Pay-As-You-Go Workers’ Comp Hits Second Generation

Once Available Only to Clients of PEOs, There Are Now Pay-As-You-Go Options for Agents to Offer Their Clients

By Chris Boggs

National payroll companies have made sure this workers' compensation payment program [pay-as-you-go] is here to stay, says Andy Kohler of Unisource Program Administrators. “Why would a client pay workers’ comp premium any other way?”

Kohler, a marketing representative with UPA, points out that “pay-as-you-go” programs are cost containment strategies that workers’ compensation clients can use to better manage their cash flow related to workers' compensation premiums.

Plus, access to these plans has changed in the recent past, possibly to the agent's benefit. Historically, “pay-as-you-go” type arrangements were almost exclusively found in and available only to clients of a professional employer organizations (PEO). When a client entered into one of these joint employer arrangements, the agent often lost the workers' compensation policy to the group policy offered by the PEO. The two advantages generally offered by PEOs were advantageous group experience modification factors and the cash flow advantages of pay-as-you-go. The only “cost” visible to the client/insured was the administrative cost to be part of the PEO. (Other “costs” were discovered only after jumping into the program causing many to jump back into the traditional market.)

Insurance carriers developed several payment programs to compete with the cash flow advantages apparently found in PEOs; one was the monthly reporting form. Monthly reporting forms, as the name suggests, allowed the insured to file a monthly report of the actual payrolls by class code for the previous month and pay a premium based on the report. Sounds like a good alternative for the client.

The disadvantage of the monthly reporting form was the required “down payment.” Insureds were required to post some percentage of the estimated annual payroll, 20 to 25 percent was common, as a “non-working” cost. This money did not apply to the premium, but was held by the insurance carrier in the event the insured did not make a payment or in the event of an unpaid additional premium audit (because the insured did not properly report payroll). This money was not kept in perpetuity, it was eventually returned to the insured based on individual company schedules; however, the insured did not have the use of the money as long as the carrier held it — somewhat negating any cash flow advantage of a reporting form.

A New Generation

Second generation pay-as-you-go programs have emerged over the last several years. Payroll companies, accounting firms and even insurance carriers (i.e., The Hartford has XactPay) have all jumped on the pay-as-you-go bandwagon.

The new generation of programs trashes the PEO requirement, but retains the necessity of a payroll company or third party payroll processing relationship of some kind. This requirement is somewhat reasonable since there is no “down payment.” Plus, a payroll processing relationship assures the insurance carrier that proper payroll is being reported and that the funds are available to pay the premium (after all, the employer must post the money to pay the employees, taxes and fees).

Also, this new generation of pay-as-you-go provides each insured an individual policy. Gone is the required participation in a group policy common in PEO arrangements. Each insured is individually underwritten and provided with its own policy. Further, loss experience and experience modification factors apply only to the individual named insured, not an entire group. 1

How New-Generation Pay-As-You-Go Works

Each pay-as-you-go program administrator and/or payroll processing company may have its own procedures, but the general operation of a pay-as-you-go program will follow these guidelines:

• To qualify for a pay-as-you-go program, most administrators require a payroll processing relationship. If one already exists, many program administrators attempt to enter into a contract with the payroll firm to provide the necessary information and payments; should there be no payroll administration relationship, the program administrator may help the insured develop one.

• The administrative cost of the pay-as-you-go program is negotiated between the insured and the payroll company.

• The insured makes no down payment other than the expense constant required by each state.

• Each pay period, the payroll processing company calculates the workers’ compensation premium by applying the net rates and class codes to actual payroll and drafts the premium from the insured.

• The payroll company forwards the drafted premium on some pre-determined schedule to the program administrator or directly to the carrier (based on set up).

• The carrier pays the commission to the program administrator who forwards part of it to the agent. Essentially the agent and the program administrator have a commission split arrangement (percentages may vary). — C. Boggs

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