

Workers Compensation Insurance

In all states but Texas an employer must have workers compensation insurance when there are more than a certain number of employees, varying from three to five, depending on the state. Workers comp insurance, as this coverage is generally called, pays for medical care and replaces a portion of lost wages for an employee who is injured in the course of employment, regardless of who was at fault for the injury. When a worker dies as a result of injuries sustained while working, the insurance provides compensation to the employee's family.

Over time, states set up a system of insurance where all employers were required to participate and in return employees were no longer entitled to bring a law suit for their injuries. Instead, employees submit claims to the insurer and the claims are paid.

By law, you will be required to participate in workers' compensation. There are exceptions, but the exceptions are few. The exceptions also differ by the state you do business in. As a general rule, if you are self-employed, you do not need to have workers' compensation insurance. However, you can "opt in" as a self-employed business person.

When you start in your business your premiums will be based on the claims experience of your particular industry. Claims experience is a historical set of data kept over time which statistically predicts the number of injuries (claims) that are likely to occur in an industry. The roofing business and construction contractors typically have the highest claims experience and workers' compensation premiums are higher for those businesses. Businesses where there is less chance of injury have lower premiums.

After a few years your business will be rated on its claims experience. Typically this rating process will penalize your business with higher premiums for higher than average claims and reward your business with lower premiums for lower than average claims.

Most states also have voluntary employer training/safety programs that can lower premiums. Some states allow businesses to become self-insured by retaining private insurance outside of the workers' compensation scheme.

If you will have employees, you will need this insurance by law. In a properly constructed business insurance plan, the premiums for workers' compensation insurance should be considered first and a budget for premiums for other types of insurance considered only after this legally mandated insurance is considered.

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