1. THE ENGINE OF THE QUOTE: HOW CLASS CODES TURN PAYROLL INTO PREMIUM

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NCCI Workers' Compensation Manual Premium Calculation:
Manual Premium = [ Payroll by Code ÷ 100 ] × [ Carrier Class Rate or (Loss Cost × LCM) ] × [ Experience Modification Factor (E-Mod) ] × [ Approved Debits / Credits ]
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Filed Rates vs. Loss Cost Multipliers (LCM):

- In NCCI states, four-digit codes carry filed pure loss costs that insurers scale by a Loss Cost Multiplier (LCM) to produce charged manual rates.
- **Payroll Basis:** Premium is calculated per $100 of gross payroll. Gross wages must reconcile to W-2 and Federal 941 reports.
- **Audit Rights:** Final premium is never determined at policy inception; it lives in the policy's mandatory post-term audit conditions.

The Rate Disparity Reality:

- **1/20th to 1/100th Gap:** Office clerical rates (Code 8810) are a small fraction of trade rates—typically a few cents to well under $0.50 per $100.
- **Trade Rates:** Carpentry (Code 5403 / 5645) runs several dollars to well over $10 per $100 of payroll.
- **Premium Swing:** A $100,000 payroll swing between Code 8810 ($0.35) and Code 5403 ($9.50) equals a $9,150 annual premium change before E-Mod.

2. THE GOVERNING CLASSIFICATION RULE (IN ONE OPERATIONAL LINE)

The Core Axiom: "*Subject to listed exceptions, it is the business of the employer within a state that is classified, not each individual occupation inside the company.*"
Governing Classification Definition: The basic classification that best describes the overall nature of the business—ordinarily the basic class, other than a standard exception, with the greatest payroll.

No Cherry-Picking Rule:

- Contractors cannot assign each employee the cheapest available class code.
- A bookkeeper who regularly visits job sites is not "half 8810."
- A lead carpenter invoicing on Friday is not "mostly 5403 with a clerical credit."
- Additional codes attach ONLY where the manual creates an authorized door (standard exceptions or distinct construction operations).

Highest-Rate Default Trap:

- Construction allows dividing payroll between separate construction operations **only if separate payroll records are kept by job and operation as wages are earned**.
- If records fail to segregate hours contemporaneously, **the highest-rated applicable class on that job applies to the entire mixed payroll**.
- Year-end estimates or arbitrary percentages are rejected at final audit.

3. THE 5 CONTRACTOR CODES THAT MOVE THE QUOTE

Code	Classification Name	Typical Rate Level	Scope, Inclusions & Operational Boundaries
5403	**Carpentry—NOC**	**HIGH HAZARD** Several $ to >$10 / $100	General carpentry when a more specific carpentry code does not apply. Scopes include commercial buildings, mixed-use work, and multi-unit residential structures exceeding detached-residence limits. "NOC" = Not Otherwise Classified.
5645	**Carpentry—Detached Private Residences**	**HIGH HAZARD** High-severity trade class	Covers carpentry on detached private residences that **do not exceed three stories**. Not an elective discount; townhouses, 4-story condos, or commercial fit-outs fall back into 5403. In some states prices above 5403.
5474	**Painting NOC & Shop Operations, Drivers**	**HIGH HAZARD** Building-trade rate tier	General painting for ordinary residential and commercial structures when no specific code applies. **Shop operations and drivers are built into the phraseology**—cannot peel shop or driver payroll into cheaper codes.
8810	**Clerical Office Employees NOC**	**STANDARD EXCEPTION** Cents to <$0.50 / $100	Standard exception. Applies only to employees limited to clerical office work (records, billing, phones, data entry) in a workstation physically separated from shop, yard, and job-site hazards by walls, floors, or partitions.
8742	**Salespersons, Collectors or Messengers—Outside**	**STANDARD EXCEPTION** Often <$1.00 / $100	Standard exception for employees selling or collecting away from employer premises. Does not apply to estimators, superintendents, delivery drivers, or site supervisors (job-site estimating often falls into Code 8720 or trade code).

4. CODE 8810 GATEWAY: THE 3 MANDATORY TESTS THAT MUST HOLD AT ONCE

Codes 8810 and 8742 can sit beside a contracting governing class because they are standard exceptions. For Code 8810, all three tests must hold simultaneously:

TEST 1 Phraseology Test

The governing classification phraseology must not already include clerical employees.
If the basic manual scope bundles clerical inside the trade class, 8810 cannot be carved out.

TEST 2 Duties Test

Duties must stay strictly inside clerical office work: records, correspondence, billing, phones, payroll, data entry.
Disqualifiers: Regular job-site visits, crew supervision, tool handling, or running an "office from the pickup truck."

TEST 3 Physical Barrier Test

Work must be performed in a space physically separated from shop, warehouse, yard, and job-site hazards by walls, floors, partitions, or another real structural barrier.
Open desks in a fabrication shop or job trailer fail this test.

5. CODE 8742 OUTSIDE SALES VS. CODE 8720 ESTIMATING & SUPERINTENDENT TRAP

Code 8742 Legitimate Scope:

- Must sell or collect away from the employer's premises.
- Traveling to client offices or prospective commercial accounts to close contracts.
- **Incidental Runs:** Routine bank deposits or paycheck handoffs generally do not destroy the clerical or sales classification.

What Destroys Code 8742:

- **Delivery:** Transporting materials or tools to job sites.
- **Project Management:** Traveling between jobs to inspect or manage work.
- **Estimating / Bidding:** Measuring residences or commercial sites to prepare bids (commonly assigns to Code 8720 with a strict no-split rule).
- **Site Supervision:** If the salesperson supervises field labor, payroll defaults to the construction trade class.

6. AUDIT PREP CHECKLIST: SEGREGATION, OVERTIME & SUBCONTRACTORS

Contemporaneous Timekeeping:

- Segregate hours by job and by class as wages are earned.
- Job-cost detached residential (5645) separately from commercial (5403).
- If a crew moves between 5645 and 5403 in the same week, timecards must record the exact transition date and hours.
- Year-end percentage allocations are rejected by premium auditors.

Overtime Increment Exclusion:

- In most NCCI states, the overtime premium increment above straight time can be excluded from the payroll basis.
- **Formula:** 1.5× pay is split into 1.0× straight time (chargeable) and 0.5× premium increment (excludable).
- **Condition:** Books must show the increment separately. Blended overtime checks are charged in full.

Subcontractor COI Tracker:

- Uninsured subcontractors without workers' comp certificates are picked up as your payroll in the governing class.
- Collect Certificates of Insurance (COIs) showing in-force WC before work starts.
- A COI proves coverage was in force; it does not transfer liability for your own direct employees.

7. HOW TO DISPUTE AN ASSIGNED CLASS CODE (4-STEP RESOLUTION PROTOCOL)

1. Carrier Classification Review (In Writing):

- Submit formal written dispute to carrier audit or underwriting unit.
- Attach: operations list by job, photographs of clerical barrier, written duty descriptions, and contemporaneous payroll registers split by class and job.
- Demand carrier cite exact NCCI/bureau scope wording and manual rule applied.

2. NCCI / State Bureau Classification Inspection:

- Request an official classification inspection from NCCI (or state bureau in CA, NY, etc.). Bureau field inspectors visit premises to verify operations.

3. Formal Rating Bureau Appeal:

- If carrier and bureau staff still disagree, file a formal bureau classification appeal within the published statutory deadline.
- Attach contracts, certified payroll, timecards, and bureau inspection report.
- Continue reporting on assigned codes in force until interim relief is issued.

4. Account Consistency Audit:

- Ensure Commercial General Liability (CGL) applications, bid files, and websites match the workers' comp operations schedule. Underwriters test class stories across lines.