



Important Information on How Your Workers' Compensation Premium Is Determined and the Audit Process

When your policy was issued, the premium was based on an **estimate** of your business operations and your workers' payroll.

At the end of the policy period, an audit will be performed to determine your **actual** payroll and business operations. We will be able to calculate the final premium from this information.

The Audit Process

A review of your financial records, such as payroll logs, general ledgers and tax returns will be required. A State Farm® representative will contact you by mail, telephone or visit with you in person to obtain the information. It is to your benefit to have your accounting records set up by employee and type of work they perform. We will also obtain a complete description of your business operations to confirm the classification codes on your policy are correct.

We will assign the payroll to the classification code(s) that represent the type of work performed and apply the appropriate rating factor to determine your final premium. The final audit premium will be compared to the estimated premium and a Premium Adjustment Statement will be sent to you reflecting any change. Please note that a significant change may require that we also adjust your current policy premium.

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Items That Affect Your Premium

- **Sole Proprietor/Partner/Officer** – The remuneration used for each covered sole proprietor/partner/officer may be either a predetermined amount, or actual remuneration* subject to a minimum/maximum.

**Remuneration means all payroll and other forms of earnings such as bonuses, commissions, sick days, meals and lodging.*

- **Employees/Temporary Employees/Leased Employees** – Actual remuneration paid to each employee. You may be responsible for temporary/leased employees regardless of the temporary or leasing company's insurance arrangements.
- **Use of Subcontractors** – A Certificate of Insurance for Workers' Compensation coverage needs to be obtained annually for every subcontractor you hire. If a subcontractor has no employees, a Certificate of Insurance for contractor's liability coverage needs to be obtained. If certificates are not obtained, the subcontractor and their employees may be considered as your employees for premium calculation. This could substantially increase your final premium.
- **Business Operations** – The actual remuneration will be assigned to a classification code in accordance with industry rules as published by the National Council of Compensation Insurance (NCCI) or specific guidelines as published by your state.

All audit information provided will be kept confidential.

If you have any questions concerning this information, please contact your State Farm agent.

The information contained in this document outlines general concepts. Information required may vary by state and could be impacted by state law.

State Farm Fire and Casualty Company
Bloomington, IL

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