

# How Defense Base Act Premiums Are Calculated

Defense Base Act insurance premiums are based on payroll. The higher the risk of the work, the higher the rate applied to that payroll.

The basic formula is straightforward.

Payroll is divided by 100 and then multiplied by the rate set by the insurance underwriter.

## Why Payroll Is Broken Out by Job Type

Not all work carries the same risk.

Office and administrative roles generally have lower risk and lower rates.

Construction, security, and field operations involve greater exposure and higher rates.

To keep pricing fair, payroll is separated by what employees do, not just their job titles.

## Why Location Matters

Rates vary by country.

Some countries are considered higher hazard due to security concerns, medical access, or infrastructure limitations. Payroll assigned to higher-hazard countries typically costs more to insure.

## How Claims History Affects Pricing

If a company has had prior claims under a Defense Base Act policy, rates may increase.

A clean loss history can help stabilize or reduce pricing over time.

## Payroll Size and Spread of Risk

Larger payrolls can sometimes receive lower rates.

This is due to the spread of the risk concept, where exposure is spread across more employees. This is not automatic and is evaluated subjectively by each underwriter.

There is no fixed formula. Each carrier applies this differently.

## Minimum Premiums

Many Defense Base Act policies have a minimum premium, often \$5,000.

Even if the payroll-based calculation is lower, the minimum premium still applies.

## **Why Accurate Payroll Reporting Matters**

Accurate payroll allocation:

- Prevents surprises at audit
- Helps control premium costs
- Improves underwriter confidence
- Reduces disputes and reclassification

Well-prepared payroll data leads to smoother renewals and better long-term pricing.

Brian S. Smith, ARM, CIC

Insurance Office of America

[Brian.smith@ioausa.com](mailto:Brian.smith@ioausa.com)

(404) 918-4775