



Insurance and Risk  
Management Services, Inc.™

**Your Priorities. Our Focus.®**

## Premium Audit Guide - General Liability

When your policy was issued you were asked to pay an Estimated Premium. The Estimated Premium was based on the nature of your business and your estimate of what your payroll, sales revenue and other rating basis would be during the policy period.

Once your policy expires, the insurance company conducts a Premium Audit to collect information on your operations and exposures during the policy period to calculate your Earned Premium. Billing adjustments are then calculated based on the difference between the Estimated Premium you've already paid and the newly calculated Earned Premium.

### **Records Required**

Good record keeping is important to ensure the Premium Audit process leads to an accurately calculated premium. Well organized and accurate records will save you time and may minimize your insurance costs.

The Premium Auditor may need the following records when the audit is performed.

#### **1. Payroll Records:**

- Payroll Journals and Summary reports.
- Federal Tax Reports (941's).
- State Unemployment reports.
- Individual earnings records.
- Payroll records should include a breakdown of overtime hours when applicable.

#### **2. Sales Journal:**

- All goods or products sold, rented or distributed.
- Service, repair and installation records.
- Exclude sales or excise taxes collected separately and submitted to the government.

#### **3. Check Register And Cash Disbursements:**

- Showing payments to subcontractors.
- Material costs.
- Payments for casual labor.

#### **4. Certificates Of Insurance:**

- For all Subcontractors utilized during the policy period.

## Premium Saving Tips

You may be able to utilize some of the following tips to reduce your premium:

- 1. Payroll Division:** A single employee's payroll can be divided between more than one Rating Class except when the employee works in a clerical, sales or driving position. Proper records must be kept in dollar amounts that reflect work actually performed before a breakdown applies. Without adequate records, the entire payroll for each employee must be placed in the highest rated classification.
- 2. Employee Tips:** Tips declared by employees may be excluded from their Gross Payroll only if separately identified.
- 3. Overtime Deductions:** Extra pay for overtime can be deducted if records are maintained to show overtime pay separately by employee and in summary by classification.
- 4. Certificates of Insurance:** Have certificates available for all subcontractors on file to ensure that charges for uninsured contractors are not made unnecessarily. Certificates must cover the entire period when the subcontractor worked for you, so this may require multiple certificates covering two different policy terms in some cases.

## Payroll Definition

Gross Payroll includes the following:

- Wages.
- Salaries.
- Commissions.
- Bonuses.
- Exclusion of Overtime at 1/3 for time-and-a-half and 1/2 for double time.
- Pay for Holidays.
- Pay for Vacations.
- Pay for Sickness.
- Payment for piece work.
- Value of meals and lodging.
- Other substitutes for money.
- Employee Pre-Tax Contributions for 401(k) and Section 125 Cafeteria Plans.

## Payroll Exceptions

The basis of premium for Executive Officers, Individuals and Partners is \$16,700 annual payroll.

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