

# WORKERS COMPENSATION JOB CLASSIFICATION GUIDELINES

## INTRODUCTION

These guidelines were developed to assist AERA members establish the correct and lowest cost premium rate for their workers compensation insurance. In most states, AERA members are classified as Machine Shops Code 3632 for workers compensation insurance. If members can qualify for a lower premium rate classification category, a significant premium savings can be achieved. This publication will:

1. Describe how the current workers compensation classification system works.
2. Identify a lower premium rate classification category AERA members may be eligible for.
3. Provide guidance on how AERA members can obtain this lower premium rate classification.

Workers compensation insurance premiums are determined by classifying employees and their payroll into the appropriate job classification code. A premium rate for each classification code is then applied to the payroll in each classification to determine the base premium. For AERA members, the typical job classification codes used are the following:

<b>Classification Code</b>	<b>Description</b>
3632	Machine Shop
3629	Precision Machined Parts Manufacturing
3827	Automobile Engine Manufacturing
8046	Store: Automobile Accessories - Retail
8810	Clerical
8742	Outside Salespersons
7380	Drivers/Chauffeurs

The above classifications are from the National Council on Compensation Insurance (NCCI). NCCI functions as a rating bureau for workers compensation insurance. In most states (31), it functions directly as the governing body in establishing job classification categories, inspections of businesses to establish proper job classification categories and the collection of ratemaking statistics. In the other states, it usually functions as a key advisor to independent state rating bureaus.

Appendix I at the end of these guidelines identifies NCCI states versus independent rating bureau states. Many independent rating bureau states use the same classification codes developed by NCCI. Some states use their own coding system.

AERA members need to establish which classification codes apply to them in their individual state of operations. This information can be found on your current workers compensation policy. The policy should contain a schedule by state of operation showing the classification description, code number, premium basis (payroll) and premium rate for the employees located in a particular state. Your local insurance agent can be used as a resource if you need assistance.

Typically, AERA member employees operating machines have been classified under the Machine Shop Code 3632 category by NCCI. AERA members can benefit if their business operations can qualify for the Precision Machine Parts Manufacturing Code 3629 category. In most states, this Precision Machine Parts Manufacturing category has a premium rate about 40% lower than the Machine Shop Code 3632 category. The following will describe how this workers compensation classification system works and how AERA members can work to obtain the lowest premium rate category for their workers compensation insurance.

## **THE CURRENT SYSTEM**

### **Basic/Governing Classification Category**

The object of the NCCI job classification procedure is to assign the one basic classification that best describes the business of the employer within a state. Subject to certain exceptions, each job classification includes all the various types of labor found in a business. It is the business that is classified, not the individual employments, occupations or operations within a business. Therefore, one basic or governing classification is usually established for the business as a whole. Of course, there are certain exceptions to this rule, but the exceptions are limited and clearly defined in the NCCI rules.

The basic or governing classification for a particular firm is the one that produces the greatest amount of payroll for the business operations. This is the primary criteria used to establish the basic job classification category for a particular employer.

### **Exceptions to the Basic/Governing Classification Rule**

Some occupations are so common to businesses in general that they have been established as standard exception classifications.

Standard Exception Classifications are:

1. Clerical Office Employees (Code 8810). These are employees engaged exclusively in bookkeeping, recordkeeping, correspondence and other office work. These employees must work in areas physically separated from other business operations, e.g. separate office space. They also must exclusively perform clerical office work, i.e. they can have no other job functions. For example, employees cannot work part-time stocking auto parts and part-time performing office functions and be classified as clerical employees.
2. Drivers, Chauffeurs and Their Helpers (Code 7380). This classification covers employees engaged in driving vehicles such as the delivery of parts.

3. Salespersons, Collectors or Messengers - Outside (Code 8742). These employees are engaged in duties away from the employer's premises.

Payroll that applies to employees falling into the above categories is separated out from the basic/governing classification code for the business.

### **When Additional Job Classification Categories Can Apply**

There are certain conditions under which more than one basic classification can be assigned to an individual business. Separate job classification categories can be added for a business when portions of a firm's total business operations in a state are separate undertakings or enterprises. To qualify as a separate undertaking or enterprise, the portion of the firm's business to be separately classified must meeting the following criteria:

1. The operation separately classified is not ordinarily within the scope of the firm's principal business.
2. The separately classified operation could exist as a separate business if the firm's other operations ceased to exist.
3. Separate financial records are maintained for the separately classified business.
4. Each separately classified business is physically separated by structural partitions.

For AERA members, a separate job classification category could be the sale of automobile parts and accessories. This could apply where a separate automobile parts store operation is done in conjunction with an automobile rebuilding operation. The parts store operation would need to meet the criteria described above.

## **KEY CLASSIFICATION CATEGORIES**

### **NCCI States - Machine Shop Code 3632 Classification**

Traditionally, automobile engine rebuilders have been placed in this job classification category. In fact, the Scopes Manual, an NCCI reference manual, specifically states that automobile engine rebuilding should be classified in this category. A copy of the Scopes Manual entry for this classification is contained in Appendix II for reference. For AERA members in non-NCCI states, the specific classification description used in that state should be obtained for review. Your workers compensation insurance agent or the local workers compensation regulatory authority can be contacted to help obtain this information.

### **NCCI States - Precision Machine Parts Manufacturing Code 3629 Classification**

As mentioned previously, the basic or governing job classification category for a firm is determined by the greatest amount of employee payroll doing a particular kind of work. This Precision Machine Parts Manufacturing Category applies to firms where not less than 50% of all machining operations performed by the firm are held to final

tolerances of .001 inches or closer. If an AERA member can demonstrate to NCCI inspectors that 50% or more of its payroll comes from employees who perform operations where the final tolerances are held to .001 inches or closer, the firm should be able to be classified as a Precision Machine Parts Manufacturing (Code 3629) Operation. This should result in a substantial workers compensation insurance premium savings. A description of the Precision Machine Parts Manufacturing Category taken from the NCCI Scopes Manual is contained in Appendix II for reference.

### **A Special Rule Applies in the State of Illinois**

In Illinois, the Precision Machine Parts Manufacturing Category applies where the firm can show that 50% or more of the parts produced require a machine tolerance of .001 or closer. For AERA members, the Illinois special rule is an easier criteria to meet. Many AERA members in Illinois have successfully had their basic classification changed from Machine Shop - Code 3632 to Precision Machine Parts Manufacturing - Code 3629. Unfortunately, Illinois is the only state to have this special rule at this time.

To assist AERA members in evaluating their own operations to see if they might be eligible for the Precision Machine Parts Manufacturing Classification, Appendix III contains a chart outlining the major types of operations conducted by members and the typical parts machined by these operations.

### **Non-NCCI States**

Eight of the nineteen independent state rating bureaus who do not belong to NCCI, still use NCCI's job classification rating system. These eight states are identified in Section A of Appendix II.

If an AERA member is located in one of these eight states, they may be able to get the state to agree to classify them as a Precision Machine Parts Manufacturing Category using the same approach suggested for NCCI state jurisdictions. These states should have a job classification inspection system in place similar to the ones that operate in the NCCI states. The objective for AERA members should be the same, i.e. show that 50% or more of your payroll comes from employees who perform operations where the final tolerance are held to .001 inches or closer.

Eleven states are independent from NCCI and use their own system to code and classify automobile engine rebuilders. AERA members in these states will need to research how these states specifically classify automobile engine rebuilding operations.

In California, automobile engine rebuilders have already been segregated into a separate classification by themselves. As such, AERA members in California should not be concerned with trying to change their classification category. They already have their own separate category.

In New Jersey, the Precision Machine Parts Manufacturing Classification is not an approved category. AERA members in New Jersey will not be able to obtain this job classification change.

Two of these eleven states, Delaware and Pennsylvania, still classify automobile engine rebuilders as "machine shops". They just use a different code number from the NCCI code of 3632. In these states, it may be possible to argue that a Precision Machine Tool Manufacturing class should be used instead of the Machine Shop class.

In the remaining seven non-NCCI states, AERA members should check to see how general machine shop operations are classified. A single classification code category may encompass many types of machining operations. The same classification code number may be assigned to various titles. Just relying on the title of the category can be deceiving.

If automobile engine rebuilders are being lumped into a job classification category that includes general machine shops and other businesses not compatible with the precision machine work being done within your operations, it may be worthwhile to challenge this classification and request an inspection of your operations for job classification purposes.

### **HOW TO GET YOUR JOB CLASSIFICATION CATEGORY CHANGED**

Only the appropriate workers compensation regulatory authority in your particular state can change a job classification category for your firm. An individual insurance agent or insurance company does not have the authority to institute such a change. Be careful of any agent or insurance company who claims to be able to do this. If your job classification category is not changed officially by the regulatory authority, you could be liable for additional back insurance premiums at a future date if the change was not an official one.

For 31 states, NCCI is the official regulatory authority empowered to change a job classification category. In 6 states (Nevada, North Dakota, Ohio, Washington, West Virginia and Wyoming), workers compensation insurance is provided only through a monopolistic state fund and you will need to deal with the appropriate state agency responsible for regulating this state fund. In the remaining 13 states, independent workers compensation rating bureaus have the authority to change job classification categories. Your local insurance agent should be able to assist you in contacting the appropriate organization.

If you believe your firm can qualify to have its basic/governing classification category changed to another more favorable category, you will need to request a classification inspection from the appropriate regulatory authority. There will probably be a charge for this inspection. At present, NCCI charges an inspection fee of \$150. Your insurance agent may be able to get your workers compensation insurance company to pay this fee, but don't count on it. Still, it is worth asking your insurance agent about this possibility.

### **Best Chances For Success**

AERA members' best chance for success are those states (NCCI and independent) that classify automobile engine rebuilders as Machine Shop Code 3632. Refer to Appendix I to identify these states. The next best chance of success are those independent states that classify automotive engine rebuilders as machine shops, but use a different code numbering system.

For AERA members located in California, Michigan, Texas, Washington, West Virginia, Wisconsin and Wyoming, the probability of a successful challenge to your present classification will be low. These states have already established a separate approach to classifying automotive engine building operations and they are unlikely to be persuaded to change the way they are doing things.

### **Inspection Pointers**

If you request an inspection, an inspector will physically visit your operations. The following points will help to increase your chances of success:

1. Clearly state to the inspector your purpose in requesting an inspection. You want to see if your operations qualify for the Precision Machine Parts Manufacturing Category, NCCI Code No. 3629.
2. The inspector's objective is to establish the basic or governing classification for your entire firm. The primary criteria used to establish this basic classification is the one that produces the greatest amount of payroll for your business operations.

You will need to demonstrate to the inspector that more than 50% of your payroll comes from employees who perform operations where the final tolerances are held to .001" or closer. You may need to provide evidence that these employees are working to final tolerances of .001" or closer. Documentation may be obtained from the following sources:

- a. OE Manuals
- b. AERA Engine Specification Sheets
- c. Technical Bulletins and Advisories
- d. Equipment Manufacturer Operation Manuals

Even if these sources of documentation do not specifically call for tolerances of .001" or closer, your employees may work to these tolerances in order to achieve the overall tolerances called for in written specifications. This fact needs to be emphasized and pointed out to the inspector if it applies.

In Appendix III, there is a list of the major types of machines and the parts processed on those machines for your reference. This may help you organize your thoughts and materials in preparation for the physical inspection.

3. The inspector may ask to see payroll records in order to verify the percentage of payroll of employees where the final tolerances are .001" or closer. It may be beneficial to compile such records in advance so it will be easily accessible to the inspector.

### **The Appeal Process**

AERA members may encounter resistance from both the inspectors and the workers compensation regulatory body personnel to change the Machine Shop Classification to Precision Machine Parts Manufacturing. Since the 1930's, NCCI has classified automotive engine rebuilders as Machine Shop Code 3632. Its reference manuals specifically state automotive engine rebuilders should be classified as machine shops. Switching you to a lower classification will most likely significantly reduce your

workers compensation insurance premiums. There may be resistance to this within the regulatory body.

If you are not successful in getting your classification changed, each state has an appeal process that can be utilized. This usually involves a hearing before an appeal board. The make up of the board varies. However, many states have appeal boards that consist of business representatives and the general public instead of being made up solely from members of the insurance industry. While you may fail initially at the inspection level, you may well succeed at the appeal board level. You will need to research how the appeal process works within your individual state. Your insurance agent or broker can be used as a resource to gather information about this process and describe the make up the appeal board's members. With determination and preparation, you can succeed.

## APPENDIX I

### NCCI States (National Council of Compensation Insurance)

These states classify automobile engine rebuilders as Machine Shop Code 3632 for workers compensation rating purposes.

Alabama	Kansas	New Mexico
Alaska	Kentucky	Oklahoma
Arizona	Louisiana	Oregon
Arkansas	Maine	Rhode Island
Colorado	Maryland	South Carolina
Connecticut	Mississippi	South Dakota
Florida	Missouri	Tennessee
Georgia	Montana	Utah
Idaho	Nebraska	Vermont
Illinois	New Hampshire	Virginia
Iowa		

### Independent States (Non-NCCI)

A. The following states, even though they are independent from NCCI, also classify automobile engine rebuilders as Machine Shop Code 3632 for workers compensation rating purposes.

Hawaii	Minnesota	North Carolina
Indiana	New Jersey	Ohio
Massachusetts	New York	

B. The remaining states listed below use their own systems to classify automobile engine rebuilders.

State	Code #	Description
California	3828	Automobile Parts Machining and Rebuilding
Delaware	461	Machine Shop
Michigan	3827	Automobile Engine Manufacturing
Nevada	2109	Automotive Machine Shops
North Dakota	3630	Auto Repair - Body Shops - Mechanics
Pennsylvania	461	Machine Shop
Texas	8391	Automobile Machine Shop
Washington	3402	Auto Parts Machining or Rebuild Not In Vehicle
West Virginia	E11-3808	Automobile Manufacturing
Wisconsin	3827	Automobile Engine Manufacturing
Wyoming	3714	Motor Vehicle Parts and Accessories Mfg.

## **APPENDIX II**

### **PHRASEOLOGY MACHINE SHOP NOC 3632**

Foundry operations to be separately rated. CROSS-REF. Automotive: Machine Shop-no work on vehicles. Applies to operations involving the repair of parts that have been removed for the vehicle by others. Shall not be assigned to a risk engaged in operations described by another classification unless the operations subject to Code 3632 are conducted as a separate and distinct business; Explosives or Ammunition Mfg.: Projectile or Shell Mfg.-includes incidental "Nosing In" -not cartridge or shell case manufacturing . Forging or casting of shapes or loading or testing with explosives to be separately rated(N/A MS); Tool Sharpening-Industrial Tools. State Special: Illinois-add to Machine Shop NOC footnote: Foundry operations to be separately rated. Bona fide tool and die mfg. Operations to be separately rated; Minnesota-Carburetor Mfg.

SCOPE Code 3632 applies to the manufacture or repair of machines as well as general job machining. It must be emphasized that code 3632 is an NOC classification and is applied to operations only when such operations are not specifically contemplated by another manual classification(s). Metal castings, forging, bars , rods, flats, angles, pipe and pipe fittings, chains, sockets, gears, shafting, pulleys, hardware, sheet metal and some lumber and paint may be used. A variety of processes may be involved such as boring, turning, planing, shaping, milling, drilling, punching, grinding, tapping, threading, shearing, bending, forming, riveting, welding, painting, inspecting and testing.

Code 3632 additionally contemplates auto jacks manufacturing-not stamped; auto piston manufacturing; commercial or household laundry machinery manufacturing; stoker manufacturing; And the sharpening of industrial tools. Additional representative operations that have been assigned to Code 3632 include the repair of diesel engines used as generators, risks engaged exclusively in the repair of either inboard or outboard motors and other small engines such as those used in lawn mowers and snowmobiles, and axle unit assembly or manufacturing or repair.

The classification applies to automatic machine shops. The term "automotive machine shops" as used in this context refers to locations where work is performed on various automobile parts which have been removed from a vehicle by others. The "automotive machine shop" does not engage in any work on vehicles or on parts while the parts are attached to vehicles. The operations may include cylinder reboring, valve grinding and turning down brake drums. The partial or complete rebuilding of used automobile engines is assigned code 3632. This differs from the manufacture of new automobile engines, which is assigned to code 3827- Automobile Engine Mfg. Code 3632 contemplates the machining and finishing of the rough projectile shell blanks that have undergone preliminary processing by means of foundry and forging operations performed by outside entities or in separate departments operated by the shell manufacture. The machining operations are typical machine shop operations consisting of sawing, centering, turning, boring, facing, reaming, shaping the nose(i.e., "Nosing In" as specified in the class phraseology), heat-treating, thread milling, application of copper bands, washing, painting and packing.

Code 3632 also applies to the production of bomb cases made from sheet steel or steel tubing. In general, this involves the processing of seamless steel pipe by

cutting to size and then applying heat-treating, shaping the nose and tail, welding on the bomb fin, degreasing, spray painting and packing. The manufacture of woodworking machinery is additionally assigned to Code 3632.

### APPENDIX III

#### ENGINE REBUILDERS DESCRIPTION OF MACHINING OPERATIONS

<b>Type of Machine Operations</b>	<b>Parts Machined or Processed</b>
1. Valve Seat & Guide Machine	- Valve Seats - Valve Guides - Injector Tubes - Valve Train Components
2. Surfacing Equipment	- Cylinder Heads - Cylinder Blocks - Manifolds
3. Crankshaft Grinder	- Crankshaft - Camshaft - Auxiliary & Balance Shaft Journals
4. Boring Equipment	- Cylinder Block Bores - Cylinder Sleeve Installation - Registers for Heavy Duty Trucks
5. Honing Equipment	- Cylinder Sleeve Bores - Various Industrial Parts
6. Rod Re-Sizing Equipment a. Boring Type b. Honing Type	- Upper and Lower Connecting Rods
7. Presses	- Various
8. Flywheel Surfacing	- Flywheel
9. Brake Drum & Rotor Resurfacing	- Brake Drum & Rotor
10. Front Axle	- Various