

## Understanding the Workers' Compensation Payroll Classification System

*By CSD Pool*

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Worker's compensation payroll classification is a system created by the National Council on Compensation Insurance (NCCI) and insurance carriers to determine contribution rates based on the type of work employees perform and the associated risks involved.

In this system, jobs are categorized into specific class codes based on the nature of the work. For instance, a clerical office employee would fall under Code 8810 Clerical Office Employees while a fitness instructor is classified under Code 9063 YMCA. Each class code is associated with a specific rate, reflecting the relative risk and predicted loss potential with that type of work. These classifications are essential for determining workers' compensation coverage contributions, as higher-risk classifications generally result in higher contributions.

To better illustrate how the system works, consider the following example:

A finance director earning \$100,000 annually works in an office setting. Their job duties are strictly clerical. In this case, this type of work would be classified under 8810 Clerical Office Employees. Assuming this classification is rated at \$0.10 per \$100 payroll, the estimated manual contribution, before any credit and debit factors, is \$100.

$$100,000 * 0.10 / 100 = \$100$$

In another example, a firefighter also making \$100,000 is classified under 7710 Firefighter – Career. If this class code is rated at \$3.00 per \$100 payroll, the estimated manual contribution is \$3,000.

$$100,000 * 3.00 / 100 = \$3,000$$

The examples above demonstrate why two positions with the same annual wages and salaries—but with different inherent risk exposures—produce significantly different manual contributions for workers' compensation coverage.

For accurate pricing and adequate coverage, it is important to work with the CSD Pool to make sure employees are properly classified. This often requires you to provide a job description for underwriters to determine the most appropriate class code. Payroll classification details can be found on your invoice and declarations page.

In general, you can expect your contributions to increase as payroll grows because the coverage is rated on payroll, although not all types of

employee compensation meet the definition of payroll for workers' compensation purpose. To learn more about payroll inclusion and exclusion rules, check out our recent article on the subject.

At renewal and payroll audit, the Department of Workers' Compensation requires districts to submit an individual employee schedule to the Pool. The schedule should include detailed individual employee information such as job title, payroll, employment status, and class code.

If you have specific questions regarding payroll classification, email [wc@cspdpool.org](mailto:wc@cspdpool.org).