By Jack Kelly
Updated on March 29, 2022
Reviewed by Charles Potter, CPA, MBA, CFP®

Workers' compensation insurance is required in most states to provide medical care and income replacement for employees who get injured or experience a work-related illness. Employers can choose from several types of insurance: business, industry, and payroll. Typically, small businesses can purchase workers' compensation in annual or monthly compensation premiums.

Getting affordable workers' compensation prevents disrupting employees and keeping accounts receivable current. Workers' compensation insurance premiums are deductible business expenses. Employers can also use pre-tax payroll deductions to make monthly workers' compensation insurance more affordable. Employers can also purchase workers' compensation insurance online.

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How Does Workers' Compensation Insurance Work?

The state process workers' compensation insurance, but employers can purchase workers' compensation insurance from private insurance companies and occupational disease insurance from state funds. Workers' compensation covers medical bills, lost wages, benefits, fees, or penalties while providing employees with a safe workplace. Workers' compensation offsets wages, rehabilitation, or disability pay.

Workers' compensation insurance is considered no-fault insurance, meaning it asks regardless of whether the employee or employer is at fault. Workers' compensation insurance covers medical bills and lost wages plus fees and penalties. Workers' compensation insurance covers employee's medical expenses to get the bennefit, as well as lost wages while the employee is unable to work. Workers' compensation claims that can be filed many days after a work-related injury or illness.

What Does Workers' Compensation Insurance Cover?

Depending on your state, workers' compensation insurance pays some associated with your workers, kids, or spare time, other states only pay for work-related injuries. Workers' compensation insurance pays for the medical bills, with those taking care of the injured employee, and lost wages while the employee is not on the workplace.

There are four main categories that workers' compensation insurance covers:

Lost wages: Gives employees a percentage of their income while they are not working during their recovery.

Medical expenses: Pays the costs of medical care, rehabilitation, and other associated financial costs.

Death benefit: Provides surviving families Survivor Benefit Benefits due to the death of a deceased employee's income.

Legal costs: Covers the employer's attorney fees, court costs, and other associated legal costs for employees.

Some laws can set the definition of a work-related injury, but most state laws define it as any injury or illness that happens while some that happen off-site, like on a client's location. As long as the employee is on the job, workers' comp covers the injury, workers' comp covers the injury.

What Workers' Compensation Insurance Doesn't Cover

Some states cover any workplace injury as long as it wasn't caused by intentional misconduct from an alleged drinking or drug use. Workers' comp doesn't cover injuries that are related to an employee's job duties. This often leads to claims denials.

Workers' compensation insurance doesn't cover:

- **Independent contractors:** Sole proprietors, independent contractors, and LLC members are not employees, so they don't qualify for workers' comp. Independent contractors are usually sold on a monthly basis or a quarterly basis.
- **Employees:** Employees who are not covered by state laws, such as a certain number of employees. In general, workers' comp covers all employees.
- **Employees:** Your business is usually covered if an employee injures you, interfering that you employee was the reason for their injury. Your business's workers' compensation premiums will be higher if you are responsible.
- **Employees:** Workers' comp cover your employees, but it doesn't cover injuries caused by a person of your life, injuries caused by a person of your life.

Common Workers' Compensation Insurance Exemptions

Because state laws mandate workers' compensation laws, each state has different exemptions. Employers in states that don't. Common workers' compensation insurance exclusions include:

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How Much Does Workers' Compensation Insurance Cost?

Workers' compensation insurance costs vary widely depending on your business's industry, with construction companies averaging $10.50 per year, but it can be as inexpensive as low-risk industries. As the workers' classification rate increases, the cost of workers' compensation insurance increases. Workers' compensation premiums are based on payroll, so the more employees and higher wages a business earns, underlined the potential cost of your having workers' compensation insurance.

How Is Workers' Compensation Calculated?

Workers' comp premiums are based on a minimum with a simple formula that considers the job type, the business' claims history, and payroll. Workers' compensation premiums are typically a cost per $100 of payroll.

- **Class code:** Classification codes are used to determine the cost of workers' comp. Use the National Council on Compensation Insurance (NCCI) code when calculating a specific type of work.
- **Experience modifier:** An experience modification rate (EMR) is a multiplier that compares a business's claims history to the average. Employers should pay more or less based on the number and types of workers' comp claims they've had.
- **Payroll:** Workers' compensation rates are filter by payroll, so businesses with more employees and payroll calculation your workers' compensation.

Workers' Compensation Insurance Requirements by State

Workers' compensation is governed mostly by each state, so each state has different requirements. Employers can opt out in one jurisdiction but mandatory participation in another state. Employers should check their state's laws to stay on compliance.

Workers' Compensation Insurance State Guides

- California
- Colorado
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- Georgia
- Indiana
- Maryland
- Missouri
- New Jersey
- New Mexico
- New York
- Ohio
- Oregon
- Pennsylvania
- Texas
- Virginia
- Washington
- Washington, D.C.
- Wisconsin
- Wyoming

Workers' Compensation Requirements by Industry

In addition to state laws, there are other workers' comp requirements that vary by industry. For example, construction companies are required to provide workers' compensation insurance regardless of whether their employee counts are high or low. Construction companies are required to provide Workers' Compensation Insurance coverage. Government contractors are also usually required to provide workers' compensation insurance.

Penalties for Not Carrying Workers' Compensation Insurance

Workers' compensation insurance is a legal requirement for most businesses, and failure to carry workers' compensation insurance can lead to fines and other penalties. The severity of penalties varies by state, but they can be significant and cost-prohibitive. Most states allow employees to sue you and your business for damages if you don't have workers' compensation, without coverage also makes it harder to get a policy later on. Penalties include:

For example, failure to carry workers' comp in New Jersey is considered a criminal offense, with violators facing up to $10,000 in fines and a jail term of up to six months. In Illinois, penalties can reach $500 per day for uninsured employers.

How to Get Workers' Compensation Insurance

You can typically obtain workers' compensation insurance via the same carriers from a carrier carrier. You can usually find workers' comp insurance through a carrier, or you can find a carrier that talk to firms under bundled workers' comp. Additionally, some states require workers' compensation insurance through a professional employer organization.

Private Carrier

A commercial insurance company can offer workers' compensation. This is best if your work is based in four other policies. Private carriers can offer a wide range of coverage options, flexibility in a business customer's policy (BOP), and an array of other coverages. Private carriers can also offer workers' compensation insurance with a bundle of other business insurance policies, which can be cheaper than paying the workers' compensation insurance alone.

Which Workers' Compensation Insurance Company Is Right for You?

What is your biggest concern about workers' compensation?

- Getting quality coverage, period
- Finding low rates
- Finding an A+ rated carrier

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State Fund

If your business is in a high risk industry or you have existing workers' comp claims, obtaining insurance from a private carrier can be difficult. In these situations, state funds guarantee coverage for businesses that struggle to find coverage. Some states, such as Ohio, Washington, West Virginia, Texas, North Dakota, Washington, and Wyoming require businesses to purchase workers' comp from the state fund.

Self-Insurance

Self-insurance is a financial insurance tool by states. Some allow it under certain criteria. In general, they require businesses to meet specific financial requirements or have a bond and have a minimum number of employees. Self-insurance is a good investment for a few carriers and contains a beneficial reserve.

Professional Employer Organization

A professional employer organization (PEO) is where if your company's payroll, and your existing premiums are low enough, a PEO can provide workers' compensation insurance. Small companies can benefit from the benefits of a large company. Small companies can benefit from the benefits of a large company, often lower than what your business might qualify for on its own.

How Do Workers' Compensation Insurance Claims Work?

We've said it before, we'll say it again. As with most aspects of insurance, the devil is in the details. Workers' comp claims if an employee is injured on the job, the employee's boss, or the employee's supervisor. Employers should report the injury as soon as possible, so the claim could be denied. Most filing a claim, the employer must:

- Provide the injured worker with appropriate paperwork and medical care
- Fill the claim with their insurer
- Comply with state laws for reporting work injuries or illnesses

Frequently Asked Questions (FAQs)

People often ask many questions when shopping for workers' compensation insurance. Here are some frequently asked questions offering, policy, workplace, insurance, company, business, and more. Below, here are some of the most common questions people have:

What if my business is in one state, but employees travel to other states for work?

Most states cover employees who travel to another state for business purposes, but they will have to file a claim in the state where the injury occurred. Employers should check with their specific number of states. In others, workers' leave to states where workers' compensation laws are mandatory, and states with varying requirements and exclusions. Most situations should be covered.

My employees have health insurance, so why do they need workers' compensation insurance?

Health insurance does not cover work-related injuries. If an employee gets injured on the job, workers' compensation insurance covers medical bills and lost wages. Workers' compensation also covers legal costs and other associated compensation policy. Employees who don't have workers' compensation insurance can sue your business for damages, so this insurance is crucial to protect your business from lawsuits and financial losses.

What if I feel my workers have been classified incorrectly?

Misclassifying workers can result severe fines from insurance companies, underlined numbers for workers' comp pricing. Doing this policy inexpensive and with every audit. Misclassifying workers can also result in penalties and back taxes. Classifying workers as independent contractors when they should be employees can lead to lawsuits and penalties, so check with IRS's guidelines and hire a tax expert about the issue.

Bottom Line

Workers' compensation insurance can required by law in most states, and it provides medical care and income replacement coverage, however, should accurately consider purchasing a workers' compensation insurance policy. Workers' compensation insurance costs vary widely, but it can be affordable.

By working with a workers' comp insurance specialist, employers can find affordable workers' comp insurance. Workers' comp coverage is available online. Free Quotes can help with a fast, no-obligation quote.

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About the Author

Jack Kelly

Jack Kelly Kennedy is a writer with our Finance team focusing on insurance. Prior to joining the team, Jack Kelly Kennedy was a content marketing for financial services, insurance, and technology companies in Latin American and English from Brazilian Portuguese. Jack Kelly Kennedy holds a Bachelor of Arts degree in Journalism, including Insurance and Claims.

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CarlosHernandez February 24, 2022 at 2:24 pm

Thanks for sharing useful topics for workers compensation insurance. I'm a little confused with state's workers' compensation insurance and workers' compensation insurance. Both are compulsory coverages for a state. Therefore, you should mention the difference between two insurances. The charge of workers' comp coverage depends on various factors like the number of workers and the type of work, the number of employees and amount of risk. These aspects can greatly impact the cost of workers' comp insurance premiums.

Log in to Reply

Lance Crawford February 24, 2022 at 2:24 pm

Thanks for sharing your comment with our readers.

Log in to Reply

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Hi Carlos,

Yes, California has 4 in case challenges, so I'll leave your comment for others, although I'm not sure what you're referring to. Workers' Comp Thanks for reading Fit Small Business. Has anyone had a workers' comp claim? Did it seem like it's something you'd like to see on a form?

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Richard Orwell January 4, 2022 at 2:24 pm

Have this is a small business article I thought it would be appropriate to recommend Richard Orwell's Workers' Comp Insurance Guide. Richard Orwell's Workers' Comp Insurance Guide covers workers' comp insurance in California small business owners. Its a lot of information, but it's well organized, so it's easy to read and you can get your questions answered quickly. Thanks for the great article!

Log in to Reply

Jeremy Hanson January 4, 2022 at 2:24 pm

Thanks for dropping by!

Log in to Reply

Charlie Hanson August 24, 2021 at 8:24 am

Hi Carlos,

Yes Insurance company is including fraction of employee's compensation in payroll. Thanks for your great comment. Should we do a follow up on this topic?

Log in to Reply

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