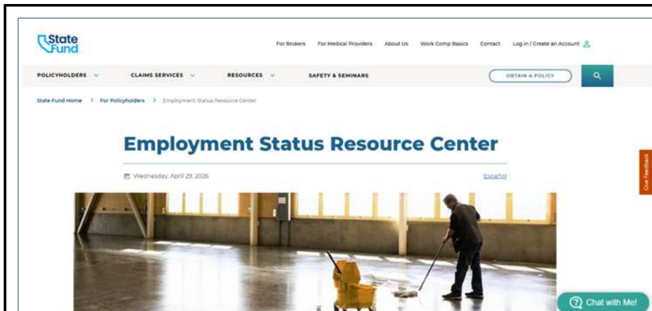

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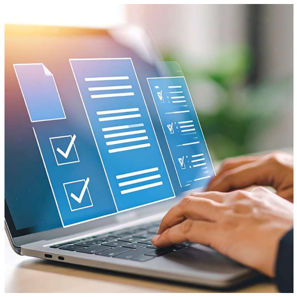
Audit Documentation Requirements

Independent contractor status is determined on case-by-case basis.

Documents that may be required:

- Business license
- Contractor's license number and expiration date
- Written contracts
- Certificate of workers' compensation insurance



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Things to Remember

- ✓ With the presumption of employment in California, the burden is on the **employer to prove** that a worker is not an employee.
- ✓ The **method of payment has no bearing** on employment status.
- ✓ Certain **records will be needed** to substantiate the worker as an independent contractor.

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Online Audit Resources

WCIRB California
Objective. Trusted. Integral.

- Uniform Statistical Reporting Plan
  WCIRB.com > usrp.pdf
- WCIRB Class Search
  WCIRB.com/class-search
- WCIRB Remuneration Table
  WCIRB.com > pay-remuneration
- Contractors State License Board
  CSLB.com
- Department of Consumer Affairs
  search.dca.ca.gov

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State Fund Premium Audit Videos

Premium Audit Video

Construction Industry
Premium Audit Video

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What If You Disagree With Your Audit?

- Contact your State Fund auditor
- Contact your Broker to assist with any questions
- You can also contact State Fund at: **(888) 782-8338**
- Email your written statement along with copies of supporting documentation to **ADispute@scif.com**

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