



Workers' compensation 101: A guide for employers

WHAT IS WORKERS' COMPENSATION?

Workers' compensation insurance is a powerful tool for both employees and employers. It can cover the wages and medical costs of workers who are injured on the job or become sick because of their job. It can also provide benefits to family members if the employee dies due to their ailment.

For employers like you, it can offer reassurance that your employees will be taken care of if an accident occurs, and it can help protect against lawsuits.

Here are just a few benefits of workers' compensation:

- It ensures an injured or ill worker may receive benefits without litigation.
- It helps protect a company against lawsuits that could damage them financially.
- It's a no-fault system; neither the employee nor the employer must be found legally at fault for the insurance to pay out benefits.

Most employees are covered by their employer's workers' compensation insurance, and most businesses purchase their policy through private insurance companies.



In the U.S., workers' compensation is driven by a patchwork of state and national legislation. New state and federal laws continue to make small changes to the workers' compensation environment.

WORKERS' COMPENSATION CONSIDERATIONS

While the general concept of workers' compensation is simple, it's challenging to describe how the specifics apply to any given case because situations differ.

Every workers' compensation case is different

The unique nature of each injury or illness and the circumstances of the worker can affect workers' compensation amounts and outcomes. Individual cases will often be more different than similar. Factors include:

- Body part injured
- Injury severity
- Recovery duration
- Potential work return

Other factors include policy type and even a worker's job qualifications at the time of the incident. For example, workers' compensation benefits for medical treatment and wage replacement after a back injury could be extensive for a worker whose job requires frequent heavy lifting.

It matters where a workers' compensation claim is filed

Jurisdiction is a major factor. In the U.S., while some industries are governed at the federal level, each state regulates how workers' compensation operates for most companies and workers. This makes the workers' compensation environment complex on the basis of location alone.



IS WORKERS' COMPENSATION REQUIRED?

Generally, yes. All states except Texas require businesses with employees to have workers' compensation insurance. But companies operating in Texas may still need to have it if they have employees working in other states.

Exceptions

Workers' compensation insurance may be required for reasons other than state law

Even in states that don't require workers' compensation, some companies may need it because their industry falls under federal workers' compensation requirements.

Additionally, companies may need workers' compensation insurance to meet stipulations in a business contract.

Workers' compensation insurance may not be required when a self-insured plan replaces it

[A self-insured workers' compensation plan](#) is an available exception when a business can cover the cost of workplace incidents without using insurance.

This option is subject to certain requirements, including the same jurisdictional requirements as insurance, and isn't the same as being uninsured. Businesses that choose to cover incident costs through a self-insured plan retain risks that otherwise would've been transferred to their insurance carrier.

Workers' compensation requirements by state

Because workers' compensation is primarily regulated at the state level in the U.S., we operate in a system where specific information about workers' compensation law, benefits, requirements, and penalties differ—often significantly—by state.

In most states, companies can purchase workers' compensation insurance from any private insurer, subject to state requirements.

State-run workers' compensation funds

Some states have their own state-run workers' compensation funds:

- Several states—North Dakota, Ohio, Wyoming, and Washington—have monopolistic workers' compensation programs, in which businesses must use the state workers' compensation program.
- In states with non-monopolistic programs, businesses may purchase coverage through the state program or through a private insurance company.
- As a U.S. territory, Puerto Rico also uses a state insurance fund.

Other workers' compensation differences by state

Because the workers' compensation environment depends on what state you're in, companies must account for numerous differences.

As previously mentioned, Texas doesn't require all private companies to have workers' compensation insurance. If a company must have a workers' compensation policy for other reasons—like contract stipulations or out-of-state employees—Texas does require the company's insurance carrier to be [licensed by the Texas Department of Insurance](#).

This is just one example. It's important to understand that there may be additional fine print when a company needs to buy workers' compensation in any given state.

HOW DOES WORKERS' COMPENSATION WORK?

Once you're notified about an employee's injury or illness, you should file a claim with your insurance provider. Benefits are then paid by your provider through your workers' compensation policy.

What does the workers' compensation process look like?

While the broad outline of what happens after an incident is generally the same in most cases, remember that certain differences can come into play. Here's a typical sequence of events:

1. A construction worker accidentally drops a brick on a coworker's foot. While their employer has implemented and encourages safety measures—like wearing steel-toe shoes—the worker was injured and decides to start the workers' compensation process.
2. Because the worker is now on the path to receiving workers' compensation benefits, they give up the right to sue the employer for the injury in most cases.
3. In return, the construction company can now work with its workers' compensation insurance provider and other third-party professionals, such as healthcare workers, to help the worker receive the care needed to return to work in due time.
4. Depending on coverages and case details, the worker could receive benefits, including wage replacement and payments for medical care and rehabilitation. These are paid by the insurance plan, not the company.



Additional workers' compensation incident examples

What's covered by workers' compensation insurance isn't always obvious because workplaces and work duties vary. Some incidents that may be covered by workers' compensation include:

- An employee is injured while driving a company car for work.
- A remote worker sustains a job-related injury away from company property.
- A worker becomes ill because they were handling hazardous job-related materials offsite.

Again, many variables apply. What's covered in one state jurisdiction may not be covered in another.

Workers' compensation benefits for employees

Workers' compensation benefits include payments for:

- **Medical treatment:** If an employee becomes hurt on the job, workers' compensation can cover the medical fees associated with that injury.
- **Rehabilitation:** If an employee requires care while recovering from an injury sustained on the job, workers' compensation can help pay for ongoing medical treatment, such as physical therapy.
- **Wage replacement:** If a job-related injury or illness prevents an employee from immediately returning to work, workers' compensation can help them pay for lost wages during that time.
- **Disability benefits:** If an employee has a full or partial disability because of their job, workers' compensation can help pay disability benefits.
- **Death and funeral services:** In the unfortunate event an employee dies due to a work-related incident, workers' compensation can help pay death benefits, including funeral costs, to the named beneficiary.

Types of workers' compensation policies

It's important to understand the difference between **types of workers' compensation benefits** and **types of workers' compensation plans**.

Types of benefits include things that are generally included in any workers' compensation plan—like wage replacement and medical cost coverage—regardless of the type of plan.

Types of plans are usually source- or provider-based, while others are structure-based.

The confusion often arises from the fact that plan types vary and are often described by aspects and features that can be complex, overlapping, and broken down by subtypes that don't generally affect benefits.

As an employer, understanding what types of plans are available—or required—is important for complying with state law and controlling costs.

Workers' compensation policy types by provider

Based on where a business is located and certain industries, state and federal workers' compensation laws can define what provider-based type of policy a company can choose:

- **State programs:** [State workers' compensation programs](#), can be privatized, monopolistic, or competitive.
- **Federal programs:** [Federal workers' compensation programs](#) mostly apply to federal workers or those in specific industries.
- **Commercial programs:** Commercially available workers' compensation programs, in great variety, come from business insurance companies like Sentry.

Workers' compensation policy types by structure

Plan types can also vary by payment or administration structure. In order of complexity, the types of plans below offer a spectrum of options:

- **Guaranteed cost plans:** [Guaranteed cost workers' compensation plans](#) resemble most other kinds of insurance, offering:
 - Predictable premiums
 - Simple claims processes
- **Loss-sensitive plans:** Loss sensitive workers' compensation plans come in many varieties:
 - [Retrospective rating insurance](#)
 - [Small deductible plans](#)
 - [Large deductible plans](#)
 - [Self-insured plans](#)
- **Self-insured plans:** Self-insured workers' compensation plans are a sophisticated option for companies with substantial resources and complex insurance risks.
 - This type of plan prioritizes cash flow but doesn't transfer risk to an insurance carrier.
 - While Self-insured plans aren't insurance policies in the traditional sense, insurance companies like Sentry can provide valuable [claims administration](#), [safety services](#), and excess coverage for large companies.

Choosing a workers' compensation plan type

Most businesses have choices for picking a workers' compensation plan type that meets state requirements and works for them and their employees.

- **Small businesses** often choose guaranteed cost workers' compensation plans.
- **Mid-sized businesses** may opt for a hybrid workers' compensation plan with loss-sensitive components.
- **Large businesses** generally prefer sophisticated self-funded plans.

At Sentry, we can help as you explore your options and determine which type of plan is right for you and your employees. We offer different types of [workers' compensation plans](#) that can fit companies of all sizes. We also provide safety and loss prevention assistance—crucial for helping protect employees from injuries—and an integral part of any workers' compensation program, but especially for loss-sensitive plans.



Cost of workers' comp.

The cost of workers' compensation varies, though it begins with a calculation.

The cost of workers' compensation varies, though it begins with a calculation:

1. Generally, insurance providers start with a **base rate** (for example, \$0.30 per \$100 in payroll, but base rates vary). If a business pays an employee \$40,000 in payroll, the starting premium for that employee would be \$120. Workers who have a lower risk of injury or illness on the job have lower rates per \$100 in payroll. Each state uses a specific source for these ratings.
2. The insurance provider then applies carefully researched **rate factors**, modifying the base rate. A factor greater than 1 raises the rate. A factor lower than 1 lowers the rate. The net rate is a result of all factors multiplied together. Other costs may come into play.

Workers' compensation rate factors and other costs are based on information, such as:

- **Worker classification:** Workers such as electricians, telecommunication repair workers, and lumberjacks typically have higher base rates because of the increased likelihood and/or scale of incidents.
- **Claims history:** Companies with a history of more workers' compensation costs generally pay more to cover their greater risks.
- **State requirements:** Each state's requirements affect the premiums for workers' compensation within it. Additionally, state requirements can influence competition (or remove it, in the case of state-run monopolistic plans), which can also affect premiums.
- **Policy types:** How policies are paid for and administered can affect premiums. Self-insured plans can lower plan costs but raise the potential cost of risk.

Accuracy is vital during the underwriting process. If an insurance company is uncertain about the level of risk involved at your company, it may factor that uncertainty into your risk of claims, leading to potentially higher premiums.

At Sentry, we believe in the power of conversation and getting to know our customers to explore possible solutions. The better we understand your goals and risks, the more we can offer options to protect your goals and mitigate your risks.

Mitigating workers' compensation costs

Underwriters look at claims histories and how companies manage their risk of on-the-job injuries or illness—and their severity—when determining the cost of a workers' compensation insurance policy. Thus, employers do have some ways to control costs:

- **Build a safety program:** A successful safety program—incorporating training, monitoring, and reporting—can help reduce workers' compensation costs for employers.
- **Build a culture of safety:** Organizations committed to safety, making it a priority at all levels without exception, can often reduce risk.
- **Hire smart:** Qualified employees generally have less risk of being involved in an on-the-job incident.
- **Train effectively:** Workers who know how to perform tasks and use equipment correctly can lower their risk of injury or illness.
- **Establish a return-to-work program:** In our experience, the longer a worker is off the job, the less likely they'll return to their prior level of performance and job satisfaction. Alternative work can be an option in some situations.



HOW DO WORKERS' COMPENSATION CLAIMS WORK?

Filing a claim for workers' compensation is often different than filing a claim for other types of insurance. Because workers' compensation insurance is carried by the employer and covers injuries and illnesses affecting the employee, the process for filing and managing a workers' compensation claim involves multiple parties.

- 1. Before a claim:** Typically, an employer will train a supervisor to report injuries or illnesses that may fall under workers' compensation to the plan provider. We have [resources](#) to help you conduct this training.
- 2. Reporting a claim:** In the event of an accident or illness, once safety and proper medical attention are underway, the supervisor should help determine the appropriate course of action, complete an injury or illness report, and communicate with the employee about workers' compensation procedures. The company will then file this report with its workers' compensation carrier. Prompt reporting can help expedite results.
- 3. Managing a claim, recovery, and return to work:** Communication between the supervisor, employee, carrier, and medical professionals will occur to determine appropriate benefits and the affected employee's possible return-to-work timeline.

DO EMPLOYEES GET FULL PAY WITH WORKERS' COMPENSATION?

Workers' compensation doesn't fully replace a worker's income. However, employees are entitled to a certain percentage of what would have been their regular gross wage. Amounts may differ with minimums and maximums varying by state. Tax implications and company benefits may also affect benefit amounts.

CAN EMPLOYEES WORK WHILE ON WORKERS' COMPENSATION?

Yes, employees can still work—and receive pay or salary—while receiving workers' compensation benefits for medical treatment, rehab, or disability. These benefits are independent of the employee's ability to work, meaning that even if an employee is able to quickly return to their position, the costs for an initial hospital visit and ensuing medical treatment are still covered.

While it's much more common for an employee to receive wage replacement only to compensate for lost hours or work, it's possible—in some states and under certain circumstances—for a worker to receive wage replacement through workers' compensation while continuing to work.

CAN EMPLOYEES LOSE THEIR JOB DUE TO AN INJURY?

Any serious accident or illness can leave an employee physically unable to perform their job. Workers' compensation cases shouldn't be treated any differently than situations where the injury or illness wasn't job-related.

Cases where an employee may no longer be able to perform their job include:

- An audio engineer experiencing permanent hearing loss
- A driver unable to perform their job due to vision impairment
- A salesperson unable to travel due to chronic illness

Additionally, it may not always be possible for workers to phase back into their original jobs over time, depending on the level of therapy or healing necessary. These scenarios may also lead to loss of employment:

- **No alternative role available:** Depending on the size and scope of the business, a position may not be open that meets both the worker's restrictions and qualifications. Therefore, this person may not be able to continue working at the company.
- **Performance in a new role:** After reassignment to a new position, an employer could still terminate an employee for job performance. There are no workers' compensation factors in this situation, so the employee should be treated the same as any other.
- **Wider circumstances:** Corporate downsizing, sudden facility closure, or other random events could trigger a job loss at any business. Again, workers' compensation is a non-factor in these situations.

It's important to note an employer can't fire an employee for filing workers' compensation—a legal and protected action—but companies in at-will employment states can fire employees while they receive workers' compensation benefits. Typically, being fired or let go will not prevent a worker from receiving workers' compensation benefits.

Based on jurisdiction, a fired employee may receive workers' compensation wage loss benefits if their injury or illness led to job restrictions that weren't accommodated by the employer.

LEARN MORE ABOUT WORKERS' COMPENSATION

Understanding how worker's compensation works is a nuanced conversation. Each case requires individualized attention and investigation, as many factors depend on which state's rules apply, among other variables. That's why we're here to help employers and their teams fully understand what they need to know about workers' compensation and how to get a plan that meets their individual situation.



You can prepare for a personalized conversation about your workers' compensation goals, budget, and requirements by exploring the wide variety of [workers' compensation plan types we offer](#).

WORKERS' COMPENSATION FAQs

What isn't covered by workers' compensation?

Workers' compensation benefits won't cover the cost of medical treatment for injuries or accidents that occurred outside of work or for pain and suffering. State and federal laws and policies define work-related injuries. Incidents that may not be covered by workers' compensation include:

- Accidents or injuries that occur outside of the workplace or in non-work capacities
 - Example: If a food worker accidentally cuts their hand while in their own kitchen
- Accidents or injuries that occur while an employee is intoxicated
 - Example: If an employee reports to work under the influence—and an injury happens—this worker may have forfeited their right to workers' compensation
- Accidents or injuries that are proven to have been caused by an intentional, risky, non-work activity at the workplace
 - Example: Horseplay, accidents, or illnesses stemming from practical jokes

Some accidents may appear connected to a worker's position, but they may not be compensable if they weren't sustained while performing job requirements. For example, workers' compensation may not provide benefits if:

- The accident or injury didn't occur at work
 - Example: A worker is injured while commuting to work. Even though they drive on the job occasionally, the commute itself isn't a job requirement. Whether this injury would be covered by workers' compensation depends on the specific facts and state jurisdiction.
- The accident or injury occurred at the workplace, but not in the scope of work
 - Example: An employee accidentally hurts their leg while in the office gym. Unless they're hired as a fitness instructor, required to use the gym, or attending a mandatory event, this injury may not qualify for workers' compensation, depending on specific facts and state jurisdiction.

When in doubt, report. Regardless of whether you think an injury is covered by workers' compensation, you should still report it. Generally, if it's determined that a worker is injured while on the clock performing their job, workers' compensation can likely provide benefits.

How do infectious diseases affect workers' compensation?

Infectious diseases, like COVID-19, may be covered by workers' compensation, but an employee would need to prove they contracted the illness while on the job. Coverage may also extend to first responders or those in the healthcare field or other industries where the hazard of being infected at work is greater.

In certain states, new laws require employers to report work-related and non-work-related infection data to their claims administrator, regardless of coverage.

Can an employee sue their employer if they're injured at work?

One core advantage of workers' compensation is it provides employees with benefits without the need to establish fault and that helps prevent lawsuits.

Often, workers forego the right to take legal action when they accept workers' compensation. However, a worker may still have the right to sue their employer in specific instances.

At Sentry, our Safety Services team and available resources can help reduce your risk of workers' compensation claims. Contact us for more information.

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