



UNDERSTANDING YOUR PREMIUM AUDIT

WHAT IS A
PREMIUM
AUDIT?

TYPES OF
PREMIUM
AUDITS

FREQUENTLY
ASKED
QUESTIONS

HELPFUL
HINTS



Small details. Big difference.™



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This information is meant to provide general guidelines to help you understand the premium audit process. It is not meant to replace any rules or regulations established by governing bodies.

What Is an Insurance Premium Audit?

The primary purpose of a premium audit is to calculate your final premium. When your policy was issued, the premium was an estimate of an exposure basis (usually payroll or sales) multiplied by a rate. The rate used is determined by how the exposure base is classified. The audit will examine your records to establish the actual exposure basis and make sure that the correct classification codes and rates are used in determining your final premium. Because the original premium was an estimate, the audit will most likely result in a change of premium and/or classifications for your business.

Premium audits are commonly performed on General Liability, Liquor Liability and Workers Compensation policies. By auditing these policies, we can make sure that your business pays the correct premium. Typically, information from the audit will generate either a bill or a refund. In addition, the premium audit can provide valuable information about your business operations.

You will be contacted about completing a premium audit after the policy expires or is canceled.

The audit process is designed as a service to you that guarantees you only pay the premium that you owe.

Types of Audits

Physical Audit

A physical audit is an on-site review of your business records by a Society Insurance representative. If your business records are located at an address other than your policy address, such as an outside accountant's office, please notify the auditor.

Mail Audit

If a physical audit isn't performed, you'll be asked to complete an audit through the mail. You will be asked to include supporting records, such as copies of tax reports.

Preliminary Audit (for Assigned Risk Pool Policies)

At the beginning of your policy term, the auditor will review a representative period in order to project the premium for the full policy term.

Standard Information Requested at Time of Audit

Listed below is typical information an auditor may request at the time of audit. If there are multiple companies or multiple entities insured under one policy, the auditor will request this information for each company or entity.

General Information

- Description of company operations
- Officers'/Owners' names and titles
- Employee names and job duties
- Number of employees at each location
- Names of subcontractors and certificates of insurance for subcontractors

Payroll Records

- Gross pay including, but not limited to: bonuses, commissions, holiday pay, sick pay, overtime pay, vacation pay and all pretax amounts
- Pretax/Section 125 amounts/401(k) amounts
- Overtime pay shown separately

Subcontractor Information

- General ledger, cash disbursements book and checkbook register
- Names of subcontractors and certificates of insurance for subcontractors

Tax Documents to Verify Payroll/Sales Records and Federal ID Number

- 941, 940, 1099, W-2, W-3, income tax return, etc.

Sales

- Gross sales for each type of service provided/work performed by location
- Profit and loss statement
- General ledger

Additional Information Typically Requested for Restaurant, Tavern and Fast Food Audits

- Tips shown separately
- Number of free meals given to employees
- Subcontractors providing live entertainment
- Liquor sales and total sales to determine proper class for Workers Compensation

Definition of Payroll

Payroll premium bases are used for Workers Compensation and Commercial General Liability policies.

Payroll includes, but is not limited to: hourly and salaried payroll, bonuses, holiday pay, sick pay, vacation pay, commissions, piece work and profit sharing. Also included in the payroll premium base are meals and housing provided for employees, allowances for hand tools, expense allowances not based on receipts, and amounts used to reduce taxable wages such as cafeteria plans and deferred compensation plans.

Payroll excludes tips, overtime premium, severance pay (not accumulated vacation or sick pay paid out), expense reimbursements based on receipts, third-party sick pay, excess life insurance, personal use of a company auto and certain company perks (such as incentive vacations, club memberships or tickets to entertainment events).

Definition of Gross Sales

Gross sales premium bases are commonly used for Commercial General Liability and Liquor Liability policies.

Gross sales include, but are not limited to, total amounts charged for all goods and products sold and services performed.

Gross sales exclude sales tax, returns and allowances. Cash discounts are not excluded.

Subcontractors

You must obtain Workers Compensation and General Liability certificates of insurance for all subcontractors hired. If the subcontractor does not provide you with a certificate of insurance, they will be treated as your employee and a premium will be charged for them.

The premium for uninsured subcontractors can be substantial, so it is to your advantage to obtain proof of insurance from subcontractors.

Uninsured subcontractors covered under the principal contractor's policy are classified on the basis of the classifications that would apply if the work were performed by the principal's own employees.

TURN THE PAGE for answers to frequently asked questions. 

Frequently Asked Questions

Q I work alone. The auditor has requested payroll records and because I have no employees, I have no payroll records. Is the audit still necessary?

A: Yes. The auditor will need to verify that you work alone. To do that, they might look at disbursement records, check stubs or income tax returns. They are also required to look for and review your relationship with any independent contractors you used during the policy period.

Q What can I do to save money on my insurance premiums?

A: If you maintain detailed records, the audit process will be much smoother and is more likely to work to your advantage. Credits are available on the audit for pay types such as premium overtime, tips, severance pay and third-party sick pay. However, your records must provide a summary of these items by employee and department to allow the credit.

If you're a contractor, your policy might allow a split of an employee's wages between different types of jobs.

Your records should indicate what type of jobs each employee completed during your policy term and how much was paid.

With this breakdown, we may be able to allow the use of more than one class code. Without this breakdown, State Manual rules require that we must include all wages in the highest-rated class that applies to any portion of your work.

Q How are the owners classified in the audit?

A: Owners, officers, partners and members can elect or nonelect coverage under your Workers Compensation policy depending on the type of entity insured. The rules vary by state; your agent will be able to provide specific guidelines for your state.

If owners, officers, partners and members are covered under the policy, their wages will be included at either a fixed amount or an actual amount (subject to a minimum and maximum), depending on your entity type, policy type and state of operation.

Owners are classified according to their actual duties. You will be asked to provide a description of each officer's duties.

Q I canceled my policy and no longer have insurance with your company. Do I need to be audited?

A: Yes. The purpose of the audit is to review your actual business activity for the time period your policy was still in force.

Q What gives you the right to look at my books and records?

A: Your insurance policy is a legally binding contract between you and your insurance carrier. One of the conditions of that contract states, "You will let us examine and audit all of your records that relate to this policy." See the policy insert, WC000000A, which was sent with your new business and renewal package, for additional information.

Workers Compensation Audit Non-Compliance

The Workers Compensation Audit Non-Compliance (ANC) Charge became effective on January 1, 2017. The endorsement is mandatory in Illinois, Iowa, Minnesota, Tennessee and Wisconsin, and the guidelines vary slightly by state. (Indiana does not use this endorsement.) The endorsement is attached to all new business and renewal policies for the states where it is used.

Per the endorsement terms, Premium Auditors must make at least two attempts to complete the audit. Society's Premium Audit Department makes at least three attempts and all attempts are documented within our audit system. Any policyholder that does not comply will be billed an additional audit surcharge in line with the guidelines from the Wisconsin Compensation Rating Bureau (WCRB) or the National Council on Compensation Insurance (NCCI). The penalty ranges from 100% to 200% the estimated premium.

Current term policies cannot be canceled for non-payment of the ANC bill. However, they can be canceled for failure to comply with the audit.

Audit non-compliance will result in a 30-day cancellation notice (60-day in Tennessee). If an active policyholder complies with the audit prior to the end of the notice period, consideration will be given to reinstating the policy. In that situation, the audit will also be revised as a result of the compliance.

Non-compliance with General Liability audits and Indiana Workers Compensation audits will result in estimated exposures instead of the ANC penalty.

More Questions?

Please contact your agent. For the name of your local independent insurance agent representing Society Insurance, call 888-5-SOCIETY.

Contact Us

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Helpful Hints For a Smooth Audit

And to help keep your premiums consistent over time

- Have the proper person available during a physical audit to provide the records and answer the auditor's questions.
- Properly summarize overtime paid to individual employees and organize it by type of job.
- Construction companies should keep track of the time and payroll for different types of work.
- Use subcontractors or independent contractors that can provide Workers Compensation and General Liability certificates of insurance.
- Gross sales should be tracked by the various products, services or type of job.
- Identify individuals who perform strictly clerical office duties, strictly outside sales or are strictly drivers.
- Keep a record of tips for restaurant employees.
- Report large payroll changes to your agent. Payroll can be changed on your policy during the policy period, and any additional premium may be spread over several installments. Reporting changes will keep the policy more in line with the actual payroll figures, therefore avoiding large differences at time of audit.



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